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Emerging Trends for Retailing Industry

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## Abstract

Based on demographic, technological, regulatory and competitive changes, this paper identifies six major emerging trends which will impact the retail industry. They are: 1. emergence of premium products at the expense of best value products; 2. dominance of wants over needs in shopping; 3. personalized procurement and consumption; 4. blurring of home-workplace boundaries which will result in shopping at home and 24 hour stores; 5. emergence of specialty markets and national specialty chains; and 6. one-stop hassle free shopping including patronage of hyperstores.

The paper suggests that the corporate retailer must do the following to survive these trends. 1. Broaden your definition of what business you should be in; 2. develop multiple channels of distribution; 3. decentralize the corporation into several mini profit centers; 4. focus on the market needs and not on the suppliers; 5. manage your costs through computerization; and 6. inculcate corporate culture in your employees through charismatic style of management.

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## EMERGING TRENDS FOR RETAILING INDUSTRY

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The purpose of this paper is to describe a number of emerging environmental changes which are significant enough to require retailers and particularly the national or regional retail chains to reexamine their corporate missions, competitive strategies, organization structures, and day-to-day business operations.<sup>1</sup> Many retailers do not see these emerging trends, partly because they are more evolutionary rather than revolutionary in nature, and partly because of management preoccupations with annual budget battles, constant reorganizations, and putting out daily fires. While this reactive style of management is understandable in light of highly volatile market behavior, it is still not a good enough excuse for lack of longer term focus on strategic issues facing their corporations.

In this article, we will summarize some of the major trends which are already starting to impact the retail industry and which will continue to impact in the next two decades. These megatrends are a result of simultaneous changes taking place in such environmental forces as customer demographics, emergence of post-industrial society, deregulation of industries, and nontraditional forces of competition.<sup>2</sup>

1. Customer Demographics. Aging of America, prevalence of dual-income households, and emergence of nontraditional households such as singles and singles are all resulting in highly diverse, adult oriented and

individualistic life styles in which time rather than money has become the scarce resource.<sup>3</sup> It is no exaggeration to assert that America is becoming a superactive affluent nation resulting in a time-poor, money-rich society.

2. Post Industrial Technology. With the emergence of the post industrial electronics age of mankind, it has become possible for the first time to provide enhanced quality at lower cost, to integrate many business functions, to seek highly fragmented markets, and to lower entry-exit barriers for potential suppliers in the market place.

3. Nontraditional Competition. Competition is not only intensifying but has radically shifted its character. For example, competition in the retail industry is more global rather than domestic with many European and Asian retail companies investing in the U.S. At the same time, there is a strong interest among retail giants such as Sears in establishing trading companies to position themselves as worldwide sourcing and selling products and services.

Furthermore, the old ideas of large number of competitors generating a lot of competition are being replaced by new ideas of one-stop full line competitors coexisting with specialty chains rather than competing against one another. Finally, unlike the old days where manufacturers through forward integrations also owned or controlled the wholesalers and the retailers, we expect in the future the prevalence of backward integration in which the retailer will own or control the manufacturers and other suppliers.

4. Changing Regulatory Focus. The regulatory focus is also shifting dramatically as compared to the decades of the fifties and the sixties. First of all, there is a strong sentiment at least at the Federal level to deregulate industries such as airlines, telecommunication and professional services including healthcare, insurance and banking. At the retail level, this has already resulted in blurring of boundaries between products and services. For example, dry goods retailers such as Sears are committed to financial services business and supermarket chains such as Kroger look more like one stop neighborhood convenience centers with lots of nongrocery products and services.<sup>4</sup>

Second, it also appears that the Antitrust Department no longer associates bigness with badness, if the approval of recent mergers, acquisitions and lateral consolidation of competing firms is any indication.

Finally, there is a clear plateauing if not an actual decline of consumerism, partly due to guilt by association prejudgements by consumer advocates and partly due to the realization on the part of the industry that presence of consumerism is a shame of marketing.

These four environmental forces combined together have generated a number of trends which the retail industry must learn to cope with by adjusting or changing its business practices and strategies. In the next section, we will enumerate six major trends relevant to retailing.

#### Emerging Trends for Retailing

##### 1. Premium vs. Functional Products

With the decline of the traditional middle class as a consequence of

career-oriented, dual-income, and adult-oriented lifestyles, the single-class mass-consumption society is likely to be replaced by a dual-class mass-consumption society consisting of the affluent and the average classes.<sup>5</sup> It will be possible for retailers to offer high-margin, premium products and services to a much bigger segment of the total population than ever before. In other words, what was within the reach of a handful of very rich people will be within the reach of as much as 20 to 25 percent of the total population.

Consequently, retailers that specialize in premium products and services will find that the growth potential for their products is enormous.<sup>6</sup> At the same time, they will be able to utilize mass marketing tactics and reduce their marketing costs per unit of transaction. Therefore, these companies will also have greater profit potential.<sup>7</sup> Examples include such premium retailers as Neiman-Marcus, Bloomingdale's, Dayton-Hudson, Marshall Fields, and many others.<sup>8</sup> Even middle-class stores such as Sears and J.C. Penney are also attempting to upgrade their merchandise through signature labels and nonstore premium brand names.

