Multichannel strategy and sustainable competitive advantage: a dynamic capability approach

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Abstract. The diffusion of Information Technology and Internet are leading to rapid change in the competitive environment increasing the range of channels being offered to the customer in the search for competitive advantage. We integrated perspectives from the literature on competitive advantage, dynamic capabilities and IT capabilities to propose the conceptualization of “multichannel capability” as “the ability of an organization to effectively integrate and manage multiple distribution channels”. We also offer a theoretical model explaining the antecedents and consequences of ability to sense, seize and reconfigure capabilities in a multichannel environment and their implications for the development of a competitive advantage. The main result is the advancement of theory in dynamic capabilities in the context of multichannel strategies.

Keywords: dynamic capabilities, competitive advantage, IT capabilities, multichannel distribution

1 Introduction

Information Technology (IT) and Internet have revolutionized the way firms deliver product and services by enabling a broader range of channels for establishing personalized relationships with customers [1]. Over the last few years firms have experienced a rapid growth of both online (Internet, Automated Teller Machines, virtual kiosks, social media and mobile application) and offline channels (stores, catalogues and call centres) requiring a rapid adaption of their activities and resources.

In today’s rapidly changing environment, firms need to diversify, adapt, and even reinvent themselves to match evolving market and technological conditions [2]. A dynamic capability perspective can be effectively used in explaining how certain firms achieve sustainable competitive advantage in situations of rapid change through continually adapting and reconfiguring resources [2, 3]. In this vein, scholars have called for specific research efforts for better understanding how the use of online and offline distribution channels could lead to sustainable competitive advantage [4, 5, 6, 7]. In this article we seek to answer these calls with systematic theorizing about the relationship between dynamic capabilities and competitive advantage in a multichannel environment. The multichannel approach has already been considered in litera-
ture, but we advance a model that comprise innovative and various dimensions that allowed us to analyze the phenomenon taking into account a new perspective.

In particular, we seek to broaden theory and research both on competitive advantage and dynamic capability by examining a new capability: “multichannel capability” defined as “the ability of an organization to effectively integrate and manage multiple distribution channels”. Drawing on prior research on dynamic capabilities, IT capabilities and multichannel management, we develop a theoretical model that enables the conceptualization of antecedents and consequences of the ability to sense, seize and reconfigure capabilities in a multichannel environment.

2 Competitive advantage and Dynamic Capabilities

The fundamental question in the field of strategic management is how firms achieve and sustain competitive advantage. In fast-moving business environments open to global competition, and characterized by dispersion in the geographical and organizational sources of innovation and manufacturing, sustainable advantage requires more than the ownership of rare and difficult to replicate resources [8]. The dynamic capabilities approach [2,3] explores a firms’ potential to adapt to and take advantage of fast moving environments. Dynamic capability is “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments” [3].

The perspective of dynamic capabilities in achieving competitive advantages is attracting increasing attention thanks to its ability to reconfigure firm’s resources to adapt to rapid market changes. In this work, we emphasize that dynamic capabilities enables firms to renew their competences and enhance their ability to integrate, learn, and reconfigure internal and external organizational skills and resources to gain competitive advantage [3].

Dynamic capability can be disaggregated into the capacity (1) to sense and shape opportunities, (2) to seize opportunities, and (3) to maintain competitiveness through enhancing, combining, protecting, and reconfiguring their intangible and tangible assets [9]. It is this definition that we have adopted to facilitate ease the development of our argument.

The general framework advanced by Teece [9] offers a number of conceptual tools which help us to conceptualize the organizational antecedents and consequences of dynamic capabilities in multichannel firms. Competitive advantage originates from the creative integration and subsequent exploitation of these resources in the marketplace [10].

Recently, some researchers have introduced in the dynamic capabilities perspective, the concept of IT capabilities, arguing that managing IT is a capability that can create uniqueness and provide firms with a competitive advantage [10, 11]. In this vein, IT capabilities are organization’s abilities to adjust their IT resources to fit fast changing environments [11]. Superior IT capabilities allow firms to respond quickly to environmental threats and leverage opportunities [12] relying on the channel’s proliferation.
3 Conceptual Framework

Working from the dynamic capability literature presented above, we now develop a theoretical model, depicted in Figure 1, of the antecedents and consequences of the ability to sense, seize and reconfigure capabilities in understanding the competitive actions and reactions of firms in a multichannel context.

