Determinants of multiple channel choice in financial services: an environmental uncertainty model

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Abstract

Purpose – The use of multiple channels is increasingly an option for many products. Yet, despite their popularity, little is known in a systematic way about such channel structures. In particular, there is a lack of research in respect of the reasons why multiple channels of distribution emerge. This work proposes to attempt to deal with this problem by developing and testing a model comprising a set of hypotheses regarding the circumstances under which companies go multi-channel.

Design/methodology/approach – The work draws on the organisational environment literature and, in particular, the sources of environmental uncertainty. Data were collected from firms in the UK financial services industry through personally administered questionnaires. Research hypotheses were tested using logistic regression.

Findings – The results suggest that customer heterogeneity, customer volatility and environmental conflict positively influence the choice of multiple channels, whereas intermediary heterogeneity and volatility may reduce the need to use such channel strategies.

Research limitations/implications – The extent to which results can be generalised is limited by the relatively small sample size and by the focus on financial services. Additionally, it is also possible that channel typologies other than those considered in this study might have yielded different results.

Practical implications – The degree of environmental uncertainty is an important issue affecting multiple channel choices, and should be considered at the channel design stage.

Originality/value – This study has helped understand the drivers of multiple channel strategies, a poorly understood topic.

Keywords Supply chain management, Distribution channels and markets, Uncertainty management, Financial services, United Kingdom

Paper type Research paper

An executive summary for managers and executive readers can be found at the end of this article.

Single channel strategies are becoming less popular, while multiple channels are pervading the distribution of almost every product (Dutta et al., 1995; Easingwood and Storey, 1996; Frazier, 1999; Moriarty and Moran, 1990). Given the growing popularity of multiple channel strategies, building a coherent distribution structure and avoiding the implementation of a "tangle of channels" have become major concerns for companies (Moriarty and Moran, 1990). Despite the popularity and implications of multiple channel strategies, the design of these distribution systems has been virtually unexplored in the existing literature. This void in the literature remains despite it being repeatedly commented on (Bradach and Eccles, 1989; Dutta et al., 1995; Frazier, 1999;)

Frazier et al., 1990; Rangan et al., 1993, 1992; Stern, 1988). Consequently, clarifying the determinants of multiple channel strategies constitutes an urgent research avenue. The purpose of this work is to contribute to channel theory development and to management practice by researching the determinants of multiple channel strategies from an environmental uncertainty perspective.

The concept of environmental uncertainty has been considered a "key organising concept" for analysing channel environments because any environmental developments are likely to affect the degree of perceived uncertainty facing those involved in channel decision making (Achrol and Stern, 1988, p. 36). Although it is recognised that the environment affects channel structures, not much is known about such interactions. The comment that "the significance of a channel's environment is not well-reflected in the literature on channel theory and research" (Achrol et al., 1983, p. 55) remains true today.

The environment can be expected to affect organisational choices because "the maintenance of organisations depends upon some degree of exchange with outside partners" (Child, 1972, p. 3). Since organisations require a steady flow of resources to work properly, they must manage their
dependency. An organisation being dependent on the environment is not in itself a problem, as long as the flow of required resources is stable and assured. Problems arise when the flow of resources becomes uncertain – environmental uncertainty has been defined as “the extent to which future states of the world cannot be anticipated and accurately predicted” (Pfeffer and Salancik, 1978, p. 67). Not surprisingly, it is argued that keeping an organisation aligned with its environment is an important determinant of success (Teece, 1984).

In this study, three sources of environmental uncertainty were linked with multiple channel utilisation: environmental heterogeneity, volatility and conflict. The next section develops the arguments supporting the predicted relationships between the independent variables and multi-channel choice. A separate section will present the sample and data collection procedures and the operationalisation of the variables. Finally, the results will be discussed, along with the limitations of the study.

Research hypotheses

Environmental volatility

Environmental volatility is the extent to which the environment is perceived to be characterised by rapid and sudden changes, such as in consumers’ needs and competitors’ actions, causing the “firm to be caught by surprise” (Klein et al., 1990, p. 200). In volatile environments, planning strategies, tactics and operations are difficult to conduct. There are more alternatives to be developed and/or considered and a much larger pool of assumptions must be scrutinised. The elements on which information, hierarchy, scale and conflict. The next section develops the arguments supporting the predicted relationships between the independent variables and multi-channel choice. A separate section will present the sample and data collection procedures and the operationalisation of the variables. Finally, the results will be discussed, along with the limitations of the study.

Environmental heterogeneity

Environmental heterogeneity has been defined as the degree of perceived dissimilarity among the elements of the population, which an organisation has to deal with, including any individuals and organisations that affect resources (Achrol et al., 1983, p. 37). In heterogeneous environments, companies face more complex decision settings because information is required about a wider spectrum of forces and players. Companies also have to make a larger number of decisions. They have to develop multiple marketing programmes in order to address the varied demands of the forces in the environment and to develop a larger number of strategic responses. For example, they have to develop a wider product range, a more complex price list and a diversity of selling efforts to address the diverse needs of their customer targets. The actions of diverse competitors and intermediaries also require a firm to make more decisions.

According to Thompson (1967, p. 70), “organisations facing heterogeneous ... environments seek to identify homogeneous segments and establish structural units to deal with each”. In the same vein, Dwyer and Welsh (1985) argued that organisations can cope with heterogeneity by developing, for example, more decentralised and informal channel structures, structures capable of dealing with specialised demands, and of providing more adaptive decisions. These authors observed, for example, that heterogeneous environments were associated with less channel formalisation, higher decentralisation and retailer control over decision making. Therefore, it follows that, when compared to a single channel strategy, the utilisation of multiple channels provides more specialised decision making and, consequently, allows for the development of a multiple range of strategies to address the behaviours of diverse actors in the most appropriate manner. By developing a range of channels which specialise in serving different types of needs and behaviours, companies are sub-dividing their environment into more treatable subsets, developing specific
information systems and decision-making units for monitoring and responding to very particular parts of it (Dwyer and Welsh, 1985; Klein et al., 1990; Leblebicci and Salancik, 1981). The marketing literature also suggests that firms facing many highly dissimilar customers should use multiple channels to address their diversity of needs (Bucklin, 1962; Weigand, 1977).

