Distribution channel strategies in Danish retail banking

Niels Peter Mols
Per Nikolaj D. Bukh
Jørn Flohr Nielsen

The authors

Niels Peter Mols is Associate Professor
Per Nikolaj D. Bukh is Assistant Professor
Jørn Flohr Nielsen is Associate Professor, all at the Department of Management, University of Aarhus, Aarhus, Denmark.

Keywords

Banking, Channel management, Communication technology, Denmark, Distribution channel, Marketing mix

Abstract

Outlines the adaptation process in the distribution channel structure of the retail banking sector as a consequence of the introduction of electronic channels, such as telephone banking, PC banking and Internet banking. Based on responses from 42 retail banks in Denmark, their distribution channel strategies are described and their relation to selected marketing mix elements is examined. Most Danish retail banks attach decisive importance to offering a customer-friendly PC bank service, whereas fewer of them attach the same importance to telephone, Internet and branch banking. A multiple channel strategy combining several channels is the most popular.

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Introduction

Owing to deregulation, new technology and changing consumer behaviour, the competition in the banking sector is getting more fierce. In the Danish banking sector the intensified competition has recently resulted in a number of banks launching non-bank financial services through their branches as well as insurance companies and other financial companies opening banks. The battle for the customers is, however, also fought through new electronic distribution channels. Prendergast and Marr (1994) reviewed the literature relating to the future of bank branches and gathered expert opinions on New Zealand's bank branches in the next decade. The experts predicted a reduction in the branch network from 1,500 in 1994, to 1,000 a few years past the year 2000. Four forces were believed to cause this reduction, of which the least important one was the availability of electronic and remote banking. Greenland (1994) predicted that in the foreseeable future the branch network will remain the main channel for retail banks. However, despite these predictions, the electronic distribution channels available for financial service companies world-wide force the banks to make a number of strategic distribution channel decisions.

According to rational channel planning models (e.g. Stern and Sturdivant, 1987; Stern *et al.*, 1996), retail banks should identify profitable customer segments attracted to branch banking, telephone banking, PC banking and Internet banking or combinations thereof. Based on this knowledge, they have to decide which distribution channels they want to offer their present and future customers. Hence, they have to predict both the consumer acceptance of these distribution channels and the dominating distribution channel strategies of their competitors. However, the problems of the retail banks are even more complex because the different distribution channels have different cost structures and different degrees of face-to-face interaction. This creates an interrelationship of distribution channel strategy and the other elements of the bank's marketing mix, such as pricing, level of personal service, and the array of services offered.

This paper explores the distribution channel strategies chosen by Danish retail

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banks and aims at answering the three following questions:

(1) How can the likely development of the distribution channel structure for retail banking be described?
(2) What distribution channel strategies does this development offer the retail banks and which of them do they actually pursue?
(3) What is the connection between the chosen distribution channel strategies and other marketing mix elements?

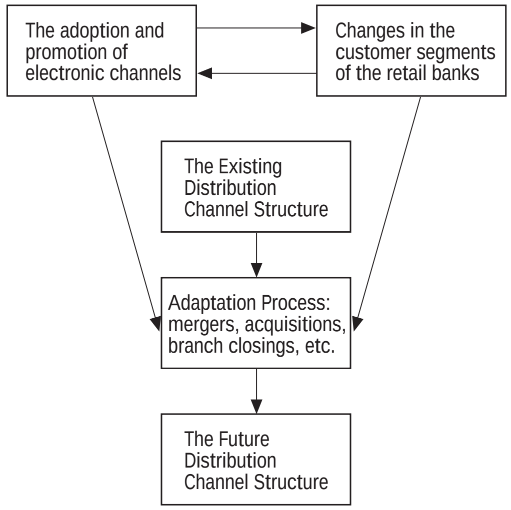
First, a model of the adaptation process in the distribution channel structure is outlined. This provides the setting where the retail banks operate and thus the environment where they have to choose a suitable distribution channel strategy. Based on a nation-wide survey, the distribution channel strategies of the Danish retail banks are briefly described and used as a starting-point for a discussion of the characteristics of the different strategies and their connection with other marketing mix elements. Finally, a conclusion including managerial implications and a listing of future research areas that spring from this study is delivered.

