

# Innovation in retailing

*Explaining trends of retail change by theory*



*“Innovation is consistently found to be the most important characteristic associated with success”*

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## **Preface**

This thesis is part of my bachelor Management and Consumer Studies of Wageningen University & Research. I could opt for one of the chair groups that fall under this bachelor and my choice fell on the Management Studies Group. Its focus on innovation aroused my interest and in Jacques Trienekens I found a matching supervisor. I wanted to write my bachelor thesis about something that was notable for me and that I could conceive for myself. The retail industry, and specifically the business to consumer, already had my interest because that is where business and consumer come together; the pivot of my bachelor Management and Consumer Studies. The combination of the two is what I would write about: innovation in retailing. By writing this thesis I have gained new knowledge and insights. During writing I experienced highs and lows, enthusiasm and even desperation, but finally relief and excitement.

I want to thank especially Jacques Trienekens for advising me, pushing me into the right direction and make me order and rethink my thoughts and ideas.

## **Abstract**

The retail industry is characterized as being dynamic and especially recently the ‘rules of the game’ for retailers seem to have changed. These changes in retailing as well as changes in its environment have become an increasing area of interest in research. Retail institutions may modify their strategy, format and retail activities to remain competitive and be able to serve and satisfy its customer segment. This paper proposes four trends of retail change that defines contemporary retailing. Based on three commonly accepted theories on retail change, this paper seeks to explain these trends. The three theories are the conflict theory, cyclical theory and environmental theory. The theories, its coherence, an additional theoretic framework and the limitations of the theories are discussed. Furthermore, studying the history of retailing can be revealing and of explanatory nature for current and future retailing. This paper therefore starts with a concise history and an overview of a selection of contemporary retail formats and its characteristics. Concluding, this paper synthesizes trends of retail change and theory. It follows with implications for future retail innovation and if this is to be predicted by theories on retail change. To end with suggestions for further research.

*Keywords:* Retailing, evolution, change, innovation, conflict theory, environmental theory, cyclical theory

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## Introduction

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In recent years, luxury warehouse 'De Bijenkorf' closed its doors in the center of a fairly large Dutch city where I regularly shop. Now, in the former Bijenkorf building Primark is established, offering a quickly changing assortment at really sharp prices. Primark's fast fashion seems to be a success, since many more Primark stores have opened in recent years. Nevertheless, while some retailers are growing, the Bijenkorf is certainly not the only retailer that left the city center. V&D, first inseparably linked to Dutch retail, has gone bankrupt in 2015 and had to close all their stores. At the same time virtual stores seem to rise everywhere, established retailers elaborate their assortment online and social media advertisements of new online-only web stores cannot be avoided. The fact that nowadays almost 10% of all U.S. retail sales comes from online commerce shows that this branch in retailing has made some big steps ("Quarterly share of e-commerce sales of total U.S. retail sales from 1<sup>st</sup> quarter 2010 to 3<sup>rd</sup> quarter 2017", n.d.). In a nutshell, it can be said that the retail world is changing. But this is not something new, the retail industry has always evolved and innovated; "Modern retailing is the accumulation of incremental steps over time" (Evans, 2011, p.1). The question whether the evolution of retailing can be explained and on what grounds is widely discussed and different perspectives on retail change are available in literature. An area of research is one that builds or reviews a framework or theory that explains retail change (e.g. McArthur, Weaven & Dant, 2015; Brown, 1987; Levy et al., 2005; Markin & Duncan, 1981). Other type of literature on retail innovations identifies innovations and gives tools with which retailers can integrate innovations in their retail business (e.g. Grewal, Ailawadi, Gauri, Hall, Kopalle, Robertson, 2011; Shankar, Inman, Mantrala, Kelley & Rizley, 2011). The latter type of research is often focussed on a specific format or an innovation within a specific variable of the marketing mix like product assortment, or retail pricing.

This research seeks to identify trends that are currently going on in the retail landscape, these trends will form an umbrella under which certain changes and innovations fall. Questions that can be asked in order to identify trends are for example whether the bankruptcy of V&D and the expansion of the Primark are incidental cases or part of a more widespread trend of change in retailing. Subsequently, there will be determined if retail theory can explain the identified trends of retail change. In this way a contribution to existing literature on retail change and innovation will be made.

Because the retail industry is very comprehensive, the subject needs to be framed. There is chosen for the consumer goods retail industry. Retail service industry like hotels, banking and travel agencies are excluded, since statistical data generally does not include the retail service industry. The information in this paper considers business-to-(end-)consumer (B2C) retailers and thereby excludes business-to-business (B2B), consumer-to-business (C2B) and consumer-to-consumer (C2C) business models. Moreover, when identifying trends, the focal point is on innovations that are notable for consumers. Innovations in the subject of for example supply chain management, form of ownership or internal business processes are thereby left out of this research. Reason for that is that innovations and changes in these areas merely have implications 'backstage', not for the customer. Considering geographical differences between retail environments, there is also chosen to limit the geographical scope. This thesis is based on research on retail in Europe and the United States, because research, data and websites of this subject are often based on (one of) these regions.

## Research design

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### Research objective

An important aspect of the retailing industry is that it is constantly developing. Literature about change in retailing is widely available, but is often focused on a specific theory or a specific retail format. Furthermore, these theories are rather assumptive and not often applied on innovations in 21<sup>st</sup> century retailing. According to Evans (2011, p.27) "It is vital for retailers to fully understand major theories of retailing and to act accordingly". This suggests that these theories can be perceived in successful retailing, which often goes hand in hand with change and staying up-to-date. In this research current trends of change in retailing are identified, discussed and seen in perspective of theories on retail change. These trends are not limited by the emergence or disappearance of certain retail formats. Neither does it only cover a specific innovation that is happening in one retail format or in one element of the marketing mix. Rather, innovations and changes visible in various retail formats fall under each trend. By applying theory on retail change to these trends, this research aims to contribute to existing literature on change in retailing.

### Research questions

In order to attain the needed knowledge to meet the objective research questions are composed. By answering these questions a conclusion is made.

#### *Main question*

Do theories on retail change explain contemporary trends in retailing?

#### *Sub questions*

How has retailing evolved over time and what formats can be identified?

What theories exist in literature that explain change in retailing?

What are the current trends of change in retailing?

### Materials and methods

This thesis is based on a literature study. Scientific search engines are utilized in order to acquire knowledge from scientific articles and academic books. In addition, Internet sources are used which provided for example statistical data, definitions and articles of professionals in the retail industry. The information in this thesis is based on research on retail in Europe and the United States.

## 1. History and overview of retail formats

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In this chapter a historical background is given about the developments of retail formats and the corresponding (changes in the) retail environment. Also, an overview of retail formats and its characteristics is presented. This will create a base and will later be seen in context of both theories that try to explain developments and innovations in retailing as well as on contemporary retail trends.

### 1.1 Historical background

The most visible development in retailing in the Western world has been the change to different formats, which Chandler pointed out as one of the main areas of change that retailing has gone through (in McArthur, Weaven & Dant, 2015). A retail format “(..) represents a combination of particular levels of each element of the retailing mix” ( Sorescu, Frambach, Singh, Rangaswamy, Bridges, 2011, p. 5). Especially the last fifty years the variety of retail formats has greatly expanded. Nowadays, bread can be bought in a convenience store, supermarket, discount store or a hypermarket. On top of that, a physical store is even abundant in some cases. In order to give a historical background we go back in time to where selling and buying took place especially locally and on the streets.

In ancient Greece one of the first retail systems was the Agora. It first represented a place in the city where gatherings took place, but later got the function of a marketplace where craftsmen and retail traders sold their merchandise (Mark, 2009). Another example of early trade on the streets and in markets can be found in ancient France. Back then the society was regulated by the guilds, who made sure every specialty had his own shop. The guilds also made sure that each salesman would meet all conditions and standards that were set by them. A distinct group of merchants got the right to sell various kinds of products. This can be seen as the precursor of what later would be called a general store (Miller, 1981).

The general store is a retail store selling various kinds of goods, including food, clothing and household supplies, originating in the 18<sup>th</sup> century (Evans, 2011). It was usually located in isolated but populated places and served all the supplies the community needed. Besides a practical purpose the store also fulfilled a social role, being a meeting place for its customers and residents of the community. The convenience store is a similar concept in terms of product assortment, but it differs from the general store because of its non-rural location for example as part of a gas station. In 19<sup>th</sup> century America, the general store had its peak, but after 1900 this declined (Encyclopædia Britannica, n.d.). Around 1850 specialized stores became more widespread (Evans, 2011). A specialized store is, as the name may reveal, specialized in a certain product category, so the product line is narrow but mostly has a substantial depth. The level of service is generally higher; examples are bookstores and pharmacies (see table 2 in Appendix A).

In this time the concept of a store was different, especially in terms of labour intensity, given that items had to be unpacked and repacked to individual sized portions (Calisson, 1987). Moreover, the customer used to hand over a list of products that the store owner then took for them. These two elements made the store very labour-intensive.