In homogeneous environments, an organisation deals with a simpler set of forces and actors, which is the reason why there are fewer critical types of information to collect. Consequently, organisations in these environments face less uncertainty, making it easier and faster to arrive at a consensus. Decision-makers will be more certain about taking the right decisions (Jarkovich, 1974). In this context, homogeneous environments make it easier to monitor relevant actors, reward “the development of standardised ways of relating to the domain population, and may lead to the development of an undifferentiated set of products or services” (Aldrich, 1979, p. 66). In other words, manufacturers in homogeneous environments may be able to deal even with large populations with a reduced number of routines, such as channels:

**H2. Environmental heterogeneity will be positively associated with the utilisation of multiple channels.**

**Environmental conflict**

Environmental conflict is the extent to which an organisation faces competition over the output market resources it wants to control (Achtel and Stern, 1988; Aldrich, 1979). In a highly competitive environment there is greater pressure on firms to devise more acute segmentation strategies and to differentiate their offers (Kohli and Jaworski, 1990; Kotler et al., 1996). Strong competition requires companies to aggressively fight one another to obtain that scarce resource: customers. Because of the wider pool of offers in the market, consumers can select the one that best meets their needs. It follows therefore that, if a firm fails to serve the needs of its customers more appropriately than its rivals, it runs the risk of losing market position to those competitors. In this context, a wider variety of channels enables firms to offer a wider range of more targeted offerings and use particular channels to access targeted groups. In particular, new channel arrangements are frequently a vehicle to serve narrower segments more effectively and to allow the offer of more competitive products. For instance, Virgin in the UK started offering banking products at competitive prices because they were provided solely through remote access.

Strong competition pressurises companies to adopt industry norms in terms of organisational choices, in order not to face the threat of extinction (Miller and Droge, 1986). Consequently, if competitors launch new channels, others will have to follow soon. Not surprisingly, the launch of eSchwab led other competitors such as Merrill Lynch and many banks to establish internet brokerage services, while the success of the UK telephone-based Direct Line led many of its competitors to invest in the same channel.

Competitive environments also create pressure on companies to cut costs (Frazier and Lassar, 1996), specifically at the distribution level. Competition forces companies to reduce prices, which increases pressure on cost compression and elimination as a means of protecting business margins and, therefore, resources.

Channels can be a very significant source of business costs. This is particularly evident in the case of banks, building societies and pension companies. Branch networks and direct salesforces are very expensive to operate. An intelligent orchestration of multiple channels can help companies reduce their distribution costs. According to some estimates, employing and equipping a tele-operative is 40 per cent cheaper than having a salesperson in the field, and a telephone transaction can be 66 per cent cheaper than an over-the-counter sale (Read, 1997). Therefore, it is not surprising to observe that banks have been trying, over the years, to migrate less value adding activities from the branch network to ATMs, EFTPOS, telephone and other channel technologies. This specialisation can generate important savings by freeing high cost channels to sell only high value added products and by using low-cost channels to sell lower value added products.

However, the argument that competitive intensity forces companies to be more efficient may raise the following question: What are the incentives for companies not to be efficient? In the personal pensions business, the utilisation of direct salesforces going door-to-door collecting just a few pounds a month was a fairly common practice. In those times, when the personal pensions market was more of a “cosy business” than it is now, the charges were (and still are) very high. This allowed the utilisation of such a very high cost channel which, according to the market conditions in those days, could be considered an efficient way of responding to the needs of customers and the services they required. However, in today’s environment, such practice looks increasingly inefficient and odd. The level of competitive intensity is relatively high and is increasing further. Understandably, some companies have been streamlining the size, and redesigning the role, of their salesforces.

As the level of competitive intensity decreases, the pressure to be efficient and to differentiate becomes less significant, making the utilisation of multiple channels a less-needed strategy. Over one-third of the motor insurance business in the UK is currently conducted over the telephone, but this segment only emerged due to heightened competition with the entrance of new players such as Direct Line. In summary, a positive relationship is expected between environmental conflict and multi-channel usage:

**H3. Environmental conflict will be positively associated with the utilisation of multiple channels of distribution.**

**Methodology**

**Data collection**

The unit of analysis in the study is the channel mix for an individual product. The focus on the product, rather than the company, arises from the observation that companies using a wide range of channels do not necessarily put all their products through every channel. In fact, a company frequently employs different channel mixes for different products. Hence focusing the study at the company level would not provide evidence of the intricacies associated with the emergence of different channel mixes. The setting for the study is the financial services industry, which seemed to be a good context to conduct the research, given that multiple channels are often used in the distribution of financial...
services, as is evident from the general and financial press and from the academic literature (see, for example, Easingwood and Storey, 1996).

To collect the information, the research relied on the key informant technique. Data for testing the hypotheses were gathered via personally administered questionnaires. The study was restricted to four different financial products: motor insurance, personal pensions, mortgages and unit trusts, which were judged to provide enough variability in terms of channel choice. Based on the financial and general press and on electronic databases, 160 companies of varying dimension and channel strategies were contacted, in order to ensure sufficient variability of organisational characteristics, with 62 (39 per cent) agreeing to complete a questionnaire face to face. The aim was to secure a sample drawn in approximately equal proportions from the four sectors, with each being broadly representative of its sector, but it should be noted that this could not be done precisely as there is no single database which can be drawn on. Databases overlap and are broader than the product categories chosen. In addition, there has been a strong wave of re-organisations, mergers and acquisitions in the UK financial services industry, a liberalisation of financial services and the entrance of a significant number of new competitors. The sample breakdown by product and company size is presented in Table I.

**Operationalisation of variables**

The items used for the independent variables are presented below:

1. **Environmental heterogeneity (measure anchored very similar/very different):**
   - Target customer diversity/similarity:
     - Our target customers’ product needs.
     - Our target customers’ advice needs.
     - Our target customers’ price sensitivity.
   - Competitor diversity/similarity:
     - Competitors’ channel strategies.
     - Competitors’ price strategies.
     - Competitors’ product strategies.
   - Intermediary diversity/similarity:
     - Size of intermediaries.
     - Intermediaries’ strategies (product range, services, …).

**Table I. Sample by product and company size**

<table>
<thead>
<tr>
<th>By product</th>
<th>n</th>
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<tbody>
<tr>
<td>Mortgages</td>
<td>17</td>
</tr>
<tr>
<td>Unit trusts</td>
<td>16</td>
</tr>
<tr>
<td>Personal pensions</td>
<td>16</td>
</tr>
<tr>
<td>Motor insurance</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By company size (employees)</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 100</td>
<td>10</td>
</tr>
<tr>
<td>101-1,000</td>
<td>18</td>
</tr>
<tr>
<td>1,001-5,000</td>
<td>23</td>
</tr>
<tr>
<td>≥ 5,001</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62</strong></td>
</tr>
</tbody>
</table>

2. **Environmental volatility (measure anchored no change/every frequent change):**
   - Target customer volatility:
     - Changes in our target customers’ needs for product features.
     - Changes in our target customers’ needs for advice.
     - Changes in our target customers’ price sensitivity.
   - Competitor volatility:
     - Changes in competitive structure (number of competitors, alliances, M&A).
     - Changes in competitors’ channel strategies.
     - Changes in competitors’ product strategies.
     - Changes in competitors’ price strategies.
   - Intermediary volatility:
     - Changes in intermediary structure (e.g. size and number of intermediaries …).
     - Changes in intermediaries’ strategies (product range, services, charges …).