The distribution channel structure in retail banking

According to economic distribution channel theory, the "ideal" distribution system or the normative distribution channel can be determined by exploring what the consumers want in terms of service outputs from the distribution channel, how much they are willing to pay for a given service level, how the services can be provided to them, and what the costs of the alternative distribution channels are (Bucklin, 1966, 1970; Stern and Sturdivant, 1987; Stern *et al.*, 1996). Based on this information it can be determined which distribution system most effciently meets the customers' wants. Thus, an economic distribution channel model takes a customer perspective, analyses the output from the commercial part of the different distribution channels and relates it to the customers' costs and benefits from the different levels of service output offered by the available distribution channels.

As illustrated in Figure 1, the adaptation process in the retail banking sector is rendered visible by the adoption and promotion of electronic distribution channels. This influences the future distribution channel structure in two ways. First, the cost of using them is different from that of other available distribution channels, and the service output they provide to the consumers is different from the service output provided by the branch-based channels. Some banks have customers that ask for the electronic channels; they consider them to be important distribution channels and are quick to introduce and promote them to their customers. Other banks have only a few customers who want to use the electronic channels and these banks are more hesitant to introduce them. Second, the electronic distribution channels influence the consumers. Many of them are exposed to the promotion of the electronic distribution channels. Some of these customers invest time and resources in becoming PC literate and in getting to know the Internet or they learn to use the telephone for conducting their banking activities. Other consumers do not want to use the telephone for banking services, they do not become PC literate and do not get familiar with the Internet. These different customer segments are not likely to have the same wants and are not likely to be willing to pay the same price for electronic banking.

Figure 1 The adaptation process in distribution channels



The interaction between the adoption and promotion of electronic channels by the banks and the changes in the customer segments is input to a change process where the structure of the distribution channel is adapted to the new environment. However, this is not likely to happen overnight because of barriers and temporal constraints (Bucklin, 1966; Carman and Tournois, 1998; Frei *et al.*, 1997). For

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example, some banks will have invested in a huge branch network, which will be of no use if all or most of its customers want to switch to an electronic channel, and the customers will be tied to their present bank and its distribution channel because of habits, and percieved social, psychological and financial risks associated with switching banks. Besides, they will have to spend time searching and evaluating alternative banks in order to find a more suitable bank. Therefore, the exisiting distribution channel structure will also influence the changes in the distribution channel structure. The change process will end when the new channel is the normative distribution channel (Bucklin, 1966).

The four distribution channels

Several different distribution channels are used by the retail banks. They offer their services through both branch networks, automatic teller machines, the telephone and PC/Internet-based home banking systems. Also channels such as car dealers, mobile branches (buses), and retailers are used for distributing bank services. In this article we focus on the branch network and the three electronic home banking channels:

(1) telephone banking;
(2) PC banking; and
(3) Internet banking.

Ordinary branch banking requires the customers to come to the branch, where they have access to a wide variety of banking services but have to wait in line before getting served. Telephone banking requires the customers to phone the bank. It is more cost-effective than an ordinary branch and it is more convenient for the customer. PC banking can be used by customers who have access to and can use a personal computer and a modem, whereas Internet banking furthermore requires access to the World Wide Web (cf. Frei *et al.*, 1997; Kalakota and Frei, 1997). Early versions of PC banking were expensive, complicated and did not achieve a sufficient level of consumer acceptance (Channon, 1997), but today it is even more cost-effective than telephone banking, and it is also more convenient (Katz and Aspden, 1997; Tilden, 1996). Besides, a larger number of more complex banking operations can easily be handled with PC and Internet banking.

