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Value Creation Challenges in Multichannel Retail Business Models

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Abstract

Purpose: The purpose of the paper is to identify and analyze the challenges of value creation in multichannel retail business models.

Design/methodology/approach: With the help of semi-structured interviews with top executives from different retailing environments, this study introduces a model of value creation challenges in the context of multichannel retailing. The challenges are analyzed in terms of three retail business model elements, i.e., format, activities, and governance.

Findings: Adopting a multichannel retail business model requires critical rethinking of the basic building blocks of value creation. First of all, as customers effortlessly move between multiple channels, multichannel formats can lead to a mismatch between customer and firm value. Secondly, retailers face pressures to use their activities to form integrated total offerings to customers. Thirdly, multiple channels might lead to organizational silos with conflicting goals. A careful orchestration of value creation is needed to determine the roles and incentives of the channel parties involved.

Research limitations/implications: In contrast to previous business model literature, this study did not adopt a network-centric view. By embracing the boundary-spanning nature of the business model, other challenges and elements might have been discovered (e.g., challenges in managing relationships with suppliers).
Practical implications: As a practical contribution, this paper has analyzed the challenges retailers face in adopting multichannel business models. Customer tendencies for showrooming behavior highlight the need for generating efficient lock-in strategies. Customized, personal offers and information are ways to increase customer value, differentiate from competition, and achieve lock-in.

Originality/value: As a theoretical contribution, this paper empirically investigates value creation challenges in a specific context, lowering the level of abstraction in the mostly-conceptual business model literature.

Keywords: business model; value creation; retail; multichannel retailing
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Introduction

The development of online services and the diffusion of information technology have enabled new ways for consumers to interact with retailers. For example, Forrester Research predicted in a 2012 report that electronic commerce would grow 62 percent by 2016 in the United States and 78 percent in Europe (Trendwatching, 2012). In addition to online retailing, smartphones and other mobile devices have thoroughly altered the retail landscape. Mobile devices have changed the way customers seek products, pay for them and tell others about them (Grewal, Roggeveen, Compeau and Levy, 2012). For instance, according to a recent study by ComScore two thirds of smartphone owners have undertaken shopping activities (e.g., comparing prices, using coupons or locating stores) on their phones (Retail Customer Experience, 2012).

Online and mobile shopping and communication mechanisms, or channels, are frequently used by customers. Channels are "mechanisms for communication, service delivery, and transaction completion" (Berry, Bolton, Bridges, Meyer, Parasuraman and Seiders, 2010, 155). Channels are, for example, brick-and-mortar stores, vending machines, kiosks, mobile devices, catalogs, and online storefronts (Berry et al., 2010). The multichannel customer group is found to be increasing in size and importance to retailers (Wakolbinger and Stummer, 2013; Rangaswamy and Van Bruggen, 2005; Verhoef, Neslin and Vroomen, 2007), but traditional retailers have failed to react to the emergence of new channels. Walmart and Target, for example, have online sales under two percent of total sales (Rigby, 2011). Multichannel customers tend to spend more money than single-channel customers (Rangaswamy and Van Bruggen, 2005; Neslin, Grewal, Leghorn, Shankar, Teerling, Thomas and Verhoef, 2006), at least those customers who purchase products from multiple categories or from more hedonic categories, such as cosmetics and video games (Kushwaha and Shankar, 2013). However, former studies have suggested that multichannel customers have higher expectations for the quality of service than single-channel customers (Wallace, Giese and Johnson, 2004). Traditional retailing formats simply won't suffice any longer (Rigby, 2011), because forerunner retailers are exploiting cross-channel synergies to create unique value propositions for customers. Thus, retailers are faced with the challenge of reconfiguring their conventional business models.

Existing research on multichannel retailing has mainly compared channels without contributing to a holistic understanding of how different channels coexist in the same business model. It has also largely explored customer behavior in multichannel settings, focusing on channel usage, channel migration over time, and channel switching behavior. For example, goals, needs, customer inertia, perceived risk and situational factors affect the selection and use of different shopping channels (Neslin et al., 2006; Ansari, Mela and Neslin, 2008; Thomas and Sullivan, 2005; Valentini, Montaguti and Neslin, 2011). At the same time the company perspective has been largely neglected in empirical studies (with the exception of Avery, Steenburgh, Deighton and Caravella, 2012). It is not known how retailers are adopting multichannel business models and what challenges they meet.