Around 1900 one of the largest retail forms of that time, the department store, became a dominant player mostly in big cities in Europe and the US (Jeacle, 2004). Most department stores started out as more specialized retailers with a narrow assortment and grew to be a department store years later. This was also the case with Le Bon Marché in Paris which opened in 1852 and is considered the first department store worldwide (Miller, 1981). It earned this name when it included a broad assortment of articles which are

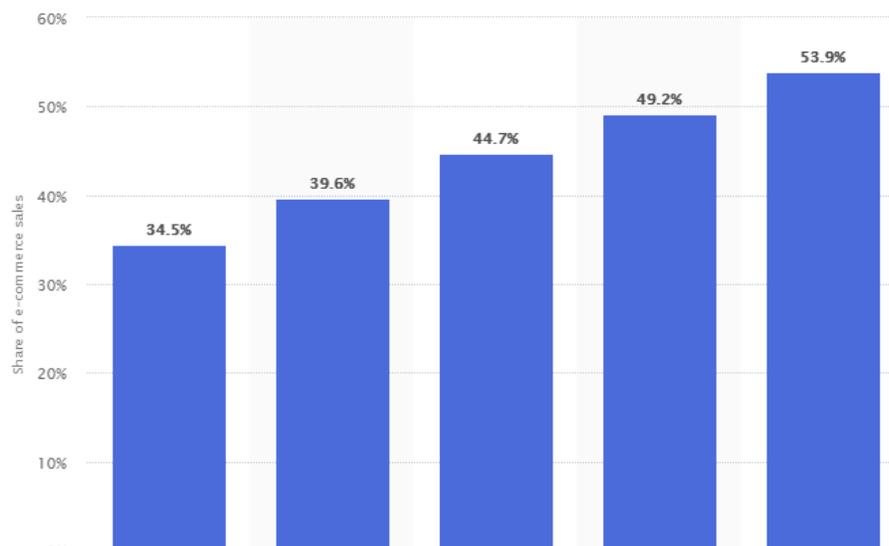
divided into different departments (Encyclopædia Britannica, n.d.). The department store is considered to have made a significant contribution to the creation of a consumer society, transforming shopping from a need to an enjoyable experience (Chaney, 1983; Leach, 1993). It brought a new culture of commerce by introducing fixed prices, price tags, promotional periods, nice displays, more extensive customer service and policies for item return and refunds (Bates, 1989; Anitsal & Anitsal, 2011). By the beginning of 1900 the department store was widely spread around the world and had grown considerably in its size (Jeacle, 2004). In the first half of the 20<sup>th</sup> century it was the dominant player in American retailing (Johnsen & Kim, 2009).

The department stores were not rising out of the blue. Its existence became easier and more logical due to the new technologies and changes that the industrial revolution brought. Two periods, with corresponding innovations can be distinguished, namely the first and second industrial revolution (Chandler & Hikino, 1990; Jensen, 1993). The first industrial revolution covers the period from mid-1700 till mid-1800 (Deane, 1979) and the second industrial revolution covers the period from late 1800 till the beginning of 1900, just before the start of World War I (Atkeson & Kehoe, 2001). Especially the latter brought essential changes to the retail industry in terms of transportation, communication and production, due to inventions like railroad networks, the telegraph, cable systems and new production and packaging technologies (Jensen, 1993). Overall, the industrial revolution brought a change from manufacturing at home with small and basic tools and machines to mass production in large factories, mechanization and the rise of several industries (McCraw, 1981). The growth in productivity brought a huge increase and a bigger variety in manufactured goods (Jensen, 1993). At the same time, the new railroad networks offered more possibilities for distribution of products and transportation for consumers (Chandler, 1990). As a result, more and bigger cities developed and an urban concentration of population, growth of population and a rise of income took place (Alexander, 1970).

At the beginning of the 20<sup>th</sup> century supermarkets as we know them today became more widely spread. In 1916 the first self-service grocery store or supermarket was opened in America, named Piggly Wiggly (Savitt, 1989). By the end of 1958, 95% of food sales in America occurred at self-service stores, of which 68% in supermarkets (OEEC, 1960). Assumable, the rest would have occurred mostly at grocery stores that were smaller in size and had a narrower product assortment compared to supermarkets (Alexander, 2008). The concept of self-service did not immediately become a widespread phenomenon. In Britain the first self-service store is assumed to have been opened in 1942, more than twenty years later than the first in America (Alexander et al., 2005). From that time on a supermarket revolution expanded throughout America and most of Europe (Etgar, 1984; Encyclopædia Britannica, n.d.). The definition of a supermarket was in that time not really clear; Alexander (2008) described early supermarket retailing as being quite diverse. In Britain for example a supermarket was defined as "a store of not less than 2,000 sq. ft. sales area, with three or more checkouts and operated mainly on self-service, whose range of merchandise comprises all food groups, including fresh fruit and vegetables, plus basic household requisites (i.e. soaps and cleaning materials)" (McClelland, 1962, page 154). While at that time the average American supermarket already comprised 18,000 square feet (Alexander, 2008). There was a great difference as to what was named a supermarket between countries as well as between urban and rural areas. The great change that the supermarket industry has gone through is among others noticeable by looking at the median size of an American supermarket in 2014, which is 46,000 square feet (Food Marketing Institute, 2014).

In the post-war era the mass merchandisers and discount stores appeared, followed by category killers which all formed a challenge for department stores (Rigby, 2011 & McArthur et al., 2015). These three formats are comparable in terms of size and its low margin and high turnover strategy, but differ in focus. A mass merchandiser is a large retail store that carries a broad product assortment. Discount stores are focused on low pricing, category killers as well but the latter are offering products in a single category (Dunne, Lusch & Carver, 2014). A new format appeared by the 1970's as a combination of the former mentioned department store and discount store, namely the discount department stores (McArthur et al., 2015). Wal-Mart is undoubtedly the most successful example of a discount department store. Meanwhile, the power of department stores declined, which was partly a consequence of the fact that the department stores were slow with noticing the move to the suburbs in the post-war period and thus did not adapt to its changing environment (Brown, 1987, p. 8; Wood, 2009). This weakened its position and made room for competition, like the mass merchandisers and chain stores, to grow. Around 1970 another massive retail format was introduced: the hypermarket (Etgar, 1984). According to Dunne et al., (2014) this is "a cavernous combination of supermarket and discount department store, carrying more than 80,000 to 100,000 stock keeping units that allows for one-stop shopping" and offers an extensive non-food assortment in addition to its total food assortment (Findlay & Sparks, 2002).

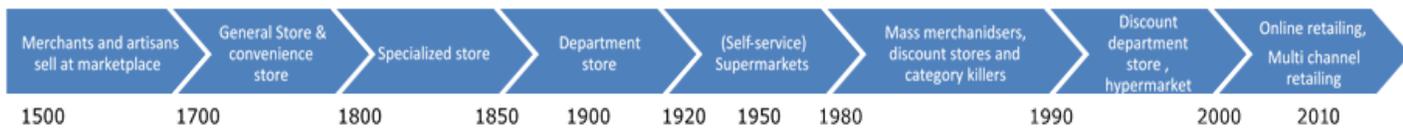
The arrival of the Internet has also formed a big change for the retail industry. Physical stores were now not necessarily the most convenient and efficient way of accomplishing a sales transaction, neither for a customer, nor for a retailer. In this time electronic commerce (e-commerce) began to play part in the retail industry. This also went hand in hand with globalization. An online store could be visited by anyone with a computer or mobile device and Internet connection. Therefore, shopping was not bound by a border of any means anymore. Amazon and Ebay launched in the mid-nineties and can be seen as one of the pioneers of online retailing. More online only stores quickly appeared as well as owners of physical stores that launched a webstore. With the growing number of tablet and smartphone ownership, mobile commerce (m-commerce) activities also grew, and are expected to grow in the future (see figure 1).



**Figure 1 US mobile commerce sales as percentage of e-commerce sales (www.statista.com, 2017)**

The emergence of new channels in which retailers can sell their products contributes to the concept of multi-channel retailing, which is "the set of activities involved in selling merchandise or service to consumers through more than one channel" (Zhang, Farris, Irvin, Kushwaha, Steenburgh & Weitz., 2010, p. 168). An example of this is H&M that offers the possibility to buy its products in the brick-and-mortar store, via their catalog, via their app and via their website and make it possible to return or change in the store or via delivery return. This way of retailing is said to be ruling today's retail environment and is applied by most large retailers (Zhang et al., 2010 & Sorescu et al., 2011). This concept is elaborated by omni-channel retailing, which "is taking a broader perspective on channels and how shoppers are influenced and move through channels in their search and buying process" (Verhoef, Kannan & Inman, 2015, p. 174).

Figure 2 shows a timetable of the emergence of different store formats. Even though it may look like a strict and discontinuous evolution, it is important to keep in mind that the emergence and change of retail formats is a continuous process.



**Figure 2** Timeline of the emerge of retail formats

## 1.2 Retail format overview

To give a clear overview of the information in chapter 1.1 Table 1 is composed. This table does not include all existing retail formats. It covers formats that are written about in the previous chapter and that are considered to cover the most important and often-appearing ones of present-day retail industry. This is amongst other research based on articles of Anitsal & Anitsal (2011), and the retail summary chart offered by online retail website [www.knowthis.com](http://www.knowthis.com) (2017) (see respectively Table 2 and Table 3 in Appendix A).

**Table 1 Overview retail formats.**

| Retail format   | Characteristics   |
|---|---|
| <b>Convenience store</b>                                      | Offering a limited product assortment including everyday food and high-convenience items<br>Located on central locations<br>Offering long opening hours               |
| <b>Specialized store/ specialty store</b>                     | Selling a broad range of goods from a specific product category<br>Chain stores as well as single-unit stores   |
| <b>Department store</b>                                       | Large retailer selling a broad range of articles, mostly focused on a higher customer segment.<br>Store-in-store principle<br>Service-oriented<br>Mostly chain stores |
| <b>Supermarket</b>  | Moderately large retailer, selling products of all food groups as well as non-food products like household supplies   |
| <b>Mass merchandiser</b>                                      | Large retailer with a low margin, high turnover strategy<br>Mostly chain stores   |
| <b>Discount (department) store</b><br><b>Category killers</b> | Focused on low prices, therefore a more sober store environment and less service oriented<br>Offering a wide range of products of a specific product category         |
| <b>Hypermarket</b>  | Very large retailer, selling a broad range of food and non-food products<br>Combination between supermarket and discount department store                             |
| <b>E-commerce</b>   | Selling merchandise via the internet<br>Also referred to as online retailing and e-(re)tailing  |

## 2. Change in Retailing

The retailing industry is continuously subject to change, and consequently has been an area of interest in academic research. Plentiful models and theories have been developed to explain and predict change in the retail industry. Fact remains that there is debate about these and that all theories have their flaws. In this chapter some important models and theories are presented. Followed by the limitations of these theories and the reasons why this is and will remain an area of discussion.

### 2.1 How is change in retailing explained in literature?

The train of thought of Brown (1987) about retailing change has earned a lot of attention in literature and is widely accepted (Anitsal & Anitsal, 2011). Brown identified three main streams of thought explaining retailing evolution: environmental theory, cyclical theory and conflict theory. These three theories are explained as well as complemented with related theories in chapter 2.1.1., 2.1.2 and 2.1.3. In chapter 2.1.4 geographical theory and power inequities are discussed, resulting from a review of multi-disciplinary literature on retailing change by McArthur, Weaven & Dant (2015).