The customer segments

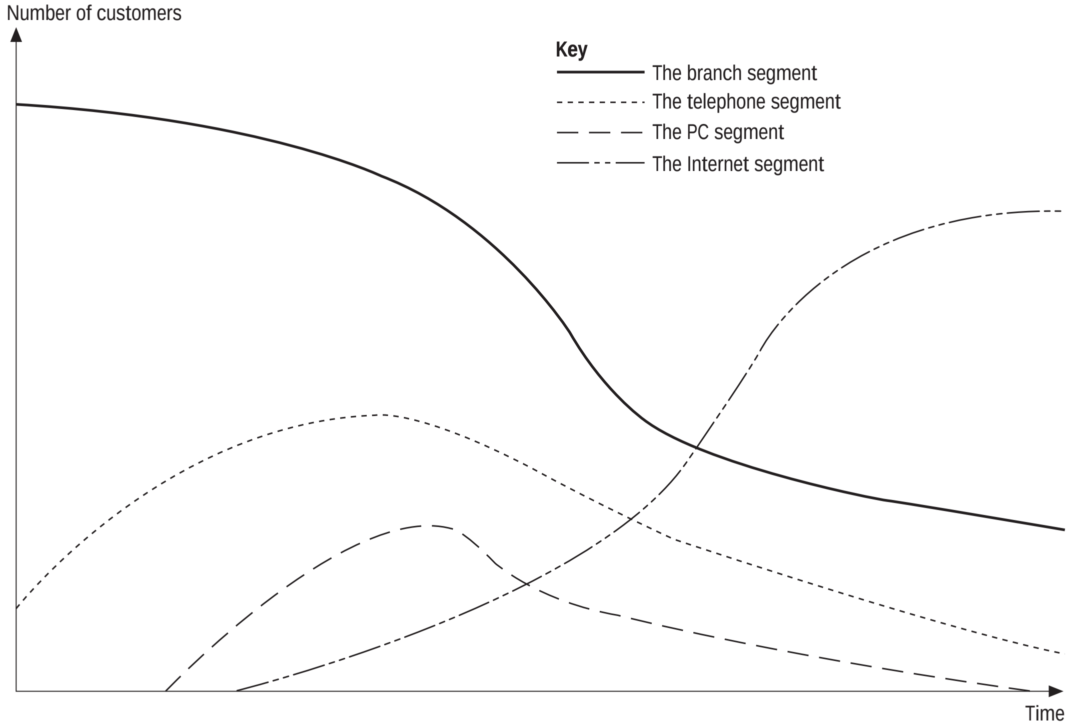
Several studies have investigated why individuals choose a specific bank (cf. Ennew and McKechnie, 1998), but none of them explicitly related the consumer selection criteria to the advantages connected with the four alternative distribution channels. However, it can be argued that the customers have less time to spend on such things as visiting a bank and therefore want greater convenience and accessibility (Devlin, 1995). Recent studies have also focused on the major determinants of customer satisfaction and future intentions in the retail bank sector (cf. Levesque and McDougall, 1996; Mols, 1998a). Thus, Mols (1998a) found that compared to non-users, Danish home banking users are more satisfied with their bank, have higher intentions of repurchasing, provide more positive word-of-mouth communication and have a lower propensity to switch to another bank. In a survey conducted in the USA, Katz and Aspden (1997) found that 17 per cent reported “convenience as a way to do banking” a very important reason for becoming an Internet user, and 30 per cent reported that it was an important reason.

As a point of departure we define the market segments in terms of the different channels of distribution. Thus, it is suggested that four pure bank customer segments exist: the branch segment, the telephone segment, the PC bank segment and the Internet segment and that they evolve as shown in Figure 2.

