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Opportunities for Innovation in the Delivery of Interactive Retail Services☆

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Abstract

In today's volatile economy, innovation in providing interactive services to consumers through a variety of channels is critical in retailing. Interactive service innovations offer opportunities for retailers by creating new markets or offering new benefits in existing markets. They also pose threats as existing customers encounter new alternatives offered by competitors. This article explores some of the most promising opportunities in interactive retail services; namely, the increasing power of consumers, channel synergies, pre- and post-transaction service, optimal use of resources, and consumer heterogeneity. In discussing these areas of opportunity we identify knowledge gaps and suggest research questions relevant to these gaps that warrant attention. Collectively, these questions offer a research agenda for the topic of interactive retail service innovation.

Keywords: Retail; Interactive services; Innovation

Introduction

Worsening economic conditions in the first decade of the twenty-first century created a turbulent environment for interactive retail services. Consumers became more value-conscious as they reprioritized consumption patterns, buying less, and buying differently. Retailers responded to the extraordinary conditions in a variety of ways: giving up margin to offer more attractive value propositions; altering cost-structures by reconfiguring supply chains; changing service levels or service offerings by exploiting technology or redeploying people, and adjusting the assortment of store brands and marketing support for them. Innovation in providing interactive services became imperative for longer-term success.

Bolton and Saxena-Iyer (2009) define interactive services as "services that have some form of customer–firm interaction in an environment characterized by any level of technology" (p. 2). Following their definition, we broadly define interactive services in retailing as "*consumer interactions with retailers through multiple channels to derive a benefit*." *Retailers* include any organization that conducts business with consumers (e.g., bookstores, airlines, digital subscription services). *Channels* are mechanisms for communication, service delivery, and transaction completion. Interactive retail services deliver benefits to consumers through single or multiple diverse channels, which include brick-and-mortar stores, vending machines, service kiosks, direct selling, mobile devices, catalogs, and websites. A

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benefit exists when consumers are better off after the interaction than before the interaction. Benefits can range from acquiring price information to saving time and effort in a transaction; benefits can be social, psychological, symbolic, and, of course, financial. We take a broad view of customer–firm interactions by considering exchanges of information as well as financial transactions. Our perspective encompasses the interpersonal as well as the technological, and so departs from other investigations of interactivity that are more focused on computer-mediated communications (Liu and Shrum 2002; Yadav and Varadarajan 2005).

What is the role of innovation in interactive services? Berry et al. (2006) defined *market-creating service innovations* as "an idea for a performance enhancement that customers perceive as offering a new benefit of sufficient appeal that it dramatically influences their behavior, as well as the behavior of competing companies" (p. 56). An innovation in theory becomes an innovation in practice when it changes consumer or retailer behavior. Consider interactive service innovation in a multi-channel environment. Some retailers and their network partners have innovated with unique or enhanced interactive services that provide tangible value. Amazon.com launched Kindle, a portable wireless device that delivers the contents of books, newspapers and periodicals to consumers. Hewlett-Packard (HP) enabled its customers to purchase an HP printer from one of a multitude of multi-channel vendors, obtain online support from HP and eventually recycle HP printer cartridges at a Starbucks store. Interactive service innovations create new markets or offer new benefits in existing markets. However, they also represent threats for retailers whose customers, as they move through the buying process, are likely to encounter new alternatives offered by competitors.

Despite recent research contributions, there are important conceptual gaps in the emerging literature in the area of interactive services. In this article, we explore facets of five of these key gaps, and discuss how each represents an innovation opportunity for retail companies. Fig. 1 provides an overview of the five focal opportunities for innovative interactive services in retailing. Although distinct, they are interrelated. First, we consider the increasing power of consumers vis-à-vis retailers. This power shift is forcing retailers to emphasize demand- rather than supply-driven innovations and driving innovation opportunities in three of the other four focal areas: synergies across retail channels, attending to all states of customers' interactions, and conserving (rather than wasting) scarce company (and public) resources. We focus on these three areas next, starting with channel synergies, where retailers must strive for a better understanding of the cross-channel effects. We next explore innovation opportunities in the pre- and post-transaction stage. Placing an increasing emphasis on these non-transactional roles can help retailers create strong customer relationships. Next, we examine opportunities for innovation that will result in fewer wasted resources and less consumer aggravation. We finish by exploring an important moderator in these relationships — consumer heterogeneity. Many of the opportunities for innovation that exist will be discovered through a better understanding of the variations that exist in consumer shopping behavior in these important relationships.

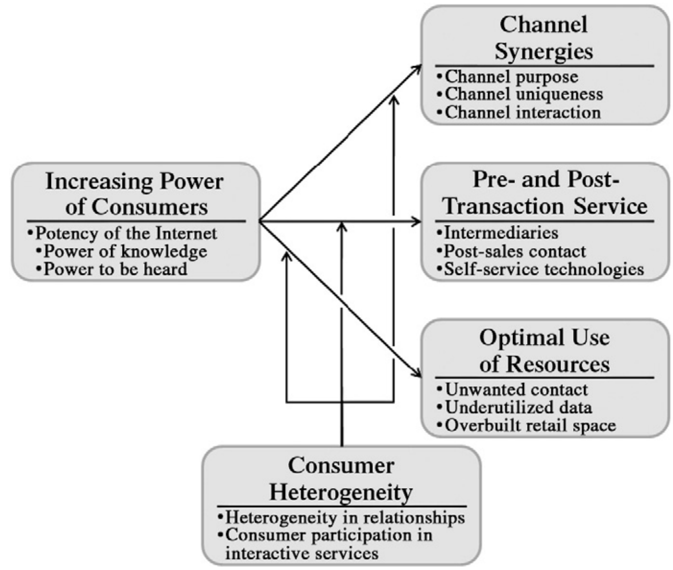

Fig. 1. Opportunities for innovative interactive services in retailing.

