Cross-channel cooperation: a collaborative approach of integrating online and offline business models

Tobias Kollmann, Matthias Häsel
Chair of E-Business and E-Entrepreneurship
Institute for Computer Science and Business Information Systems
University of Duisburg-Essen
Universitätsstraße 9
45141 Essen, Germany
{tobias.kollmann | matthias.haesel}@icb.uni-due.de

Abstract: Due to the increasing use of e-business technologies, the corresponding Net Economy has evolved into an established trade level. It is characterized by numerous entrepreneurial ventures equipped with innovative online business models. Technological advance and changes in customer behaviour implicate that the physical and the electronic trade level are increasingly used complementarily. In order to be successful on both trade levels, traditional firms and Internet-based ventures inevitably need to approach each other. In this paper, we argue that collaborative concepts represent a promising way of meeting the resulting requirements. Cross-channel cooperation enables firms to integrate online and offline business models without extending themselves beyond their own means or competencies. Building upon market- and resource-based considerations, we argue why and how cross-channel cooperation contributes to competitive advantage and propose a classification of the resulting forms of collaboration.

1 Introduction

The rapid growth of Internet technologies induced a structural change in both social and economic spheres. Digital channels have become an integral part of daily life and their influence on the transfer of information has become ubiquitous. New possibilities emerged with respect to how enterprises create value: An enterprise can create customer value not only through physical activities, but also through the creation of value on an electronic level [WK98; AZ01; LD04]. An entirely new business dimension which may be referred to as the Net Economy has emerged. Internet-based e-ventures that are operating at this electronic trade level are based on innovative online business models generating revenue and profits independent from a physical value chain [Ko04; Ko06].

Also traditional enterprises that are operating at the physical trade level (which may be referred to as the Real Economy) increasingly utilize digital channels to improve their business processes and to reach new customer segments. Technological innovation and changes in customer behaviour are increasingly blurring the boundaries between Net and
Real Economy. Considering the ongoing integration of online and offline business activities of both companies and individuals, enterprises operating at the electronic and physical trade level inevitably need to approach each other [AZ01; Po01; LLH03]. In many industries, integrated business concepts become a prerequisite for achieving customer loyalty. For companies that lack specialized marketing departments and large marketing budgets however, the requirements implicated by such strategies often go beyond the own means and competencies. In this context, a collaborative inter-firm integration of online and offline business models could represent a way of sustaining competitive advantage.

With the establishment of the Net Economy, the collaboration between enterprises reached a new level of quality. The wide, open and cost-effective infrastructure of the Internet allows a simple, fast exchange of data and thus a synchronisation of business processes over large distances. Particularly for e-ventures introducing their new business ideas, online cooperation is a promising strategy as it enables the partners to create more attractive product offers and represents a basis for more efficiently and effectively communicating and distributing their product offers [VT06; Ko04]. Online cooperation however is limited to online channels, i.e. structured connections to the customer that are based on Internet technologies. In contrast, offline channels include print media, as well as institutional channels such as stores, call centres or sales forces.

Cooperation can be expected to hold a significant potential for the combined management of online and offline channels as the utilization of the partner’s existing channel infrastructure saves costs. Partnering with companies from the Net Economy helps traditional firms to reach new market segments without extending themselves beyond their core competencies – and vice versa. Hence, companies may cooperate with a partner having a complementary business model (Figure 1). Against this background, cross-channel cooperation can be defined as “the collaborative integration of online and offline business models aiming at attaining positive synergetic effects for the involved partners by a complement of competencies” [KH06].

Although researchers have broadly covered the area of strategic cooperation, a comprehensive study on cooperation between Real and Net Economy enterprises has not been undertaken up to now. Indeed, we find that cross-channel cooperation represents a new managerial task that is worthwhile to be examined in more detail. In particular, there are two main questions that arise: First, why and how can cross-channel cooperation contribute to competitive advantage, and second, which forms of collaboration between e-ventures and traditional enterprises (may) result from these findings? In the following, we present a first approach to answer these questions.
2 Cross-channel cooperation and competitive advantage

To explain why firms cooperate, two theoretical frameworks of strategic management, namely the market-based view and the resource-based view, have been widely applied and accepted in scientific literature. Consequently, the following considerations will build on these two theories.