The branch banking segment consists mainly of older, non-computer literate persons, who value personal relationships (Heskett *et al.*, 1997). These customers value the face-to-face contact with the bank teller and emphasise a trustful relationship. They do not own a PC and do not work with information technology. Today this segment is still large and important but it is shrinking.

In many ways the telephone segment is similar to the branch segment. Some of these customers have not had the time or the resources to learn to use a PC. Some of them do not use information technology at work and have not learned it in school. Contrary to the branch segment, they do not value the personal interaction, but they like the convenience, accessibility and time saved, which are the consequences of being able to perform the banking activities at home. They possess credit cards and rarely visit a branch. As the

Figure 2 Possible developments in customer segments



PC and Internet segments grow, this segment is likely to shrink.

The customers belonging to the PC segment are all computer literate, they have a modem and many of them are Internet users. Most of them have a credit card and do not value the personal interaction in a bank branch. They like the convenience and time saved that the PC bank provides. Today, the segment consists of mostly younger persons and it is dominated by males (e.g. Heskett *et al.*, 1997; Mols, 1998a). At present this segment is smaller than the two former segments, but because of the growth in the possession and use of personal computers (e.g. ISPO, 1997), its potential size is increasing. A part of this segment fears the security problems connected with the use of the Internet (Angelides, 1997; Carman and Tournois, 1998), and therefore it will take some time before they become a part of the Internet segment.

The Internet banking segment is very similar to the PC segment. The persons are connected to the Internet for the use of e-mail, for the search of information about special interests, etc. (Katz and Aspden, 1997). They do not put a high value on the personal relationship with the local bank, they are relatively price conscious, affluent and well-educated (Birch and Young, 1997; Evans and Wurster, 1997; Katz and Aspden, 1997; Rosen, 1997). Today, this segment consists of mostly younger customers and more males than females (Katz and Aspden, 1997). Regarding the Internet, several historical overviews and surveys of the demographics of the Internet are available, and they all point in the direction of continued growth in the number of Internet users (e.g. Find/SVP, 1997; ISPO, 1997; Network Wizards, 1997; Zakon, 1997). Thus, the segment is growing fast, which may change its characteristics slightly.

In fact, customers may prefer to use more than one distribution channel (Mols, 1998b; Prendergast and Marr, 1994). So, besides the pure segments there will be customers who will use different distribution channels for different purposes. They will use the branch for obtaining financial advice in connection with major decisions such as buying a new house, whereas for bill payment and retrieval of up-to-date balance information on deposit and loan accounts, they will use telephone, PC or Internet banking. This customer segment may be labelled the multiple channel segment.

The development of the distribution channel structure

Today large banks have many branches and small banks have few branches and most bank customers communicate with the bank by

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visiting the bank branches. The present distribution channel structure is aimed at serving the branch banking segment. Internet banking is still at an embryonic stage (Daniel and Storey, 1997).

If the development in Figure 2 is correct the Internet banking segment will grow and eventually be larger than the other three segments, and accordingly fewer branches, telephone services and PC banks will be needed. However, for a long time there will be customers who are not likely to favour PC/Internet banking. Hence, it is predicted that the future retail banking structure will consist of a few banks with a dense branch network. In other words, only a fraction of the branches existing today are likely to remain. Many banks will rely on the Internet as their main distribution channel.

This is the starting point of our study. How do the Danish banks value the different distribution channels in 1998? Is a clear pattern of distribution strategies emerging? Is it possible to differentiate between branch and home banking strategies?

Method

The survey was conducted during the first half of 1998 by questionnaire to the 65 largest retail banks in Denmark. First, the 70 largest banks in Denmark as registered by the Danish Supervisory Authority of Financial Affairs (DSAFA, 1997) were identified. From these two banks based in Greenland, and three Danish banks, which manage mainly payments for pensions, were excluded from the sample. Second, key informants were identified by phoning the banks' main offices, and the questionnaire was pre-tested. Then the final questionnaire was mailed to the key informants, and after a telephone chase 42 usable answers were recieved, which is equivalent to a response rate of 65 per cent. The respondents were from senior positions and had on average 19.2 years' experience in the organization and on average 10.5 years in their present position. Only two respondents had less than four years of experience in the organization.