At the same time, those retailing who offer mass market functional products and services will find it more and more difficult to survive.<sup>9</sup> As the single-class mass-consumption society partitions itself into a dual-class mass-consumption society, it is inevitable that the total market share of functional products will decline, with resultant intense price competition to protect or increase market shares. Lower market share-holders in the mass markets will probably not survive, and the result will be market consolidation. This is already evident in the retail grocery business where once powerful private label supermarkets such as A&P are

finding it hard to survive. A similar process is currently taking place in the appliance and automotive aftermarket (tires, batteries, and accessories). For example, J.C. Penney has recently announced that it will exit the appliances and automotive services business.<sup>10</sup> Even K-Mart has experienced difficulties in its autocare program and fashion goods.<sup>11</sup> Packaged goods business at both the manufacturing and the retail level is also going through a similar consolidation. Among grocery manufacturers such as Pillsbury, General Foods, General Mills, Nabisco, Procter & Gamble, and many others, one observes a good deal of jockeying for position by mergers and acquisition as well as abandoning of major product lines in order to consolidate their positions of market strength. The same reality is emerging in the retail food chains such as Jewel, Kroger, Safeway and particularly many regional chains such as IGA.

## 2. Dominance of Wants over Needs

As the society progresses on Maslow's hierarchy from physiological and safety-security needs to love, affection, and self-esteem needs, psychological wants will come to dominate the consumer motivations over the physiological needs. It is no exaggeration to state that as an affluent nation, America is a want-driven rather than a need-driven society.

It will become increasingly difficult for some companies to survive and grow as the consumer markets shift from need-driven to want-driven markets, for several reasons. First, products acquire want-driven utilities through their associations with socioeconomic and other reference groups or with imageries and personalities, rather than through their inherent functional benefits. Therefore, wants are harder to engineer

in products and services. Indeed, it is precisely this shift from a need-driven to a want-driven society that is largely responsible for the failure of technologically driven products and market programs. Therefore, it will become increasingly necessary to understand the psychology of the markets rather than of the physiology of markets. This may be one of the explanations for the increasing trend in most shopping malls to provide excitement through lot of atmospherics, excitement and entertainment through special events, exhibits, and shows.

Second, people are likely to be more divergent on what they want than on what they need. It will therefore become increasingly difficult to mass market want-driven products and services. Market segmentation and market specialization will have to be learned in place of product specialization and mass marketing. Indeed, it will become necessary to utilize pull strategies in place of push strategies in marketing. In the retail industry this is already manifested by the emergence of specialty chains such as The Limited, Footlocker and B. Dalton Bookseller.

Finally, wants are more dynamic and volatile than needs. Whereas needs are fairly stable and consistent over longer time periods, wants tend to rise and subside much faster. This fact suggests that retail marketing will manifest shorter and shorter product, image, and competitive positioning life styles. Indeed, it means that retailers will have to plan major technological and marketing innovations with shorter payback periods. One way to accommodate this emerging trend in a highly capitalized "brick and mortar" business is the recent announcement by Sears to reorganize its interior into many boutique shops and specialty counters in their stores of the future planning.

The emerging evidence of shorter life cycles particularly for those retailers and institutions that are positioned on want dimensions is massive. Examples include recreation, entertainment, and fashion retailers. They also include newer retail institutions such as specialty chains and party plan selling.

### 3. Personalized Procurement and Consumption

With the emergence of nontraditional households as well as dual-income, career-oriented lifestyles, most products and services will be demanded and consumed at a per capita level rather than shared at the household level. Furthermore, as we continue to increase living standards, it will become more and more possible to afford products and services that are personalized rather than standardized.

In particular, per capita consumption is likely to grow for consumer durables, professional and personal services, packaged foods industries, and leisure. The concept of a family car is likely to give way to a personal car. Therefore, the demand for station wagons should decline and demand for personal small cars should increase over time. In other words, the issue facing the automobile industry is not just the size of the automobile but also the type of the car demanded by the market place. Similarly, cameras, radios, television sets, and other brown goods are also likely to become per capita products.

Professional and personal services such as insurance, health care, legal services, and financial services must also be redesigned so that they are offered on a per capita rather than per household basis. This trend is already evident in the banking and medical services.

Third, as we shift from food preparation to food consumption at home, as well as from family dinners to individual eating habits for all three meals, grocery manufacturers and retailers will have to innovate new packaging sizes and ready-to-serve foods, which are better suited for personal consumption than household consumption. These include cereals, soups, cheese, bread, meat, and all other staple foods.

Fourth, the leisure market, including entertainment and recreation, must shift from family to individual consumption. For example, it is very likely that each member of the family will watch his or her own television or cable programs rather than families' watching together, partly because of time constraints and partly because of increasing individualism. Therefore, television programming in both content and timing needs to shift from prime time family programs to all-time personal programs; it will be more and more difficult for the American family to get together at a specific hour to watch a news program such as the CBS News with Walter Cronkite, as they did for a generation. In short, news will have to be offered on a continuous 24-hour basis.

