

General theory of retail change



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ABSTRACT

The paper first critically reviews the past theories on retail change and then explores a general theory of retail change. It argues that the past theories of retail change are flawed because they cannot explain retail changes in different markets well, particularly retail changes in emerging markets; they are not general theories explaining retail change. After examining the retail process, the paper develops the Drive Force Model to explore a general theory of retail change. The paper argues that it is the forces of the economic system, consumer demand, competition, supplier and technology that work together to cause a retail change; the power of each force varies in different markets and in different developing stages of a market. The future retail change is also discussed.

THE PAST STUDIES OF RETAIL CHANGE

Early studies of retail change are mainly from the perspective of retail institution change. Retail institution refers to the basic retail format and its distribution in a market. Among the institution-based theories, the ‘wheel of retailing’ is the most famous and was once described as the dominant concept for those who practise and study retailing (Greyser, 1976). In his ‘wheel of retailing’, McNair (1931, 1958) argues that retailers always enter a market as low price, low service and low margin operators, who gradually trade up when they mature. This makes them vulnerable to new and innovating retailers, who, in turn, go through the same pattern. “The wheel always revolves, sometimes slowly, sometimes more rapidly, but it does not stand still (1958, p. 16).” Izraeli (1973) develops McNair’s ‘wheel of retailing’ to ‘three-wheel retailing’, which describes that the conflicts between the

three wheels: conventional stores, low order innovators and high order stores, drive retail change; and he claims that this explains the penetration of all retailing institutions.

Hollander (1960) develops an Accordion Theory based on McNair's theory. After reviewing the history of American retailing, he argues that retail change follows from offering many merchandise categories with narrow assortments to offering a limited number of categories with a wide range of assortments; the expansion and contraction of the offering acts as an accordion. There would be more than one accordion operating at any time and it is retail management that causes the movement. Hollander (1966) concludes from American retailing that the change of retailing follows a "general-specific-general cycle": Consumers are alternately served predominately by "general" shops, then "speciality" shops and then again by the "general" type of retail establishment.

Contemporary studies in retailing often take a historical perspective. The historical approach is strongly advocated by Savitt (1980, 1988), who attempts to develop a synthetic approach by marketing models to explain retail change. He suggests using a historical approach to understand contemporary retail change and analyzing the change by retail marketing model. He emphasizes the importance of environmental factors and comparative studies.

Besides the above theories, there are studies from other perspectives. For example, Alchain (1950) advances the theory of natural selection in retailing; Markin and Duncan (1981) develop the theory of environmental determinism

based on adaptive Darwinism; Bucklin (1972) provides a model of structural change in retail systems and claims that the level of retail specialization is a function of environmental economics; Bliss (1960) uses Schumpeter's two main types of competition, normal and disruptive, to explain retail changes.

A CRITICAL REVIEW OF THE RETAIL CHANGE THEORIES

Although considerable efforts have been made, none of the theories developed is without controversy, and none of them can explain retail change in the real world adequately. There has been little progress in developing a general theory of retail change. Hirschman and Stampfl (1980) claim that all existing theories of retail change are just descriptions of the past rather than serving as conceptual frameworks for the future. Further, it may be argued that all the existing theories are flawed in at least two aspects: One is that they either assume retail change is only driven by internal forces of retailing (this includes institutional theories, which look only from the perspective of retailers while ignoring the influences of suppliers, consumers and the whole supply chain) or assume retail change is only driven by external forces (this includes historical perspectives).

It may be argued that retail change could be caused by both the internal and the external forces. It is not retail management alone to cause a retail change; other factors, such as consumer demand, are also involved. For example, the emergence of E-tailer is mainly resulted from the innovation and the development of information technology and customers' demand of convenience rather than retail management. The study should take the perspective of the whole retail process combining the internal forces and

external forces together rather than separating them. The second flaw is that nearly all past studies are based on free market economy; then retail theories concluded from free market economies may fail to explain retail change in other economic systems, such as retail change in an emerging market or transitional economy, where government may strongly influence or even dominate retail change. In many emerging markets, the introduction and development of new retail formats, such as hypermarket, are mainly resulted from the deregulation of the retailing industry in those markets rather than multinational retailers themselves. In many emerging economies, retailing is often a strictly regulated industry, and government often plays an important role in retail change or retail development. Further, most existing theories are based on studies of developed retailing, particularly American retailing. They are therefore incomplete and not general theories, nor can they explain emerging retailing or transitional economy, such as Chinese retailing, adequately.

