SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION
MBA FA 406 (B)

SUBJECT NAME: FUNDAMENTALS OF RETAIL MANAGEMENT(OPT.PAPER)

UNIT-II

TOPIC NAME- THEORIES OF RETAIL DEVELOPMENT

Theories of Retail Development

Retail development can also be looked at from the theoretical perspective. No single theory can be universally applicable or acceptable. The application of each theory varies from market to market, depending on the level of maturity and the socio-economic conditions in that market.

The theories developed to explain the process of retail development revolve around the importance of competitive pressures, the investments in organizational capabilities and the creation of a sustainable competitive advantage, which requires the implementation of strategic planning by retail organizations Growth in retail is a result of understand in market signals and responding, to the opportunities that arise in a dynamic manner. Theories of retail development can broadly be classified as:

1. Environmental- where a change in retail is attributed to the change in the environment in which the retailers operate.
2. Cyclical- where change follows a pattern and phases can have definite identifiable attributes associated with them.
3 Conflictual- where the competition or conflict between two opposite types of retailers, leads to a new format being developed

TYPES OF RETAIL THEORIES

- Environmental Theory
- Cyclical Theory
- Conflictual Theory

Environmental Theory

Darwin's the of natural selection has been popularized by the phrase "survival the fittest".

Retail institutions are economic entities and retailers confront an environment which is made up of customers, competitors and changing technology. This environment can alter the profitability of a single retail state as well as-of clusters and centers. The environment that a retailer competes in is sufficiently robust to squash any retail form that does not adjust.

Thus, the birth, success or decline of different forms of retail enterprises is many a times ""attributed to the business environment. For example, the decline of department stores in the ?western markets is attributed to the general inability of those retailers to react quickly and positively to environmental change.

