

Theories in Retailin

Chapter 2

- NO single theory can be universally applicable
- Theory -A well-substantiated explanation some aspect of the natural world; an organized system of accepted knowledge that applies in a variety of circumstances to explain a specific set of phenomena

Retailing



These theories are based on:

- ✓ Competitive pressures and their importance
- ✓ Investments in organizational capabilities
- ✓ Creation of sustainable competitive advantage
- ✓ Implementation of strategic planning
- ✓ Needs of customer and his attitude



classification

- Environmental – change in retail is attributed to the change in the environment in which the retailer operates
 - Environmental theory
- Cyclical – Where a particular pattern and phases are identified in the changes and similar pattern is observed in related issues
- Wheel of retailing
- Accordion theory
- Evolution Theory : Where a new format is developed by the retailers as a result of intense competition or conflict between two types of retailers
- Dialectic Process Theory
- Natural Selection Theory
- Polarization Theory

CLASSIFICATION OF THEORIES

Theories are classified based on

Customer expectations

- Central place theory
- Gravitational theory
- Community building theory



Environmental / natural selection theory

- “Survival of the fittest”
- Charles Darwin’s view that organism evolve and change on the basis of survival of the fittest.

Retail Environment:

- Customers
- Competitors
- Changing Technology
- Legal environment

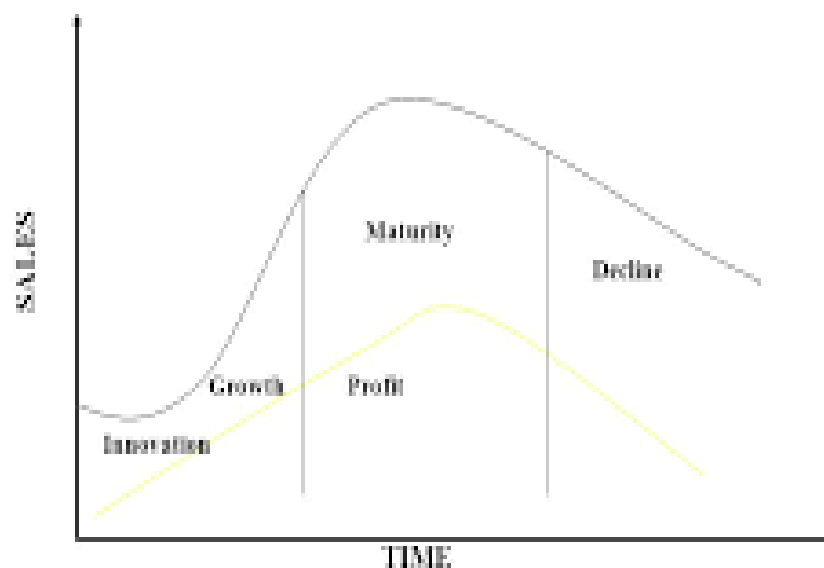
Environmental Theory

- Environment in which retailers operate is crucial
- Environment consists of social ,economic, technology , cultural factors in which customers and retailers operate.
- It forces the retailer to evolve and change the strategy since environment affects sales , profitability and image.
- Growth or decline, success or failure, profit or loss –depend on environment
- Size , nature , type , timing , location-influenced by environment
- Success-how quickly desired strategy is formulated to face challenges brought through changing environment.