For example, the dominant theory, the wheel of retailing, is flawed in the two aspects mentioned above. Firstly, it cannot explain why different retail formats co-exist in the same market: the theory supposes that all consumers like low priced goods while it ignores the existence of different consumer segments with different demands. The emergence of hypermarkets is not just for low price but also for wide of selections, which meets the consumer demand of one-stop-shopping better than supermarkets. The second flaw is shown by the fact that, in reality, the emergence of a retail format could come out with high prices and high profit margin. The emergence of supermarkets in China began with high prices and high margins at the top of

the social scale. A similar phenomenon also appeared in other developing countries when modern retail formats first emerged, such as in Chile (Bennett, 1966) and Turkey (Kaynak and Cavusgil, 1982). The emergence and popularity of convenience stores are not because of their low price and low service but because of their convenience and some service. In addition, retail change is always closely related with the level of economic development of the market that it exists in and is also influenced by the internationalisation of retailing.

Therefore, available theories on retail change are limited and do not explain retail change effectively, particularly the retail changes of emerging markets.

EXPLORING A GENERAL THEORY OF RETAIL CHANGE

To understand retail change in different markets, a new general theory on retail change is needed. To provide this, the concept of retail change must first be defined. Retail change could be defined as a retail revolution, such as the emergence of a new retail format or a new process of retail business, or a retail evolution, such as the spreading of the new retail format or the new retail process in a market. Thus retail change is the alternative experiences of retail revolution and evolution. During a retail revolution period, an entirely new retail format emerges and is accepted by the market; while during a retail evolution period, the new retail format is gradually spread in the market and diversified into different modes. Then, the development of retailing tracks the road of retail revolution followed by retail evolution.

Retailing history has seen four significant revolutions: the emergence of the department store in the 1860s, the supermarket in the 1930s, the discount store in the 1950s and the warehouse club in the 1970s. Department store first involves providing a wide range of commodities and services in one place; supermarket involves the first use of the self-service concept and low price retailing of food; discount store expands this concept to a wider range of commodities at lower price, especially in durables; while warehouse club shows how a dramatically lower cost and service structure could be incorporated into retailing. In retail evolution, these retail formats spread through the whole retail industry from traditional high street to out of town shopping centres. Another kind of retail revolution is the emergence of chain operation, which allows retailers to achieve economies of scale at lower cost than before.

Retail process

To develop a general theory of retail change, we need to examine retail process and define related concepts. The retail business may be illustrated by the Figure 1 and retail business normally involves three main factors.

Customer refers the consumer who has demands for products or/and services for personal use. The demands here refer to a group of customer demands for certain goods or/and services and the way to obtain them. Different customer groups (segments) have different demands. Customer demands normally are the function of population demography, culture, their disposable incomes and consumption confidence. Customer demands often change and tend to evolve from the low level of essential physical demands to the higher level of mental or psychological demands. When one demand is

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met, another demand emerges. The change of customer demand is an external force (see the arrow in the Figure 1) to “ pull” retail change. In retail business, the retailer is just one side of the coin while the customer is the other. Therefore, when a retail change is discussed, the role of the customer in the change must be considered, such as what kind of customer demand is met by the retail change.

Retailer

Retailer refers to the firm who sells products and services to customers for their personal or family use. A retailer normally has an inner force to seek profit, especially a higher profit than the average profit level of the industry. Meanwhile, it often faces competition from other retailers. These motivate the retailer to “ push” retail change (see the arrow in Figure 1 represents the “ push force”), by which the retailer may obtain the first mover advantage and more important, a higher profit. However, retail competition and the competition environment are often constrained by the economic system in which the retailer exists. In a non-market economy, such as a planned economy or transitional economy, retail competition is often strongly influenced by its government, which often plays a more important role than the market force in the country.

Supplier

Supplier refers to the firm who supplies retailers products or/and services. The supplier’s power in the supply chain mainly changes with the progress of technology in the long run. Supplier also influences its retailer’s operation, but the influence is often weak in a market economy. The dynamics between suppliers and its retailer may also influence retail change in retail evolution.