3. **Environmental volatility (measure anchored no change/every frequent change):**
   - Competition in general is very high.
   - The level of price competition is very high.

In measuring the sources of environmental uncertainty, this work concentrates on the most immediate segments of the environment, namely intermediaries, competitors and the target customer, because these are the actors who most closely influence the performance and social structure of an organisation (see Achrol and Stern, 1988; Klein et al., 1990; Osborn and Hunt, 1974; Starbuck, 1976). Basically, these are the actors with whom the organisational interaction is more frequent and important. This follows the idea that the resources required by an organisation constitute the most important factor in defining an organisation’s environment (Dess and Beard, 1984). Duncan (1972) and Milliken (1987) also observe that it is important to identify what the particular sources of uncertainty are.

Environmental heterogeneity was measured by asking the respondents to indicate the similarity/diversity of target customer needs, competitor strategies and intermediary strategies using a seven-point scale anchored between very similar and very different. Environmental volatility was measured by asking the respondents to indicate the degree of change in target customer needs, in the competitive environment and in the intermediary environment using a seven-point scale anchored between no change and very frequent change. These two variables are very similar to the ones used by Achrol and Stern (1988). Klein et al. (1990) have used more condensed forms of volatility and heterogeneity.

With regard to environmental volatility and heterogeneity, separate index-based measures were developed for intermediaries, competitors and customers. In other words, the two initial variables, environmental heterogeneity and volatility, have been expanded to six new variables (each of which corresponds to the average of the respective original items): target customer heterogeneity, competitor heterogeneity, intermediary heterogeneity, target customer volatility, competitor volatility and intermediary volatility. There are two main reasons for this. The first, according to the existing literature (Achrol and Stern, 1988; Klein et al., 1990; Osborn and Hunt, 1974; Starbuck, 1976), is that it is relevant to identify the particular sources of uncertainty. The second reason is that environmental heterogeneity and
volatility are multi-dimensional composites, i.e. index measures, where each item represents a single dimension (for a similar situation see Klein et al., 1990). Changing customers’ product needs, for example, does not necessarily have to be correlated with changing customers’ price sensitivity. As one respondent stated about customer heterogeneity, “Some want advice, some don’t want advice, all are very price sensitive”. In a measurement scale, all constituent items should measure the same construct and should therefore be correlated, whereas in an index-based measure, items are supposed to measure different constructs, explaining why its items do not necessarily have to be correlated, and a complex pattern of factor loadings can emerge. This also implies that the coefficient alpha is not appropriate to assess the psychometric properties of these measures (see Gaski, 1984; Howell, 1987; Klein et al., 1990). Preliminary regression analysis has supported this consideration, by indicating that the effect on multi-channel utilisation depended on the particular source of uncertainty, namely customers, competitors or intermediaries.

Environmental conflict was measured with four items measured on a scale anchored strongly agree/strongly disagree. Factor analysis revealed that environmental conflict is unidimensional, but analysis of coefficient alpha led to the exclusion of two items (not presented here), ending up with a coefficient alpha of 0.63. The items in this scale were chosen from the operationalisations of Jaworski and Kohli (1993) and Dwyer and Welsh (1985), seeking a set of items that could tap the level of competitive intensity in UK financial services. Table II, which provides the correlation coefficients between these variables, reveals coefficients with no excessively large magnitudes. Hence this is evidence that there is no major overlap among the independent variables in the study.

Channel typologies

The dependent variable, multi-channel usage, is represented by a dichotomous variable, which assumes the value zero for single channel usage, and one for multi-channel usage. This required setting a typology of channel strategies. Following Easingwood and Coelho (2003, pp. 33-4), this study considered traditional direct channels, direct marketing channels and intermediaries.

Traditional direct channels include the direct salesforces and branches of pension companies, banks and building societies. These fully-controlled channels allow companies to enjoy the benefits of integration, provide high levels of personal contact with customers but require large investments, leading to a loss of strategic flexibility. A separation of a branch network from a direct salesforce into distinct channels would be artificial. Banks have a regulated salesforce that is branch-based, but which may also visit customers at their home/place of work. Consequently, it is not possible to split branch from non-branch activities. The key issues are that both are fully controlled and involve face-to-face contact with the customer.

Direct marketing channels include the telephone, the Internet, direct mail and direct response advertising. These fully-controlled channels can deliver most of the benefits accompanying integration. However, they usually require lower capital investments, generating lower overheads. Another specificity is that the company provides only a limited contact with customers. On the topic of telemarketing, for example, Slater and Narver (1994, p. 50) noted that its nature “restricts the extent and depth of customer contact”. Separation of these different direct marketing channels was also considered but rejected based on the feedback obtained in the interviews. Many direct marketing companies obtain their sales by generating leads through direct mail (and direct response advertising) that may lead to a telephone purchase supported by mail delivery of the insurance policy. These channels tend to be integrated and it would not be possible, as well as being artificial, to try to separate them. Segregation of these channels would also lead to an inflation in the number of channels used by some companies, endangering the goals of this study. In addition, it should be noted that at the time of the study a customer’s signature was required for most of the products considered in this study when transacted over the internet or the telephone.

Many companies use intermediaries to achieve broad market coverage with few resources. This channel strategy generates higher variable costs, but lower fixed costs, while capturing the expertise accumulated by intermediaries over time. The lack of ownership, however, is accompanied by the loss of the benefits associated with integration.

Different channel typologies have been considered in other studies. For instance, Easingwood and Storey (1996), using a typology similar to the ones defined by Ennew et al. (1989) and by Moriarty and Moran (1990), proposed five distinct channels, namely direct response advertising, direct mail, branch network, intermediaries and direct salesforce. These more detailed typologies have their roles, for instance in defining the details of a marketing programme. However they can be criticised on two counts. One is that they have overlooked the fact that channels are frequently interwoven, so that it simply is not possible to separate some channels. Second, they are not based on a clearly defined principle. The three-channel typology above is based on the principle that for a channel to be considered distinct it must differ on one or both of degree of control and degree of personal contact (see Table III).

