



Andreas Pinterits

# **Coordinating Internet Sales with Other Channels**

A Performance Measurement Model

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With a foreword by

Univ.-Prof. Dr. Dr. h. c. Hans Robert Hansen

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**To my family, Brigitta, Stefan and Stefan jun.**

# Foreword

The continuing growth of global Internet usage has a remarkable impact on retailing businesses. Customers expect to do business not only through stationary sales channels, but also to order online, pushing companies to introduce e-commerce sales channels. The distribution of goods through newly introduced e-commerce sales channels offers retailers opportunities such as the cost-effective enlargement of their assortment and the attraction of new customers. However, it also implicates a number of problems. In the past, channel conflicts were usually avoided by differentiating the offerings of sales channels. Today, offerings are typically coordinated between a company's e-commerce and other sales channels. In such cases, customers can seamlessly switch between different contact points during their buying process, for example they get the same products for the same price in the different sales channels.

Such coordinated sales channels certainly affect the internal organizational structure of such multichannel retailers. Adequate performance measurement systems are needed to manage the resulting risks (for example channel conflicts) and utilize possible synergy effects. In this book, a design of a performance measurement system for multichannel retailing is presented. It addresses the coordination of distribution channels from a performance measurement's perspective. The author places this book in the context of recent marketing, performance measurement and e-commerce literature. The first part reviews the relevant literature. E-commerce business models for multichannel retailers and their strategic options are discussed. Furthermore, the requirements for modern performance measurement systems are presented. A whole section of the book is devoted to the discussion of success factors for multichannel e-commerce retailers.

The central part of this book is the design of a performance measurement system. The used methods are in the scope of the German "Wirtschaftsinformatik" or design science. A structured approach following the ARIS-Method, introduced by August Wilhelm Scheer, is used to design the performance measurement system.

The system itself is split into a general part and a specialized part. The general part deals with the overall design model of a performance measurement system for a sales and distribution system with two or more channels. In the specialized part, a migration model allowing for the

measurement of customer switching behavior during the different phases of the sales process is developed and integrated into the overall model. The practical use is demonstrated by a showcase implementation of the model.

This doctoral thesis is intended to solve real-world problems. On the one hand, it offers a systematic view on the relevant scientific literature. On the other hand, it is a unique aid for marketing, controlling and software-development. I recommend it to everyone involved with performance measurement for multichannel e-commerce businesses.

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# Chapter 1

## Introduction

Since its introduction, the Internet has been growing and gaining importance until today. In the early 1990s some companies began to carry out business over the Internet, electronic commerce was born. In the mid and late 1990s, increasing interest and the strong belief in network effects and economies of scale led to a hype of the New Economy. Exorbitant risk capital for investments into Internet companies, so called “Dotcoms”, was available and the sector boomed [HaMT<sup>+</sup>04]. But the ignorance of basic economic principles finally led to a great number of insolvencies. The so far hyped Internet economy crashed in the year 2000 [ThMa03].

After the crash, e-commerce was addressed more soberly than before. In the meantime the previously emphasized boundaries between Old Economy and New Economy are vanishing. E-commerce is becoming a day-to-day business. The market drives many former old economy companies to engage in some kind of Internet activities. An online appearance in form of a website practically becomes a “must”.

Analog to this general development, in retailing there is a trend to establish online retail channels. But while conventional multichannel strategies tried to separate their different channels into market segments, target groups etc., e-commerce multichannel companies pursue another way. Newly established online channels are usually integrated with traditional bricks and mortar business or mail-order business. In a representative German study called “Electronic Commerce Enquête 2005”, 48 percent of all questioned companies indicated to be *hybrid suppliers*, thus selling their goods both via traditional and e-commerce channels [SaSt05]. This development is also market-driven. Customers want to be able to switch between channels during the phases of the shopping process [Doub04]. Multichannel customers spend more money on products of a certain retailer than other customers [ScSc04].

For a long time, the main focus of e-commerce literature was put on marketing relevant topics [WiKr01]. Other relevant topics appeared in the course of time. One important issue is perfor-

mance measurement. The relevance of this topic for e-commerce becomes apparent when one considers the events which led to the crash of the New Economy. The properties of e-commerce sales and distribution channels offer a broad range of new performance measurement tools. Website controlling or the analysis of logfiles allows the calculation of measures which are not available for other forms of retailing. The implications of the operation of multiple coordinated channels, including an e-commerce channel, are yet not so well-elaborated. A shallow view on the topic would suggest a separate treatment of different sales channels by controlling them in a traditional way. However, a more substantial analysis advises that the controlling of well-coordinated channels particularly takes into account the effects of coordination and the specific features of e-commerce channels to deliver satisfactory support for corporate management. Not considering the exchange of services between coordinated channels could lead to wrong assumptions regarding the profitability of the channels. On the basis of these considerations, this work focuses on performance measurement of coordinated retail channels with reference to peculiarities of e-commerce.

“One problem faced by click and mortar firms is that the contributions made by the Internet channel may be intangible and hard to measure” [Tede01] cited in [StAL02].

## 1.1 Research question

The phenomenon of multichannel retailing, especially in the context of e-commerce channels, is currently under intense discussion in marketing literature. The trend for multichannel integration can be explained by supplier-side and customer-side rationales [KuVe05].

Regarding performance measurement literature, much work is done concerning specialties of e-commerce business models. Underlying information systems create much space for new types of measures. Furthermore they bring along new problems. Only a few authors try to address the operation of multiple channels from a performance measurement viewpoint. Teltzrow introduced a website-controlling framework which tries to indicate the conversion from online stores to offline stores [TeBG04]. Schröder and Schettgen describe multichannel performance measures under the constraint of the availability of detailed customer data of all channels [ScSc04].

Existing literature has not yet provided a comprehensive framework for e-commerce multichannel retailers. This gap shall be filled by the model of a performance measurement system. Such a model has to assist retailers in designing their own performance measurement systems to successfully control the coordination of their distribution channels. Since measures impose requirements on their context, scenarios of their useful appliance are presented. Figure 1.1 shows