Retail Life Cycle

- Innovation
- Accelerated growth
- Maturity
- Decline

The Retail Life Cycle



Cyclical theories

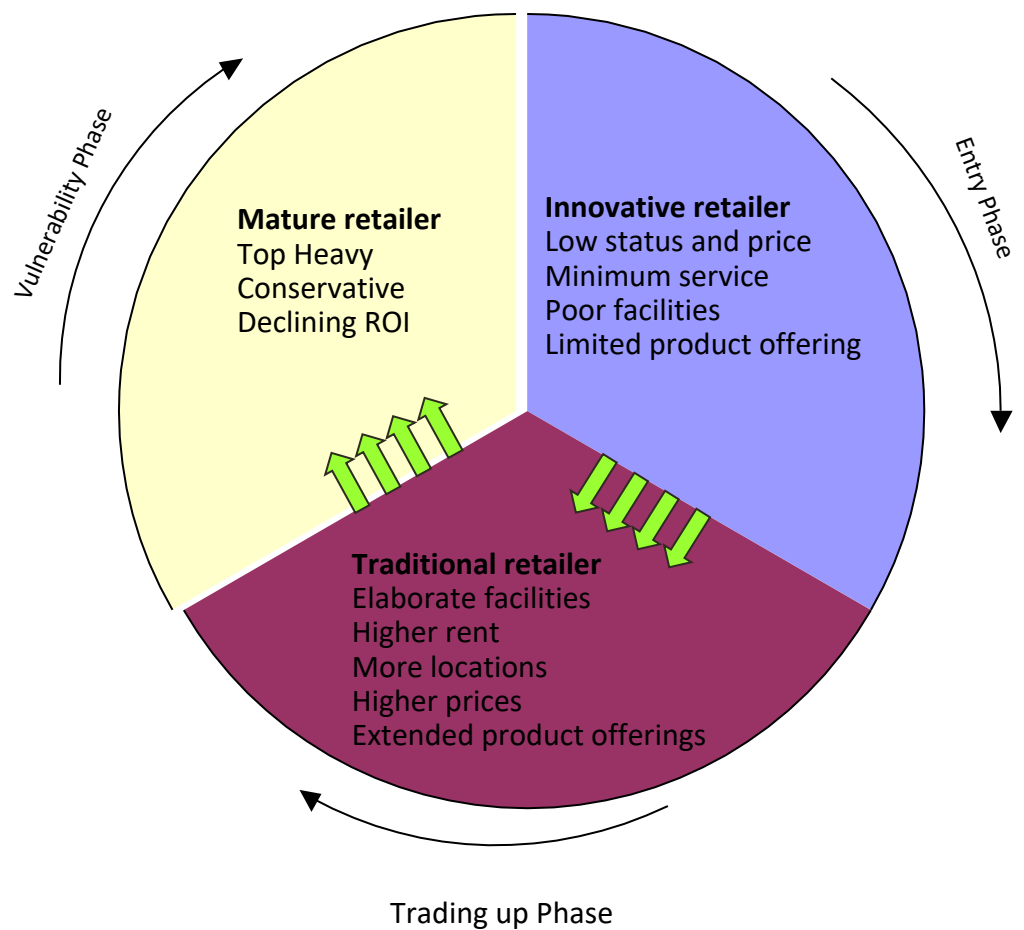
- It follows cyclical mode in business transaction.

Two types:

1. Wheel of retailing
2. Accordion theory



A. Wheel of Retailing- described by McNair

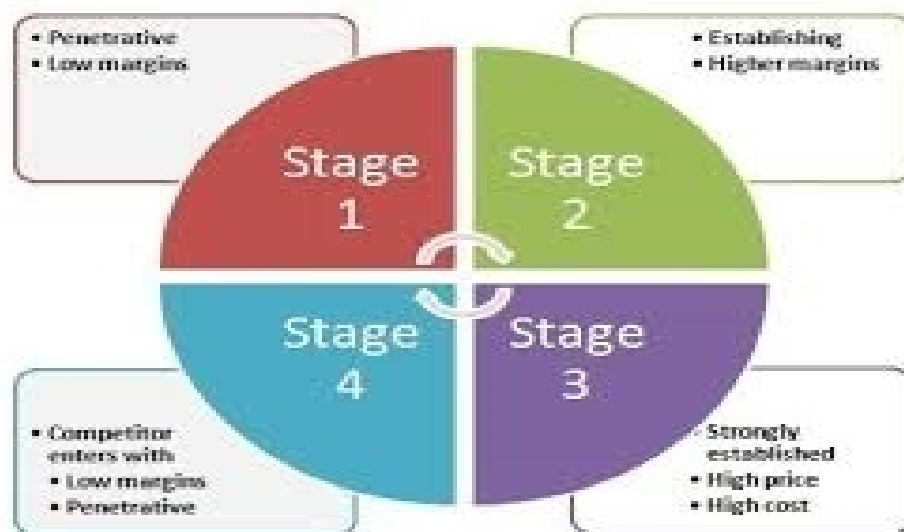


Wheel of retailing

Well known established theory of retail evolution

- This theory was developed by Malcom McNair
- Assumption that price sensitive consumer are not store loyal and new retailers are in a better position to implement lower operating cost .
- **Entry phase:** how new types of retailers enter the market as low status, low rent location etc.
- **Trade up Phase:** retailer meet success, improve location, more services etc.
- **Vulnerability phase:** marked as high cost structure and less adaptability