#### 2.1.1 Environmental theory

The environmental theory, also referred to as ecological theory, suggest that the retail environment is crucial for explaining retail change. The variables that form the retail environment differ per study, but the following aspects are often appearing: economy, technology, consumers (can include consumer taste as well as demographical, social and cultural aspects), political and legal systems and competition (e.g. Brown, Gist in McArthur et al., (2015) & Oren, 1989). Examples of how these variables were measured are for technology: availability of Internet and computers, percentage of smartphones-owners, and car ownership. For the variable 'consumers' it can include factors as GDP, employment and demographic conditions like age, population density and consumer expenditure.

According to environmental theory, adaptive behavior to a changing retail environment is necessary for survival (Etgar, 2002). The environment is found to be constantly changing and a retail institution should always be in harmony with its environment. Therefore, retail institutions should be dynamic, just like its environment, otherwise decline or replacement is at risk (Markin & Duncan, 1981). The effect of the environment on change in retail institutions is an extension of Darwin's 'survival of the fittest' theory, now applied on retail institutions instead of 'natural species'. The local variation of retail institutions can therefor also be explained by the variation of environments geographically. Not everywhere the same retail characteristics are necessary for survival. In some countries new technologies or new locations of retail stores may be a success while in a country with a different environment the same use of technologies or move to new locations can be a misfit.

#### 2.1.2 Cyclical Theory

Cyclical models assume that retailers pass through before-known stages and follow a certain cycle. Well-known theories within the cyclical theory are the wheel of retailing, the retail accordion and the concept of the Big Middle (Anitsal and Anitsal, 2011; McArthur et al., 2015).

The wheel of retailing, illustrated in Figure 3, is a concept originating from McNair (1958). It holds that new retail institutions begin as low-status and low-price firms. Over time they develop into bigger operators, involving higher investments with higher operating costs and bigger facilities. They evolve into a mature state as a high-cost, high-price firm, experiencing competition from new operators who will undergo the same cycle (Hollander, 1960). These competitors will start in the Entry Phase and thus will ask lower prices. This will move the established high-price retailers to the vulnerable phase. The department store is a classic example of the hypothesis of the wheel of retailing, starting as smaller, more specialized stores operating at low costs. The shift to the trading-up phase happened when specialized stores elaborated their product assortment and services in the post-war period. Around 1950, they experienced heavy competition from specialized stores and discounters who operate at a lower-cost and lower service level, which brought them in the vulnerable phase.



Figure 3 The wheel of retailing, Reprinted from "The concept of the Big Middle," by Levy, M., Grewal, D., Peterson, R. & Connolly, B., 2005, *Journal of Retailing*, p. 84

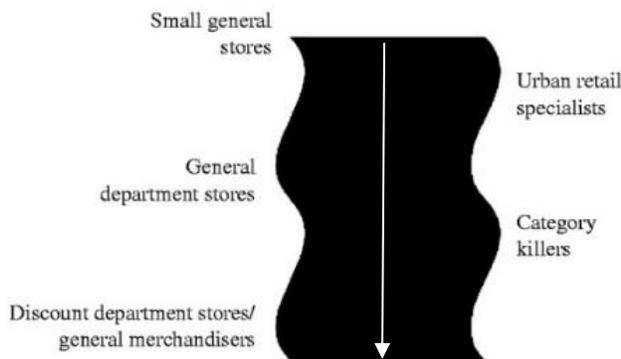


Figure 4 The retail accordion. Adopted from "Notes on the Retail Accordion" by Hollander, S. 1966, *Journal of Retailing*,

Hollander (1966) saw an accordion pattern in the history of retail development (Figure 4). His retail accordion theory is also referred to as general-specific-general cycle or the theory of sequence of generalization and specialization (Brown, 1987). The left side of the figure shows the expansion and contraction of general stores with a wide assortment and the right side shows the expansion and contraction of specialized stores, with a more narrow but deep assortment. In fact, the name 'accordion' does not fully honour the theory; Hollander (1966) modified prior researches that

noted a dominance of subsequently general stores and specialty stores. Instead he compared the retail institutions with a band of accordion players. Players (with extended or contracted instruments) could at any moment join or leave the band, which represented general and specialty retailers that arrived or left the retail landscape. Alike, the existing band players consist of players who contract and extent their instrument and who are able to change their contraction or extension. This represents the existing retail institutions that constitute of general as well as specialty stores who, on its turn, can choose to broaden or limit their product assortment. Especially the coexistence of both large general merchandisers and smaller boutiques and specialty stores make for a pleasant shopping environment. Therefore, it is likely that the retail environment will never consist of only one of the two. The retail accordion evaluates retail evolution based on only the breadth of the product assortment. Nevertheless, the retail accordion can be looked at with regard to the retail environment, as Hollander (1966) did as well. An example is competition that plays a part; specialized stores will continue to look for a gap in between the large general stores. Another example is consumer

trends; the wish to reduce shopping time can result in more one-stop stores that offer a wide variety of goods.

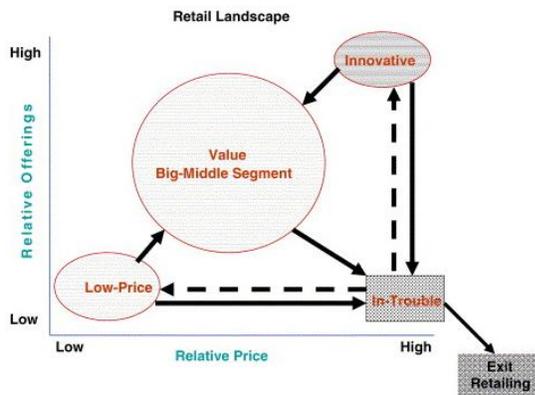


Figure 5 The Big-Middle Concept. Reprinted from “The concept of the Big Middle,” by Levy, M., Grewal, D., Peterson, R. & Connolly, B., 2005, *Journal of Retailing*, p. 85

Levy et al., (2005, p.83) introduced the Big Middle concept, shown in Figure 5, to better explain how and in what way retailers evolve. It combines life cycle elements with the concepts of innovative behaviour or sharp price policy of newcomers, who will eventually move into the Big Middle or will be In-Trouble (Levy et al., 2005; Reynolds et al., 2007). Each retailer usually falls in one of the four categorizations, and each categorization serves a different consumer segment. Conform this hypothesis new retailers starts as being Innovative or focussed on Low-Price. The ones that want to grow and therefore have to expand their target group will move to the Big Middle, where good value is offered at reasonable prices. The retailers in the Big Middle are likely to become large,

volume driven generalists, although the precise type of retailers in the Big Middle change and will keep changing (Levy et al., 2005). The move to the Big Middle necessitates a large investment due to expansion of the width and depth of product assortment. This risk can therefor cause the retailer to be In-Trouble and/or even Exit Retailing. Besides, there is a constant threat of Low-Price and/or Innovative new-comers that can shift into the Big Middle. Therefore the Big Middle is not a so to say safe marketspace, but a marketspace in which retailers continually have to evaluate themselves to remain their value. An example is that in 1970 the department stores ruled the Big Middle, but around 1990 mass merchandisers like Wal-Mart, that focused more on cost-efficiency and therefore low-pricing, took over the Big Middle. The Big Middle is similar to the retail accordion in terms that it shows the coexistence of a range of store formats.

### 2.1.3 Conflict theory

The conflict theory is also called the dialectic theory and is about the effect of new appearing business formats on the established ones (McArthur et al., 2016). The dialectic theory is derived from Marx's Theory of Evolution and applies on retail institutions. The thesis-antithesis-synthesis theory has been the core of conflict theories. The established retail formats serve as thesis. New formats (with opposite characteristics from the thesis) form the antithesis. In time, the 'conflict' created by the new format, will result in a new format; the synthesis. The synthesis will on its turn become an established retail format and will form the thesis in a new cycle. The rise of the synthesis can be the result of different scenarios. It can be the result of the adaptation by the established format, taking over certain elements of the antithesis. In this way a new type of retail institution develops: the synthesis, which in turn becomes a new thesis. Another explanation is that a new retail format is a result of combining the thesis and antithesis, 'choosing the best of both worlds' (Lowry, 1997; Gist, 1968). Another possibility is that both competitors remain their retail system, which gives room for another new format to arise as synthesis between the two. As Markin & Duncin (1981) wrote, the innovation to which the established formats are forced, can come forward in assimilation or differentiation. Brown (1987) addressed that the first reaction of the established retailer would be to compete the new and innovative antithesis and stay put on its own format (a defensive strategy).

Though, eventually the established retailer notices the need for innovation to regain competitive advantage.

An example of this is the defensive position that independent retailers took in during the supermarket expansion of the 1960's and 1970's. They were either lobbying for legislation that would protect them from supermarket competition or they recognized the need to adapt to this competition.

Either way, after a conflict retail formats will adapt and act in a way that finally restores the marketplace according to this theory. An example of dialectic theory is the appearance of the discount department store (synthesis), after that the original department store (thesis) had been confronted with the arrival of the discount store (antithesis).

The conflict theory can be linked to the environmental theory with regard to the fact that the retail marketplace adapts when the competition, which is part of the environment, changes. Markin & Duncin (1981) also integrate the environment a bit further in their conflict theory. They write that the rise of new competition is a result of a conflict in economical and social perspective. This environmental conflict gives space for new innovations in retailing that consequently conflicts with the existing retail market. The thesis-antithesis-synthesis can also be called a cycle, however this theory does not apply any categorizations to the three stadia in terms of low-price or innovation strategy and product assortment (as cyclical models tend to do).

#### 2.1.4 Six categories of retail change

McArthur, Weaven & Dant (2015) have derived an overview of six primary causes and assumptions that could explain change in retailing from multi-discipline literature on retailing change. Here, change is assumed to occur as a function of them. The six categories are "economic efficiencies, patterns operating in nature, power inequities, innovative behavior, environmental influences and interdependent parts of the system in co-evolution" (McArthur et al., 2015, p.273). A couple of these causes are already elaborated on like patterns operating in nature and environmental influences. This subchapter will elaborate on geographical theory (which falls under patterns operating in nature according to McArthur et al., 2015) and power inequities. The others will be shortly discussed first.

