Creating Synergy with a Clicks and Mortar Approach

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With the luxury of 20–20 hindsight, it has become increasingly clear that the Midas touch exhibited by virtual entities was reflective of an irrational exuberance. It was only a few years ago that the dot coms were extolled while the brick and mortars saddled with "burdensome" physical assets, and were ridiculed for being late in the e-commerce game. The pure plays drew visitors and increased revenue growth, but they couldn't keep them loyal or improve the bottom line. Now, in the years following the dot-com collapse, successful firms are focusing on something new and yet far more traditional—creating lifetime customer value. This value doesn't create a separate e-commerce appendage to the traditional firm nor does it assume that pure digital firms are the best way to capitalize on the Internet. In other words, it does not demarcate between the physical and virtual worlds, but strategically ties them together into a seamless customer experience.

Generally referred to as the Clicks and Mortar model (CAM), companies are working on exploiting synergies between physical infrastructure and virtual channels to provide better service to customers. Although, the CAM approach poses many challenges like managing channel gaps, integrating processes, managing different cultures, and retaining flexibility, recent opinion is tilted towards their likelihood of success [2]. So, it is important for companies to understand the strategic options for synergy between channels and how it can be profitably leveraged.

Both traditional and Internet based companies have taken initiatives in utilizing integration strategies to enhance customer value. Pure plays are adopting multiple approaches in penetrating into the physical channel [1]. Bluemercury.com, a company that sells cosmetics online, has opened multiple stores to create physical presence. Art.com is banking on catalogs and has opened kiosks in shopping malls to pursue multi channel strategy. On the brick and mortar side, Lids a hat specialty store

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offers its customers multiple purchase channels. Customers can visit the store or order through Lids.com. If the required hats are not available, the customer can place a mail order or schedule pick up from the store. Product returns can be made at any store or through mail. The company also allows coupon or gift certificates to be redeemed through the channel of customer's choice. The company offers customers a free hat for every seven purchased. No matter how the customer splits the purchase, the company knows when a customer has qualified for the free hat.

Office Depot has also been successful in integrating its physical and virtual operations. The integrated information system allows the customers to access rich product descriptions, ordering information and inventory status through the Web site. Customers can order online for next day delivery, locate the nearest store, check inventory status and pick up the order by visiting the store. Office Depot.com provides its business customers with a customized interface and even allows for setting up an authorization system. This system allows the business customers to set up purchase authorization limits for employees.

The CAM model offers companies with a host of choices [4]. Companies pressured by the competition to quickly employ integration strategies need to be articulate about tapping into the benefits of integration. Since such strategies pose both challenges and opportunities, it is important to match integration initiatives to the firm's business strategy and customer requirements. Significant strategic decisions involve assessment of the degree and type of informational and operational integration and its impact on brand and channel conflict [2]. For instance, transferring an established brand to the virtual channel can bolster trust among consumers but at the same time may create channel conflict or have a detrimental affect on company's brand. Citibank Online enhances Citibank's brand equity by effectively implementing the company's objective of being a customer's main source of financial services. Branch customers can seamlessly gain access to their accounts and related services through a highly integrated online experience. However, when Rubbermaid began selling their products on their Web site, retailers who wanted to protect their margins and sales forced them to retract due to channel conflict. Also, brand equity could be marginalized by poor integration of operations. CompUSA withdrew from its online adventure with Cozone.com when it realized poor sales were hurting an established brand. 1-800-Flowers attributes its brand equity to a sophisticated regional fulfillment system that allows tracking of perishable products.