A multichannel retail business model utilizes multiple channels in the creation of customer and firm value. A single-channel business model, in contrast, only utilizes one channel for value creation. The adoption of multichannel business models increases complexity in terms of creating value for both parties. To better understand how retailers are responding to changes in technology as well as customer behavior, this study's purpose is to identify and analyze the challenges of value creation in multichannel retail business models. This objective is addressed through semi-structured interviews with top executives from different retailing environments. An analysis of the challenges of multichannel business models will enable retailers to avoid or solve these challenges and develop the academic understanding of business models in general.

Theoretical background

Value creation can be understood through the business model concept. It is *"a representation of a firm's underlying core logic and strategic choices for creating and capturing value within a value network"* (Shafer, Smith and Linder, 2005, 202). Doganova and Eyquem-Renault (2009) see business models as "market devices", i.e. calculative and narrative tools that allow entrepreneurs to explore a market and to materialize their innovation, e.g. a new product. They build on Magretta's (2002) view of business models as *"stories that explain how enterprises work"* (with a plot, characters and their motivations). A business model captures managerial choices and their consequences, e.g. contracts, decisions, and practices related to policies, assets, and governance (Casadesus-Masanell and Ricart, 2010). A business model thereby is based on management's expectations regarding sales, costs, and the behavior of customers and competitors, which is why it needs to be constantly updated in evolving markets (Teece, 2009). For a business model to be successful, it also has to be coherent, and the calculations need to work, i.e. the economics behind the value creation logic need to result in profits (Magretta, 2002).

Value creation in business models

A business model describes customer and firm value creation as well as the value creation of all stakeholders. Thus, a business model is more than a revenue model, i.e. *"the specific modes in which a business model enables revenue generation"* (Amit and Zott, 2001, 515). For the purposes of this paper, customer value is seen as the result of customers' subjective evaluations of a product, experience or any other offering (Holbrook, 1999; Zeithaml, 1988; Noble, Griffith and Weinberger, 2005). This evaluation is based on benefits and sacrifices related to the offering. The evaluation can be related to monetary aspects as well as social interaction, symbolism, and experiential aspects (Balasubramanian, Raghunathan and Mahajan, 2005). Customers then choose the alternative which leads to the most customer value (Holbrook, 1999; Zeithaml, 1988).

The sources of value creation, or value drivers, are factors that enhance the total value created by the business. For example, in electronic business, value drivers are novelty, lock-in, complementarities, and efficiency (Amit and Zott, 2001). In the retailing context, the creation of customer value is tightly connected to creation of shopping experiences (Sorescu, Framback, Singh, Rangaswamy and Bridges, 2011). Customer value is created when the customer and the retailer utilize and combine different resources during the shopping experience. These resources can be tangible, such as the products and the retail space, or intangible, like the creativity of a customer or the competence of a salesclerk. Firm value in turn is created by the achievement of company goals, such as acquiring customer information, achieving high customer satisfaction, or earning profits.

Business model elements

Various categorizations of business model elements exist in the literature. For example, Chesbrough (2010) lists value proposition, market segment, value chain structure and assets, revenue mechanism, cost structure and profit potential, firm position within the value network and competitive strategy as functions for the business model. Johnson, Christensen and Kagermann (2008) argue that the business model consists of a customer value proposition, a profit formula, key resources, and key processes. Shafer, Smith and Linder (2005) in turn classify business model components into four categories: strategic choices, the value network, creating value, and capturing value. Yet another categorization is presented by Doganova and Eyquem-Renault (2009). They group business model components into three building blocks: the value proposition (the offering), the architecture of value (partners and channels), and the revenue model. Amit and Zott (2001) see the business model as consisting of transaction structure, content, and governance. The content of transaction refers to the goods or information exchanged, and the resources and capabilities required in the transaction. The structure refers to the participating parties, their links, and how they interact. Transaction governance *"refers to the ways in which flows of information, resources, and goods are controlled by the relevant parties. It also refers to the legal form of organization, and to the incentives for the participants in transactions"* (Amit and Zott, 2001, 511).