The distribution channel strategies and other marketing mix elements were measured by the items in Table I. For all the items a five-point Likert-scale was used (1 = strongly agree to 5 = strongly disagree).

Table I The questionnaire items

Items measuring distribution channel strategy:
- The bank attaches decisive importance to its customers being at a short distance from the nearest of its branches
- The bank attaches decisive importance to offering a customer-friendly telephone bank service
- The bank attaches decisive importance to offering a customer-friendly ordinary PC bank service
- The bank attaches decisive importance to offering a customer-friendly Internet bank service as soon as possible

Items measuring other marketing mix elements:
- The bank attaches decisive importance to competing on interests and fees
- The bank attaches decisive importance to offering good personal service
- The bank attaches decisive importance to offering all financial services
- The bank does not want to offer peripheral services such as insurance, etc.
- The bank attaches decisive importance to retaining existing customers
- The bank attaches decisive importance to attracting new customers
- The bank attaches decisive importance to identifying profitable customer segments

Danish retail banks' distribution channel strategies

The adaptation process outlined above makes it an important strategic decision for the retail banks to decide which of the five different customer segments to target. The result is four different pure strategies and a multiple channel strategy, with two or more of the pure strategies being combined.

The branch banking strategy

As manifested by the banks' branch network, this has been the emergent strategy for most banks. Hence, this is the distribution channel structure they are used to, and this is where their competences lie. It is suitable for delivering services based on face-to-face interaction, and it targets a very large segment of bank customers. However, Table II indicates that many banks might be reducing their reliance on the branch network. The problem with the strategy is that it is expensive and likely to lead to a decreasing number of customers. Growth might be maintained through mergers and acquisitions, but only a few banks will have the luck and the skills necessary for such a strategy. A likely strategy for the banks at

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Table II Importance attached to different distribution channels

Attach importance to	Strongly agree (%)	Partly agree (%)	Neither agree nor disagree (%)	Partly disagree (%)	Strongly disagree (%)
Branches	14.6	39.0	19.5	14.6	12.2
Telephone	47.6	19.0	19.0	7.1	7.1
PC-banking	71.4	16.7	4.8	4.8	2.4
Internet	45.2	21.4	16.7	7.1	9.5

Note: $41 \leq n \leq 42$

present pursuing this strategy is therefore to combine it with an offer of electronic home banking services. For some banks the transformation will cause problems because they lack resources or because of bad timing in the promotion of the electronic channels. These banks risk being unable to match the prices of, for example, competing Internet banks (Birch and Young, 1997).

The telephone banking strategy

Because the telephone banking strategy has the telephone as its most important distribution channel, it relies on a more impersonal form of contact than the branch banking strategy. Only a few Danish banks have pursued this strategy in its pure form, but they have often used it in combination with the branch banking strategy. The survey indicates that telephone services are considered important by most Danish banks (cf. Table II). The advantages connected with this strategy are that all people with access to a telephone are potential customers and that it is less costly than the branch banking strategy. Thus, it gives access to a large segment and a large geographical coverage without large-scale investments. It also relies on thoroughly tested and secure technology. The disadvantages, though, are that it has attracted the most price-sensitive customers (Mols, 1998b), and that this segment is likely to shrink.