Increasing power of consumers

An important challenge and opportunity in retailing is the shifting balance of power among the central players: those who create products (goods and services), those who sell them, and those who buy them. The power to decide what will be sold, how it will be sold, at what price it will be sold, and how much attention to pay to customers' complaints traditionally has rested with product creators whose size or brand strength gave them a dominant bargaining position. Customers expect athletic shoe retailers to carry the Nike brand; they expect upscale restaurants to accept the American Express charge card.

Retailers wrested much of the power traditionally held by manufacturers during the latter part of the twentieth century as major retailers gained significant market share and with it, market clout. No company spurred this transfer of decision power more than Wal-Mart Stores. Prominent manufacturers such as Procter & Gamble established offices in Wal-Mart's headquarters city of Bentonville, Arkansas to work more closely with Wal-Mart in meeting its product mix, packaging, distribution, and pricing requirements. Other big retail chains such as Best Buy and Lowe's also have gained strong negotiating positions with their suppliers. An appliance, carpet, or light bulb manufacturer that does not have distribution through Lowe's, Home Depot, or both, has a limited market penetration opportunity.

In the twenty-first century, another power shift is occurring as consumers are beginning to exert unprecedented influence with the companies that market to them. Consumers, of course, could always leave a brand or retailer for another – assuming alternatives existed – and could spread negative word-of-mouth communications to people they knew. So it is not that consumers used to be powerless and now they are not.

However, two fundamental conditions defined by Milgrom and Roberts (1992) and discussed by Pitt et al. (2002) have traditionally limited consumer influence. First, consumers often did not have access to all relevant information about quality or costs that would enable them to make an optimum purchasing decision. Second, they typically did not have much influence to gain redress or “justice” if they perceived they were exploited or otherwise treated poorly. They could stop buying from the company, issue a complaint, or spread negative word-of-mouth but probably could not gain the satisfaction of knowing that their actions won the attention of the organization.

The marketplace is different now. The power-limiting conditions – lack of information and lack of influence – are being swept away by advancements in information technology, particularly through the potency of the Internet. The Web has strengthened consumers’ bargaining position, giving them a formidable tool to gather information and to be heard, not just by a few but by many. Varadarajan et al. (2010) discuss how interactive technologies such as the Internet, social networking, and web-enabled phones have disrupted retailing strategy. As Seth Godin (2008, p. 37) writes: “What I’m saying is that one person can make a video that reaches 50 million viewers.” The Internet is rewriting the rules of engagement between companies and customers.

If knowledge is power, the Internet surely offers more power to consumers who use it to conveniently compare market offerings on price and quality (often based on the posted feedback and ratings of other customers). Consider the shopper in a retail store that sells television sets. The shopper learns the price of a desired television brand and model and then proceeds to check the prices of the same product from other sources using a mobile device, such as an iPhone. The shopper then informs the salesperson that the product is available for $90 less with free shipping from an online retailer. The shopper shows the quote to the salesperson and asks if the store wishes to match this price. If so, she will buy; if not, she will walk. Who has the power in this scenario? The Internet represents the “democratization of technology” in that it is widely available and in the “transparency of everything” (Deshpande 2002).

If being heard is power, the Internet surely offers more power to consumers who can use it to post negative comments about an organization in an online chat room or consumer forum (Ward and Ostrom 2006). Some consumers become so angry that they create their own company complaint site to which other consumers can post comments about their experiences. In 1999, for example, a man by the name of Don Thompson started allstateinsurancesucks.com. His stated reason for doing so: “Justice for everyone that has been screwed by Allstate Insurance.” Here is an illustrative customer post that was published by Forbes.com in a story about the best corporate complaint sites (Wolrich 2002):

> *I have had everything insured through Allstate for about eight years without any claims. Last spring I had a lightning strike claim and a hail damaged roof claim. Those are the only claims ever made. I found out today Allstate was dropping my homeowners coverage because I had more than 1 claim in the past 5 years! You're in good hands with Allstate … if you never make any claims. They are always happy to take your money, but make a claim and they'll drop you the first chance they get.*

Gelb and Sundaram (2002) note several key differences between word-of-mouth and “word-of-mouse” communications. People who offer comments in online chat rooms or on complaint sites are anonymous, which tends to relax social constraints, and they often have strong opinions to begin with or they would not have posted a comment. Also, printed comments on the Web offer the authority of the written word and sites like YouTube offer the impact of visual communications. As J. Walker Smith (2008, p. 52) states: “YouTube gives people a platform and an audience for content of their own creation.”

Unequal power

Brill (1992, p. 836) writes that power is “the perceived ability or potential of a social actor to influence or control the behavior of another within a given relationship or context.” Although the Internet clearly is strengthening the influence of consumers as social actors overall, Pires, Stanton, and Rita (2006) suggest that the degree of consumer empowerment is contingent on such factors as: the number of suitable alternatives available; consumers’ market knowledge and their willingness and ability to use technology to gather more knowledge; and constraints that prevent consumers from taking advantage of market offers.

A number of individual and contextual factors moderate the degree of consumers’ influence or control on the behavior of organizations. In addition to those just mentioned, it is likely that cultural influences can play a subtle but impactful role for certain offerings. For example, it is a given that physicians possess far more technical knowledge about healthcare than patients (despite the abundance of health-related information – of uneven quality – on the Web). However, physicians also possess elevated status in most cultures. Patients often place physicians on a pedestal and may be reluctant to question their advice or complain about their service (Bendapudi et al. 2006). The technical complexity of healthcare service coupled with the elevated stature of medical doctors has slowed the transfer of power to consumers for this service. In financial services, Harrison, Waite, and Hunter (2006) found that consumers felt less empowered in using online information to assess pension plans compared to other less complex services. For complex services such as financial and healthcare services, access to reliable information may be insufficient; consumers also need to be able to understand it (Harrison, Waite, and Hunter 2006).