Recent attention towards providing better customer service and selling solutions to customer problems highlights the need to develop CAM strategies around customer requirements. A recent survey by Jupiter Media Matrix found that 83% of online customers would like to return online purchases at offline stores. Further 59% would like to order online and pick up the order from an offline outlet and 67% expect store staff to be able to view their online information (www.jmm.com). Therefore, one of the driving forces behind a company's e-commerce strategy should be strengthening customer relationships. Effectiveness of this strategy depends on understanding the customer and then using that information to develop integration initiatives that enhance customer loyalty. A company's customer service performance is largely dependent on organizational processes. CAM strategies require extensive integration between online and offline processes [3]. This integration enables the company to access the required information to serve the customer, no matter which channel the customer interacts with. It also allows for catering to evolving customer needs by rapidly offering focused integration initiatives. Seamless integration among organizational processes provides great potential for excellence in customer service.

CAM Value Grid

Integration between physical and virtual channels provides companies with many opportunities to enhance customer value. The CAM Value Grid illustrated in Figure 1 provides a mechanism for firms to evaluate their current position. In doing so, the company needs to assess the extent to which the customer must physically interact with the product and the company's existing geographical proximity to the customer. Physical interface with the product is at times critical in a purchase decision. Virtual channels may not be appropriate if customers perceive the product as "touchy feely" or difficult to acquire due to logistical considerations. So, for such products, physical interface with the product is important. In addition, companies need to assess their current physical distribution structure. If the current distribution infrastructure has the capability to provide service to their customers locally, the geographical proximity to the customer is high. These constitute the two dimensions of the CAM Value Grid.

Each of the four quadrants of the grid captures the current state of a company. In the Low-High (LH) quadrant the firm can be in a precarious situation. The company is selling a product with which customers require to interface physically without having the ability to provide this service locally. The main focus in pursuing a CAM strategy in this grid will be to develop a local presence. Short of building physical infrastructure, which is often difficult for undercapitalized pure plays, a company can construct alliances with other companies that have this capability. Virtual channels can provide order fulfillment and can be used to enhance customer relationship

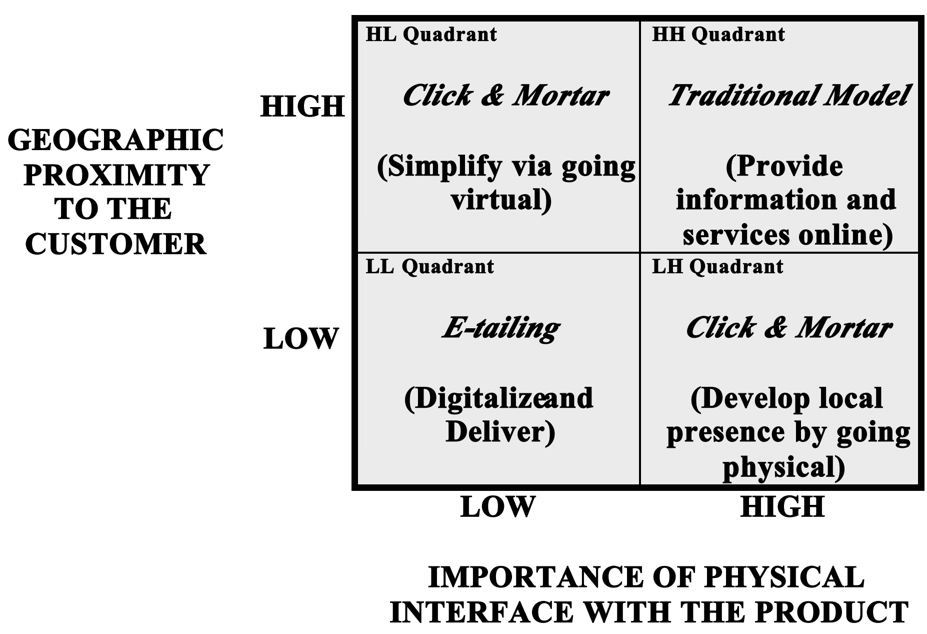

Figure 1. Click and Mortar value grid.

through loyalty programs, while physical outlets can enable the customer to examine, test and try the product and provide pick up and return services. Iparty.com a company selling party supplies online has bought 33 outlets in the northeast to create a local presence. Partnership between Drugstore.com and Rite Aid allows Rite Aid to tap into online drug market while allows Drugstore.com to offer its customers same day pick and product returns through Rite Aid outlets. Operational integration through information systems allows for a single front to promotional offers and co-payments.