The PC banking strategy

PC banking has many of the same qualities as the telephone channel and most banks attach decisive importance to offering some kind of customer-friendly PC bank solution (cf. Table II). At the moment it is thus viewed as the most important element in the Danish retail banks' distribution channel strategies, but if the development in Figure 2 is realised, it will only be a transitory phenomenon. The segment attracted to this strategy is relatively small though growing, and its members are likely to be the first to adopt the Internet bank solutions. Therefore PC banking, though transitory, may be the most important channel for the banks. The reason why so many Danish banks attach importance to offering a PC bank solution may be that survey results have shown that the least price-sensitive customers are PC bank customers, and thus, they make up a potentially very profitable segment to serve (Mols, 1998a). However, these results might be explained by the early adopters' interest in the new technology and the convenience it offers rather than by an interest in using the most cost-effective distribution channel. Therefore, it is likely that PC bank customers will eventually become more price-sensitive, which is in accordance with the predictions that Internet banking is likely to make home banking customers even more price-sensitive than they are today (Birch and Young, 1997).

The Internet banking strategy

As with the telephone and PC banking strategy, a pure Internet banking strategy requires radical changes for many banks. They have to reduce their number of branches and foster new competences. However, the strategy has the advantage that it aims at serving the fastest-growing customer segment, and thus it will be a means to gain market shares. In addition it is a low-cost strategy, because the Internet is the cheapest distribution channel. The disadvantage is that it is difficult for Internet banks to differentiate their offerings (Birch and Young, 1997). Thus, the market is more transparent and the competition is fiercer. For example, Hamill (1997) predicts that the Internet will lead to a narrowing of price differentials and, as described by Birch and Young (1997), it may become increasingly difficult to earn a profit because of intense price competition (see also

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Evans and Wurster, 1997). However, others have argued that online Internet-based connections with customers can be a means to build relationships and to customize the offerings to them (Hotchkiss, 1997; Rosen, 1997).

As mentioned by Howcroft and Kiely (1995), the electronic distribution channels and especially the Internet-based version, reduce the entry barriers into retail banking. It makes it easier to cover a larger geographical area and thus multinational/global retail banks might emerge. In the multinational version of the Internet banking strategy no further branches are needed. However, a centrally-situated branch in each country might be necessary to attract local expertise, to assist the customers in case of unexpected problems and to handle the contact with the national authorities. Problems with technical and legal security to support the exchanges over the Internet constitute a barrier to success with this strategy. It makes the Internet technology uncertain and requires the customers to exhibit a high level of trust (Angelides, 1997; Baer, 1998). Therefore, another problem might be to convince new customers that they can trust the bank, in the cases when the bank is not very well-known and has no significant physical presence (Birch and Young, 1997).

The multiple channel strategy

Table II indicates that the multiple channel strategy is the most popular distribution channel strategy among Danish retail banks. It gives them a gentle transition from a branch banking strategy to a strategy emphasizing one of the electronic distribution channels, and it provides a good market coverage (Anderson *et al.*, 1997; Moriarty and Moran, 1990). It is also a way for the bank managers to hedge their bets by making a number of smaller investments in PC/Internet banking systems, while simultaneously continuing a traditional branch banking strategy. In other words, it is a less risky strategy (Courtney *et al.*, 1997).

However, the hedge strategy is not entirely without problems. Multiple channels are likely to lead to conflicts between the branches and the departments responsible for the electronic distribution channels. It can be difficult to motivate the front personnel in the branches to promote these home banking services knowing that it leads to cannibalization and unemployment. The strategy can also result in customer problems because they may have difficulties in accepting a wide price differential between the services offered through the branches and the services offered through for example the Internet (Moriarty and Moran, 1990).

Electronic home banking versus branch banking

The survey indicated that it is reasonable to distinguish between home banking and branch banking. A Kendall's tau-b zero-order correlation (τ) analysis showed that the attachment of importance to the three different home banking technologies is significantly ($p < 0.05$) correlated ($\tau = 0.34$, $\tau = 0.38$, $\tau = 0.43$). The three home banking technologies, telephone, PC and Internet, were negatively correlated with branch banking ($\tau = -0.39$, $\tau = -0.17$, $\tau = -0.22$). Of these three correlations only the negative relationship between telephone banking and branch banking was significant ($p < 0.05$). Thus, the banks which attach importance to one of the electronic distribution channels also attach importance to the other two. Therefore these banks may be grouped together, which gives three distribution channel strategies: a branch strategy, a home bank strategy and a dual strategy.