Table 1 presents selected business model definitions that in addition to being perhaps the most accepted ones, highlight the variety and similarity of different definitions in the literature. From the definitions, a few generalizations can be made. First, it is clear that the business model describes both customer and firm value creation (e.g. value propositions, value delivery, exploitation of opportunities, and revenue models). Second, business models are strategic tools for innovation and

Table 1: Selected business model definitions

Authors	Definition	Implications
Amit and Zott, 2001	"A business model depicts the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities." (p.511)	Business model innovation can be achieved through value drivers: novelty, lock-in, complementarities, and efficiency.
Teece, 2010	A "business model defines how the enterprise creates and delivers value to customers, and then converts payments received to profit." (p.173)	A business model should be non-imitable and honed to meet specific customer needs.
Chesbrough, 2010 (based on Chesbrough and Rosenbloom, 2002)	A business model's elements are (p.355): - value proposition; - market segment; - value chain structure and assets; - revenue mechanism; - cost structure and profit potential; - firm position within the value network; and - competitive strategy	Business model innovation is a tool to achieve competitive advantage, but managerial emphasis, such as experimentation and leadership of culture, is needed to drive the organizational change.

differentiation. Third, business models describe the selection and coordination of activities, i.e. they take an 'activity system perspective' (Zott and Amit, 2010) to value creation.

Retail business models

In the retail context, Sorescu et al. (2011) build on Amit and Zott's (2001) business model definition, and argue that the retail business model *"requires explicit consideration of interdependencies among, and choices of:(1) the format that describes the way in which the key retailing activities will be sequenced and executed, (2) the diverse activities that need to be executed to design, manage, and motivate the customer experience, and (3) the governance of actors that perform these activities, the roles they play and the incentives that motivates them."* (Sorescu et al. 2011, S5). Thus, Sorescu et al. (2011) propose that the retail business model consists of three interconnected elements: retailing format, activities, and governance. These elements and their interdependencies define *"a retailer's organizing logic for value creation and appropriation"* (Sorescu et al. 2011, S5). Retailing formats position the retailer to meet the preferences of desired customer segments. Formats entail decisions about location, opening hours, products, price level, promotions, level of service, the customer interface, and store atmosphere. The structure of value creation directly affects the scalability, adaptability and flexibility of the customer experience (Amit and Zott, 2001). The chosen format sets the boundaries and content of retailing activities (Sorescu et al., 2011). Activities are the processes needed to create customer value within a particular format. Activities are for example purchasing, logistics, warehousing, displaying of products, customer service, selling, data mining, and branding. Retailing governance concerns the roles and motivations of the participants of value creation. Roles can for example mean, how much self-service is expected from customers (Sorescu et al., 2011). Key retailer stakeholders are customers, employees, competitors, suppliers, IT and other service providers and governmental stakeholders. Governance describes the ways in which information, product and resource flows are managed by the parties of value creation.

Value creation in multichannel business models

To exploit the best features of channels, multichannel retail business models are adopting new formats, such as "click-and-mortar" (Rangaswamy and Van Bruggen, 2005) or the "online-and-mobile retail" business model (Lin, 2012). For example, the option to return products to the stores might lower the barrier to order online. Channel characteristics include for example, availability, possibility of real-time communications, adaptability of the customer interface, and ease of use. Channels also vary in terms of how easily customers can change to a competitive retailer's channel (lock-in), and their ability to capture information on customer behavior (Dholakia, Kahn, Reeves, Rindfleisch, Stewart and Taylor, 2010).

Multichannel business models can enhance value creation through segmentation, efficiency or customer satisfaction (Neslin and Shankar, 2009). For example, adding new channels to the business model can be an efficient way to reach new market segments, enhance customer satisfaction or customer loyalty (Berman and Thelen, 2004; Zhang, Farris, Irvin, Kushwaha, Steenburghe and Weitzf, 2010). To achieve efficiency, a multichannel business model is used to lower expenses related to serving customers. The goal is to guide customers into using low-cost channels. From the segmentation point of view, a multichannel business model is a way of segmenting the market, i.e. serving different segments in different channels. Customers are categorized according to their channel preferences (Neslin and Shankar, 2009). However, there are myriad possible criteria for segmentation, such as channel purchases (Konuş, Verhoef and Neslin, 2008), other metrics of channel use, or responsiveness to marketing activities (Ansari et al., 2008; Thomas and Sullivan, 2005). Customers do not always choose the channel that is most optimal for the retailer, so directing marketing activities are needed (Neslin and Shankar, 2009).