In the High-Low (HL) quadrant significant potential for synergy exists. Since, the company already has a high local presence, virtual channels can simplify the purchasing process while services can be rendered through the outlets. Office Depot allows its customers to use the Web site as a product search and order fulfillment tool. Stores in addition to acting as purchase outlets enable same day pick up and product return. CVS allows its customers to order online and pick up the order from the local outlet. Currently, 65% of the orders placed at CVS.com are picked up by customers from the local outlet.

In the High-High (HH) quadrant the physical outlet serves as the main channel. Virtual channel can be used to disseminate information, allow access to critical information and enhance awareness. Also, such a channel can allow customers to maintain accounts and interact online with customer representatives. Companies can also use the virtual channel as a tool to attract customers to their outlet and allow them to test, try, examine and buy the product. In the Low-Low (LL) quadrant e-tailing holds potential. Example of such products includes books, CDs, and airline tickets. Here the focus of the company can be to digitize the product and enable delivery through electronic channels. However, in case of products that can't be digitized, the company can collaborate with delivery companies such as Fedex, UPS and other firms to facilitate product pick up and return [3].

Some consumers may consider the online information and interaction with a product to be adequate to make an informed choice. Others may require physical interaction with the product to make a decision. This dichotomy can form the basis for navigation through Figure 1. E-tailers in the LL quadrant face the danger of price competition and work hard toward broadening the digital experience through value added services and loyalty programs (for example,. Amazon). Gateway expanded its offerings by recognizing that it can offer value added personal services like training to an increasingly commoditized product and cater to the segment of buyers who value personal interaction (LH quadrant). In doing so, it also migrated into the HH quadrant with its 275 stores in the US while establishing synergy between its channels (HL quadrant). Physical stores like Target, that start off in the traditional HH quadrant are expanding into the HL quadrant in an attempt to capture those consumers that are willing to gather information and shop online but prefer order fulfillment or returns at the local store.

Automobile sales also paint an interesting picture. The upper two quadrants consist of dealerships that have local physical presence. Some operate in the traditional mode (HH) catering to a geographically local market and emphasizing personal attention and service. The dealer Web sites can be used to provide information on cars and directing traffic to the local sites. Larger dealerships and automobile manufacturers can benefit from geographically dispersed local presence by adding product and search services to their Web site (HL). Customers that consider cars to be a commodity, particularly program cars (cars that are inspected and certified by the dealers) that are relatively new and have low mileage, can shop on these sites and locate the appropriate dealer for pickup or delivery. For instance, the Chrysler Group launched a site called Cobalt that integrates inventories of Chrysler dealers with the manufacturers sites. Potential buyers can configure options and link up with a local dealer for test drives and delivery. Companies with no geographic presence like Carpoint and Autobytel operate mainly in the LH quadrant and need to establish alliances with specific dealerships. These companies emphasize Web services like automobile ratings, financing options, etc. and then base their revenue on directing traffic to an affiliated dealership. In the LL quadrant there are some pure plays like CarsDirect that focus primarily on low prices through a search of its large aggregated inventory, full service financing options, and delivery.

Value-Added Services

While the LL and HH quadrants indicate an alignment between the customers needs and the company's physical infrastructure, the LH and HL quadrants provide the best opportunities to exploit synergies reflected in the CAM model. It is useful to note that the HL quadrant is typically a brick and mortar company venturing into a virtual channel, while the LH quadrant usually reflects a pure play that needs alliances with companies that have a local physical presence. In both cases, it is important to recognize that strategy for both the physical and virtual sides of the business need to be conceived after carefully considering factors such as target markets, channel conflict, and brand dilution. An important objective of the CAM model is to provide flexibility to the customers in the purchase process, which depends heavily on integration of information systems supporting virtual and physical channels. This integration at the operational level could be presented in terms of value added services categorized as content, informational and logistical integration.