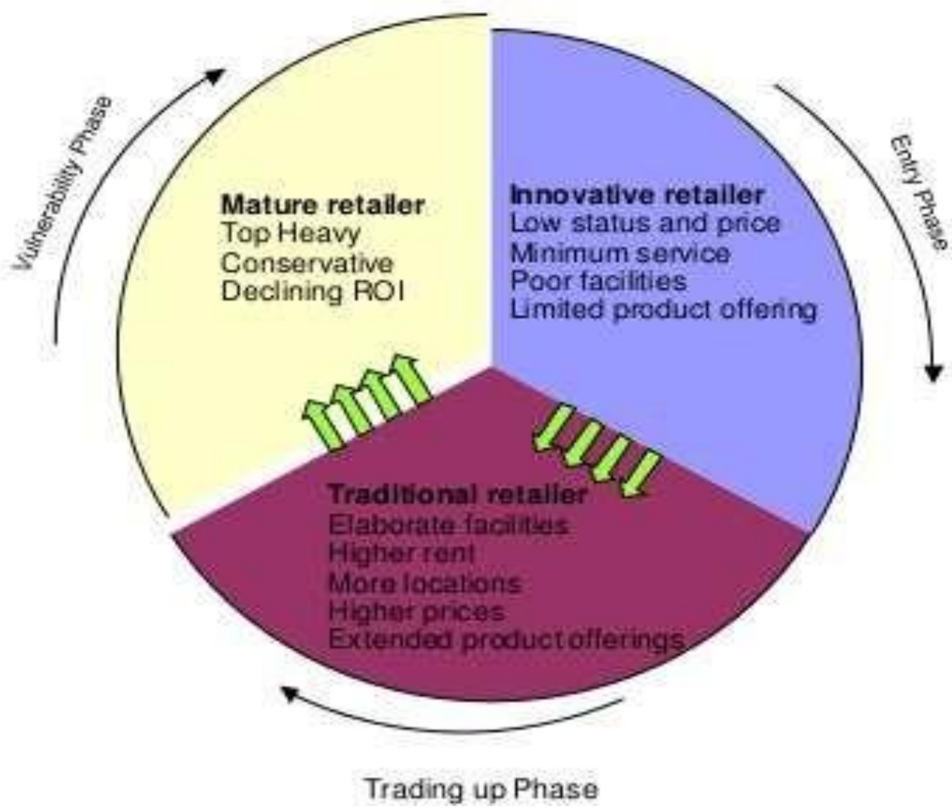
Cyclical Theory

The most well known theory of retail evolution is The Wheel of Retailing theory. This theory, described by McNair II, helps us understand retail changes. This theory suggests that retail innovators often first appear as low-price operators with a low-cost structure and low profit-margin requirements, offering some real advantages, such as specific merchandise, which enables them to take customers away from more established competitors.

As they prosper, they develop their businesses, offering a greater range or acquiring more expensive facilities, but this can mean that they lose the focus that was so important when they entered the market. Such 'trading up' occurs as the retailer becomes established in his own right.

CYCLICAL THEORY

- where change follows a pattern and phases can have definite identifiable attributes associated with them.



Conflict Theory

Conflict always exists between operators of similar formats or within broad retail categories. It is believed that retail innovation does not necessarily reduce the number of formats available to the consumer; instead, it leads to the development of more formats. Retailing thus evolves through a dialectic process, i.e., the blending of two opposites to create a new format.

This can be applied to Developments in retailing as follows:--

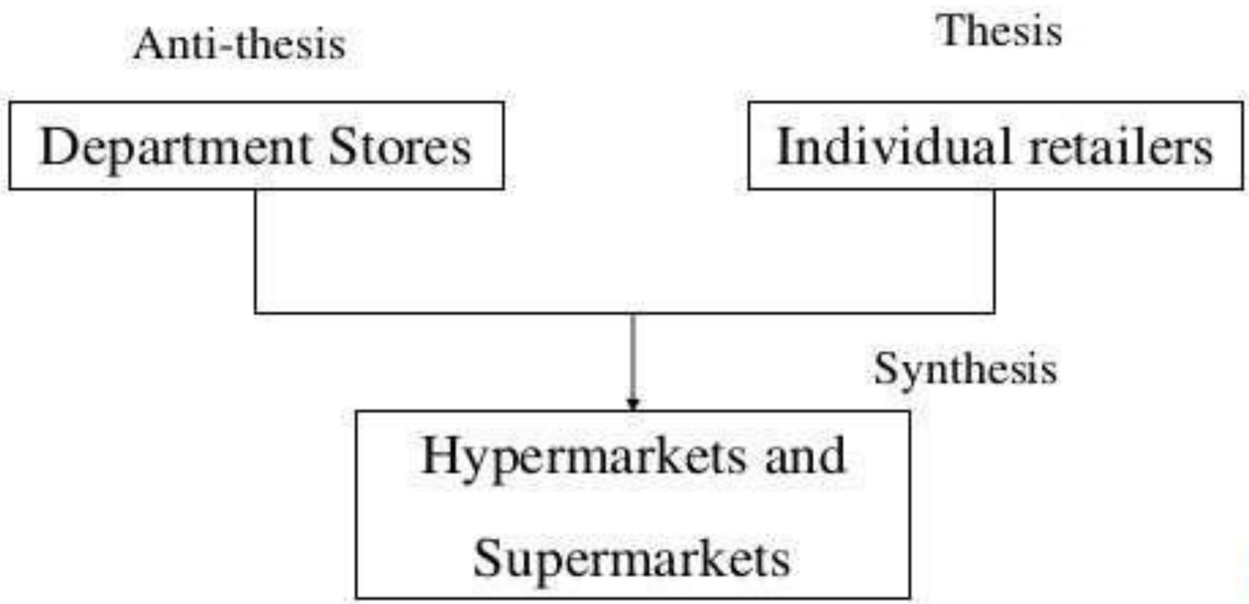
A. Thesis- Individual retailers as corner shops all across the country

B.Antithesis- A position opposed to the thesis develops over a period of time. These are the department stores. The antithesis is a "challenge" to the thesis.