2.1 Market-based view

The market-based view is based on the assumption that the uniqueness and the success of firms are determined by their position in the market. In that sense, understanding the market makes up for the formulation of a successful competitive strategy. According to Porter’s ‘Five Forces’ model, the competitive forces driving competition within a market include rivalry among existing competitors, bargaining power of suppliers, bargaining power of buyers, threat of substitute products, and barriers to entry [Po80].

Although deploying Internet technologies implies several benefits for traditional firms (such as making information widely available and improving business processes), the Internet also makes it more difficult to capture those benefits as profits because its net effect on the competitive forces is negative. This is what Porter calls the “great paradox of the Internet” [Po01]. As they immediately relate to cross-channel strategies, three of Porter’s findings shall be highlighted in this context: First, as online offerings are difficult to keep proprietary, the Internet reduces differences between competitors and thus increases rivalry among them. Second, the establishment of online channels within an industry reduces switching costs and thus shifts bargaining power to end users. Third
and finally, online channels represent a new substitution threat for nearly all kinds of offline channels [Po01]. This is partly due to the fact that the Internet contemporaneously provides communication, distribution and service functions and thus can be applied during the whole customer life cycle. In the music industry for instance, the distribution of mp3 files via the Internet is threatening the distribution of compact discs via traditional retail stores.

Porter’s findings go along with several changes in customer expectations and demands that can be observed since a few years. These changes result from an increased need for individualization, mobility, convenience and self-determination. Due to the customers’ increased bargaining power, their behaviour has changed. End users nowadays use the Internet and the real world complementarily; they browse in one channel and purchase in another, reflecting their goal to find the best selection, services and prices. For every buying decision, these hybrid customers assemble an individual channel mix for the respective presales, sales and aftersales phases of the customer life cycle. Customers even expect that they may choose which kind of channel they use to inform themselves about a product, to contact a retailer, to buy or exchange a product [Ba02].

Oftentimes, an individual buying decision involves channels of multiple competitors. For instance, customers inform themselves in a local bookstore (presales phase), but finally purchase the product at Amazon.com (sales phase). Consequently, in order to avoid customers from switching over to the competition, enterprises need to adapt their channel portfolio in a way that it covers the whole customer life cycle – anytime, anyplace.

Technological advance and changes in customer behaviour implicate that cross-channel concepts will become a driving force in many industries. As a consequence of benefits of online channels, many traditional firms have implemented clicks-and-mortar strategies that combine online and offline offers [MW04; GG00]. Also e-ventures need to build their strategy on new, hybrid value chains bringing together online and offline activities in unique configurations [Po01].

The market-based view shows that cross-channel concepts may often be a necessity to sustain competitive advantage. However, it does not fully explain the potential of collaborative approaches to implement these concepts. Also, a one-sided orientation towards static industries lacks a sound basis when considering the volatile environments that especially e-ventures are operating in. Thus, “a definition of business in terms of what it is capable of doing may offer a more durable basis for a strategy than a definition based on the needs which the business is to satisfy” [Gr91].

2.2 Resource-based view

The resource-based view of the firm (RBV) focuses on the internal organization of firms, which is, in particular, defined by their internal resources and capabilities [PH90; Ba91; We95]. RBV assumes that resources are heterogeneously distributed across firms and
resource differences persist over time [AS93; We95]. Hereon, researchers have theorized that when firms dispose of resources that are valuable, rare, imitable, and non-substitutable, they are able to achieve competitive advantage by strategies that cannot be easily duplicated by their competitors [Ba91; We95].

According to RBV, cooperation results from the possibility of getting access to valuable resources and capabilities of the partner, “that cannot be efficiently obtained through market exchanges” [DT00]. Similarly, hypothesizing on the concept of core competencies introduced by Prahalad and Hamel, it can be argued that cooperation should be built around a set of shared competencies that provide potential access to wide markets and make a significant contribution to the perceived customer benefits [PH90]. Since building competencies is often difficult and expensive, firms should concentrate on their current core competencies while outsourcing certain tasks that others can handle better.

By nature, core competencies of e-ventures and traditional firms are very different from each other. In that sense, one can identify a number of cases where unique capabilities of e-ventures ventures and the specialized resources of traditional firms complement each other. These resource combinations may be referred to as cross-channel complementarities [KH06]. For instance, traditional firms are usually endowed with a regional or national network of potential customers. Such a network can be utilized by an e-venture to balance its deficits in terms of market access. In return, e-ventures possess online distribution channels that are often based on existing partner networks [VT06].