<table>
<thead>
<tr>
<th>Table II Correlation coefficients</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Consumer heterogeneity</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Competitor heterogeneity</td>
<td>0.20</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Intermediary heterogeneity</td>
<td>0.35 0.32</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Consumer volatility</td>
<td>0.39 –0.01 0.06</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5 Competitor volatility</td>
<td>0.17 0.24 0.34 0.41</td>
<td>–</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6 Intermediary volatility</td>
<td>0.04 0.10 0.28 0.37 0.49</td>
<td>–</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Environmental conflict</td>
<td>–0.18 –0.08 0.07 0.18 0.30 0.15</td>
<td>–</td>
<td></td>
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</table>

Single versus multiple channels

On this basis a three-channel typology was employed, and the channel strategy used by each company for the distribution of each product was measured by assessing the percentage of sales conducted via those three types of channel. The three-channel typology could be used to classify companies into three groups based on the number of channels they used: a group of companies using a single channel, another group using two channels and, finally, a group using three channels.
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Table III Channel typology

<table>
<thead>
<tr>
<th></th>
<th>Company control over channel</th>
<th>Company contact with customers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional direct channels</strong></td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Branch network</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salesforce</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Direct marketing channels</strong></td>
<td>High</td>
<td>Low to intermediate</td>
</tr>
<tr>
<td>Direct response advertising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct mail</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Intermediaries</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

However, simply counting the number of channels utilised is not correct as it can lead to internally heterogeneous groups, and therefore produce misleading results. It should be noted that a company obtaining its sales from two channels in the proportion of 97 per cent and 3 per cent would be considered a multi-channel adopter, just like a company using two channels in a more balanced way, such as 70 per cent and 30 per cent. Consequently, the sample was divided into single and multi-channel cases, but even this apparently simple classification task is not as straightforward as at first appears to be the case. There are two main alternatives that have been observed in the literature, each appropriate in particular circumstances (see Easingwood and Coelho, 2003, pp. 35-6).

The 0 per cent cut-off rule

The first simply applies the definition of a multi-channel strategy: the utilisation of two or more channels of distribution to make a product available to the target customer. Thus those companies that obtain some product sales, regardless of the percentage, from a second channel are classified as multi-channel users, whereas those obtaining 100 per cent from a single channel are regarded as single-channel users. This would be the classification rule that would instinctively be adopted, and is referred to as the 0 per cent cut-off rule. It resulted in 19 single-channel cases and 43 multi-channel cases. This classification rule, previously used by Dutta et al. (1993), is simple and logical but its disadvantage is that a product that has just one or 2 per cent of its sales through a second channel would be classified as “multi-channel” and yet from some perspectives is not fundamentally different from a product sold 100 per cent through a single channel.

The 10 per cent cut-off rule

In order to deal with this problem, the study considered a second classification rule involving a 10 per cent cut-off. Accordingly, any company obtaining more than 10 per cent from each of at least two different channels is classified as a multi-channel adopter, whereas any other case is classified as a single-channel adopter. This cut-off is an attempt to differentiate those companies that are using multiple channels in a more balanced way from those that are using second channels in a marginal way. The 10 per cent cut-off was established by looking at a natural break in the distribution of sales per channel data, and is a strategy that was previously used by John and Weitz (1988). This cut-off resulted in 34 single- and 28 multi-channel cases, a separation that differs markedly from the one associated with the 0 per cent cut-off.

Model estimation

It is intended to use a model to estimate the effects of the seven variables on the choice of a single- versus a multi-channel strategy. Logistic regression was utilised as it is an appealing tool, and deals with discrete data. Compared to discriminant analysis, logistic regression has the advantage of not requiring the assumptions of multivariate normality of the independent variables and of equal covariances in the groups. Another important advantage is that the standard errors of the coefficients in the estimated regression are interpretable, and this does not happen with discriminant analysis. In addition, logistic regression is a much more flexible tool to deal with interactions among variables. Tabachnick and Fidell (1996) add that logistic regression is better at handling situations in which there are very unequal group sizes. In logistic regression, the probability of an outcome occurring, \( \hat{Y} \), the utilisation of multiple channels in the present case, is estimated. The logistic regression model can be expressed as:

\[
\hat{Y} = \frac{1}{1 + e^{-Z}}
\]

where \( Z \) is the linear regression equation:

\[
Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_k X_k
\]

with \( X_1, X_2, \ldots X_k \) being the explanatory variables.

The model was estimated using the maximum likelihood procedure. The overall fit is assessed via the model’s likelihood ratio (\( \chi^2 \)), which compares the likelihood of the models with and without the variables. Because the likelihood is a small number (less than 1), it is common practice to use the statistic \( -2 \times \) the natural logarithm of the likelihood (\( -2LL \)), creating a statistic with approximately a \( \chi^2 \) distribution. For overall assessment, the likelihood ratio test can be supplemented with the correct classification rate, which should be compared with the percentage of cases correctly classified by chance alone. Assessment of the significance of individual variables can also be pursued via the likelihood ratio, which in this context compares the model’s likelihood with and without a specific variable.

Results and discussion

Preliminary analysis and interpretations suggested that intermediary heterogeneity and volatility could be mediating the impact of consumer and competitor heterogeneity and volatility on the choice of number of channels, as discussed below, and for this reason two models were developed, one excluding (Model I) and the other including (Model II) the following interactions: customer heterogeneity-intermediary


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customers has a significant and positive association with the use of multi-channels, competitor volatility has no association, and intermediary volatility is significantly associated, but in a negative direction. These results imply that increases in consumer volatility augment the probability of multi-channel usage, whereas increases in intermediary volatility decrease that probability. These findings merit discussion.

Significant support is found for the contention that companies create options, such as investing in new channels, when customer volatility is high. This enables companies to learn about the changing customer environment and channels, and to strike the option, i.e. to invest further or to withdraw from the channel, as soon as the environment clarifies. The development of learning devices can be a company's only sustainable advantage (Day, 1994) and is a particularly important practice in turbulent environments (Anderson et al., 1997; Bowman and Hurry, 1993; Day and Wensley, 1988; Slater and Narver, 1995). When the source of the volatility is intermediaries, it seems that companies are actually less likely to use multi-channels. A possible explanation for this finding is that a changing intermediary environment may act as a substitute, at least in part, for the need for a company to develop options of its own. In other words, a company may not need to invest in new channels when, for example, customers and competitors are changing because intermediaries are doing that adaptation for the company.

No significant effect for competitor volatility was observed in the estimations under Model I.

Considering the potential mediating role associated with intermediary volatility, a second model (Model II in Table IV) was developed considering the interactions intermediary volatility* customer volatility and intermediary volatility* competitor volatility – in the same vein, the significance of the interactions customer heterogeneity*intermediary heterogeneity and competitor heterogeneity*intermediary heterogeneity were also explored under Model II. A negative sign on the interaction coefficient suggests that the positive relationship between multi-channel usage and customer volatility/competitor volatility is weakened with increasing values of the moderator variable, and a positive sign suggests that the relationship is strengthened.