Change as a function of 'economic efficiencies' was present in literature quite early. The focus is on costs, productivity and concentration (changes) in the distribution industry on both micro and macro level. Whereas the functionalists, also part of the economic approaches, consider the utilities of intermediaries. The economic approach characterizes itself through its rational or logical nature and posits economic efficiency as the main cause of change. Literature about 'innovative behaviour' is said to be limited and especially covers some descriptive great stories of certain retail institutions like Macy's as a department store or Wal-Mart as a contemporary world retail leader. This is described in literature like 'The Retail Revolution: How Wal-Mart Created a Brave New World of Business' by Nelson (2009). They assign credits to the entrepreneur as a game changer (Aldrich and Zimmer, 1986; Anitsal and Anitsal, 2011). McArthur et al., (2015) make a distinction between 'historical works' and 'ecological theory' as 'environmental influences'. Furthermore, for the category 'interdependent parts in co-evolution' it classifies systems theory, evolutionary theory and co-evolutionary theory.

Geographical theory, also referred to as spatial positioning, is seen as a pattern operating in nature. Retail development is very dependent on geography. The evolution of retail institutions consequently differs per continent, per country and per city. The literature on retail location is focussed on finding patterns of store distribution which is observed with regard to shopping behavior and store choice. Brown (1993)

summarized and linked the following four theories that form the foundation of retail location theory: bid rent theory, spatial interaction theory, principle of minimum differentiation and central place theory. These theories, rather referred to as techniques or mechanisms by Brown, are well elaborated on in especially early literature. Brown points out that these are unrealistic and simplified assumptions, not based on observation but what 'should' occur given the assumptions. An example of other literature on geographical location is Proudfoot (1937), who said that, cities in the United States generally consist of five areas that have their own retail structure and type of consumers/shoppers. Huff (1966) presented a model to calculate the ideal location of a retail institution. Finally, in e-tailing the effect of geographical location does not play parts anymore, also referred to as 'the death of distance' in literature (e.g. Oxley & Yeung, 2001). Concluding, literature on retail location describes the relation between the travel time for the consumer and the value that the specific retailer offers. Willingness to travel is higher for retail institutions that offer more expensive and occasionally bought goods than for retailers who offer daily necessities like supermarkets. Retail location is also dependent on environmental factors, as the rise of public transport have caused a move from central city locations to suburban shopping centers and as e-commerce has brought a more global way of retailing that is less bound to geography.

Change explained through power inequities is, contrary to the more economical and ration theories of geographical location, based on the assumption that initially humans typically act in their own best interest, rather than a pure rational decision. The theories in this area assume that not all behavior is optimal or logical. This does not coincide with standard economic assumptions and falls under behavioral economics which is also closely related to the construct of conflict. Literature about power does not explain evolution of retailing, but it shows how power relationships in the channel affect distribution channels. Imbalance in relationships can be seen in the light of the concept of countervailing power as primary driver of change of power. Whenever there is one party that has the power, it is a matter of time before another group will take over the dominant position in a channel. Historically this is represented by the industrial revolution which gave power to the manufacturer in the first quarter of the 20<sup>th</sup> century and the rise of mass retailers who eventually took over the power (McArthur et al., 2011). Currently consumers gain more and more power through better access to information and also the presence and power of e-commerce is rising. Theories of power can also be related to the Big Middle. The ones in the Big Middle have the most power, but that there are always new retails that seek for a place in the Big Middle (and take over the power).

## 2.2 Why is it hard to explain change in retailing?

Theories and research about change in retailing is widely available. Research differs from conceptual frameworks, theories based on economics, history and biology to studies where the theories are used in empirical research and those that combine the different theories. However, they all have their limitations and side notes. Firstly, not one theory is applicable to innovation in all sorts of retail businesses (Brown, 1978). Certain theories do comply with particular retail institutions, but within the specification of retail formats universality is hard to find. Thereby, it is already very hard to categorize each different retailer into a specific (business) format, since "the boundaries between 'traditional' formats are becoming blurred" (Reynolds et al. et al., 2007, p.648). Reynolds et al. (2007) even found it impossible to find one single accepted definition of what a retail format should be, let alone to find an accepted definition and corresponding characteristics of each retail format. In literature Ikea is seen as specialty store as well as category killer and Wal-Mart is described as discount store operator, hypermarket and power centre (Anitsal & Anitsal, 2011; Reynolds et al., 2007). The elements that would determine the retail format differ, which leads to disagreement among literature. As may be clear so far, the retailer industry is in continuous change so "neither retail formats nor business models are static entities" (Reynolds et al., 2007 p.647). Over time, this can also cause contradiction between literature. Besides the definition, the characteristics and the overview of retail formats, the moment of emergence or development of a specific retail format is not obvious as well. It can be hard to determine the year that for example 'the supermarket' emerged in a specific country, or to cite the factors that made this retail institution be called 'a supermarket'. Likewise, to determine exactly in which phase of a cyclical theory a specific retailer format finds itself. Furthermore, some theories base their implications on only one of the aspects that form a retail institution. For example the Retail Accordion, that only focusses on product assortment to classify retail institutions.

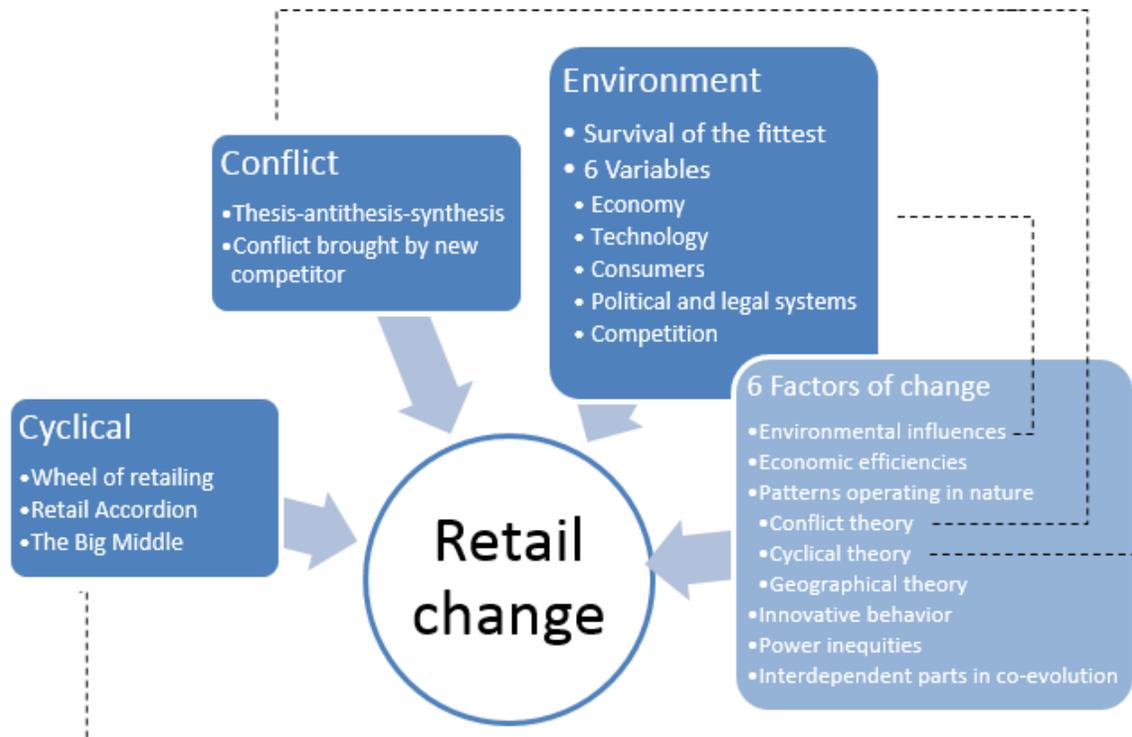
Then we come to the next limitation, which is that the retail industry cannot be generalized geographically (Brown, 1978). The order of sequence as well as the way the retail industry is shaped differs per continent, per country and per city (McArthur et al., 2011; Colla, 2004).

Furthermore, many theories are oversimplified and/or based on assumptions. This applies on for example theories on geographical location, as noted by Brown (1993), and economic theories (McArthur et al., 2011). As well for the Wheel of Retailing that assumes that all retailers begin as low-cost, low-price operations, while specialty stores, convenience stores and health food stores have shown the contrary (Markin & Duncan, 1981). Besides, there are few retail institutions that end in the 'Exit Retailing' or 'vulnerable phase' and become extinct. It is questionable to assume that retail institutions will go through the same cycle and inevitably end in declination (Markin & Duncan, 1981).

Still, the contribution of each theory can be useful to "(...) complement our understanding of longer term trends" as said so by Reynolds et al. (2007) even though change in retailing is sometimes just a matter of experimentation or an accidental process. Different theories explain something else and therefore make their own contribution. But the predictive and generally explanatory power that the theories have may be limited, since every change or evolution depends on its context (McArthur et al, 2011).

### 2.3 Overview

To conclude, environmental, conflict and cyclical theory is widely written about in literature, as well as a combination of (two of) the three theories. Besides this, other theories and implication exist. Literature about change and innovation is derived to 6 categories by McArthur et al. (2011), of which environmental, conflict and cyclical theories are also part. Besides this attention is given to economic efficiencies, innovative behavior, co-evolution, power inequities and geographical theory as an influence on change. Figure 6 Visual representation of theories on retail change is ought to be a visual representation of the theories on retail change that have been discussed in chapter 2.



**Figure 6 Visual representation of theories on retail change**

### 3. Current trends of change in retailing

By reviewing existing literature on retail change and innovation, four major trends on retail innovation have been recognized. These are 'Focus on shopping experience', 'Growth of the role of technology', 'Expansion and synthesis of retailer activities' and 'New retail formats'. These four trends are elaborated on in the following chapter.