The results of this analysis (cf. Table III) generally shows remarkably little variation in the importance attached to a number of marketing mix elements for banks pursuing different distribution channel strategies.

Banks pursuing a home banking strategy attach greater importance to offering competitive interest rates and fees. Thus, the findings indicate that home banking reduces variable costs and makes it possible for the banks to offer better interest rates and lower fees (Howcroft and Kiely, 1995). Good personal service is more related to branch banking and dual channels than to home banking, which indicates that electronic distribution channels are considered to offer less personal service. Especially compared to banks with a home banking strategy, the dual channel strategy is used by banks that attach most importance to offering all financial services and peripheral services such as insurances. This indicates that the financial supermarkets with a broad assortment of financial and related services also offer the widest selection of delivery vehicles to their customers. Howcroft and Kiely (1995) note that the choice of distribution strategy is based

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Table III Distribution channel strategy and other strategic factors

Distribution channel strategy: Importance attached to:	Branch banking	Dual channels	Home banking
Offer competitive interest rates and fees	2.55	2.79	2.25
Offer good personal service	1.00	1.00	1.24
Offer all financial services	2.36	2.14	2.88
Not to offer periphery services	4.18	4.14	3.76
Retain existing customers	1.18	1.07	1.18
Attract new customers	1.18	1.29	1.47
Identify profitable segments	2.09	1.93	1.47
Number of banks	*n* = 11 (26.2%)	*n* = 14 (33.3%)	*n* = 17 (40.5%)

Note: Scale: 1 = most important to 5 = least important. If branch banking was considered more important than or as important as all the home banking channels then the strategy was classified as branch banking strategy. If branch banking was considered marginally less important than all the home banking channels then the strategy was classified as a dual strategy. Other answers were classified as home banking strategies

on consideration about, among other things, ways to maintain a strong market position by attracting and retaining profitable customers. All banks are interested in retaining their existing customers, but the more importance attached to home banking the less importance is attached to attracting new customers and the more importance is attached to identifying profitable segments.

Alternative electronic distribution channels

The high correlations between the importance attached to the three home banking channels by the retail banks lead to the question of how these different channels are related and what might explain different combinations of them.

The survey showed (cf. Table IV) that most retail banks (50 per cent) attach decisive importance to all the electronic distribution channels. There may be several explanations for this. The electronic distribution channels may support each other in various ways. It may be possible for the banks to use the knowledge gained from offering one distribution channel technology to introduce and promote other electronic channels. However, a home banking competence may also be related to the banks' customers. If it is the same customers who demand the three electronic distribution channels, it explains why the banks targeting these customers have to offer all three distribution channels in order to retain their customers. Thus, as suggested by Keeling *et al.* (1998), the foundations for the success of electronic banking may have been laid by the marketing of telephone banking to customers and their subsequent positive experiences. Yet another explanation may be related to the banks' wish to be innovative and to be able to offer their customers the newest distribution channels while other banks are much more traditional.

Ten banks attach importance to offering a PC bank solution but do not attach similar importance to the offering of an Internet bank (cf. Table IV). This suggests that a large

Table IV Importance of different electronic channels

Internet banking:	Important		Unimportant		
PC banking:	Important	Unimportant	Important	Unimportant	Total
Telephone bank important	*n* = 21	*n* = 1	*n* = 6	*n* = 0	*n* = 28
Telephone bank unimportant	*n* = 6	*n* = 0	*n* = 4	*n* = 4	*n* = 14
Total	*n* = 27	*n* = 1	*n* = 10	*n* = 4	*n* = 42

Note: If the variables were scored 1 or 2 they were classified as important. If scored 3 or 5 they were classified as unimportant

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percentage of the banks view the Internet banks as immature, that the customers are not ready for them because of security problems, or because they simply do not offer any significant advantages to the customers compared to PC banking. Another explanation is that the banks expect most customers to accept a PC bank solution and not to switch to another bank to get access to an Internet-based solution. The banks' interest may be to learn from the first-movers' experiences with Internet banking.