The multichannel business model can also be a way of increasing customer satisfaction, for example by encouraging customers to use the channels that best suite them in different phases of their shopping process. This type of model requires close integration of channels (Neslin and Shankar, 2009). The objective is to encourage customers to make use of all retailer-provided channels. This broader interaction, for example purchases from different channels, can be seen as the development of the customer relationship (Venkatesan, Kumar and Ravishanker, 2007). If the channels support each other, customers will make additional purchases and the customer relationships are utilized more efficiently.

Method

The purpose of this study is to identify and analyze the challenges of value creation in multichannel retail business models. To meet this purpose, qualitative interviews with top executives from different retailing environments were used to generate the data. These environments differed in terms of the offering (e.g. specialty products like videogames and fishing equipment; products for larger audiences, like electronics; department stores with wide product ranges), amount of competition (high or low), and the adoption of multichannel business models by firms (common or uncommon).

The interview is a way to quickly generate data from a practical phenomenon. It is also a suitable method when studying complex phenomena such as multichannel business models. However, the interview data does not describe actual behavior, but the interviewees' thoughts, evaluations and reasoning (Silverman, 2005). Overall, seven interviews were made between December 2011 and March 2012. The interviewees were CEOs, heads of business units, and senior consultants. Purposive sampling was used to select the interviewees in order to gather varied views on the phenomenon. The interviewees' amount of experience, role within their organization, as well as the organization's business model and environment were considered in the selection. Both female and male interviewees were included in the data generation. Interviews were made until no new themes emerged in the following interviews. The interviews lasted an hour on average, with the interview transcripts being 12-18 pages in length in the word processing program's default settings.

The interview form used in this study was semi-structured, i.e. it had narrow, confirmatory questions as well as explorative ones that acted as a list of themes to discuss. First of all, the interviewees were asked to describe their current position in the organization and how they saw the current retailing environment. Secondly, the interviewees were asked how the multichannel environment is affecting retailers' business models. Thirdly, the interviewees were asked to discuss the major challenges their organization or retailers in general are facing in the multichannel environment. It is worth mentioning, however, that the nature of the interviews was open-ended, meaning that the interviewees were encouraged to speak from their own perspective and introduce themes and opinions they considered important to multichannel retailing. Follow-up questions relating to these themes were asked.

The data analysis began by organizing data into three categories representing the retail business model elements (i.e. format, activities, and governance). Comments relating to retailing formats, for example, were grouped into the format category. Data that did not fit into the categories (e.g. answers to questions about the interviewee's role in the organization) was used as background information in the analysis. The analysis continued by separating value creation challenges from the rest of the data and then exploring these challenges further. Finally, the identified challenges were labeled as value mismatch, customer experience integration, and internal conflict. In the next section, the findings are discussed in more detail.

Findings

The multichannel environment presents a host of challenges for retail business models. The findings suggest that adopting a multichannel retail business model requires critical rethinking of the basic building blocks of value creation. First of all, the structure of value creation, i.e. the retail format, becomes more complex as retailers use and combine different channels to create new types of customer interfaces. Secondly, the activities that enable value creation have to be integrated to manage value creation across channels. Thirdly, governance of the value creation has to be realigned to avoid internal conflict among channels. These findings will be presented in the following sections.

Challenge for retailing formats: Value mismatch

In a multichannel business model, the retailer chooses a mix of customer value-adding or cost-lowering channels to create company value. However, as customers effortlessly move between multiple channels, multichannel formats can lead to a mismatch between customer and company value. Multichannel customers might change retailers as they move from one channel to another (see for example van Baal and Dach, 2005). Customers can "cherry-pick" benefits, like customer service and advice, from different channels and retailers. This form of customer behavior is dubbed "showrooming" or "research shopping" (Neslin et al., 2006; Konuş et al., 2008). The value creation challenge, therefore, is to choose a mix of channels that not only create customer value but also capture the economic value equivalent to the customer value created. As one interviewee observes, a combination of high-reach and low-cost channels might be a viable multichannel business model:

"If your prices are competitive, then you should go multichannel. People go to electronics stores and check the shelves. And if they could find lower prices from competitors in an easy way, then they would go there. But in the future, people's use of time will be emphasized. So that if you're easily reachable and the competition is not, you will have more sales because of it."