In line with the IT literature [10], as will be discussed below, we assume IT infrastructure and IT business experience (IT Capabilities) as organizational antecedents of sensing capabilities. We assume as consequence of seizing the ability to orchestrate the combination of traditional and technology-enabled distribution channel (Multichannel capability). We also assert that multichannel capability requires the allocation, reconfiguration and recombination of assets and resources to maintain the firm’s evolutionary fitness.

![Fig. 1. -Organizational Antecedents and Consequences of Multichannel capability](image)

3.1 IT capabilities: IT infrastructure and IT personnel capabilities

At the base of our model (Figure 1) there is the notion of IT capabilities. IT capabilities’ describe the ability to mobilize and deploy IT-based resources in combination with other resources and capabilities [12]. IT capabilities explain IT unit’s ability to provide services, support and experience to other business functions in order to effectively manage multiple IT enabled distribution channels. Moreover, IT capabilities are a critical antecedent for firms to generate more competitive actions and greater action repertoire complexity [13]. They also allows firms to better understand new trends in the shopping environment and identify new opportunities relying on the channel’s
proliferation and they determine the firm’s ability to rapidly develop and deploy a critical system for the long-term competitive advantage [14]. Existing IT capabilities are critical for respond to environmental changes channels, since they can provide firms with the ability to exploit business opportunities and participate in electronic markets [10, 15]. IT capabilities play a crucial role in supporting information flows, because they ensure the seamless flow of information across channels [16]. In particular, IT infrastructure may improve the connectivity and responsiveness of the firm channels by providing infrastructure services that support the organization's business processes, for example connecting various legacy databases with Internet protocol [17]. In addition, IT personnel capabilities are essential for recognizing opportunities to apply new technologies and to anticipate and plan business needs related to the management of multiple channels [17].

In a multichannel environment, new opportunities derived from the proliferation of channels available to customers to interact and collaborate with firms mediated by IT [18]. We argued that in order to identify new up-coming opportunities regarding multi-distribution channels, firms certainly are well-equipped with adequate IT capabilities. Therefore,

Proposition 1: IT capabilities are directly and positive related to the sensing phase of the dynamic capability.

3.2 Multichannel Capability as a dynamic capability

The rise of new technologies and the evolution of customers’ needs are the determinants in firm’s constant transformation of their distribution channels to better serve customers. Many firms have recognized that multiple channels can be a source of value creation and a way to expand the traditional routes to market [19]. Firms need to evaluate the existing set of resources, data, competences and capabilities to deploy different channels, what marketing activities implement to support the multichannel strategy mix and what is the optimal channel mix [20]. For these reasons, multichannel is a dynamic capability since it depends on a specific and identifiable process in which managers combine their various businesses, functional, and personal expertise to make the choices that shape the major strategic moves of the firm [2]. Multichannel capability allows firms to reconfigure internal procedures and develop new channel combinations to satisfy customers’ needs [20].

Environmental features such as uncertainty, complexity and munificence influence the firm’s capabilities to manage multiple channels; this capabilities are reconfigured, renewed and recreated, one example is the ability to sense changing customer needs, technological opportunities and competitive developments [3].

According to Teece [8] once a new (technological or market) opportunity is sensed, it must be addressed through new products, processes, or services. Addressing opportunities involves maintaining and improving technological competences and complementary assets and, investing in the particular technologies and designs most likely to achieve a competitive advantage.
The design and performance implementation of different channels define the manner by which the enterprise delivers value to customers [20, 9]. As said before, the implementation of multiple channels embrace a series of management decisions. Therefore, addressing new opportunities determines for firms the emergence of a new capability: Multichannel Capability.

**Proposition 2:** Once a new opportunity is sensed, it must be addressed through the design of new sales and distribution processes.