When it comes to physical resources, companies operating at the physical trade level self-evidently lie ahead of their potential partners from the Net Economy. Real Economy firms are equipped with institutional channels such as stores that enable them to get in personal contact with their customers. Research suggests that such offline assets should be applied to complement online offerings, as “Customers who buy products over the Internet value the possibility of getting after-sales service offered through bricks-and-mortar retail outlets” [AZ01]. This could, for instance, include the possibility of exchanging a good that has been bought on an e-venture’s platform.

Besides physical assets, a number of intangible resources may be of interest for the respective partner. When adding an online channel to their existing offline channel portfolio, traditional firms are faced with quality shortcomings since the management of online channels requires very different skills [We02; MW04]. Cross-channel cooperation may avoid such shortcomings as e-ventures possess a significant expert knowledge in Internet technologies and e-business strategies. In addition, the complexity of a firms channel portfolio increases exponentially with the integration of a new channel, because the service quality provided across channels must be kept consistent [Vo04]. In this context, cooperative arrangements with enterprises that are specialized on a specific kind of channel can help to control and utilize the quantity of channels available.
Intangible resources also include strategic assets such as brands [AS93]. Although mature Net Economy players such as eBay have often invested high amounts in building a brand, this is not true for young e-ventures. Similarly, the corporate identity of many e-ventures is only marginally developed. In opposite to traditional firms, e-ventures also lack a pronounced buyer-seller trust. This results from an incertitude concerning the technology, but also from an incertitude concerning the transaction partner himself who lacks a well-known brand and references. In this context, trust into a mature partner brand may compensate missing experiences and information [KH05].

2.3 Combining the perspectives

A combination of market-based view and RBV appears to be a valuable instrument to explain the relationship between cross-channel cooperation and competitive advantage. However, the fact that Internet-based resources are difficult to keep proprietary makes time an essential aspect of strategy and the duration of competitive advantage unpredictable [Po01]. Hence, in industries that are highly influenced (or even created) by the emergence of online channels, where business models and the whole market structure are unclear, the challenge is not only achieving competitive advantage, but sustaining it [EM00].

To explain how and why firms achieve competitive advantage in such industries, researchers have extended RBV [TPS97]. They argue that dynamic capabilities are a set of processes by which firms “integrate, reconfigure, build and release resources – to match and even create market change” [EM00]. In the sense of cross-channel cooperation, these processes affect the external resources made accessible via the respective partners. Hence, it can be assumed that successful cross-channel cooperation processes represent dynamic capabilities that are a precondition to leverage a partner’s resources to produce adaptive outcomes [Po01; EM00].

By nature, e-ventures can be expected to develop such capabilities more easily, as many business models in the Net Economy are explicitly build on collaboration [TV06]. Also, ventures tend to have a higher learning and innovation capability than mature firms. In contrast, managers of traditional firms tend to have a lower ambiguity and risk tolerance and are often confronted with administrative barriers [Bh00]. This allows e-ventures to act with a higher degree of customer-focused innovation. Real Economy firms should therefore regard e-ventures as flexible, compact business partners that are specialized on generating innovative ad hoc problem solutions, new approaches to marketing, and additional customers. Yet traditional firms bring in most of the assets: brands, products, distribution and supplier networks, customer relationships, and physical sites [Er01].

The findings of this section are summarized in Figure 2. Building on the market-based view applied to explain the need for cross-channel strategies, RBV explains the benefits to implement these strategies by collaborative means.
3 Forms of collaboration

After having theorized how cross-channel complementarities contribute to sustainable advantage in the previous section, it is possible to derive possible cooperation forms from these findings. It seems to be feasible to differentiate cooperation forms regarding the resources contributed by the partners. Whereas less complex arrangements involve rather a loose resource pooling, more complex arrangements involve a true integration of the concerned resources and capabilities. It can be assumed that the engagement between the partners increases with the duration of a cooperation agreement, as a more complex and thus more risky arrangement is often preceded by a less complex one [LR91].