Implications to consider

Although consumer influence is strengthening in some markets more than in others, the overall trend of consumer empowerment holds important implications for retailing. Companies’ brand equity is more vulnerable to the reactions of displeased customers, regardless of merit. Moreover, firms need to reconsider any operating practice or policy that can reasonably be perceived as unjust or discriminatory because consumers are likely to expose them. Given the transparency in the marketplace, companies not only need to price their offerings wisely but also to give customers compelling non-price reasons to favor them — such as greater convenience, superior quality, service guarantees. Companies need to participate in social media in ways that create favorable associations with the brand. Most of all, companies need to consider creative ways to use the Internet and other information technologies to strengthen customers' trust in them and to strengthen their relationship with customers.

Consumer empowerment suggests some fertile research questions:

- What kind of online information do consumers most value from retailers?
- What are the most effective ways for retailers to facilitate and act upon customer feedback?
- What is the brand impact of online consumer complaint sites targeted against retailers? What are the most effective means for retailers to counter negative content in these sites?
- What kinds of augmented offers are most likely to be effective for retailers competing against competitors' lower prices?

The surprising lack of extant research on consumer power suggests a strong need for qualitative studies that will take initial steps toward answering these fundamental questions. The first research question, for example, could be addressed through depth interviews with consumers. The second question requires multiple perspectives because it focuses directly on an interactive process, involving customer feedback, retailer reaction, and customer response to retailer reaction. Longitudinal measures of brand equity could be used to capture the brand impact of consumer complaint sites. Conjoint analysis techniques could be used to identify the types of augmented offers that retailers can use to effectively compete with firms that primarily emphasize low prices.

Channel synergies

Marketing activities in one channel potentially influence consumer behavior in all channels. This potential highlights the important opportunity for retailers to benefit from consumers' cross-channel shopping behavior. Unfortunately, retailers often fail to observe and/or measure how synergies among channels influence consumer behavior. Thus, they have limited ability to evaluate these marketing opportunities. One reason for this failure is that managers are more likely to be able to assemble and track channel or store-level metrics than they are to track individual consumer-level metrics. Recognizing this gap, Neslin et al. (2006) have identified five major challenges managers must address to manage the multi-channel environment more effectively: (a) data integration, (b) understanding consumer behavior, (c) channel evaluation, (d) allocation of resources across channels, and (e) coordination of channel strategies.

Some companies are working to address these issues. For example, JCPenney is integrating its three channels (catalog, store, and Internet) into a single business unit rather than operating them separately so that managers will have access to the same information across channels and be able to evaluate channels, allocate resources and coordinate channel strategies. Beyond understanding consumer demand across channels, Berger et al. (2002) point out that cost allocation can be particularly challenging for firms with large fixed costs such as physical infrastructure (e.g., technology).

In this section, we focus on how retailers can coordinate channels to create cross-channel synergies, as well as "lock-in" searching consumers so that they ultimately become loyal customers. Three questions about cross-channel shopping behavior are salient: First, what purposes or functions does the interactive retail service channel satisfy for the consumer and the retailer? Second, in a specific market environment, what features are unique or common to each channel? Third, how does each channel support or extend other channels?

Channel purpose

Consumers use channels for different purposes, including to acquire information, complete a purchase transaction, use a service or gain possession of a good, and obtain post-purchase support. Retailers can use channels to fulfill these same purposes for consumers, but they also use them for other, complementary purposes. They have traditionally used different channels to reach different market segments, as well as to execute exchange activities – transporting, storing, sorting, financing, and communicating – in efficient and effective ways. However, it is increasingly important for retailers to use channels to *collect* information about consumers and their preferences, as well as disseminate information about product offerings. For example, online and direct marketing channels are especially useful for collecting customer-level information. At the same time, retailers use channels to move consumers from search activities towards purchase. For example, they can use catalogs to "pull" targeted consumers to visit a website or store, increasing the likelihood that they will purchase. Different channels can serve different consumer purposes and consumers should be able to choose how they engage with interactive retail services.

Channel features and uniqueness

Retail channels and formats differ markedly in their features, thereby creating unique customer experiences. Verhoef et al. (2009) suggest that a consumer's retail experience is created through the store/website atmosphere, social environment, service interface, product assortment, and price. A consumer's experience is also influenced by the channel's price transparency (Heyman and Mellers 2008), convenience (Berry, Seiders, and Grewal 2002), mobility (Pederson, Thorbjørnsen, and Berthon 2005) and ability to protect and conserve resources (Osterhus 1997). In addition, consumers are characterized by different past behavior, goals, memories and emotions that moderate the effects of these features, thereby creating unique, customer-specific experiences (Puccinelli et al. 2009).

Consider the differences across channels for two important features of interactive retail services: the atmospherics and the social environment. First, bricks-and-mortar stores typically create a rich servicescape via the layout, sound (e.g., music or noise), scent, lighting, merchandise displays and the haptic quality of the goods (Bitner 1992). In contrast, online, mobile and traditional media channels (e.g., television) primarily rely on two sense modalities: sight and sound. Computer-mediated channels powerfully exploit their unique features to engage consumers, but the offline and online interactive services remain qualitatively different. For example, H&M's "My Virtual Model" enables consumers to create a look-alike avatar who can try on clothing (http://www.myvirtualmodel.com/cs/), but it cannot simulate all aspects of the in-store shopping experience. Second, interactive retail service channels differ in their social environment. In stores and elsewhere, consumers can share information with employees and other consumers, plus they pick up social cues and "signals" by observing people, signage, and other clues (Mahajan, Muller, and Bass 1990). In contrast, online channels provide different mechanisms for social cues, such as access to peer or expert reviews and user-generated content (Dwyer 2007).