An interesting result is that only one bank attaches importance to offering Internet banking but not PC banking. This indicates that the bank does not view experiences with PC banking as necessary for obtaining competences in electronic distribution channels. Further, the bank is not likely to view a PC bank as a necessary transitory stage to retain the customers, and it probably expects PC banking to have a short and unprofitable life-cycle (cf. Figure 2). Another remarkable result is the ten banks which consider PC banking or Internet banking important but not telephone banking. Hence, these banks may not see telephone banking as a necessary transitory stage for the customers.

Discussion and conclusions

A large majority of the largest Danish retail banks attach decisive importance to offering one or several of the electronic distribution channels to their customers. Thus, the retail banks' distribution channels strategies are not a major barrier to the diffusion of these new electronic banking technologies. As also noted by Carman and Tournois (1998), it appears that the diffusion of electronic banking is more determined by customer acceptance than by seller offerings.

If the customers accept the electronic channels, the future distribution channel structure is predicted to be different from the present distribution channel structure, and consequently an adaptation process will take place. This is likely to manifest itself in the closing of bank branches and in a reduction of the staff in most banks. As the competition between the branch banks will intensify, some of them will experience financial problems if they do not merge with or are bought by more efficient banks.

The pace of the development depends on a number of factors. Factors that can contribute to a slow-down of the process are security problems and continued computer illiteracy among the customers. Factors that can speed up the process are larger benefits and lower costs for the potential customers, for example, in the form of easier, more user-friendly and cost-free access to the Internet banks, and lower prices on computers and modems. New entrants into retail banking such as computer firms with competences in computing, network management and computer security are also likely to speed up the process.

This article provides a first sketch of the distribution channel strategies chosen by the Danish retail banks. It shows that most banks pursue the multiple channel strategy. This is likely to lead to intense competition for the multiple channel segment. In addition, these banks will have to cope with organizational challenges because they have to be efficient through the alignment of technology, HRM and capital investments (Frei *et al.*, 1997), and at the same time they have to give the front-line employees the possibility to provide good personal service. They easily get into problems such as internal conflicts and even confused customers. This leaves room for more focused banks such as specialized Internet banks, which aim at competing on limited services, attractive interest rates and low fees or pure branch banks which stake on the close personal relationship built on face-to-face interaction. In time most retail banks in the world will probably pursue the same distribution channel strategies as the Danish banks. Thus, despite the limited geographical scope of the empirical study, it is possible to generalize these results to other countries.

For retail banks, the electronic channels and especially the Internet are new distribution channels that offer less waiting time and a higher spatial convenience than traditional branch banking and they are therefore attractive to a large and quickly growing segment of bank customers. This will change the distribution channel structure of retail banking and will force retail banks to decide which segments to target. Similar decisions are facing other industries that can distribute a large part of their products or services by use of the Internet. However, before making large-scale investments in new electronic channels it is recommended that the relevant customer segments are identified and that attempts should be made to predict the development of their sizes. It is important to note that lack of sufficient information on the market segments' preferences for channel mixes will be a crucial obstacle to the design of customer-driven distribution systems. Besides, it is recommended that competitor actions be described in order to estimate the intensity of rivalry for different customer segments.

Very little is known about the consequences of the electronic distribution channels because as a topic they do not receive much attention in mainstream service marketing and distribution channel research. It seems that there is an important but neglected area for further research with analysis of the relationship between the electronic distribution channels, the structural changes in distribution channels, and the firms' strategic distribution channel decisions. A related area of importance is the employees' attitudes and roles in the transformation from branch banking to Internet banking.

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