Content Integration. An integrated product cataloging system can allow customers to use product information published in paper-based media to locate and order products online. Customers can also use the Web site to acquire information about the products and visit the physical store to examine them before purchase. Staples.com allows its customer to order online by simply keying in the catalog number of the product. The company's Web site also enables its customer to configure the interface based on product and aisle preferences. Land's End is another company that allows customers to enter the catalog numbers to access detailed product information. Pure-play companies that are now distributing catalogs are also offering this functionality.

Informational Integration. Integrated information systems can allow customers to locate the nearest store, check inventory and order through the channel of their choice. Customers can also be provided with account information and loyalty programs online. Regardless of the channel the customer uses to interact with the company, real time information is available to handle queries, service orders and provide customer service. Staples.com allows its customers to retrieve inventory information based on their zip code. It also offers its customers the option of setting up a list of frequently ordered products and receiving emails when its time to reorder.

Logistical Integration. A single front can enable customers to pick up their order and make product returns through channel of their choice. Logistical integration hinges on process integration. It means that the underlying information infrastructure caters to the flexibility demands of distribution system. If a customer chooses to order through Web and pick up their order from the nearest store, the information trickles down to the point where service is to be rendered. However, flow of information is only one part—the distribution has to be flexible and agile enough to handle multiple modes of delivery and product return in an efficient and effective manner. Gap allows its customers to return products purchased from gap.com at the local outlet.

In sum, cross channel integration allows a company to offer its customer more options. It enhances customer convenience and fosters customer relationships. However, as many companies have found, pursuing integration strategies is a complex initiative. Systems not only have to be integrated but also reengineered to meet customer expectations. If done well, there is evidence to suggest that CAM services payoff (see sidebar entitled "Do CAM Strategies Really Work?").

Conclusion

As we evolve into the next generation of Internet related business initiatives, companies are recognizing the importance of integrated and synergistic approaches in dealing with virtual and physical distribution channels. This paper offers a framework that companies can use to evaluate their current position and draft appropriate strategic options. We propose content, informational and logistical integration as three operational level initiatives in implementing a CAM strategy. While there is evidence to suggest that CAM strategies do contribute towards enhancement of firm performance, doing it right is a complex undertaking and requires organizational level considerations of strategy, processes and information systems.

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Do CAM Strategies Really Work?

While there are many anecdotes about the success of CAM strategies, we don't know much about the contribution of such strategies towards a firm's bottom line. We visited Web sites of 35 companies that have adopted CAM model. Specific information (noted in the table) was collected about the presence of various integration based value added services. A seamlessly integrated information system is pivotal in operationalization of these functionalities. These services capture the extent of integration between online and offline processes and are reflective of content, informational and logistical integration:

- Mechanism for using product information published in paper based media to locate and order products online (content)
- Mechanism through which a customer can order products online and pick them up from the nearest physical store (logistical)
- Mechanism for locating local physical store (informational)
- Mechanism that allows customers to return or exchange at the physical store a product bought from the online store (logistical)
- Mechanism that allows customer to manage his/her account online (informational)

An index value capturing the extent of integration was computed based on the presence or absence of the functionality. Firm profitability was measured through sales and economic valued added (EVA). EVA measure has received praise in literature for its effectiveness in capturing shareholder value created by the company.

A correlation between the index value and sales & EVA was computed. The correlations noted here are strong and statistically significant and thus provide preliminary indication that CAM strategies are indeed related to performance of a firm. However, it is important to recognize that the integrated information architecture, on which success of cross channel integration depends, is often a complex and long term project. Companies first need to articulate the strategic benefits of combining channels. To augment the success of integration initiatives, they need to be clear about how service options enhance customer value.

Item	**Index Capturing "Extent of Integration"**
Economic Value Added (EVA)	Correlation = 0.488 (p=0.003) Strong and significant relationship
Sales	Correlation = 0.364 (p=0.032) Strong and significant relationship