The results do in fact confirm such a mediating role (Table IV, Model II). Intermediary volatility interacts with consumer volatility in the estimation under the 0 per cent cut-off, and with competitor volatility in the 10 per cent cut-off. As expected, the interactions involving intermediary volatility have a negative coefficient. Therefore, it seems that intermediaries can constitute a cushion between the company and the market. However, the results have to be looked at with some caution, as the interaction consumer+intermediary volatility is significant only with the estimation based on the 0 per cent cut-off point, whereas the competitor+intermediary volatility interaction is significant in the estimation based on the 10 per cent cut-off point.

H2. A positive relationship between environmental heterogeneity and multiple channels

No support is found for H2 under Model I in both cut-offs, as shown in Table IV. Target customer heterogeneity is not significantly associated with the adoption of multi-channels, likewise with competitor heterogeneity and intermediary heterogeneity. The finding regarding target customer

H1. A positive relationship between environmental volatility and multiple channels

Referring to the estimations under Model I in Table IV, it is seen that, for both cut-offs, volatility among targeted

Interactions tend to be highly correlated with the variables that they comprise. Whereas those problems of multicollinearity caused by actual relationships among variables have been referred to as essential ill-conditioning, those emerging from unccentred variables have been referred to as non-essential ill-conditioning (Aiken and West, 1991, p. 36), because they can be eliminated or reduced by centring variables. So, following the recommendations of existing literature (see, for example, Aiken and West, 1991; Smith and Sasaki, 1979; Tate, 1984), all independent variables were centred by subtracting the mean from each value of the original variables, a process which led to a set of new variables, all with zero mean. The parsimony principle states that higher order terms should only be introduced in equations if they improve the explanation beyond that explained by its lower order terms (Aiken and West, 1991; Kleinbaum, 1994; Tate, 1984). Consequently, only the interactions that were found to be statistically significant were introduced in Model II.

Results of the estimations for Model I and II are reported in Table IV. The Model I developed under the 0 per cent cut-off classification has a -2LL statistic of 59.60, which corresponds to an improvement of $\chi^2 = 16.82$ over a constant only model. For seven degrees of freedom, the probability associated with this statistic is 0.02. The correct classification rate is 74.2 per cent, which compares well with the 57.5 per cent that can be expected with the proportional chance criterion (an improvement of 29 per cent). In the model developed under the 10 per cent cut-off point, there is an improvement of $\chi^2 = 18.13$ over a constant only model, which for seven degrees of freedom is significant at the 0.01 level. The overall percentage of cases correctly classified is 74.2 per cent, which is an improvement of 47 per cent over the cases that can be expected to be correct by chance alone. Consequently, the variables in the two models have a significant discriminatory power over the multiple-/single-channel choice.

The estimations performed under Model II comprise interactions that have improved quite significantly the overall fit of the models developed for the 0 per cent and 10 per cent cut-offs.

Before analysing the support obtained for the hypotheses, it is important to discuss the origins of the differential and complementary results obtained in the two estimations/classifications. The 10 per cent cut-off point classification of channel strategies classified as multi-channel only those cases where two or more channels of distribution were being used in a substantive manner. In contrast the 0 per cent cut-point classification classified as multi-channel only those cases where two or more channels were being used, regardless of the extent of their utilisation. Using the 0 per cent cut-off rule, many companies are classified as multi-channel even when only marginally using a second channel.

The results associated with testing the hypotheses are now described. A hypothesis is supported if the coefficient has the predicted sign and is statistically significant.

H1. A positive relationship between environmental volatility and multiple channels

Referring to the estimations under Model I in Table IV, it is seen that, for both cut-offs, volatility among targeted


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Table IV  Estimation results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model I</th>
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<th>Model II</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>( B )</td>
<td>( \chi^2 ) change</td>
<td>( B )</td>
<td>( \chi^2 ) change</td>
</tr>
<tr>
<td><strong>Estimation results using the 0 per cent cut-off point classification of channel strategies</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Constant</td>
<td>1.53</td>
<td>12.02***</td>
<td>1.83</td>
<td>18.68***</td>
</tr>
<tr>
<td>Heterogeneity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target customer heterogeneity</td>
<td>-0.21</td>
<td>0.59</td>
<td>-0.32</td>
<td>1.28</td>
</tr>
<tr>
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<td>0.13</td>
<td>0.25</td>
<td>0.18</td>
<td>0.37</td>
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<tr>
<td>Intermediary heterogeneity</td>
<td>0.04</td>
<td>0.02</td>
<td>0.10</td>
<td>0.09</td>
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<tr>
<td>Volatility</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Target customer volatility</td>
<td>1.53</td>
<td>13.75***</td>
<td>2.02</td>
<td>17.60***</td>
</tr>
<tr>
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<td>-0.42</td>
<td>0.78</td>
<td>-0.41</td>
<td>0.72</td>
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<tr>
<td>Intermediary volatility</td>
<td>-0.69</td>
<td>4.26**</td>
<td>-1.12</td>
<td>7.21***</td>
</tr>
<tr>
<td>Environmental conflict</td>
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<td>0.05</td>
<td>-0.16</td>
<td>0.21</td>
</tr>
<tr>
<td>Interactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer het.*Intermediary het.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Customer vol.*Intermediary vol.</td>
<td>-</td>
<td>-</td>
<td>-0.86</td>
<td>6.78***</td>
</tr>
<tr>
<td>Competitor vol.*Intermediary vol.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Summary statistics</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model ( \chi^2 )</td>
<td>16.82 with 7 df</td>
<td>( p = 0.02 )</td>
<td>23.59 with 8 df</td>
<td>( p = 0.00 )</td>
</tr>
<tr>
<td>-2LL</td>
<td>59.60</td>
<td>52.82</td>
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<tr>
<td>Correct classification (%)</td>
<td>74.2</td>
<td>79</td>
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<td></td>
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<tr>
<td>Correct classification by chance (%)</td>
<td>57.5</td>
<td>57.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimation results using the 10 per cent cut-off point classification of channel strategies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-0.28</td>
<td>0.88</td>
<td>0.30</td>
<td>0.63</td>
</tr>
<tr>
<td>Heterogeneity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target customer heterogeneity</td>
<td>0.25</td>
<td>0.87</td>
<td>0.37</td>
<td>1.53</td>
</tr>
<tr>
<td>Competitor heterogeneity</td>
<td>0.06</td>
<td>0.06</td>
<td>-0.04</td>
<td>0.02</td>
</tr>
<tr>
<td>Intermediary heterogeneity</td>
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<td>0.92</td>
<td>-0.45</td>
<td>1.92</td>
</tr>
<tr>
<td>Volatility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target customer volatility</td>
<td>0.69</td>
<td>3.30*</td>
<td>0.86</td>
<td>4.12**</td>
</tr>
<tr>
<td>Competitor volatility</td>
<td>0.56</td>
<td>1.44</td>
<td>0.47</td>
<td>0.83</td>
</tr>
<tr>
<td>Intermediary volatility</td>
<td>-0.73</td>
<td>6.22**</td>
<td>-0.96</td>
<td>7.33***</td>
</tr>
<tr>
<td>Environmental conflict</td>
<td>0.69</td>
<td>3.35*</td>
<td>0.99</td>
<td>4.17**</td>
</tr>
<tr>
<td>Interactions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer het.*Intermediary het.</td>
<td>-</td>
<td>-</td>
<td>-0.58</td>
<td>7.63***</td>
</tr>
<tr>
<td>Customer vol.*Intermediary vol.</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Competitor vol.*Intermediary vol.</td>
<td>-</td>
<td>-</td>
<td>-0.65</td>
<td>3.10*</td>
</tr>
<tr>
<td><strong>Summary statistics</strong></td>
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<td></td>
</tr>
<tr>
<td>Model ( \chi^2 )</td>
<td>18.13 with 7 df</td>
<td>( p = 0.01 )</td>
<td>29.67 with 9 df</td>
<td>( p = 0.00 )</td>
</tr>
<tr>
<td>-2LL</td>
<td>67.24</td>
<td>55.69</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correct classification (%)</td>
<td>74.2</td>
<td>82.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correct classification by chance (%)</td>
<td>50.5</td>
<td>50.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Notes:</strong> * ( p &lt; 0.10 ); ** ( p &lt; 0.05 ); *** ( p &lt; 0.01 )</td>
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</tbody>
</table>