A major dilemma for retailers is their decision about consistency across channels in marketing communications, product offerings and prices. A casual examination of interactive retail service providers shows that there can be significant differences in marketing communications, in the depth and variety of assortments and in prices across channels (Mantrala et al. 2009). The managerial justification for these differences is threefold. First, retailers are capitalizing on the specialized capabilities of each channel that arise from their different purposes and features. From this viewpoint, consistency or standardization across channels implies a "lowest common denominator" strategy that could severely limit retailers' actions. Second, the costs associated with each channel are sufficiently different to warrant differing product assortments and prices. Third, different channels have different direct competitors that managers believe they must respect concerning assortment, fulfillment and price. This rationale leads to complex assortment and pricing decisions. For example, a retailer's catalog might provide a reference price, whereas its website might encourage immediate purchases by announcing an online price cut. Determining the right price for retailers operating in both online and offline environments is discussed in more detail by Grewal et al. (2010) in this issue.

Conversely, some industry experts argue that many retailers' cross-channel strategies are not based on an underlying theoretical and strategic rationale and, consequently, these differences lead to confusion, distrust, and poor outcomes for consumers (Irvin 2009). Evidence supports the notion that inconsistency across channels, especially in product assortment and prices, confuses consumers. For example, in 2007, the Connecticut attorney general sued Best Buy Co. Inc., accusing it of deceiving consumers with in-store computer kiosks that mimicked the look of the company's online website but reported in-store prices rather than potentially lower online prices. We believe that inconsistency across channels can substantially influence consumers' perceptions of service quality and their buying behavior in some circumstances.

Channel interactions

The lack of data integration at the customer-level challenges managers in evaluating individual channels. When managers inspect channel-specific data, they must remain mindful of differences that exist among channels and the dynamic nature of the channel structure. For example, for many retailers, increases in online revenues have coincided with a decrease in catalog revenues. Service organizations (e.g., banks) have observed a similar phenomenon regarding revenues from online versus on-site customer service. It may not be wise to end catalog or on-site services, however. Why? Because direct mail, catalogs and on-site visits enable firms to maintain contact with consumers that can help bring them back to other channels, building loyalty and cross-buying. Zhang et al. (2010) explore many of the issues related to developing integrated multi-channel strategies elsewhere in this issue.

Another challenge is how to manage service quality and service levels, given that different channels can act as *substitutes* that foster efficiency in operations, as well as *complements* that support and extend the retailers' brand. This tension is especially evident in retailers' and consumers' decisions to adopt self-service technologies (SSTs). Firms are attracted to SSTs when they provide operations efficiency, cost savings, access to new market segments, and/or new service delivery channels. Consumers adopt SSTs when they are easy to use (e.g., perform predictably), save time, save money, and/or eliminate a human encounter (Meuter et al. 2000). However, SSTs can weaken consumer–retailer social bonds and, ultimately, erode consumer loyalty (Selnes and Hansen 2001). Moreover, longitudinal studies have shown that consumers' use of interactive services, price sensitivity, perceptions of price fairness and perceived service quality influence each other over time in complex ways (Bolton and Lemon 1999; Bolton and Myers 2003). Consequently, retailers require a better understanding of the factors influencing the relative effectiveness of retailers' investments in employees versus technology to support interactive services.

In summary, marketing science and practice have not kept up with the proliferation of channels. We believe that some retailers do not know how to fully value interactive service provided through different channels and if channels are designed in isolation, retailers likely will not reap marketing synergies. Several important research questions about channel interactions remain largely unanswered:

- What level of consistency do consumers expect across channels and over time? For which elements of the retailing mix is consistency most important?

- What is the relative impact of each channel on brand awareness and brand equity?
- Under what conditions do service quality and consumer satisfaction improve as retailers add more channels?
- What is the optimal investment in different channels for different market segments?

Research on the role of channel consistency could begin by studying consumer expectations, perceptions and behavior in a *multi-channel* context. Most, if not all, extant academic research of individual consumer behavior examines how elements of a single channel or medium (e.g., online advertising) influence consumer outcomes rather than studying these elements as embedded within a retailing mix. As such, the effects of unique channel features versus channel consistency on consumer outcomes (e.g., brand awareness, convenience, satisfaction, purchase intentions) are not well understood. There is a pressing need for *theoretical* and *empirical* research to consider a much broader set of context variables (including social context variables), as discussed in Dholakia et al. (2010). Also needed is longitudinal research that tracks individual consumers as they interact with different channels over time. These research shifts would make future studies more reflective of the dynamic information environments in which consumers now operate and the increasingly engaged nature of consumer behavior.

The majority of research concerning the influence of media/channel features on consumer outcomes uses an experimental approach. However, certain types of research questions can only be addressed by studying actual consumption experiences, which are difficult to create under laboratory conditions. Similarly, observational studies may help us better understand consumers' habits and impulsive behaviors — and their underlying determinants. Studies using multiple methods of collecting data – such as combining online experiments, surveys, click stream data, purchase behavior and ethnographic studies – will be increasingly valuable.

Addressing *managerial* questions about channel consistency (e.g., allocating expenditures across channels and using metrics to assess marketing program effectiveness) requires research that helps identify and understand key circumstances in which retailers potentially can influence consumers' decisions. Lastly, empirical research utilizing databases that integrate information across channels could help uncover firms' best practices, and analytic methods could help identify firms' optimal strategies for different market conditions. This issue is addressed in Verhoef et al. (2010).