Channels differ regarding their functional suitability for communication, distribution and customer service purposes [Ba02]. Hence, forms of collaboration may also be differentiated regarding the channel functions they improve. However, cooperation does not only affect the presales, sales and aftersales phases of the customer life cycle, but also the product offer itself [VT06; Ko04]. Consequently, a classification based on the
resulting benefits needs to include whether current offers are improved, respectively, new offers created.

In this context, we propose a classification of cooperation forms on two dimensions (Figure 3). Building on the resource contribution (vertical axis) and the resulting benefits (horizontal axis), five subsets of cross-channel cooperation can be identified. These subsets are not intended to be seen exclusively; they rather are the constituents that make up an overall cooperative marketing strategy of the two partners. In practice, the partners will be confronted with hybrid forms, since cooperation will usually aim at synergies resulting from more than one of the generic forms that will be discussed subsequently.

![Figure 3: Classification of cross-channel cooperation forms](image)

### 3.1 Cross-media communication

A strategic combination of online and print methods optimizes advertising efforts. Online channels feature fast and comprehensive possibilities for customer interaction, whereas print media achieve attention and quicken interests [JS03]. Obviously, an intensive cross-media communication integrating online and traditional media has significant advantages. When implementing such a strategy, the utilization of the partner’s channels is connected with substantially lower costs than the use of traditional mass media such as print media or television. Whereas the e-venture may profit from advertising spaces in mailings, on buildings and vehicles or in point-of-sale magazines of the offline partner, traditional firms may advertise on their partner’s Internet platform.
3.2 Product and service bundling

Whereas cross-media communication simply improves communication, the focus is on the product and its distribution when bundling virtual and physical products or services. The objective behind such arrangements is the enhancement of the own offer to create a higher customer value.

A product can be viewed into three levels: the ‘core product’, ‘the actual product’ and the ‘augmented product’ [Ko02]. Customer value may already be increased by enhancing the actual product that is expected by the customer. For instance, an e-venture selling travels on the Internet may cooperate with a local car rental agency and thus allow customers to hire a car for the holiday resort in the same transaction. On the augmented product level, where competition is based around after sales service, warranties and delivery, customer expectations may be even exceeded. For instance, this would include establishing a new service channel that is set up on an existing channel made available by the respective partner (such as Internet service portals or delivery services).

Whilst the first partner usually aims at enhancing his own core product, the second partner may aim at gaining access to additional distribution channels in order to reach customers that would be out of scope otherwise. Such cross-selling offers usually represent an independent service provided by the partner and aim at selling appropriate products to existing customers. Such strategies do not only improve the quality of customer need satisfaction, but also result in quantitative aspects such as an increase in profitability and a reduction of costs.

3.3 Cross-channel brand alliances

When introducing cross-channel product bundles, brand image and publicity of both partners may be increased by featuring their brands together in the respective advertisements. Scholars have observed an overall elevation of the perceived quality when online and offline brands are aligned in such alliances [LLH03].

Advertising alliances are especially important for new brands or established brands entering new markets. In both cases, they can be used to increase brand awareness and brand knowledge by leveraging the strengths of the partners and sharing costs [SKS99]. Thus, cross-channel brand alliances can be expected to be highly beneficial when an e-venture partners with an established Real Economy brand to build a stronger offline market presence, or when a traditional firm wants to expand into an online market segment (where it has a weak brand presence) by partnering with an e-venture that already serves that segment.
3.4 Cross-channel customer relationship management (CRM)

Developments in information technology have changed the manner in which competitive advantages are achieved today. The development of digital information channels in the framework of the Net Economy will further lead to the widespread economic use of information as a production factor [WK98]. Information about the customer influences the basic dimensions of the competitive advantage viewed from the standpoint of efficiency and effectiveness [Dr73; DW88].

CRM can be regarded as a “management approach that combines both IT and business concepts for process optimization at customer touch points” [Hi05]. When collaborating in the areas of CRM, the partners may combine their information and knowledge resources. A common customer database that contains data from both the virtual and the real world may help to solve the overall ‘customer puzzle’ and support many operative and strategic decisions. “The Internet makes it easy to determine what users visit what sites” and thus allows e-ventures to generate high quality profiles in a short time that enable them to create an individually shaped relationship to their customers [WBW02]. Conversely, for effectively collecting customer-individual data, traditional retailers need to overcome a media discontinuity between the physical and the virtual world. Enabling customer identification, loyalty programs supported by plastic cards or coupons are a common possibility to do so.