-Development director, specialty retailer

The multichannel environment can have negative consequences on loyalty, since it is easier to find and compare alternatives. For example customers that migrate from traditional channels to the online channel are found to have smaller purchases and loyalty over time, possibly due to decrease in interaction between the retailer and its customers (Ansari et al., 2008). Mobile applications have also made customers more price-sensitive by being able to compare prices anywhere (Grewal et al., 2012). On the other hand, multichannel customers are argued to be more loyal than single-channel customers (Kumar and Venkatesan, 2005), and they might be willing to pay higher prices to interact with retailers and brands they know and trust (Neslin et al., 2006). Thus, a business model aimed at fostering customer loyalty might be effective against showrooming:

"I don't know if it's a threat. It is possible and it happens. [...] But if you're a patron of a certain retailer, you tend to concentrate your purchases. You stay in those assortments, chains, formats. But of course if you're looking for a certain service or a product that is easy to compare among different retailers, then it is possible that when you switch channels, you also switch retailers."

-CEO, grocery retailer

Some interviewees did not view showrooming as a major concern. They saw customer loyalty schemes as tools for motivating and engaging customer to the value creation. This lock-in via loyalty schemes (Amit and Zott, 2001) might then be an effective way to fight showrooming. Another way to motivate customers is to stage superior shopping experiences, as one interviewee comments:

"If you succeed in that, the degree of engagement will grow. What I mean is, when you can make the interaction with us... When the customer feels the interaction is effortless, easy. He or she can do it at a convenient time. I think the result is a higher brand image and engagement."

-Development director, specialty retailer

While the interviewees recognized showrooming behavior as a challenge to value creation, they also proposed that it could be managed by developing rational and emotional ties between the customer and the retailer. Retailing format decisions such as positioning, offering selection, pricing, service, and store atmosphere are means of developing ties to specific customer segments.

Another problem with showrooming behavior is the difficulty in proving whether it happens and to what degree (Stephens, 2013):

"It's difficult to say. We have this [...] customer loyalty system and if we look at the average customer, he or she visits our stores two times a year [in offline store chain]. And the [online store chain] customer surfs the website frequently, but only makes purchases a couple of times a year. The problem is this: how many times the [offline store chain] customer visits the store without buying anything?"

-CEO, electronics retailer

Retailers do not have the abilities to measure customer visits to stores, especially when customers only visit the store to browse items. Measurement difficulties also apply to online channels, when customers do not login to the retailer's service. Retailers therefore should avoid over-relying on their existing measures of customer behavior, and utilize additional information sources, such as in-store surveys or market research, to acquire a more complete view of customer paths to purchase.

Challenge for retailing activities: Customer experience integration

The second value creation challenge is the integration of different channels. That is, retailers face pressures to use their activities to form integrated total offerings to customers. Retailers must choose which value-creating activities are coordinated across channels to utilize synergy effects and create more value for the customer.

In many cases, customers use multiple channels to look for and evaluate products before committing to a purchase decision (Balasubramanian et al., 2005; Rangaswamy and Van Bruggen, 2005; McGoldrick and Collins, 2007). For many customers the online channel has become a useful information tool for comparing prices, checking availability and evaluating different brands, but the actual purchases are made in the store channel (Berman and Thelen, 2004; Rangaswamy and Van Bruggen, 2005). According to the interviewees, this change in customer behavior creates a need to coordinate value propositions and other marketing activities across channels:

"The promise that is given there, for example about product information or availability, naturally must be kept. That's the core of the business. That whatever is promised online is also kept.

-Director, retail consulting

"With the online store, we want to highlight what we're selling in our offline stores. And that is, that we are a department store. You can have anything. And if we have those products in our online store, then you'll probably realize that we have the same products at our offline stores."

-Head of online channel, department store

Customers form expectations from all encounters with the retailer, and these expectations must be met on each channel. Retailers can also use these effects to promote other channels, like in the quotes above. Likewise, an experience at a single channel will affect the image of the whole retailer. The elements needing integration discussed in the interviews were: pricing, offering, the overall customer experience, and information systems.

"Some of our competitors have different pricing strategies, but we have consistent prices. What you see online, you can get it at the same price offline."