heterogeneity is particularly surprising. When customers have diverse needs, multiple channels are required to deliver the more specialist offers they require. Use of multiple channels allows a more accurate tracking of the needs of diverse customers and the more effective and efficient delivery of the bundle of benefits they are seeking.

Nonetheless, analysis of Model II reveals a somewhat different picture. Customer heterogeneity has a highly statistically significant interaction with intermediary heterogeneity, though only with the Model II developed under the 10 per cent cut-off. The negative sign on the interaction coefficient implies that the probability of multi-channel usage increases with customer heterogeneity for decreasing values of intermediary heterogeneity, and that the probability decreases as intermediaries become more heterogeneous. In other words, customer heterogeneity does drive companies to the utilisation of multiple channels, as predicted, but only in the absence of heterogeneity among intermediaries. In the presence of heterogeneous intermediaries, it seems that the pressure to build multiple channels decreases and apparently multi-channels are less likely. A possible explanation for this is that heterogeneous
intermediaries provide the specialised information systems and decision-making units which are necessary to monitor and react more properly to the diversity of external forces a company faces. When intermediaries are diverse, the intermediaries themselves may tend to provide, for example, different levels of advice, different product assortments and offer different prices/charges, therefore catering for the needs of different types of consumer, sometimes better than the “producer” itself. It should be noted that one of the reasons companies use multiple channels is precisely to serve different segments with different or adjusted propositions. Therefore, as intermediaries become more heterogeneous, the pressure for a company to use multiple channels might decrease because intermediaries fulfil by themselves a major role associated with multiple channels, which is providing more specialised decision making. In fact, during the interviews it was observed that many large companies were serving heterogeneous customers whilst relying solely on intermediaries. Consequently, heterogeneous customers do not necessarily have to drive companies to the multi-channel route, as long as intermediaries are diverse.

Another possible explanation for the lack of significant main effects for intermediary heterogeneity is that intermediaries are “organisational buyers”, and as such are much less numerous than consumers and easier to keep track of and respond to. They also tend to trade on a relatively stable, continuing base, have fewer “consumption whims”, and have better-defined and more easily utilised communication channels with the organisation. Thus, although the intermediary environment may be heterogeneous, it may be perceived to have lower levels of uncertainty (Achrol and Stern, 1988) and is a relatively structured environment. Therefore companies can organise for it (Dwyer and Welsh, 1985). It should be pointed out that these findings reinforce those of Achrol and Stern (1988). Their focus was on uncertainty in channels, not the use of multi-channels, but they observed that heterogeneous organisational customers (less numerous and fewer consumption whims) had no effect on uncertainty.

The lack of a significant relationship between channel choice and competitor heterogeneity and the interaction-only effects for competitor volatility may have several explanations. It is quite likely that competitor volatility and heterogeneity may drive companies to adopt diverse behaviours. For example, some companies may find it desirable to deal with competitor heterogeneity/volatility by developing a focused strategy, specialising in the use of a single channel. By concentrating their efforts on what they think they can do best, i.e. around a set of core competencies, they expect to develop a more distinctive value proposition. Others may find it more advantageous to respond to competition by developing a range of channels.

The large number of competitors present in the UK financial services industry may also have an effect. In competitive structures marked by numerous competitors, no single company “has the capacity or resources to alter substantially the balance of power among the sellers. In this environment, focusing on the buyers’ value equations while staying abreast of competitive developments is the approach that is most likely to lead to success” (Slater and Narver, 1994, p. 49). Considering competitor volatility in particular, Slater and Narver (1994, p. 50), following Day and Wensley (1988), note that fast-changing competitive environments should lead companies to focus on customers, as it is extremely difficult to monitor competition and there is an increased likelihood of generating “misperceptions of competitive structure”. This line of reasoning supports the strong positive results obtained for customer volatility. Of course the relatively small sample size makes it difficult to capture all possible intricacies between the independent variables and channel choice.

The fact that customer heterogeneity has only interaction effects whereas customer volatility has both significant main and interaction effects can be explained by existing theory. According to the literature on the organisation-environment interface, heterogeneity is a relatively durable environmental trait. For this reason, organisations can deal with it by developing information systems that order the environment into appropriate segments. In other words, organisations can disentangle the wider environment into small pieces, into more homogeneous and treatable subsets (Dwyer and Welsh, 1985; Leblebici and Salancik, 1981). As heterogeneity may be anticipated, information systems can be formalised to cope with such diversity. Hence, if enough resources are devoted to institutionalised information systems, uncertainty arising from heterogeneous elements can be virtually eliminated. In this context, it can be reasoned that companies may be able to deal with the uncertainty arising from heterogeneous customers by relying solely on intermediaries and not having to introduce any change of their own. This probably explains the interaction-only effects involving customer heterogeneity.