Pre- and post-transaction service

Relationship marketing research has examined the influences of desired relational outcomes such as customer retention and cross-buying from numerous perspectives. Many retailers claim to focus on customer relationships but actually are transaction-driven, emphasizing selling products in the short run rather than developing bi-directional relationships over the long run. Retailers perpetually strive to increase transaction efficiency, and although such productivity improvements can benefit customers, these initiatives are judged largely on their ability to reduce operational cost. This transaction orientation, in part, mirrors the short term focus of public companies striving to produce quarterly financial results expected by the investment community (Collingwood 2001).

A transaction emphasis can be damaging to retailers because it can undermine their ability to inspire customer loyalty and strengthen brand equity. Cumulative customer satisfaction is often regarded to be more meaningful than transaction satisfaction. For a retail customer, cumulative satisfaction typically reflects some combination of multiple store, website, or catalog interactions, i.e., the *entirety* of those experiences. A retailer is unlikely to maximize customers' cumulative satisfaction if the important non-transactional stages of the customer experience are neglected.

Pre-transaction service

An underappreciated opportunity for retailers is providing potential and existing customers with the information they need to make sound purchase decisions. This includes both product-related information (e.g., the structure of shipping charges, product availability) and information that facilitates competitive comparison (e.g., price points, current promotional offers). The potential to aggregate objective information that is valued by consumers – because it accelerates or improves their decisions – has produced new business models that impact the role of store choice. For example, Zafu.com is a successful website that allows women to quickly identify the apparel brands that will offer them the most preferred fit, reducing the time they spend in dressing rooms. Because these shoppers are able to use customized tools to closely compare a vast assortment of products that is consolidated across retailers, the individual retailer becomes secondary. The retailer (e.g., Macys.com; JCrew.com) is there for the transaction when the shopper clicks through to its site to purchase, but has virtually no involvement in the decision-making process; the shopper, in turn, has few retailer-created constraints. Sites like Zafu offer an opportunity for some existing retailers because they connect them to customers, but for many retailers they represent a competitive challenge.

Poor pre-transactional service often means failure to provide consumers with decision convenience in making purchase or use decisions (Berry, Seiders, and Grewal 2002). Many consumers compensate by sourcing relevant – but subjective – information online from third parties: independent expert reviews, specialized blogs, and a variety of user rating services, such as Epinions and Yelp. For retailers, one downside of third-party reviews and opinions is that readers who use them exhibit a negativity bias; that is, they tend to weight negative information about the product or company more than they weight positive information (Sen and Lerman 2007).

Unfortunately there is a dark side to the third-party opinion phenomenon, where companies' employees, agencies, or related individuals deceptively express false praise and recommendations for products or companies they wish to protect or promote — or false criticism for competitors or their offerings. Although ethics codes have been established by organizations such as the Blog Council, their lack of enforcement means individual companies are left to enforce their own codes. As one contributor to the RetailWire blog noted, "When access to media is broadened, both the truth and the half-truth become much more available."

There is debate about the wisdom of retailers acting to provide extensive, transparent product information. Some experts warn against it, arguing that shoppers will simply extract the information from the retailer who offers it and then buy based on the lowest price in the marketplace. Others argue in favor, noting that providing access to extensive information online will help to migrate a retailer's brick-and-mortar shoppers to the company's website for purchasing, an advantage because of the reduced cost to serve those customers online (see Curran, Meuter, and Surprenant 2003; Rosen and Howard 2000). However, moving customers from a company's stores to its website might not always be a desirable strategy. In a longitudinal study, Ansari, Mela, and Neslin (2008) found that Internet buyers not only were less loyal customers but also represented less revenue over time. The authors suggest that these negative effects of customers' migration to the Internet may be related to lower switching costs, easier price comparison across retailers, and possibly even reduced interpersonal contact with service providers (Ariely, Lynch, and Moon 2002; Kacen, Hess, and Chiang 2003).

Post-transaction service

The vast scope of the service failure and recovery literature suggests that post-transaction stage problems are ubiquitous for consumers and that when they do encounter a problem post-purchase, they often find inadequate paths to recourse (see, for example, Maxham and Netemeyer 2002). When retailers demonstrate poor post-purchase service quality, customers often perceive a lack of distributive justice, where the outcome of the buyer–seller exchange is judged as inequitable. This is a dangerous condition for retailers because unfairness is memorable for customers; their responses often are pronounced, emotional, and retaliatory (Lind and Tyler 1988; Seiders and Berry 1998).

There is no denying that post-transaction service must be carefully managed by retailers given that opportunistic and even deceptive behavior by consumers is not uncommon. Fortunately, there are many models of successful innovation in post-transaction service that can produce gains for retailers. Recent research by Challagalla, Venkatesh, and Kohli (2009) reports that proactive postsales service – when a seller takes the step of contacting a customer to provide service after a sale is complete – leads to more positive buyer and seller attitudes and outcomes. Although interactivity often is defined in the context of technology, person-to-person interaction remains critical for retailers in their quest for service quality. Netflix operates a 24-hour call center to resolve customer problems even though its business model involves online transactions. Adding a personal service component to an online retail operation can produce a competitive advantage that more than compensates for its cost.

An interesting context for studying post-transaction service is the disposal of environmentally sensitive products, a service that has evolved over time. Staples, the office supply superstore, promotes its recycling of ink and toner cartridges by providing (1) a $3 reward coupon to customers who return the cartridges to Staples stores and (2) free shipping both ways to customers who replace used cartridges via ground shipping or parcel post. In 2007, Staples recycled almost 24 million cartridges in the United States. The company also provides customers with free or low-cost recycling programs for cellular phones, PDAs, digital cameras, batteries, computers, monitors, laptops, printers, and fax machines, regardless of whether or not the products were purchased from Staples.