-Managing director, specialty retailer

In general, retailers tend to use the same pricing scheme across all channels, because price differences might lead to customer confusion or cannibalization and conflict between channels. However, in some cases retailers can use different prices, by using channel-specific promotions, additional payments for collection and delivery, and selling different products at different channels (Neslin and Shankar, 2009). Nonetheless, the overall opinion was that most activities and elements should be integrated:

"In Finland a lot of retailers start going multichannel by opening online stores. To me that scenario is risky. Because if you start your online operations in a way that the end experience is bad for the online customers... if the pilot is using a too narrow offering or a different brand so that it doesn't appeal to the customers like the brick-and-mortar brand... if that experience is bad, then it can result in rejection and going to the competitors'. "

-Senior retail consultant

Retailers develop their channel-specific capabilities through pilot projects. The pilot is usually a new, standalone business unit, so that it can be eliminated quickly if necessary. The new pilots as standalone units face the risk of frustrating customers, if they are too distant in terms of the customer experience:

"The important thing is that there aren't just a lot of channels. [...] The most important thing is how the customer experiences it. Does she view the online channel as a different thing than the traditional way to interact? Many are saying that the retailer should appear similar in all channels. Whether the customer goes to a store or views the mobile device or the internet, the "look and feel" should be the same. The experience should be the same. -Senior retail consultant

We should serve the customer how and where he or she wants. [...] I mean we should be available in an easy way in all channels that our customers use. And the activities between these channels should be seamless. You order a product with your smartphone, and then return it to the offline store. The experience for the customer should be such that customer sees it as a coherent and seamless service."

-Development director, specialty retailer

Instead of only focusing on having the same "look and feel" across channels, the activities performed should also be integrated to allow flexible customer journeys. The design of the customer journey involves decisions about how and in which channels sales and customer service takes place (Peterson et al., 2010). In an integrated business model, sometimes called cross-channel retailing (Chatterjee, 2010), information, money and products can move freely across channels from the customer's point of view, and the customer can also be seen as being in charge of the process. The customer can exploit channel-specific benefits and avoid channel-specific sacrifices throughout the shopping process (Chatterjee, 2010):

"The overall offering, that is being multichannel, is the thing. You have to enable the customer to act in a multichannel way. That's the catch: that you give the option. The customer can go to our website and find a nice product, so he or she can check that it is available in these two stores, but it can also be delivered to him or her."

-CEO, electronics retailer

This integrated model creates great demands for retailers in terms of product logistics, identification of customers and information system integration. The channels cannot be too different in terms of offerings, prices and other elements, which might lower the channels' ability to respond to local customer needs and competition (Chatterjee, 2010). For example, the need for cross-channel customer information was apparent in the interviews:

"In order to serve your multichannel customers, you would need information from all the channels and it would have to be in real time. [...] If the customer has for example bought a product online or from the stores and there's a problem with it the next day... So he or she calls the retailer's customer service. If the customer service doesn't know what's up, it won't leave a good purchase experience. The different channels really must be closely integrated in the sense of information systems."

-Director, retail consulting

Customer information should be available to each channel in real-time, which requires integration of information systems. However, too much integration might lead to inability to exploit the distinct nature of different channels and to adapt to differing customer needs:

"You can't tie down the online store in any way. The connection needs to be loose. You cannot set your goals too closely, because customers' shopping habits are changing so rapidly. But whether the online and physical stores should have the same assortment... there are a lot of opinions. Some small adjustments, like what is specific to the current market, like what can be done in in-store marketing, is acceptable. But if you stray too far, you lose the concept. But I do emphasize that you can't shackle the border of online and offline stores, because the situation is evolving so quickly."

-CEO, electronics retailer

The challenge is to find the right degree of integration between channels. The interviewees emphasized that customer behavior is so complex and in constant change, that the retailers are facing great challenges in keeping up with the change. As a solution, the business model could be designed so adaptable that it could serve a variety of customer needs and situations. On the other hand, too loosely integrated channels might lead to customer frustration, if the offerings, prices and activities differ significantly across channels. The shared view was that the company should find the optimal degree of integration through a process of trial-and-error.