Wheel of retailing



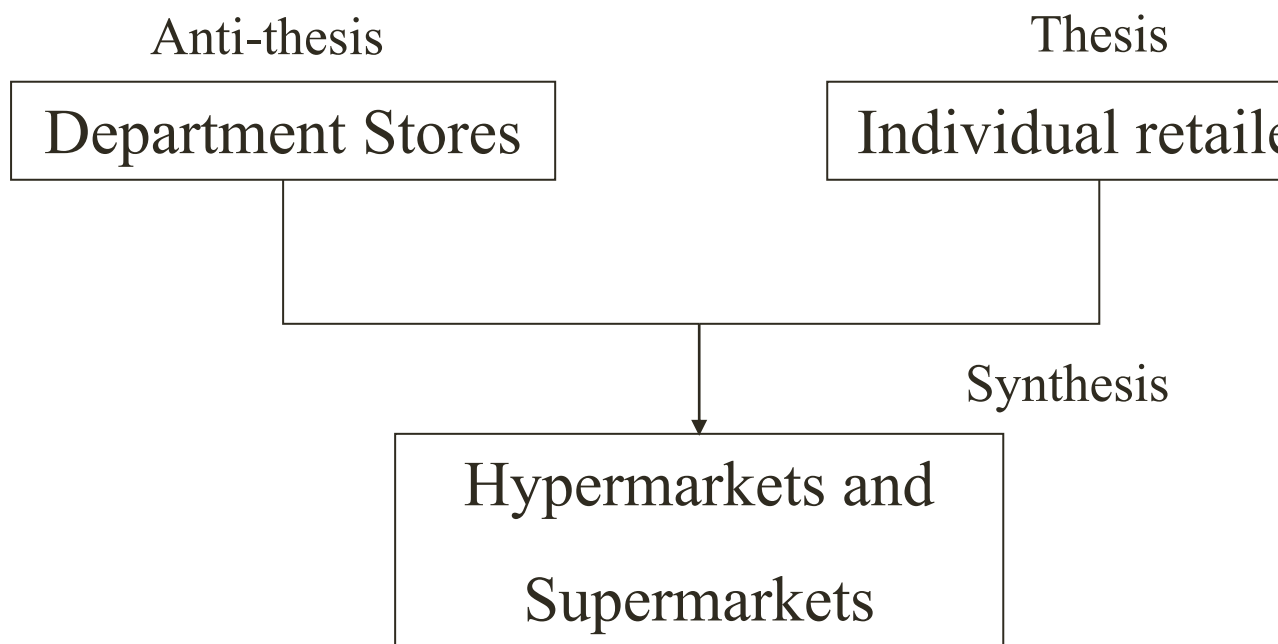
ACCORDIAN THEORY: Hollander used analogy of an orchestra.

- Open accordions
- Closed Accordions
- Proposes the retail fluctuate from the strategy of offering many merchandise categories with shallow assortment to the strategy of offering a deep assortment with a limited number of categories.
- Expansion and contraction calls to mind an accordian
- Also termed as General Specific General Theory

Conflict theory/melting pot theory

- Upgrading retail product & facilities because of competition
Leads to development of two similar retailers.
- Dialectic process / melting pot theory
- Adopting the plan and strategies of competitors
- It includes process of antithesis, thesis & synthesis
- New retail institutions result from stores

CONFLICTUAL THEORY



Retailing evolves through blending of two opposites to create a new format.

Thesis



Synthesis



Antithesis



Polarization theory

- The reason to decline due to competition from multiples has buying power and economies of scale
- Polarisation – shift towards larger and smaller retailers with medium sized businesses.
- Smaller retailer forced into bankruptcy due to economy in operation for large retailers