Retail process

Retail process is the business of delivering goods and/or services to the ultimate customers by sourcing them from suppliers with adding value. It includes two main sub-processes: merchandising and selling.

Economic system

Economic system refers to the nature of the economy a retailer is operating in, which could be a free market economy, a planned economy or a transitional economy. It defines the level of competition, the level of government's intervention to its economy and the way resources are allocated. In different economic systems or different stages of an economic development, the importance of each force driving retail change varies.

Thus,

Retail change = f (customer demand, competition, supplier, technology)

Where:

Customer demand = f (population demography, disposable income, culture, consumer confidence)

Competition = f (economic system)

Supplier = f (technology)

Exploring a general retail theory

All the past theories either ignore the critical influences of the economic system, consumer demand and competition in retail change, or only emphasize one of them. It can be argued that it is the forces of the economic

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system, consumer demand, competition, supplier and technology that work together to cause a retail change; the power of each force varies in different markets. In a free market economy, customer demand is the most dynamic factor and always tends to “ pull” retail change. A retailer’s motivation to chase profit, especially higher profit over others, and the competition pressure from other retailers are the internal forces to ‘ push’ retail change. Driven by the “ pull” and “ push” forces, when a retailer finds a new way to meet a customer demand better than other retailers; when the retailer successfully develops competitive advantages (CAs) over other retailers in meeting the demand; and when the new way has been imitated by other retailers and widely accepted by customers, a retail change then happens. The repetition of this process makes retail change move forward. Just developing a new way to meet consumer demand by a pioneer will not necessarily trigger a retail change unless the pioneer has successfully developed CA over other retail formats by exploring resources that it has or it is able to obtain. When a retail change happens, many followers will imitate the pioneer. The nature of competition actually is somehow to compete for the resources supporting the CA development. Without successfully developing CA, without consumers’ recognition, no retail change could happen. When a new demand is met, customer’s satisfaction for the demand tends to diminish while other new demands emerge; then new “ pull” forces tend to emerge. Meanwhile, the increase of imitators makes the pioneer of the retail change lose its advantages gradually and the competition between the pioneer and its imitators becomes increasingly intensive. Then new “ push” forces grow. Supported by the changes of

suppliers and technology, another round of retail change emerges; then the new “ pull” forces and new “ push” forces make retail change continue.

Because customer demands are diversified and resources supporting retailers to meet the diversified demands are different in a given market, retail formats present diversified structures in the market. For the same reason, in different markets, retail format structures are also different. But there are often one or several main consumer demands that dominate a market, which indicates that one or several main retail formats dominate that retail market. In a planned economy, the economic system makes competition among retailers quite limited; and the “ push” force is often so weak that it almost does not exist; the “ pull” force is also very weak, because people’s essential demands are hard to be met because of the shortage of goods and their low incomes. Therefore, its retail format is normally very simple and its retail change is nearly still. For example, in the planned economy of China, the main retail format was the department store in urban areas and the Supply and Marketing Cooperative Store in rural areas; there was no systematic retail change through the planned economy period. In its transitional economy period, the Chinese government plays a key role in retail change. It often intervenes in Chinese retail competition through kinds of regulations, policies and the way it managing the industry. The Government gives an external force to “ push” retail change, which means the “ push” force not only comes from retailer’s chasing for profit and competition from other retailers in the relatively free market but also from the “ hand” of the Government. The gradually liberated productivity enables Chinese consumer demands to be met better than in the planned economy

period; the “ pull” force is becoming stronger with increasing customers’ incomes. Then, underpinning the Government’s external “ push”, retail change happens. In China, the development of new retail formats, such as the convenience store and supermarket, as well as chain operation, are all promoted by the Chinese government either as the Government’s projects or as the Government’s policies.