#### 3.1 Focus on customer experience

What comes forward in literature about retailing is that retailers tend to focus more than before on the shopping experience that the retailer offers rather than on simply selling goods. The main aim seems to engage their customer and to create excellent customer experience, which would also make for a successful retailer (Verhoef, Lemon, Parasuraman, Roggeveen, Tsiros & Schlesinger, 2009; Sorescu, Frambach, Singh, Rangaswamy & Bridges, 2011). The products that a retailer sells are usually not unique, since most retailers sell products not manufactured by themselves. Therefore, a way to differentiate from other retailers is *the way* that the retailers sell their products. Verhoef et al., (2009) have provided a conceptual model of customer experience creation that shows 9 elements that would form the customer experience (see figure 10 in Appendix B). It consists of seven variables (social environment, service interface, retail atmosphere, assortment, price, customer experiences in alternative channels and retail brand) and two moderators (situation moderators and consumer moderators). These variables are both within and outside a retailers' control and end in a subjective and personal customer experience at a certain time. This customer experience is also affected by previous customer experience and it will on its turn affect future customer experiences. Dawson (2006) as well saw that the former ruling view of customers as passive agents of transaction was soon to be outdated and that a bigger and more involving role of the customer lay ahead.

Retailers can improve their performance by creating an exciting shopping environment as a respond to the development that shoppers seem to look for more convenience and enjoyment in shopping (Shankar et al., 2011). For physical stores, an exciting shopping environment can help distinguish them from online commerce. A retailer can (try to) create this in numerous ways. Adaption of its store environment for example, like apparel chain C&A that chose for a new store design by adding fun and playful elements (van Geyte, 2014). Discount grocery retailer Lidl is also innovating which has its effect on the customer experiences. It is moving away from its pure price-based strategy by expanding its product assortment with premium products that are sold under the 'brand' *Delicieux*. It is placing in-store bakeries which is an addition to its product assortment of freshly baked goods, but also changes the retail atmosphere by changing its design and scent. It is positioning itself as health orientated by swapping snacks at the cash register with healthier products like snack-size nuts and dried fruit. In Lidl UK also a photo-service is added in some stores and Lidl is joining in e-tailing, offering a broad product assortment including clothing and tools. All these factors create a different shopping experience than customers were used to. Another successful retailer that focusses on offering superior customer experience is the Apple store, which offers a unique environment in which customers can get advice from well-informed personnel, try Apple products or let their own products be repaired (Sorescu et al., 2011). Other innovations focus on offering a new service that traditional retailers in its sector do not offer, like grocery retailers that offer a delicatessen counter or a section where chefs make meals on the spot. The Sushi Daily kiosk (see figure 7) that is present



**Figure 7 Sushi Daily kiosk at Carrefour**

at more than 300 Carrefour stores is an example of this. Besides in in-store environments, there are also examples of e-commerce retailers that focus on a customer experience, rather than just being a way of purchasing products. Fashion web shop 'About You' considers itself an inspirational platform for fashion lovers; their platform should read like a personalized online fashion magazine (Neerman, 2017). They achieve that by their online design and by algorithms that create a personalized offer based on the customers interest.

To conclude, innovations that enhance the customer experience can be of a broad range. In general, it can be focussed on offering more convenience, being less time-costly, personalizing or expanding product offering or offering more, different or better service.

### 3.2 Growth of the role of technology

Technology is playing a bigger role worldwide and consequently has its effect on the retailing industry. By the introduction and implementation of Universal Product Codes (UPC's), barcode scanners and Radio Frequency Identification (RFID) data gathering has become easier and has led to numerous developments in the retail trade industry. They have given way to easily tracking sales, inventory numbers and the effect of pricing strategies, thereby giving retailers a chance to increase efficiencies and the level of services and sales while decreasing personnel (Foster, Haltiwanger & Krizan, 2006; Sieling, Friedman, & Dumas, 2001). RFID is a technology that organizations can use to track products from manufacturing to the salesfloor. It is used to increase inventory accuracy. Positive effects of inventory accuracy are a decrease in out-of-stocks which can lead to an increase in sales and higher customer satisfaction. RFID is mostly used in the apparel sector (RFID Lab, 2016). UPC's and barcode scanners on the contrary can be found in almost any retail business.

Another way of gathering data about consumer behavior is by the introduction of member cards and loyalty programs. By making clever use of past buying behavior of consumers, retailers can offer personal promotions. These promotions are on its turn communicated via for example mobile applications, personal shopping assistants or electronic coupons via e-mail, which can be used online or in-store (Shankar, Inman, Mantrala, Kelly & Rizley, 2011; Grewal, Ailawadi, Gauri, Hall, Kopalle & Robertson, 2011). The profitability of tailored personal promotions is shown in several analytical research (Grewal et al., 2011). Personal shopping assistants (PSA) can keep up with online browsing behavior and purchase history and show promotions and products based on this data. Recommendation engines are also a way of personalizing the shown assortment by using algorithms to process customer data (Shankar et al., 2011). More and more online retailers use this in order to fit the wishes and preferences of the customer better, with Amazon's filtering tool as precursor and firms like Zalando as trend followers.

Personal shopping assistants are not only present in webstores but also in brick-and-mortar stores. This can come forward in multiple forms like wireless touchscreen tablets that are fixed to shopping carts and serve as a way to offer (digital) services like at Metro's 'future store' or self-scanning devices and self-checkout systems (Kalyanam, Li & Wolfram, 2006). Self-scanning devices are quite common nowadays in

supermarkets, but the installation of scanning devices on shopping carts in stores like Victoria Secret or VideOcart were less successful (Burke, 2002). A framework that helps to understand the success or failure of a technological innovation is the Technology Acceptance Model (TAM). This model suggests that adoption of a new technology is dependent on three determinants, namely "usefulness", "ease of use" and "enjoyment" of the technology (Childers, Carr, Peck & Carson, 2001). A technology that is for example complicated to use or does not offer any convenience is expected to not be a success and thus not be accepted by consumers.

Another way of offering more technology-based service can be found in apparel stores where some trials were held with digital mirrors. Information of the customer's clothing would be displayed on a screen by reading the RFID tags on the clothes. Fitting room light could be adjusted, recommendations would be made on how to combine the clothing and another size or color could be requested (Townsend, 2017). This technology is meant as a way to offer extra service and convenience to consumers as well as to offer customer data to retailers. Another example of customer information gathering is eye-tracking equipment and wifi-tracking. These technologies can play a big role in evaluating store design and promotional activities of retailers (Grewal et al., 2011).

Interactive kiosks (described by Kalyanam et al. (2002, p. 96) as "web-based interactive information terminals" are also part of technological innovations that are used in stores as self-service handler. These kiosks can have different purposes, like ordering products online that are not in stock at the physical store or print personal coupons (Grewal et al., 2011).

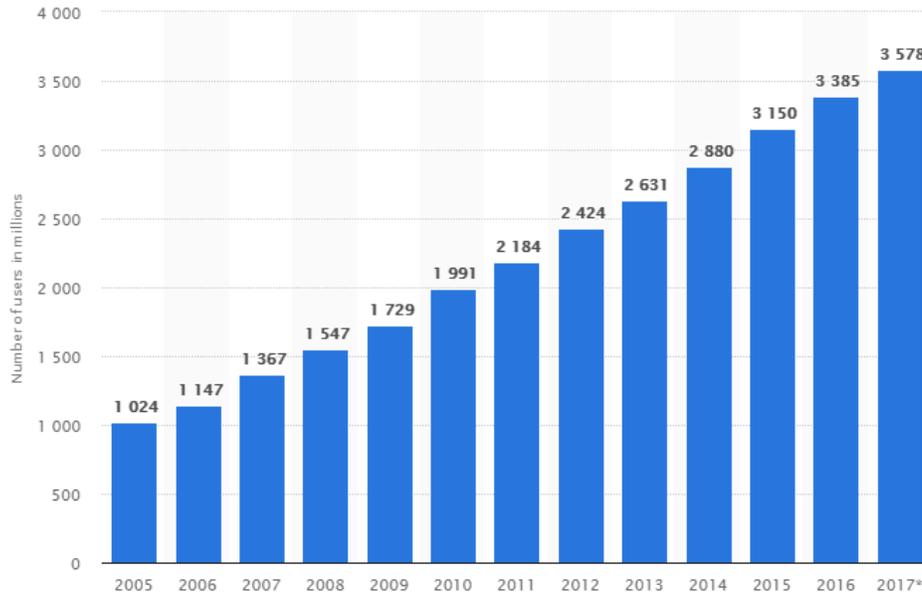
Besides in-store kiosks, nowadays consumers have multiple ways available to gather information when in store or at any given moment. The internet, search engines, online networks, media and smartphones have given consumers much more possibilities to look for product information, reviews or price comparisons before, during and after shopping. These innovations made information about products widely available and easily accessible.

A recent innovation is the use of robots in-store that are spotted at for example 'Giant Food Store' in the United States (van Looveren, 2017). This robot rolls through the store and can identify empty shelves, inconsistencies between shelf prices and cash register prices and 'dangers' in the store like spilled products. When one of these inadequacies is spotted, the robot can give a sign to one of the employees. Especially large retailers are experimenting with in-store robots as a way to create sustained competitive advantage by the fulfillment of different purposes like interacting with customers and/or gathering purchase and product data.

### **Online commerce**

Online commerce as a technological innovation deserves a separate paragraph in this chapter due to the big influence it has had, and still has on the retail environment. Online commerce can be split up to e-commerce (online shopping using a laptop or computer) and m-commerce (online shopping using a smartphone or tablet) (Wagner, Schramm-Klein & Steinmann, 2013). E-commerce grew around approximately 1995. Before then, computers and the internet were used primarily by engineers and scientists, who had the skills and patience to understand and use this new technology.

The development of the World Wide Web (WWW) and the Hypertext Markup Language (HTML), to name two important ones, increased the diffusion of the Web and made it more accessible for 'the common' (Tian & Stewart, 2008). The number of internet users in 1995 was only 16 million but grew to more than 3.5 billion today (see figure 8). The increase of computer ownership, the fact that internet usage became more mainstream and opening the Web for commercial ends made e-commerce evolve to the way we know it today.



**Figure 8 Number of internet users worldwide. Derived from [www.statista.com](http://www.statista.com) (2017)**

Amazon, that launched in 1995, is seen as a pioneer in online retailing and is currently a market leader on the web. It is known for its early implementation of (new) technologies and thereby aims to gain competitive advantage. Starting with a wide assortment of books, its product assortment nowadays is very wide and ranges from apparel to consumer electronics.