Volatility in a heterogeneous environment cannot be dealt with by institutional forms of information systems because they “would require changing information systems with every environmental change ... What volatility requires of an organisation is flexibility, the ability to shift from permanent procedures to temporary and flexible procedures” (Leblebici and Salancik, 1981, p. 583). As the uncertainty arising from volatile elements can never be eliminated, companies will probably find it insufficient to rest in the hands of intermediaries, and will need to change their own channel strategies to respond to the changing environment. This is a possible explanation for both the significant main and interaction effects involving customer volatility.

Finally, one comment is required on why heterogeneity only emerged under the 10 per cent cut-off. When companies are faced with a highly heterogeneous environment they will need to adopt several modes to react with that varied environment. There will certainly not be a “one strategy fits all” response and this includes channels. Different channels will need to be employed to target different target groups. The environment may be varied, but it is not necessarily volatile, so the company’s response will be relatively stable, established and long-term and this should be captured by the 10 per cent cut-off (second channels substantive) rather than the 0 per cent cut-off rule (second channels marginal and experimental). In other words, heterogeneity requires that second channels are significant and fully operational, not experimental and marginal. In the context of the 0 per cent cut-off, many companies in the multi-channel group are essentially relying on a single channel probably serving a mostly homogeneous group of customers.

H3. A positive relationship between environmental conflict and multiple channels
Companies, if they are to survive and prosper, need to develop more finely-tuned marketing strategies, including
multiple-channel strategies, when competition is high. Because consumers in these environments can choose from a wider pool of suppliers, and exhibit a high preparedness to switch, companies will be at risk if they fail to deliver more tightly-focused propositions. However this involves serious commitment to such strategies and channels, and this will more likely be exhibited using the 10 per cent rather than the 0 per cent cut-off classification.

Testing for H3 with the 10 per cent cut-off does indeed reveal a statistically significant relationship and in the expected direction. It seems that an increase in environmental conflict increases the probability of multichannel utilisation. This is probably driven in the main by the need to develop more finely tuned strategies as argued above, but in addition increased competition is likely to put pressure on prices, which puts increased pressure on margins and which leads in turn to pressure to cut costs. Thus companies will attempt to incorporate extra channels to find the particular mix that delivers the lowest cost per served customer, and this will help ensure a more steady flow of resources.

According to organisational theory, organisations seek to control the resources such as raw materials and customers on which they are dependent. Consequently, the higher the difficulty in obtaining a certain resource, the more efforts will be made to control its availability (Achrol et al., 1983). Because resources, in this case customers, are more difficult to obtain in competitive markets, the utilisation of multiple channels constitutes a means of increasing control over the desired level of resources in such environments.

In summary, the results indicate that consumer volatility is positively related and intermediary volatility negatively related with multiple-channel usage, in addition to a mediating role played by intermediary volatility on the effects of consumer and competitor volatility on number of channels used. Consumer heterogeneity was observed to drive companies to the multichannel route, although only in the presence of low intermediary heterogeneity. Finally, environmental conflict tends to drive companies to the utilisation of multiple channels.

In conclusion, environmental uncertainty does contribute to an explanation of the utilisation of multiple channels. Given that the study adopts a single theoretical perspective, that of environmental uncertainty, this can be claimed to be a useful contribution.

Limitations

This study has a number of limitations that it may be possible to address in future research. One limitation lies in the extent to which the results can be generalised. Although efforts were undertaken in order to develop a sample that is representative of the population, there is apparently no statistically exact way in which this can be done.

The sample size is not large, although this has not prevented significant results emerging, and financial services may possess characteristics that are not necessarily shared with other sectors. Therefore, it is not possible at this point to claim that the study's findings will apply in other settings.

The results obtained may also have been affected by measurement problems. The Cronbach alpha for environmental conflict is not particularly high. In addition, it should be noted that the literature itself reveals inconsistency in the conceptualisation and measurement of environmental uncertainty (Buchho, 1994; Downey et al., 1975; Duncan, 1972; Milihken, 1987). Therefore, improvements at this level will have an important research pay-off.

This investigation considered a typology comprising three types of channels. Although the validity of this perspective was discussed and supported, it is still the case that other typologies might have yielded different results. Clearly, there is a great need to develop typologies and measurements of the diversity of channels in use (Frazier, 1999), but it is probably the case that the choice of typology may be dependent on the purpose of the research. Nonetheless, it should be noted that the authors conducted preliminary regressions on a simplified typology comprising just two channels, direct and indirect, which is a fundamental distinction. No relevant differences emerged for the estimations under the 0 per cent cut-off. Regarding the estimations involving the 10 per cent cut-off, it was observed that environmental conflict and the interaction between competitor and intermediary volatility failed to attain statistical significance under the two-channel typology. However, these results should be viewed with caution, as the two-channel typology obscures the distinction between traditional and direct marketing channels. New entrants into the UK financial services industry, lacking the traditional means of getting into the market, have used direct marketing channels and they have been so successful that they have led traditional organisations to adopt such modern channels in a committed way, and the two-channel typology does not capture this important development.

Implications for managers

Bowman (1963) noted that managers acquire knowledge of the relevant variables through experience, ending up forming reasonable implicit models. However, he also noted that in particular decision situations, managers only consider some pieces of information. The virtual absence of guidelines regarding the design of multiple-channel strategies is particularly problematic, given the implications of such strategies and the long-term nature of distribution channels. Consequently, it is likely that the development and management of multiple channels has been hampered by the lack of knowledge regarding the design of these strategies. The interviews conducted with managers in the financial services organisations have supported this evidence. A common theme that emerged was that channel decision processes were “embarrassingly unscientific”. In this context, the insights developed in this work have the potential to facilitate the development of more market driven distribution systems.

This study has several implications for managers. In general, one of the most important findings is that the degree of environmental uncertainty is an important issue affecting multi-channel choice, and should therefore be scrutinised at the channel design stage. More specifically, this study has found how certain environmental conditions are driving companies to develop multiple-channel strategies. In volatile consumer environments there is more uncertainty about the channels that will survive in the medium to the long term. The results suggest that, in these circumstances, companies should start accommodating the uncertain future in their current strategies by creating options, that is, in particular, by making small investments in new channels. Acting in this way, the company not only avoids large investments in channels that might become misaligned to the environment, but also builds.
learning devices about consumers and channels, which enable it to make further investments. If a company fails to build such learning devices, it may find it difficult in the future to catch up with the new consumer's needs. In more stable consumer environments there is a lower need to build such learning devices, because predictions are more reliable, allowing a more infallible channel screening. The investments in the internet channel, which companies have been making, exemplify such a position. However, when companies face change in intermediaries' structure and strategies, the results suggest that the pressure to use multiple channels decreases, the reason being that intermediaries may act as a substitute, at least in part, for the need for a company to develop options of its own.