Retailers vary significantly in how they approach pre- and post-transaction interactive services. Some of this variation comes from differences in strategy, but some is driven by uncertainty of how consumers value pre- and post-transaction service and whether the investment return is sufficient. A pervasive fear is that investment in promoting decision convenience will produce a net negative result: that Retailer A will educate the consumer and then Retailer B will win the sale with lower prices supported by a lower expense structure. Is there no loyalty from consumers who know they have benefited from a retailer's efforts to educate them? Little empirical research of such dynamics has been done.

On the post-transaction side, how are services that are delivered by retailers subsequent to product purchase valued? Based on common retailer practices, we might assume that consumers have little appreciation for post-transaction service. Yet, consider the seeming paradox of a large segment of Best Buy shoppers who are willing to pay more for Best Buy's Geek Squad to provide in-home service for products purchased from the low price-positioned retailer. Much remains unknown about the true impact of the pre- and post-transactional service strategies of retailers. Research questions include:

- What will be the long-term impact on established retailers of newer shopping models involving intermediary sites that facilitate consumers' product decisions?
- What is the impact of effective pre- and post-transaction service on customer repurchase and loyalty and retailer revenues and profits?
- What factors determine how consumers value pre- and post-transactional interactive services and how can retailers leverage the valuation process?
- What is the business case for providing personal service options for customers using self-service technologies?

As noted earlier, studies that use multiple methods of collecting data – such as combining online experiments, surveys, click stream data, and purchase behavior – will be increasingly valuable in generating insights regarding opportunities for innovation in the pre- and post-transaction stages. Research addressing how consumers value convenience in these stages of the service experience, and what their expectations are for time and effort expenditures, will provide an important entry point. Although there are many studies focused on the post-transaction service experience, most are oriented toward service failure and recovery so contextual and situational factors will need to be broadened in future studies.

Optimal use of resources

Making available multiple customer–interface options, although intuitively appealing, can be expensive for retailers to implement and may have other unintended consequences that adversely affect profits. For instance, John Irvin (2009), former president of JCPenney Direct, in his keynote address at the conference that served as a springboard for this special issue, asked: "Is too much choice for customers bad? Is what's good for the customer good for the company?" He posed these questions because when JCPenney Direct gave customers the option of picking up catalog-ordered merchandise at its stores, the company experienced a dramatic increase in the incidence of customers' changing their minds at the time of pick up, driving up return rates and depleting profit margins. Having too many choices for interacting with retailers may at times also confuse and overwhelm customers, just as too many features built into consumer products, while initially attractive to customers, can lead to "feature fatigue," frustrating customers during product use and lowering their overall satisfaction (Thompson, Hamilton, and Rust 2005).

Inadequate attention to – and limited research-based guidance for – designing and implementing optimal systems for retailer–customer interactions are contributing to considerable resource waste, i.e., investments in interactive services (and the infrastructure for delivering them) that provide little or no benefit to customers and to retailers in the long term. The retailing landscape is littered with examples of wasted resources:

- Unwanted communications that irritate, if not anger, customers (e.g., SPAM that congests customers' mailboxes and in-boxes and ads that annoyingly pop up when customers visit websites);
- Unwanted personal contact and attention (e.g., frequent interruptions by retail salespeople when the customer prefers to browse peacefully or by restaurant servers when the customer is having a serious discussion with colleagues during a business dinner);
- Underutilized or unused customer data (e.g., a retailer that continues to send a customer a comprehensive catalog every month, oblivious to the customer's long history of ordering from the retailer's catalog only a specific category of items and only during a certain month of the year);
- Overbuilt retail space that is not only a drain on a company's resources but also is a serious concern to environmentally conscious customers and to society at large.

Needed are fresh and creative approaches for tackling the wasted-resource dilemma. This is an imperative for retailers to develop solutions that simultaneously enhance retailer profitability and customer experience, and for researchers to undertake systematic scholarly inquiries aimed at providing specific guidance to retailers. The extant interactive marketing literature contains a number of studies that, although not directly addressing the wasted-resource problem, contain insights that can serve as building blocks in laying the foundation for future investigations.

For instance, the findings from a study that uncovered the negative consequences of forcing customers to use technology-based service systems (Reinders, Dabholkar, and Frambach 2008) also suggested that "it is not necessary to offer a whole range of service delivery options as the benefits may be incremental" (p. 117). Is there then an optimal number of options for retailer–customer interactions? What is that optimal number? What retailer and customer metrics should be used as criteria in determining the optimal number? Does the optimal number and types of options depend on customer characteristics, e.g., demographics, technology readiness (Parasuraman 2000), "consumer readiness" variables (Meuter et al. 2005) and purpose of the interaction, e.g., pre-purchase, purchase and post-purchase (Frambach, Roest, and Krishnan (2007)? Systematic investigations of issues such as these can offer insights for optimal resource use.

New research is also needed to provide guidance concerning the best ways to structure retailer–customer interfaces to improve their effectiveness. The extant literature contains conceptual typologies for classifying interactive services based on a variety of criteria such as type of purchase context and desired degree of personalization (Rayport and Jaworski 2004), type of service (separable vs. inseparable), type of benefit the service offers (core vs. delivery) (Berry et al. 2006), and degree of technology involvement and extent of customer participation (Bolton and Saxena-Iyer 2009). A common theme emerging from these typologies is that the "best" service-interface design is contingent on contextual and customer-related characteristics. As discussed by Shankar et al. (2010), some mobile market segments prefer non-intrusive, opt-in personalized service. Findings from empirical studies focusing on the antecedents and consequences of customers' preferences for and use of different service interfaces also suggest significant moderating effects of such contingencies (e.g., Weijters et al. 2007). A synthesis of insights from these conceptual typologies and empirical studies, as well as from other investigations focusing on service-delivery design (e.g., Falk et al. 2007; Patrício, Fisk, and Falcão e Cunha 2008; Zhu et al. 2007), can provide a rich foundation for launching additional scholarly research – and for generating new managerial guidance – in the realm of designing customer–company interfaces that are efficient and effective from the perspectives of both retailers and consumers.