Another big launch was that of Google in 1998. This search engine gave shoppers the opportunity to search the web easily and fast. The improved (online) availability of information and the reduced buyer search costs is a pro for shoppers (Bakos, 2001). Other benefits of e-commerce for consumers are a bigger choice of products, possibility to customize products, potential improved use of time and not being bound by a geographical location (Rosen & Howard, 2000; Childers et al., 2001).

Expanded product information can also benefit retailers. Online retailers can provide more product information, since a virtual store is not limited by shelf or store space. This is said to result in an improvement in product fit and reduced price sensitivity (Bakos, 2001). The absence of limitation by shelf space also enables retailers to increase the number of product offerings, although now not the store but the distribution centre is the limited factor. Online retailing offers more benefits for retailers, like tracking and analysing shopper behavior more easily. Thereby retailers are able to personalise product assortment and give product recommendations, with the potential of increasing profits. Besides benefits, online retailing also faces challenges. Logistical challenges that come with high inventory, and sending and returning packages are regularly mentioned in literature. As well as the lack of conveying sensory information like

smell and feel of a product, which can be crucial for how some goods are experienced (Niranjanamurthy, Kavyashree, Jagannath & Chahar, 2013). The missing of an in-store ambiance, human interaction or service at a webshop is also a distinctive difference between physical and virtual stores. However, webshops have found ways to integrate the service aspect in their online store by for example 'greeting' new online visitors via a chatbox so that they can ask questions anytime. However, it is doubtful that for every specification in physical stores an equivalent in the virtual store can be found.

Nowadays online business-to-consumer goods commerce covers a very wide range of products of which clothing, footwear, books and home electronics are the most bought product categories in Europe (ecommercenews, 2016). In the USA 'Toys, Hobby & DIY' outscore 'Fashion' and 'Electronics & Media' (Statista, 2017). In Europe as well as in the USA online commerce is growing and is expected to grow in terms of revenue and user penetration in the future (Statista, 2017). Mobile commerce is also expected to play a bigger role in online commerce. Many online retailers have created apps and mobile websites for better customer experience on a mobile device. Retail apparel giant Zalando for example gets almost 72% of its sites visits via a mobile device (van Looveren, 2017).

Technology has already opened doors for new retail business models, as well as changed the way established formats act and offer their value. The key for technological development in retailing is that retailers should take into account how consumers will react to new technologies and move along when the (technological) environment changes. On the other hand retailers have to keep in mind the high investments that are necessary, the fact that technology can become obsolete and therefore should not go overboard with technological innovation (Sethuraman & Parasuraman, 2005; Evans, 2011).

### 3.3 Expansion of and synergy between retail activities

Since (technological) innovations have provided retailers with more ways in which retailers can reach their potential customers, there is a growing emphasis on the expansion and synthesis of retail activities. Multi-channel retailing and omni-channel retailing play a big role in this. It is a subject that is getting more attention in literature about retailing. This was already shortly discussed in chapter 1.1, but will be elaborated on in this paragraph. With multichannel retailing, a retailer offers multiple ways in which a customer can interact with the retailer and reach the products and/or services of the retailer. Technological innovation and digitalization in retailing have brought more (possible) channels between a customer and a retailer. These new channels had to be integrated in the existing online and offline channels and changed the retail environment. Wagner, Schramm-Klein & Steinmann (2013) found in their research on different e-channels that synergy between the different channels has a positive effect and better fulfils customer needs, but especially the different channels should complement each other and all offer extra benefit. Besides e-channels also offline channels can be identified, examples of channels are physical stores, apps (informative or with possibility to purchase products), tablets, (mobile) websites, telephone customer service, social media and e-mail. An example of a creative and more unique channel that is based on national habits and characteristics is Tesco's virtual store in South Korea. Tesco placed virtual stores in much visited public places like subways in which customers can scan QR codes with the use of an app of products that are displayed virtually on walls and an order can be placed. Tesco's retail format is an example of extra benefit that is offered by this additional channel, being an important aspect of the success of multi-channel retailing according to Wagner et al., (2013). In this case Tesco targets a specific consumer segment (tech-savvy, busy commuters) and offered a quick, easy and convenient way of grocery shopping compared to

its traditional store format (Petit de Meurville, Pham & Trine, 2015).

In order to enhance the customer experience, the different channels should be unified and retailers should create a seamless experience between the (offline and online) channels rather than seeing them as standalone. In that way, customers perceive consistency between the different channels, which is what they look for (Shankar et al., 2011). The importance of this is also integrated in the customer experience model by Verhoef in chapter 3.1. More specifically, 'customer experiences in alternative channels' is a variable that affects customer experiences in another channel. This is where omni-channel retailing comes to rise, a direction in which the retail landscape is moving according to Verhoef et al., (2015). Omni-channel management is defined by Verhoef et al., (2015, p.176) as "the synergetic management of the numerous available channels and customer touchpoints, in such a way that the customer experience across channels and the performance over channels is optimized". The integration of digital technologies in-store is also a way of omni-channel management, by offering a service in a physical store that normally is limited to the use in the virtual world. This can potentially positively benefit the seamless experience that a customer wants.

Figure 9 shows a KPMG study (2017) that researched the different online and offline channels at which a consumer saw a product before purchasing. It is found that 59% of consumers saw the product at an online channel before purchasing. A GMA study (GMA, 2010) shows that shopping research is done by 81% of shoppers before shopping. This difference in percentage could be explained by GMA taking into account shoppers (who on its turn could buy or not buy a certain product) and KPMG who take into account percentage of consumers who actually purchase a product. Besides, KPMG makes a distinction between online and offline channels. No percentage is given regarding consumers that saw the product before on 'any' other channel than on the one they purchased the product. But both of these numbers show the use of different channels by consumers along the way of search and purchase.

Channels where consumers saw the product before purchasing

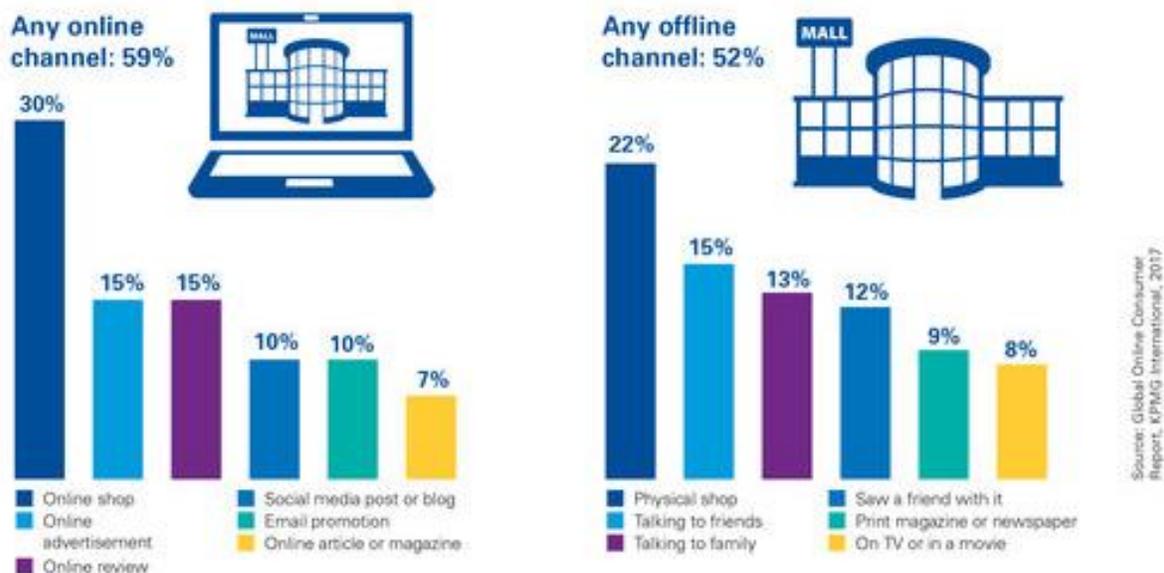


Figure 9 Channels where consumers saw the product before purchasing (KPMG, 2017)

Concepts like webrooming and showrooming fit in this multi-channel retailing environment. When consumers buy offline but search online for information it is webrooming. This is sometimes promoted by retailers through the use of online-to-offline commerce by for example reaching customers online with coupon distribution via e-mail that are only valid in-store. Showrooming is referred to when consumers search for information in store but simultaneously look on a mobile device for product reviews and better priced offers, using the virtual store as a showroom (Verhoef, Kannan & Inman, 2015).

The increasing use of different channels also means that retailers now have more opportunities to reach and influence shoppers along the way to their purchase. An example of the way retailers practices hereby change is the move from traditional marketing to shopper marketing, which is becoming an emerging practice used by retailers. Shopper marketing includes marketing activities in different media and digital channels, and focuses on reaching and influencing the shopper along the whole path of shopping (Shankar et al., 2011).

Concluding, new channels and information sources give retailers more possibilities to reach and inform the customer. Similarly, it also forms a challenge to integrate this in their existing channels and to make sure that there is consistency. All to ultimately aim to satisfy the customer and offer a seamless experience between the whole process from search to purchase to an eventual return or product review.

### 3.4 New retail formats

Another trend that can be recognised is the emergence of new retail formats. Some of which have to do with the development of new channels or new technologies that enable the existence of these new formats. Others are originating out of creativity, as a way to better serve the customer or to better fit the changing environment.

Existing big retailers are expanding by adding different types of retail formats besides the one that they originated in. An example is IKEA that trialled smaller stores in the city centre. These stores mostly form a pick-up point for products that are ordered online, but also function as a small showroom (Reuters, 2017). IKEA is thereby moving along with changing technology and consumer preferences by using virtual reality to be able to display its products in a smaller location and offering its products in a central and easier accessible location. Another example of a retailer that is changing its format by a locational change is Carrefour with its Express Stores. These Express stores are small supermarkets and offer wide opening hours, a central location and a product assortment that is based on the neighbourhood it is located in (De Bock, 2016).

There are also retailers that are expanding their product assortment, and are integrating this in (some) existing stores as well as opening new stores that only sell this product category. Examples of this are the 'Home' collections and 'Home' stores of fashion stores Zara and H&M.