Challenge for retailing governance: Internal conflict

Adopting multiple channels might lead to the creation of organizational silos with conflicting goals, lowering the firm value created when serving customers. Hence, the creation of the right kind of organizational structure is said to be the most pressing challenge in multichannel retailing (Zhang et al., 2010). The same view was apparent in the interviews. However, decentralized governance of channels might be a viable option in some cases:

"First retailers are piloting and keeping the online store separate. That way it's easier to establish and experiment. And you gain evidence of the implications. This way you don't have to solve these channel conflicts yet."

-Senior retail consultant

"Governance can be decentralized to business units. If the units have high growth goals, they are given the liberty to arrange their own activities. Then a certain business unit can have differing strategies from the rest of the business. For example, in these large retailers that are heavily investing in combining the online and brick-and-mortar channels, there are certain forerunner business units leading the change. In those business units, the managers are in charge of implementing this strategy."

-Director, retail consulting

A large number of retailers use decentralized governance models so that each channel has its own logistics, marketing and other functions. Another common governance mechanism is to separate channels into remote and store channels, because they differ so greatly in their value creation activities (Zhang et al., 2010). The decentralized organization enables a better focus and flexibility to respond to channel-specific competition and customer needs. When establishing online operations, for example, many retailers give the new channel's management freedom to adapt the business to channel-specific characteristics. Nonetheless, decentralized governance might be inefficient, because each channel has to organize its own activities (Zhang et al., 2010). It might also create situations where different channels of the same retailer compete:

"This channel conflict or jealousy between channels is a problem. We need tools to fight things like resistance to change. The activities at the traditional, physical stores are... they've been the same forever. And we need change in a lot of places. Resistance to change is normal for people. But we need to start thinking in terms of the whole."

-Development director, specialty retailer

The elements related to managing internal conflict were work assignments and training, attitudes, measurement, and incentives. Some interviewees expressed the opinion that conflict arises from not understanding the other channels. Where possible, employees could have work assignments that let them see how different channels are part of the same business:

"The same employees run the brick-and-mortar store and the online store. Everyone's doing everything."

-Managing director, specialty retailer

"So far everything is going well. The stores are really motivated. They feel that this change is also bringing them more customers. Of course it is a challenge to train 2,500 store employees. It is a challenge, but so far it is going well for these stores."

-Head of online channel, department store

The employees will be more motivated, if they see the multichannel business model as creating more value for not only the company, but also their specific channel. The right attitude should be oriented around the customers and the business as a whole rather than having a business unit-centered view:

"The employees need to be taught the right attitude, so that... in a way, the people at our stores need to realize that the online store isn't the enemy, that they both have the same goals. In many cases the viewpoint is centered on business units, so they only see their own unit... they don't see the company's benefit. I guess this is common."

-Development director, specialty retailer

Business unit or channel-centered views to business were seen as harmful to the overall value creation in the business model. Beyond training and attitudes, performance measurement was named as a challenge to the governance of the multichannel business model:

"Broadly speaking, the principle is that we should measure the company through the total development of revenues, not from the view of a single channel's evolution. Because it can't be based on anything other than the total company's volumes in sales, customer visits, purchase times and so on. Whether that is developing positively independent of whether the purchases are made online or in-store. There are a lot of ways in which to distribute resources for development, but the overall view is the starting point."

-Director, retail consulting

More important than performance measurement are the reward policies and incentives of managers and staff. The incentives should be aligned to meet the retailer's overall goals:

"The organizational incentives are one of the most critical elements. The leadership and management of people and the whole concept should begin with personnel incentives and the right triggers to drive the organization into being multichannel. [...] Of course, also training and communications and other kinds of leadership are needed as well, but in my opinion the incentives are the critical element."

-Director, retail consulting

A careful orchestration of value creation is needed to determine the roles and incentives of the channel parties involved. The choice of retailing governance is not a simple choice between the dispersed and the integrated business model. Rather, it is about finding the right degree of integration, i.e., which activities are coordinated at the corporate level and which at the channel level (Zhang et al., 2010).