Maximizing customer value implies that the customer becomes an integral part of the value-creating process and has significant influence on it. With the growing relevance of the Internet, new potentials for mass customization are made accessible. “Customization means manufacturing a product or delivering a service in response to a particular customer’s needs, and mass customization means doing it in a cost-effective way” [PPR95]. In order to achieve a permanent, customer-individual problem solution, a trilateral collaboration between online partner, offline partner and customer is feasible (Figure 4). Thereby, the customer contributes the information that is required to recognize and solve the problem, whereas the e-venture contributes the Internet technology that enables the customer to individually configure the physical product in an efficient way. The product is then produced and delivered by the Real Economy partner [KH06].

3.5 Point-of-sale activities

Due to the growing market concentration and internationalization, as well as the growing relevance of mail-order distribution channels, the point-of-sale is increasingly under stress of competition. Traditional retailers therefore implement clicks-and-mortar business models and utilize the interconnectivity of electronic markets to cross-market their products or services [AZ01]. This also includes the use of interactive kiosks that enable retailers to leverage the power of the Internet by providing cross-channel customer care capabilities and giving customers self-service access to products and services. Similarly, the deployment of interactive kiosks at the partner’s point-of-sale
can enable e-ventures to extend their websites to the physical store level. There, the e-venture’s innovative services may represent an added value for the customer that can be leveraged by the offline partner.

To overcome the media discontinuity, interactive kiosks are often used in conjunction with card-based loyalty programs. Collaborative cross-channel loyalty programs may include the possibility of point collection and redemption at the respective partner company, including electronic price discounts at in-store kiosks and printable web coupons that need to be delivered at the physical cash point. Mutatis mutandis, the offline partner can give out ‘e-coupons’ with unique identification codes that the customer enters at the virtual cash point.

In contrast to media channels, institutional channels such as stores and sales forces enable traditional retailers to offer their customers personal support in face-to-face meetings. Consequently, the partner’s point-of-sale may also be leveraged to offer face-to-face channel functions in the presales, sales and after sales phase of an e-venture’s customer life cycle, including hands-on experience when buying physical goods, personal consultation, repair services and exchange possibilities.

Figure 4: A collaborative approach of mass customization [KH06, p. 74]
4 Conclusion and Outlook

The pervasiveness of digital technologies and changes in customer behaviour are increasingly blurring the borders between electronic and physical trade levels. In order to be successful on the long run, both e-ventures and traditional firms need to incorporate cross-channel concepts in their corporate strategies. The concepts presented in this paper highlighted that collaborative and integrative approaches enable firms to integrate online and offline business models without extending themselves beyond their own means or competencies. It has been theorized that cross-channel cooperation processes represent dynamic capabilities that contribute to sustainable competitive advantage by integrating highly complementary external resources. Building on resource contribution and resulting benefits, five generic forms of collaboration have been introduced. From a scholarly perspective, the framework presented in this paper may build a foundation for future empirical research on the benefits of cross-channel cooperation. From a practical point of view, this paper may assist entrepreneurs and managers in evaluating the benefits of cross-channel cooperation for their own business. It should have become apparent that creative projects between e-ventures and traditional firms offer a wide range of opportunities and help to face up to a technological and societal development that is irresistible.

In the future, cross-channel cooperation can be expected to gain importance. With the proliferation of digital television and third generation mobile technologies, novel and innovative online business models can be expected to emerge. Due to the significance of Internet-based technologies, the boundaries between mobile services and the ‘stationary’ web will increasingly become blurred. This will enable online business models to span multiple channels and become a pervasive part of daily life. Particularly in this context, the emergence of cross-channel cooperation can be expected. Will customers in the future browse web-based catalogues in order to create digital shopping lists that are then used in connection with a mobile phone to guide the customer through the physical retail store? Similarly, television has begun to turn into an interactive online channel incorporating distribution and service potentials going much beyond spot advertisements. For companies having a partner that is specialized on a specific channel, tapping the full potentials of future developments will be much easier. To fully exploit these potentials however, entrepreneurs and managers need to approach cross-channel cooperation in a systematic and precautionary way that is backed by sound strategy, and never as an end in itself.

Bibliography