Therefore, the above theory of retail change could be summarized by the Drive Force Model: it is the economic system, consumer demand, competition, supplier and technology that work together to cause a retail change; the power of each force varies according to the market in which the retailers operate. The chasing of maximizing profit and competition are the main internal forces to push retailers triggering retail change, while changing consumer demand is the main external force to pull retailers and trigger retail change; retail change follows the road of consumer demand change and is influenced by the progress of technology and sometimes by government. No matter how retail change happens, its goal is to meet a certain customer demands more effectively, by which the pioneer realise higher profits. This theory on retail change is flexible to explain retail development. In retail change, the main causal factors are consumer demand, the retailer’s impetus for profit, competition and the resources developing the retailer’s CA in meeting new consumer demand. The history of retail development actually is the history of exploring new ways to meet consumer demands. In this theory, two explanations should be addressed:

The role of the economic system. The economic system defines the competition environment in which retailers compete. When a retailer enters

a market with a different economic system from its home market, the influence of the economic system must be considered.

The role of technology. Across the whole retail process, technology plays an increasingly important role in retail change. It tends to influence each process of retail business including production, distribution, merchandising and selling, by which it contributes to retail change. For example, technology plays a great role in driving retailing revolution. From the four revolutions mentioned above, it could be found that the emergence of the department store was driven by the rapid development of new transportation, such as railways, which provided retailers with a powerful means to source a wider range of commodities from different suppliers in less time and with less cost. The invention and wide use of refrigeration contributed to the emergence of discount stores and supermarkets for they made it possible for customers to buy and stock more commodities in one shopping. The emergence of the warehouse was mainly due to increasing automobile ownership, which made longer distance shopping convenient. And the innovation of information technology contributes to the emergence of E-tailer or e-commerce. But technology only creates a possibility. Without meeting consumer demand by developing effective CA and recognized by consumers, retail change cannot happen.

As the Drive Force Model shows, future retail change mainly depends on the changes of “ push” and “ pull” forces as well as the progress of technology. In current retail market, retail power is gradually shifting from retailers to customers due to intensive retail competition; and the rule of the game is changing from customers buy what retailers sell to customers buy what they

want. Customers are becoming more powerful in the retail process. On the “pull” force side, customer demands tend to be more diversified, such as the demands for more convenience, fun and leisure consumption, etc.; shopping is becoming less and less about acquisition while more and more about experience, about fun and leisure. ‘Retailtainment’ (retail entertainments) may be a trend. On “push” force side, retailers is trying to meet these demands by creating new retail formats or new retail processes by using new technologies, which will change the supply chain, especially the way of merchandising and the way of delivering goods and services.

Therefore, the future retail change tends to follow two directions: one is the change in merchandising mix; the other is the change in retail process (Figure 2). In the former direction, customer demand for value and convenience indicates that one-stop-shopping will continue to grow, which may cause the emergence of two retail formats: one-stop-shopping for extensive ranges of goods may result in the growth of mega-discount stores, big is beautiful may be a trend; at the other end, the demand for limited items may stimulate the increase of mega-specialty store with deeper assortments. In the latter direction, multi-channel store and new channel store may merge to meet customer demand for a new shopping experience and convenience.

DISCUSSING THE FUTURE RETAIL CHANGE

In future, retailers may tend to change luring customers from either a low price or high quality image to enjoying the shopping experience and entertainment by inventing new retail formats armed with new technologies. In the past, retail change, especially retail revolution, mainly followed the <https://assignbuster.com/general-theory-of-retail-change/>

former direction. In future, retail change may tend to follow the latter direction benefiting more from technological progress; new retail formats such as multi-channel stores, which make customers shop from everywhere without much difference in shopping results, may emerge. With the progress of technologies, suppliers are able to increase channels reaching their end consumers with lower costs and to involve more activities in retailing; they could be producer, wholesaler and retailer at the same time. Factory outlets may grow quickly benefiting from the progress of technologies. The re-emergence of direct marketing and Internet shopping may be part of the future story. E-tailer is becoming popular. Meanwhile the quick response system to consumer demands will be an essential infrastructure for nearly all retailers. Efficient Consumer Response (ECR) will provide exactly what consumers want at the time and the price they desire. The diversification of customer demands in future will cause retailing to become more segmented in store ambience, brands, service and price offered. Accordingly, retail format may change from one or two formats dominating the industry to several retail formats sharing the industry together. Since customers will have too many choices and too much clout, retail success in future will increasingly belong to those retailers who are able to develop and exploit a superior strategic understanding of customer demands and their consumer behaviours; and effectively deliver the value that they desire or expect in time.