A direction in which this could move is that large leading retailers are expanding by a natural growth of their stores and channels thanks to their success, but are also expanding their 'imperium' by launching different retail formats and thereby forsaking itself on a different market. The success of their expansion may be more evident because of the economies of scale they have obtained and the fact that the brand name is already familiar for customers. This supports the suggestion by Dawson and Zerrillo & Iacobucci (in Knezevic, Renko & Knego, 2011) that large enterprises are in an ongoing process of growth. Dawson (2006) also observed an increased market concentration by the expansion of large firms. Even though these

store formats may be new for established retailers, some of the store formats did exist already in the retail environment as Zara Home fits in the ‘specialty store’ format and Carrefour Express fits in the ‘convenience store’ format.

Nevertheless, also completely new store formats are appearing. An established retailer that has introduced a check-out free store is Amazon’s Go store. It integrates technology in its store to offer a ‘Just Walk Out Shopping Experience’. Customers can enter the store, fill their bags with products and leave the store avoiding standing in line and a check-out. Smart technology detects which products are taken and after shopping the amount due is charged on your Amazon account ([www.amazon.com](http://www.amazon.com)). However this concept has been tested and it is looking for employees, it has not yet been opened for customers. Nevertheless, this concept could change the retail environment by taking away the time consuming character of the physical store.

Online also a rather new format has appeared and is growing that is subscription websites. They offer a regularly product delivery based on your preferences. They do not offer new products, but they are a new way of selling existing products to consumers. It can come in different forms and they all offer unique selling points but also entail risks. Products like beauty or fashion boxes that retailers personalize and monthly send to its subscribers are a way of adding an element of surprise and excitement. Other subscription websites are more focussed on offering convenience by sending products on a regular basis that customers normally buy all the time like shaving cream or mascara. This concept is executed by new retailers but also taken over by established retailers like supermarket chain Albert Heijn that offers memberships on its meal boxes or Zalando that offers an outfit chosen by stylists based on your preferences through ‘Zalon’.

Although this subchapter does not cover all directions in which new retail formats appear, it gives a taste of changes in the retail environment and examples of some new and innovative retail formats.

## Synthesis and conclusion

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The historical background of chapter 1, the theories of chapter 2 and the present-day trends in retailing of chapter 3 are used to come back to the initial research objective; seek to explain trends in retailing through theory on retail change. The research questions are discussed, after which chapter 2 and chapter 3 are synthesized.

Retailing has a very interesting history and is dependent on geography and time, due to the dependency on its environment and the pace in which different formats are changing and new formats seem to appear. Nowadays, online and omni-channel retailing seem to be recent developments that change the retail landscape and cause retail formats to adapt. Not often a retail format disappears, and even though online retailing is growing, physical stores are still able to offer competitive advantage. Amongst others, by integrating some of the attractive attributes of the digital world and the technology that it usually includes. Many theories and combinations of theories on retail change exist. Cyclical, environmental and conflict theory are accepted theories on retail change, although each theory has certain limitations. Various frameworks that include other variables for retail change exist, and offer additional insights like economical perspectives, geography and power inequities.

Literature and available data on retailing change and innovation has been reviewed and four trends have been identified. 'Focus on shopping experience', 'Growth of the role of technology', 'Expansion and synthesis of retailer activities' and 'New retail formats'. An analysis per theory follows in this chapter to see on what trends and in what way the theory can be applied as well as what this says about predictions for the future.

The conflict theory implies that a new retail format (antithesis) can cause a conflict in established retailing (thesis), this will eventually lead to the development of a new format (synthesis). This synthesis will on its turn become an established retailer and will form the new thesis. The trend 'new retail formats' seems to fit smoothly in this theory by the fact that conflict theory implies the continuous flow of new retailers, that again stimulate the flow of new(er) retailers. So new retail formats would emerge out of competition and the change in the retail landscape that this has brought. The following applies this theory on the case of IKEA's new retail formats. IKEA's traditional format is the thesis. Online interior retailing is the antithesis and forms a conflict. The lower travel costs that e-tailing offers and the digitalization are assimilated by IKEA's new retail format. Its placement in a central location and the digital aspects form a synthesis of the thesis and antithesis. In the future IKEA's central stores may become the thesis.

The change that Lidl has gone through (as described in chapter 3.1 about customer experience) shows the adaptation of characteristics of more common supermarkets. Lidl hereby forms a synthesis of supermarkets (thesis) and discount grocery stores (antithesis). Meanwhile the established supermarkets are all expanding their white label assortment, thereby offering more low-price products which means they are adopting characteristics of discount supermarkets (and form a sort synthesis as well). Nevertheless, a retailer can also react on competition by differentiation instead of assimilation. The addition of delicatessen corners in some supermarkets shows a direction toward differentiation from the established supermarket retailers, also named as a strategy by Markin & Duncan (1981) that could be applied after the rise of competition.

Applying the conflict theory on the bigger role of technology is possible when seeing technology in perspective of retailers that adopt (new) technology. Hereby, physical stores are the thesis, e-commerce forms the anti-thesis and syntheses as Tesco's virtual store, Amazon Go are created that integrate

technological and digital aspects with the physical store.

Cyclical theories address the cycle and rhythm that retail institutions go through, supported by the retail accordion, the wheel of retailing and the concept of the Big Middle. Technology is one of the five value levers that Levy et al., (2005) name that can be used to move into or stay in the Big Middle. This also comes forward in the article “Succeeding in the Big Middle through technology” by Sethuraman & Parasuraman (2005). Technology can therefore according to Levy et al., (2005) be used by retailers to move from being innovative or price-oriented to being a Big Middle retailer. Thus it appears that retailers can use technology to grow, and growth is desirable for many retailers. The increased use of technology by retailers can therefore be explained by the wish to grow, or in other words to upgrade its position in the cycle. A side note to this statement is that technology often goes hand in hand with high investments. Small retailers that do not have the resources to invest in advanced technology can have a hard time with moving away from its position in the cycle. Retailers that are already in the Big Middle or in the Trading-up phase have more resources to invest in technology. This could explain the perceived concentration in the retail industry, since large retailers are more able to expand due to their better access to technology. As well, it could explain that not very often or quickly a new or small retailer moves into the Big Middle.

Not only technology, but also a focus on the customer experience can explain an upgrade in the cycle. By focussing more on the customer experience and enhancing the needs and wants of a customer instead of only offering products, it can offer better value to customers and attract a bigger customer segment. The wheel of retailing can explain the changes that Lidl got through (explained in chapter 3.1). Lidl started with a low-price strategy, the entry phase. It increased its market share and attracted competition. This made the retailer look for ways to differentiate and to trade-up their goods and services. The result of this is noticeable in the growing market share obtained by this grocery chain, moving into the trading-up phase. The concept of the Big Middle also illustrates the cycle that Lidl is going through. It entered the market as a low-price retailer, appealing to price-conscious customers. The Lidl became successful and grew. According to Levy et al., (2005) large retailers are drawn to the Big Middle segment, this move calls for expansion of product offerings or expansion of a market. By adding a luxury product assortment during holidays, and non-food products and expanding their total offerings Lidl attracted a more varied customer segment than their original one. All in all, it obtained a spot in the Big Middle and got to be a leading retailer. The retail accordion as cyclical process now remains. No clear change in product assortment breadth has been identified in the trends of chapter 3. Nevertheless, if the whole retail landscape is seen as an accordion, the emergence of new retail formats represents a bigger and more diverse landscape. The same goes for the co-existence of specialized and general stores in the retail landscape.

Environmental theory implies that change in retailing is subject to changes in the environment. Adaptation to the environment is necessary to be and remain successful. The trend of new emerging retail formats can be linked to changes of environmental variables like technology (more availability of technology and the rise of different channels through technology) & consumers (focus on customer experience). The emergence of channels like the internet, mobile applications and e-mail drive retailers to adopt these new channels and makes room for new retailers to emerge. The synergy that comes forward in omni-channel retailing comes, as mentioned in chapter 3.3, from the consumer's wish for a consistent experience and is therefore a result of adaptation to the environment. Just like consumers expect a more personalized service and more exciting customer experience nowadays. Retailing is adopting these aspects (Sethuraman & Parasuraman, 2005; Shankar et al., 2011). Thus environmental factors as a cause for change is found in all four trends.

To conclude, the three main theories of Brown (1987) on retail change can be applied on the proposed recent changes in retailing. This paper has explained illustrations of contemporary retail change that are occurring among different retail formats by basing the changes on theory on retail change. In short, environmental theory addresses the role of the environment to explain retail change. This theory can explain the occurrence of the four trends of retail change. Cyclical theory can illustrate the pattern that retail institutions go through. In the synthesis it fails to fully explain the direction of change but it can shed light on the implications that the change has on the position of the retailer. Conflict theory explains that a conflict, created by a competitor causes other retail institutions to adapt. On its turn this changes and stabilises the retail landscape. A combination of the three theories on retail change is suggested to best explain innovation and change in the retail industry. All theories contribute in a different way to understanding and explaining contemporary retail change. Besides, the limitations of each theory should not be overlooked. Generally speaking, the environment, cyclical patterns and conflict are forces that contribute to explain contemporary retail change. The theories thus could explain more than just the emergence of a new retail format or the evolution that a specific retail format goes through. More general trends in the retail landscape can be (partly) explained by (a combination of) retail theories.

## Discussion

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In this research various literature on retail innovation and change is reviewed. Based on the reviewed literature a historical background of retailing is given, there is elaborated on theories that explain retail change and its limitations are considered. Thereafter trends on retail change are identified and prior theories are applied on these trends. The trends and application on theories have been interpretative. Research on retail change includes a very wide variety of focus. The identified trends are acknowledged to be not the only direction in which retailing is moving. It is a selection of changes in the retail landscape. Accordingly, four trend categories are identified and certain innovations and changes fall under each trend category. Other research could come to identify or categorize different trends and innovations. In order to be able to identify more generally accepted trends, future research could focus on trends happening in a specific retail format instead on the whole B2C retail good landscape. A narrower scope of research could make for less ambiguity among available literature and data. Furthermore, not all proposed changes that fall under each trend are discussed in the synthesis and conclusion. Certain examples are chosen and serve as an illustration. However, this makes it less valid to say that all changes that fall under each trend can be explained by retail theory.