Broadly speaking, companies serving heterogeneous consumer targets should use more distribution channels. Diverse consumers have different price sensitivities and require different products and levels of advice, which only a multiplicity of channels can deliver. The utilisation of multiple channels allows companies to develop more specialised decision making and to keep track of the diversity of consumers' needs more appropriately. If consumers are more homogeneous, conversely, there is less need to develop multiple channels. In fact, different channels can only exist as long as each manages to continue to satisfy its customer base. However, in addition it seems that companies should consider the effect of intermediaries on the channel decision. They should recognise that there is a reduced need to utilise multiple channels in the presence of diverse intermediaries. These tend to have different product assortments, provide different levels of advice and service, and present different charges, therefore catering for heterogeneous consumers. In this context, heterogeneous intermediaries fulfil one of the roles of multiple channels.

Finally companies should consider the use of multiple channels in more competitive environments. A company going for the multi-channel route in such environments can devise more specific target offerings and delivery methods, in order to acquire and maintain customers effectively in this more competitive environment. In addition, multiple channels increase the chances of a company recuperating through one-channel sales it has lost from another, since the level of consumer switching tends to be higher in more competitive markets. Last, but not least, competitive pressures to reduce prices also motivate companies to cut costs and, in particular, distribution costs, which a clever orchestration of multiple channels can achieve specifically, by enabling the utilisation of channels in the performance of specialised tasks. Higher cost channels can be freed, for example, to perform more value-added transactions. Hence by acting in such a way, a company is able to reduce uncertainty about resource flows.

Conclusion

Single-channel strategies are becoming less popular options nowadays, while multiple channels are increasingly under consideration. However, little is known in a rigorous, systematic way about the choice of such channel structures, and this is a significant omission, given their popularity. The present study is one of the first to develop a model regarding the determinants of multiple-channel strategies, therefore representing one of the first blocks in the larger process of building a comprehensive framework of the choice of multiple-channel strategies. It is probably the first to adopt an environmental uncertainty perspective, which was shown to have a significant impact on the development of multiple-channel strategies. This is to be expected, since "organisations are inseparably bound up with the conditions of their environment" (Pfeffer and Salancik, 1978, p. 1).

The results obtained do reflect the "complexity and richness of organisation-environment relations" (Starbuck, 1976, p. 1099). In general, it can be concluded that financial services organisations have been adapting their channel strategies to environmental developments. In particular, and importantly, it seems that they have been discriminating between different types of uncertainty. In addition, and equally importantly, the results suggest that managers seem to be adapting their organisational responses to particular sources of uncertainty. Target customer volatility, for example, appears to drive companies towards the multi-channel route, whereas intermediary volatility provides an impetus for single-channel strategies. This result is of extreme importance, because most studies have only considered aggregate measures of heterogeneity and volatility, whereas it seems that companies are reacting differently to different sources of uncertainty. Consequently, the results warrant a closer look at the effects of environmental uncertainty on multi-channel choice and on other organisational choices.

Finally, the model that was developed has a broad applicability, which makes it a useful platform for adaptation to other sectors. In addition, the ideas developed in this study together with the empirical findings, provide a clearer understanding of the determinants of multiple channels, and an additional basis from which further work can be conducted. Consequently, it might help others to further this research topic, specifically by applying other relevant theories, and by replicating the study in other settings.

References


Determinants of multiple channel choice in financial services

Filipe Coelho and Chris Easingwood


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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefits of the material present.

Almost every product is now distributed through more than one channel. Building a coherent distribution structure and avoiding the implementation of a tangle of channels have become major concerns for most companies. Coelho and Easingwood examine why multiple channels of distribution emerge.

Environmental uncertainty

The authors concentrate on environmental uncertainty – the “extent to which future states of the world cannot be anticipated and accurately predicted”. Three states of environmental uncertainty are: environmental volatility, or the extent to which the environment is perceived to be characterised by rapid and sudden changes, such as in customers’ needs and competitors’ actions, causing the firm to be caught by surprise; environmental heterogeneity, or the degree of perceived dissimilarity among the elements of the population which an organisation has to deal with, including any individuals and organisations that affect resources; and environmental conflict, or the extent to which an organisation faces competition over the output market resources it wants to control.

The research findings

Coelho and Easingwood collected information from firms in the UK financial services industry through personally administered questionnaires. With regard to environmental volatility and heterogeneity, the authors developed separate measures for financial intermediaries, competitors and companies. They therefore had measures for target customer heterogeneity, competitor heterogeneity, intermediary heterogeneity, target customer volatility, competitor volatility and intermediary volatility. The authors discovered that environmental uncertainty does contribute to an explanation of the use of multiple channels. In particular, customer heterogeneity, customer volatility and environmental conflict positively influence the choice of multiple channels, whereas intermediary heterogeneity and volatility may reduce the need to use such channel strategies.

The research implications

In volatile consumer environments there is more uncertainty about the channels that will survive in the medium to long term. Companies should therefore start accommodating the uncertain future in their current strategies by creating options through making small investments in new channels. In this way, the company not only avoids large investments in channels that might become misaligned to the environment, but also builds learning devices about consumers and channels, which enable it to make further investments. If a company fails to build such learning devices, it may find it difficult in future to catch up with new consumer needs. However, when companies face change in intermediaries’ structure and strategies, the results suggest that the pressure to use multiple channels decreases. This is because intermediaries may act as a substitute, at least in part, for the need for a company to develop options of its own.

Companies serving heterogeneous consumer targets should generally use more distribution channels. Diverse consumers have different price sensitivities and require different products and levels of advice, which only a multiplicity of channels can deliver. By using multiple channels, companies can develop more specialised decision making and keep track of the diverse consumer needs more appropriately. But there is less need for companies to use multiple channels when there are diverse intermediaries who can present different product assortments, provide different levels of service and advice, and present different changes and so cater for heterogeneous customers.

Companies should consider the use of multiple channels in more competitive environments. A company going for the multi-channel route in such environments can devise more specific target offerings and delivery methods, in order to gain and keep customers effectively in this more competitive environment. Moreover, multiple channels increase the chances of a company recuperating through one-channel sales it has lost from another, since the level of customer switching tends to be higher in more competitive markets. Finally, competitive pressures to reduce prices also motivate companies to cut costs and, in particular, distribution costs, which a clever orchestration of multiple channels can achieve by facilitating use of channels to perform specialised tasks. For example, higher cost channels can be freed to deal with the most profitable customers.

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