Several other broad issues stemming from the wasted-resources dilemma deserve attention from both researchers and retailers:

- How do customers perceive wasted resources, and do their perceptions influence their choice of retailers?
- What is the impact of wasted resources on brand equity, corporate image, and financial performance?

- Is there is a business case for SPAM (after quantifying and incorporating all costs including indirect costs of customer irritation)?
- How can retailers more effectively collect, integrate and use customer data generated at various customer-contact points and across channels?
- Are there innovative approaches for using unused retail facilities to benefit society at large, while simultaneously enhancing the company's image (if not its financial performance)?

While the wasted-issues dilemma is a practical reality of which most retailers are aware, it has received little scholarly attention, especially in the marketing domain. As such, an appropriate starting point for investigating broad issues such as the aforementioned ones is to conduct qualitative research (e.g., focus groups, ethnographic research, and case studies) to better understand the nature and scope of each issue. This can be followed by appropriate quantitative/empirical research (e.g., surveys, experiments, and mathematical modeling). For instance, to address the first issue (consumer perceptions of wasted resources and their impact on retailer choice), focus group research can shed light on the extent to which consumers are aware of and sensitive to resources being wasted by retailers, and consumer characteristics likely to influence perceptions and behavior. Insights from such research can serve as a springboard for more quantitative work — for instance, to develop a typology of consumers with distinct perceptions/attitudes about wasted resources, and to examine the nature and extent of differences in choice of retailers across different consumer types.

Consumer heterogeneity

Aggregate sales of interactive retail services over time within or across channels depend on individual customers' trial, repeat purchase and cross-buying behavior. Customer relationship management (CRM) research and practice have long recognized that different customers will value the same product (good or service) differently, so they will have different acquisition rates, retention rates, and cross-buying behavior, which influence margins. For this reason, marketing models typically have attempted to account for customer heterogeneity in forecasting consumer behavior (Kamakura, Ramaswami, and Srivastava 1991; Schmittlein and Peterson 1994). In addition to understanding how individual customer behavior influences revenues, some direct marketers have been able to assign the costs of direct communication, delivery of the product, and promotions to individual customers (Berger and Nasr Bechwati 2001; Keane and Wang 1995). However, retailers operating in multiple channels must create methods for appropriately allocating the indirect costs of marketing actions to individual customers or customer segments, as well as integrating data across channels. The increasing use of multiple channels and consumer interactivity has created an environment with a plethora of data. Verhoef et al. (2010) offer a CRM framework to examine issues in this domain.

Marketing thought leaders have called for further study of customer heterogeneity in preferences and behavior to advance CRM science and practice (e.g., Boulding et al. 2005, p. 163). This topic requires more investigation for several reasons. First, many retailers tend to focus internally on cost and productivity rather than externally on the consumer, and, where customer metrics exist, they are typically aggregate channel-specific metrics (e.g., retention rates, costs). Second, academics have tended to account for customer heterogeneity by allowing demand function parameters to vary across customers, rather than by explicitly modeling the effects of customer variables. Thus, despite the marketing field's longstanding interest in market segmentation and CRM, there is no theory-derived model that predicts how consumers differentially engage and behave in relationships with providers of interactive retail services.

Although a comprehensive model of customer behavior is lacking, marketing research has addressed customer differences. It is well established that customer characteristics play an important role in influencing individuals' purchases of interactive retail services. For many years, marketers have incorporated consumer demographics such as age, sex and social status in models of customer or market demand (e.g., Levy 1981, p.60). Recently, Seiders et al. (2005) introduced and tested a conceptual framework for understanding the relationship between customer satisfaction and purchase behavior at retail stores. They found that this relationship is moderated by consumer demographics and other variables. The authors distinguished among customer characteristics (e.g., involvement and income), relational characteristics (e.g., age of relationship and loyalty program membership) and marketplace characteristics (e.g., competitive intensity and convenience of the offering, where perceived convenience is a multi-dimensional construct). They found that involvement, income, convenience and competitive intensity moderated the relationship between satisfaction and retail purchase behavior, but the relationship characteristics did not.

Heterogeneity in customer relationships with retailers

Research shows that markets can be segmented into groups of customers who are characterized by differences in how they engage in relationships with service providers, where consumer preferences lie upon a continuum that ranges from transactional to long-term, stable relationships (Garbarino and Johnson 1999, p. 70). For example, Reynolds and Beatty (1999) identify five clusters of consumers with different motivations for maintaining retail relationships and show that some consumers willingly engage in close social relationships with service employees, whereas others proactively avoid them. Similarly, in their study of "commercial friendships" between customers and service employees, Price and Arnould (1999, p. 50) empirically identify a segment of approximately 20% of respondents who do not want to be friends. De Wulf, Odekerken-Schröder, and Iacobucci (2001, p. 38) show that relationship proneness, which they define as "a consumer's relatively stable and conscious tendency to engage in relationships" with firms, significantly moderates the effect of the firm's effort to bond with the customer and the quality of the relationship. Mende (2009) provides conceptual and empirical evidence for the notion that customer attachment styles – specifically, anxiety and avoidance – can explain whether a consumer tends to bond with the service brand (i.e., retailer), a service employee, both, or neither.