As retail theories are applied on trends, many questions stay open and are in need for further research. How can the identified trends be successfully integrated by retailers? What trends are useful to follow for what type of retailers? To what extent are these trends dependent on geographical location? Are there risks involved in following these trends? Research that covers these questions can be a significant addition to insights on the applicability of retail theory on directions in which the retail industry is changing. This is expected to come forward in research that will offer ways in which trends of change, like multichannel retailing or certain technological innovations, can be successfully integrated in a retail business. An example of this kind is the article of Sorescu et al., (2011) that offered an academic starting point for retail business model innovation.

Due to the significance of understanding retail change, for the study of retail and for the retail industry, it is expected to become a bigger area of research in general in the future. According to Markin & Duncan (1981, p. 58) “the reasons for the transformation of retailing institutions remain one of the most intriguing and difficult problems in the marketing discipline”. This ‘problem’ has not yet been solved, even though more theories and frameworks have been composed since then. Past research has offered somewhat incomplete and simplistic theories. It is time to link theory to changes that can be observed; empirical evidence, since this seems to lack in current research. Theories and frameworks in combination with illustrative examples from the retail industry are expected to offer better value for academics as well as retailers. In particular, empirical evidence on retail change would include research to large retailers, since they shape the retail landscape for a large part. Current innovations and change in particular retail institutions as well as in the retail industry as a whole should be analysed to gain insights about reasons for change. This could offer insights into how the future of retailing will look. More concrete expected theoretical developments in this area of research is the incorporation of multiple theories and perspectives to explain retail change. The framework of McArthur, Weaven & Dant (2011) is an example of this.

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## Appendix A

**Table 2 Overview Retail formats**

| Format           | Target Market       | Products Carried  | Pricing Strategy          | Promotion Emphasis      | Distribution                           | Service Level | Ownership Structure                  |
|------------------|---------------------|-------------------|---------------------------|-------------------------|--|---------------|--------------------------------------|
| Mom-and-Pop      | mass specialty      | general specialty | competitive               | advertising direct mail | stand-alone strip center shopping area | assorted      | individually owned/oper.             |
| Mass Discounter  | mass                | general           | discount                  | advertising             | stand-alone strip-center               | self          | corp. chain                          |
| Boutique         | specialty exclusive | specialty         | full                      | selling                 | stand-alone strip center shopping area | full          | individually owned/oper. corp. chain |
| Specialty        | specialty           | specialty         | full competitive          | selling advertising     | shopping area shopping mall            | full          | corp. chain                          |
| Category Killer  | mass                | specialty         | discount competitive      | advertising             | stand-alone strip center               | assorted      | corp. chain                          |
| Department Store | specialty           | general           | competitive               | advertising             | shopping area shopping mall            | assorted      | corp. chain                          |
| Warehouse Store  | mass                | general           | discount                  | advertising             | stand-alone                            | self          | corp. chain                          |
| Catalog          | mass specialty      | general specialty | discount competitive      | direct mail             | direct marketer                        | assorted      | corp. structure                      |
| Convenience      | mass                | general           | full                      | advertising             | stand-alone                            | self          | individually owned/oper. corp. chain |
| Franchise        | mass                | specialty         | competitive               | advertising             | stand-alone strip center               | assorted      | contractual                          |
| e-tailer         | mass specialty      | general specialty | discount competitive full | advertising             | online seller                          | self          | corp. structure                      |
| Vending          | mass                | specialty         | full                      | none                    | vending                                | self          | corp. structure                      |

Reprinted from "Retailer Summary Chart" (2016). Retailing Tutorial. KnowThis.com. Retrieved September 10, 2016 from <http://www.knowthis.com/retailing/retailer-summary-chart>

**Table 3 Overview Retail institution**

| Form of Retail Institution   | Explanation   | Examples   |
|--|---|--|
| <b>Store Based Retail Institutions</b>   |   |  |
| Specialty Store<br>Drug store<br>Other specialty store   | Narrow product line with a deep assortment                                    | Walgreen, Rite Aid, Eckerds, CVS, GNC, Tall Men, The Body Shop, GameStop, The Limited, The Gap, AutoZone, IKEA, Payless Shoes, Pearle Vision, Tiffany's                                  |
| Department store   | Several product lines with each operated separately                           | Sears, JC Penney, Nordstrom, Bloomingdale's  |
| Supermarket  | Low-cost, low-margin, high-volume operation                                   | Kroger, Safeway, Bi-Lo, Food Lion  |
| Convenience Store  | Limited line with high-turnover at slightly higher prices                     | 7-Eleven, Circle K   |
| Discount store<br>All-purpose<br>Specialty   | Lower price with lower margin and higher volumes                              | Wal-Mart, Kmart<br>Best Buy  |
| Off-Price Retailer<br>Factory Outlets<br>Closeout Retailers<br>Single-Price Retailers<br>Independents<br>Warehouse Clubs | Buy at less than regular wholesale prices and sell at less than retail prices | Mikasa, Dexter, Ralph Lauren, Big Lots, Bud's Warehouse Outlets, Dollar Tree, Family Dollar, T. J. Maxx, Lehmann's, Sam's Club, Price-Costco   |
| Superstore<br>Category Killers<br>Combination Store<br><br>Supercenters<br><br>Hypermarkets                              | Routinely purchased food and non-food items in large selling spaces           | Home Depot, Petsmart, Staples, Toys R'Us, Foot Locker, Sports Authority, Jewel, Osco Stores, Wal-Mart Supercenters, Super Kmart Centers, Super Target<br>Carrefour, Continente, Meijer's |
| Catalog Showroom   | Broad selection of fast moving brand names with high mark-ups                 | Service Merchandise, Best Products   |
| <b>Non-Store Retail Institutions</b>   |   |  |
| Back/Wagon Peddlers<br>Street Vendors  | Individual merchants  | Individual sellers selling hot dogs, pots/pans, etc.   |
| Catalog/Direct Mail  | Communicate through catalog, letters, brochures                               | Lands' End, Spiegel, JC Penney   |

|                  |   |                                   |
|------------------|---|-----------------------------------|
| Vending Machines | Indoor and outdoor machines for snacks, candies and soft drink at convenient and high-traffic locations | Coke machines, Frito-Lay machines |
| Direct Selling   | Face-to-face product demonstration and selling  | Mary Kay, Amyway                  |
| TV home shopping | Customers watch TV and place orders by telephone  | QVC, HSN                          |
| E-tailor         | Online retailer over internet   | Amazon.com, B&N.com               |

Adapted from "Emergence of entrepreneurial retail forms" by Anitsal, I. & Anitsal, M., 2011, *Acadamy of Entrepreneurship Journal*, 17(2), 16-17.

## Appendix B

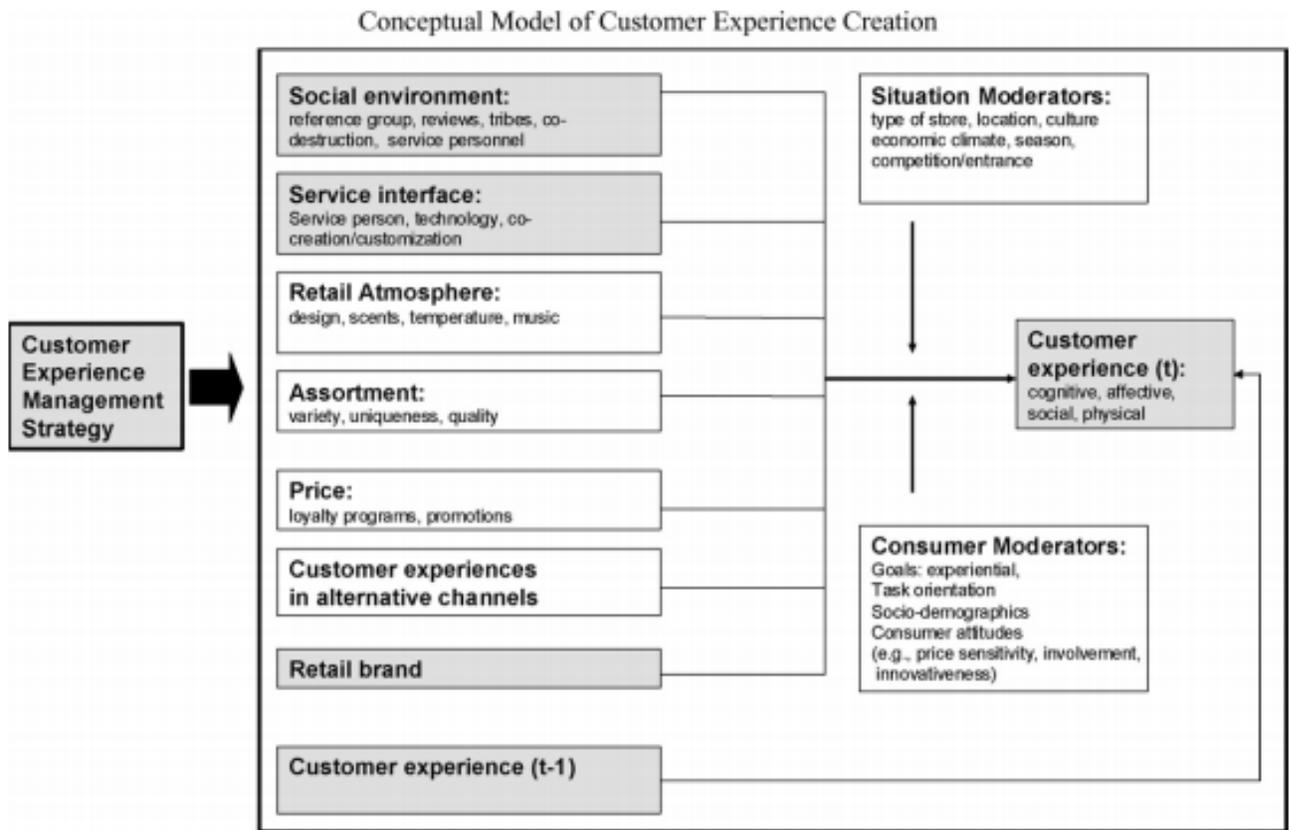


Figure 10 Conceptual model of customer experience creation, reprinted from “Customer experience creation: Determinants, dynamics and management strategies” by Verhoef, P. C., Lemon, K. N., Parasuraman, A., Roggeveen, A., Tsiros, M., & Schlesinger, L. A. (2009). *Journal of retailing*, 85(1), 32.