The main findings and their implications are summarized in Table 2. First of all, multichannel formats face the threat of customer showrooming behavior, i.e. customers utilize a retailer's services to determine the best products and then purchase the products from low-price competitors. To add to the challenge, the ex-

Table 2: Value creation challenges in multichannel retail business models

Retail business model element	Multichannel value creation challenge	Implications
Format	How to align firm and customer value creation?	The channel mix should balance customer value creating (e.g., high level of service) and firm value creating channels (e.g., low costs, high reach). The channels should be designed to create rational or emotional ties between the retailer and its customers, so that customers utilizing high-cost channels would purchase from one of the retailer's channels.
Activities	How to enable value creation that utilizes multiple channels?	Retailers should coordinate some activities across channels to allow customer value creation from cross-channel synergies (e.g. order online and pick up at store, or compare in-store and order online). This customer experience integration requires harmonizing positioning, branding, pricing, and offering across channels, as well as investments in centralized information systems and logistics.
Governance	How to avoid internal conflict in organizing value creation across multiple channels?	Designing performance measures, incentives, rewards, and internal culture to motivate internal coordination and discourage harmful competition between channels.

tent of showrooming behavior is very difficult to measure. Secondly, retailing activities should be coordinated and integrated to a degree that enables customers to seamlessly interact with the retailer across channels. This would require the coordination and integration of pricing, offerings, customer experience, and information systems across channels. Thirdly, the adoption of new channels and the integration of existing ones forces retailers to rethink their governance models. The governance model (e.g. performance measurement and incentives) should motivate employees and managers to maximize the total value created by the business instead of maximizing value in certain channels.

Discussion and conclusions

The aim of this paper was to explore the challenges of value creation in multichannel retail business models. The challenges were analyzed in terms of the retail business model elements, i.e. the retailing format, activities and governance. First of all, retailing formats, that have traditionally been the stages for both serving customers (customer value creation) as well as receiving customer information and payments (company value creation), are now facing pressures as customers switch to other purchasing channels after receiving benefits, such as advice or product information. This form of customer behavior, dubbed "research shopping" or "showrooming", is forcing retailers to reinvent their formats. What is needed is a better way to tie-in the customers to the retailer so as to allow for company value creation (sometimes referred to as value capture). Creating such ties in retailing is challenging, because retailers ultimately sell customer experiences. This business model design theme of lock-in (Amit and Zott, 2001) is difficult to achieve, because the ties are not contractual or technological in nature but more based on customer satisfaction and motives for repeat patronage.

Secondly, retailing activities needed to create superior customer experiences have to be coordinated across channels and formats. The elements discussed were, for example, pricing, offerings, and the overall customer experience. The degree of integration seems to be a choice between higher adaptability to channel-specific characteristics and a more coherent customer experience / brand image. Third, in line with earlier research (Zhang et al., 2010), retailing governance is perceived as the greatest challenge for value creation in multichannel retail business models. If the value creation is managed separately among channels and business units, internal conflicts can emerge to hinder value creation.

As a theoretical contribution, this paper empirically identifies value creation challenges in a specific context, lowering the level of abstraction in the mostly-conceptual business model literature. The business model reflects a firm's logic of value creation for itself and its customers, but due to the complex nature of multichannel business models, aligning these two goals becomes challenging. This challenge of value mismatch can be enlarged in situations where retail executive's focus too much on the customer value creation logic of their business models, ignoring or downplaying the role of firm value creation (Shafer et al., 2005). For example, retailers might create a lot of value for their customers through value-adding format and activity choices, such as service, product demonstrations, long opening hours, and store atmosphere, but end up losing sales to low-cost competitors.

As a practical contribution, this paper has analyzed the challenges retailers face in adopting multichannel business models. Customer tendencies for showrooming behavior highlight the need for generating efficient lock-in strategies. Customized, personal offers and information are ways to increase customer value, differentiate from competition, and achieve lock-in. Retailers have utilized their loyalty schemes, CRM activities and analytical capabilities to create such offers (Grewal et al., 2012). On the other hand, price-driven retailers can find ways to benefit from the situation by encouraging showrooming. Conflicts can be avoided with clearly defined roles and incentives. Managers should think of the company in terms of the whole and set performance measurement as well as incentives accordingly. In contrast to previous business model literature, this study did not adopt a network-centric view. By embracing the boundary-spanning nature of the business model (Chesbrough, 2010), other challenges and elements might have been discovered (e.g. challenges in managing relationships with suppliers). However, the focus of this study was on the value creation of retailers and their customers, and the interaction between these parties. Future research could therefore concentrate on investigating value creation drivers and challenges in a broader scope that encompasses more stakeholders.

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