**Proposition 3:** Seizing the opportunities arising from channel’s proliferation requires the creation of multichannel capability.

Multichannel capability concerned with modifying the resource stock to face the challenges caused by the adoption use of both traditional and online channels.

According to Teece [8], a key feature to sustain a competitive advantage is the ability to recombine and reconfigure assets and organizational structures as the enterprise grows, and as markets and technologies change. Where multichannel capability is employed new resources are either created or introduced, or resources are combined in new ways.

**Proposition 4:** The emergence of a multichannel capability requires the renewal of resource and capabilities possessed by a firm.

### 3.3 Data Integration and competitive advantage

Reconfiguring capabilities included the firm’s ability to identify and build relationships with customers it does not yet have, which involves building new resources in order to serve those new customers (i.e., exploring new markets) and the ability of the firm to build new technological competences [21,9]. The rapid technological change in distribution systems with the advent of Internet entails the redefinitions of customer communications, such as enabling a two-way dialogue, enabling for example, a two-way dialogue, as happened with the rise of Social Media which enabled firms to establish and maintain more direct relationships with their customers [23, 24]. This requires for firms the capability to redesign the process and the IT applications through which to collect and manage customer’s data [25].

The traditional data collection and management approach is centred around each channel, which means that many firms do not have the ability to manage sales information across channels and have no way to measure the profitability of their multichannel customers. Multichannel strategies call for a customer-centricity approach to data integration [7] referring to the firm collection of data from different distribution channel to measure customer value, target appropriate marketing resources [7].

We can call “Data integration” the capability to integrate and manage customer data across different distribution channels. Data integration ensures that the data available through these channels are identical and equally current so as to serve customers’ needs, such as providing information or facilitating transactions. Data integrating allows managers to “understand consumer behaviour and evaluate channel performance” [20] and gathering of complete customer information through which businesses can fulfil customers’ needs [7]. The optimal integration of customer data may be depicted by a system capable of representing the channel(s) each customer accesses during each phase of decision-making process [20]. The introduction of the activity
of reconfiguring requires new methods of coordination and allocation of resources and capabilities and new methods to gather customer’s data.

Proposition 5: Reconfiguring new resources and capabilities will be positive effect on data integration
Proposition 6: Data integration will be leads to competitive advantages

4 Discussion and Future direction

This paper is aimed to address to broaden theory and research both on competitive advantage and dynamic capability by examining a new: “multichannel capability”. This article improves our understanding of the phenomenon of the utilization of multiple channels in transitional environment, contributing to the dynamic capabilities, IT capabilities and long-term competitive advantage literature.

We have provided an explanation of how to achieve a long term competitive advantage by developing a multichannel capability. It has been previously noted that dynamic capabilities, in general, enable a firm to adjust its IT strategy and resources to maintain competitive advantage [25]. The multichannel capability is one these capabilities. This capability is valuable because the renewal and the re-combination of existent resources favour the improvement of organizational performance.

The multichannel capability model (Figure 1) can enrich empirical studies of capability evolution [26] by offering a means of understanding the antecedents and consequences of ability to sense, seize and reconfigure capabilities in a multichannel environment and their implications for the development of a competitive advantage.

Given the novelty of the research question and the emerging nature of the theoretical framework, we will engage in a qualitative research design. Qualitative studies are especially useful for developing theoretical insights when research focuses on areas that extant theory does not address well [27]. Based on our research model, we will include in the study organizations from sector characterized by an information-intensive nature and the significant and continuous changes in their competitive environment.

For the purposes of this study, the key informants will be general managers, IT managers, and channels managers. The general managers will be targeted because of their knowledge of corporate strategy. IT managers are likely to be the most informed about IT assets and IT capabilities. Channel managers are likely to be the most informed about distributional and commercial processes.

The model presented suggests that the capacity to seize and sense the new market opportunities and reconfigure assets and capabilities to address them may also boost the firm's multichannel capabilities, thereby making it more nimble and dynamic.

We offer testable propositions that advance multichannel strategies theory in the context of changing environments. To continue the study on multichannel capability we are going to test empirically and modify them.
5 References