Moreover, research has shown how relational characteristics moderate the effect of satisfaction on purchase behavior. Satisfaction influences the length of the customer–firm relationship, where customers weigh prior cumulative satisfaction more heavily than recent experiences (Bolton 1998). Also, the length of the customer–firm relationship moderates the effect of satisfaction on customer retention and customer share or share of wallet (Cooil et al. 2007; Verhoef 2003). Evidence also shows that the repeat purchases of customers with the same level of service quality are moderated by cultural and geographic variables (Bolton and Myers 2003), and that members of loyalty programs behave differently from non-members (Bolton, Kannan, and Bramlett 2000).

Much of the research on heterogeneity in customer preferences for relationships is relatively recent, so that findings in this area may not yet be incorporated into marketing practice. Hence, based on what we now know about how consumers search for, purchase, and consume interactive services, we believe that well-managed retailers let consumers choose how they interact with their organization because different consumers value interactive services in different ways.

Consumer participation in interactive services

Services researchers have long recognized that consumers differ in how they search for, purchase, and use interactive retail services. A consumer's willingness to use non-traditional channels and the amount and nature of participation will depend on level of technology readiness (Parasuraman 2000), concern for privacy and security (Milne 2000), motivations, emotional gratification from participating in the service experience, role clarity and perceptions of role ability (Meuter et al. 2005; Puccinelli et al. 2009), need to control the service experience (Phelps, D'Souza, and Nowak 2001), and perceptions of the retailer's trustworthiness (Bart et al. 2005). For example, a consumer's perceptions of trustworthiness influence the extent of participation because, as participation increases, some of the risks associated with the performance of the service are shifted from retailer to consumer.

Bolton and Saxena-Iyer (2009) argue that it is important to distinguish among three types of participative behavior that take place during the consumption of interactive services: in-role behavior, extra-role behavior and information sharing. Following the literature on employee behavior (Netemeyer and Maxham 2007), they distinguish between in-role behaviors (i.e., co-production), in which customers' behavior is determined by firm guidelines, and extra-role behaviors (i.e., co-creation), in which customers use their discretion. As consumers gain experience with an interactive retail service, they become more knowledgeable about their in-role behavior and, consequently, the retailers' brand equity grows, thereby increasing customer perceptions of value and customer loyalty. Conceptually, there are many ways to increase participation and improve/customize interactive service offerings, such as by clarifying customer roles, reducing perceived risk, improving the design of the channel and rewarding desired behaviors.

Based on this discussion, we suggest the following important research questions about consumer heterogeneity that remain largely unanswered:

- How can retailers design interactive services that are flexible enough to account for consumer heterogeneity and do so in a cost effective manner?
- What are consumers' preferences for convenience, transparency, and modes of interaction, and how do the preferences vary across different contexts and situations?
- How can retailers effectively incorporate consumers into the new service development process?

Since there is no single "best" way of capturing consumer heterogeneity in all circumstances, research in this area must begin with theoretical and empirical studies of how consumers differ in their participation in interactive services. Such studies can examine consumer differences in knowledge, motivations, needs, emotions, perceptions, preferences, and goals, and how these variables influence their participative behaviors. There are three noteworthy features of this broad problem statement. First, it begins with an in-depth characterization of consumer differences, rather than classifying consumers into a few relational categories. Second, it recognizes that longitudinal (rather than cross-sectional) studies of multi-channel shopping behavior will be required. Third, it inverts the common approach in the majority of retailing studies that implicitly assume that the consumer is passive, primarily reacting to media or channel options that have been anticipated and created by the retailer.

The advent of new interactive technologies – including mobile technologies – calls for empirical and analytic models of consumer preferences and behavior that recognize that consumers cannot be assigned to categories that are invariant to situational variables. This topic is addressed in more depth by Shankar et al. (2010). Given that consumer preferences and behavior can be influenced by many factors – including unconscious processes, emotions, habits, and impulses triggered by cues inherent in the consumer's shopping environment – it will be helpful to focus on outcome variables that are especially important to consumers (such as their preferences for convenience and channels of interaction that match their shopping goals), to better understand how channel preferences vary both within and across consumers in different shopping, service and purchase contexts.

Last, theoretical, empirical, and analytic research is required to guide retailers in designing interactive services that match consumer preferences. Such research should also incorporate trade-offs in efficiency versus effectiveness that may call for retailer strategies targeting consumers at the market-segment, rather than individual level. Since some facets of interactive retail services are still novel, there is also a need to conduct basic research aimed at developing standards and metrics managers can use to assess the impact of interactive service strategies.

Innovation opportunities in interactive services

This article explores five important avenues of opportunity for retail innovation in the delivery of interactive services. A shift in power from retailers to consumers persuades us that demand-driven innovations based on consumers' needs require more emphasis. Due to synergies among channels, a better understanding of the cumulative, cross-channel effects on consumers and retailers will help identify opportunities for innovation. Retailers often place too much emphasis on their transactional role and supply–driving innovations and too little emphasis on creating strong customer relationships through pre- and post-transactional roles. Effecting a more balanced commitment to serving customers throughout all the consumption stages should benefit both consumers and retailers. Improved understanding of consumer shopping behavior and the types of services consumers do and do not value will result in fewer wasted resources and less consumer aggravation. A key to identifying these opportunities is a better understanding of consumer heterogeneity with respect to consumers' cross-channel shopping behavior and its implications for retailer outcomes.

We consider relevant research that addresses some of the complexity involved to suggest *how* retailers might advance in these areas. Also, we acknowledge gaps in our understanding of these opportunities and raise a number of research questions relevant to these gaps that warrant attention. When combined, these questions comprise a research agenda that we hope will trigger future examination and help uncover the opportunities for innovation in interactive services.

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