C.Synthesis- There is a blending of the thesis and antithesis. The result is position between the "thesis" and "antithesis". Super markets and hypermarkets thrive. This "synthesis" becomes the "thesis" for the next round of evolution.

CONFLICTUAL THEORY

- where the competition or conflict between two opposite types of retailers, leads to a new format being developed



Theories of Retailing: How different retail formats Emerge, Mature and are then Replaced By another Format?

At different times, different retail formats have been popular. Strong retail formats have become marginal and new retail formats have often emerged to dominate the retailing scene.

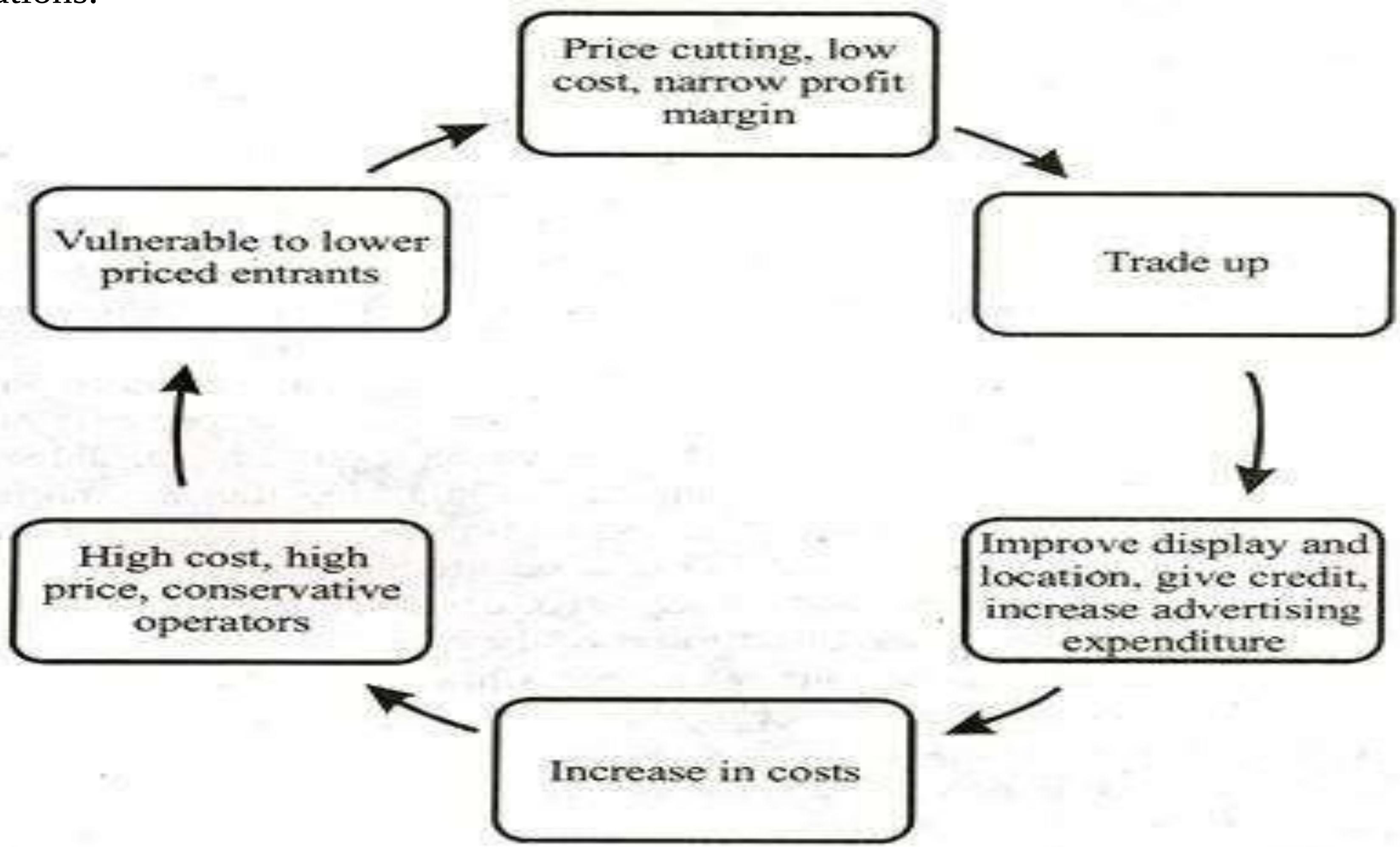
Three retailing theories explain how different retail formats emerge, mature and are then replaced by another format.

The wheel of retailing:

The theory suggests that new forms of retailing appear as price cutting, low cost and narrow profit margin operations. Eventually the retailer trades up by improving displays and location, providing credit, delivery and by raising advertising expenditure.

Thus, retailers mature as high cost, high price, conservative operators, making themselves vulnerable to new, lower priced entrants.

A low price retailer should avoid incurring extra costs on the existing format and instead should open another store with better service levels and premium brands catering to the upmarket segment. These two stores should be distinct in their brand name, offerings and operations.



Wheel of Retailing

Retail accordion:

This theory focuses on the width of product assortment sold by retail outlets and claims a general- specific-general cycle. The cycle begins by retailers selling a wide assortment of goods followed by more focused range and vice-versa.

Retail lifecycle:

A new retail format passes through the stages of birth, growth, maturity and decline as industries and products do. A new retail format that enjoys a competitive advantage over existing formats grows rapidly.

Attracted by the growth potential of the new format, competitors enter the business during the growth phase, and there is intense competition among the retailers of the new format.

The players develop ambitious plans of expansion and seek to open their stores in new geographical areas. There is intense competition during maturity, and a new retail format may start replacing it during its decline stage. The three theories explain the evolution of retail formats, but the decline and demise of a retail format is not inevitable. Retailers have to learn to anticipate changes in environment and adapt to them.

Disruptive innovations in retailing:

A disruptive technology enables innovative companies to create new business models that alter the economics of their industry. In retailing, the first disruption came in the form of department stores. The second was the mail-order catalogue.

The third was the rise of discount department stores. Internet retailing is the fourth disruption. It is important to keep in mind that while a disruptive technology changes the factors-of-success and economics of an industry, it does not change the profitability of individual companies. In retailing, the profits that a retailer earns are almost directly proportional to the margins that it earns on its products, and the number of times its turns over its inventory in a year.

Disruptive innovations in retailing:

i. **Department stores**—

Retailing was originally dominated by local merchants who kept large inventories, extended credit and offered personalized advice. They could turn their inventory over only twice a year and therefore had to charge a high price.
Department stores which appeared later did not offer some of the personalized services of the local merchants, but they brought together an enormous number of different goods in one location, making it easier for shoppers to find what they needed.

The aggregation of customers and products enabled departmental stores to charge lower prices. They also accelerated their inventory turnover rates. Site location was an important competitive advantage and was managed scientifically. The stores were located at the busiest part of the city.

ii.Another disruption also took place at around the same time. Catalogue retailing was started to cater to customers in the rural areas who could not visit cities. For instance, Sears compensated for the lack of personal service with money-back guarantees. Sears continued with catalogue retailing, but it also opened large number of stores, where customers could come, buy and take the purchased products with them.

iii.The business model of malls and discounters was the same as that of department stores, but they prospered because they implemented the discounting model more faithfully. Focused retailers, i.e., retailers who kept a limited number of product lines, were able to achieve margins and inventory turns similar to those of department stores because they had deeper product lines in each product category.

Malls did not have a distinct business model of its own—it simply aggregated category focused retailers in one premise. Catalogue retailing also went through similar transformation—large number of specialty catalogue retailers set up their operations when more and more customers became comfortable making purchases from catalogues. And they ate into the sale of generalist catalogue retailers like Sears.