Similarly, recreation activities are likely to become highly individualistic and personalized. It is likely that each member of the family will engage in a different activity even when the family is together at home; for example, the young adults may play videogames or program the personal computer while the parents exercise. The individualism in outdoor recreation will be manifested even more. For example, tennis, racquetball, fitness centers, shopping, and eating out are all likely to compete against individual activities.



What does all this mean to the retail industry? There are several significant implications for the retail industry in the way it does business. First, it must change its procurement policies to accommodate greater variety of sizes and styles but at the same time keep its procurement costs low. One way to achieve this is to establish long term contracts with full line suppliers who will be able to put together a richer assortment and still retain economies of scale. Second, the credit policy and the use of financial instruments such as credit cards and layway plans must be redesigned to suit individual obligations rather than family obligations. Third, store operations such as opening and closing hours as well as merchandise selection displays and promotions must be decentralized to allow the individual store managers to adjust to the local preferences.

#### 4. Blurring of Home-Workplace Boundaries

Because of both demographic and technological changes, it will become increasingly common to disassociate from the time and place separations of work, home, and shopping activities. As Toffler has pointed out in his Third Wave, it is becoming popular to work at home as we shift from the industrial to the post-industrial society. It is also becoming popular to shop at home through electronic shopping and direct marketing.

It will become more and more common to blur the task-driven time and place boundaries among work, home, and shopping activities. Consequently, retailing of products and services will have to be offered on a 24-hour basis. They will also have to be offered through multiple and often nontraditional channels of distribution as well as at home through electronic shopping programs.<sup>12</sup> In short, for the first time in retailing history, the consumer will go to the market and a marketer will go to the consumer at the same time. This is quite

different from either the wagon days, when the retailer went to the consumer, and more contemporary shopping mall days, when the consumer comes to the retailer. The specific place of transacting with each other will be determined primarily by the trade-offs of costs and benefits to each party.

In general, however, it can be expected that nontraditional multiple channels of distribution will become more the norm than the exception. For example, telephone and other utility services may be procured from the supermarkets and other convenience locations. This is already happening at Kroger and Safeway Stores. Durable appliances and automobiles may be bought at home through electronic shopping. For example, there are several teletex and videotex retailers which provide this service. Financial services may be offered without personal interactions and from a long distance through telemarketing programs. Witness the rise in the Merrill Lynch's Cash Management Account (CMS) at the retail level. What is suggested is only a tip of the iceberg. Eventually, it is very likely that the boundaries between shopping and convenience retailers will become blurred sufficiently to change the whole pattern of retailing institutions.

##### 5. Emergence of Specialized Markets

Pluralism in our values, lifestyles, and behavior is likely to increase because of greater tolerance for individualism and personalized consumption. Furthermore, the electronics age permits marketers to cater profitably to smaller and smaller market segments. Therefore, it can be expected that the next two decades will see increasing desire not to assimilate unique market segments into the mainstream mass markets but to cater to their needs and wants as specialty segments. These include

ethnic groups such as Blacks, Hispanics, Orientals, and Asians as well as more traditional European ethnic groups. Other unique specialty segments include the handicapped, foreign tourists, people who work at home, farmers, and other unique occupations such as truck drivers and traveling salespeople. These people all have unique needs and wants either due to biogenic needs or due to unique settings in which they live or work.

Furthermore, as the economies of scale in manufacturing and marketing are achieved at lower and lower capacity levels, due to the computerized technology it will become more and more interesting for retailers to treat those segments as separate specialty markets.

The trend is already here. For example, cable and television programs and other entertainment media are catering to some of these specialty markets. Food companies are marketing ethnic foods in both retail food chains and fast food restaurants. Witness the emergence of theme restaurants. It is not at all difficult to imagine the emergence of national specialty chains which will cater to the needs of handicapped and the ethnic segments.

#### 6. One Stop, Hassle-Free Shopping

As the society becomes increasingly time driven and as the retailers increasingly broaden their business definitions, it is likely that consumers will do one-stop, hassle-free shopping for the procurement of products and services.

This trend has been there for several years now, as is evidenced by the emergence of shopping malls and neighborhood shopping centers. However, the future will be even more pronounced in this direction as the traditional location and supplier boundaries between durables and consumables, and between products and services, are also likely to disappear. In short, the emergence of hyperstores is here. For example, it is very likely that more and more dry goods such as home appliances, electronics products, perfume, and apparel will be bought and sold at a neighborhood Kroger or Safeway store along with groceries. Similarly, financial services such as insurance, tax preparation, real estate, stocks and shares, and money management services will be transacted in a Sears or a J.C. Penney store.<sup>13</sup> Finally, practically all products and services are likely to be shopped for and procured from the privacy, convenience, and comfort of the home through electronic shopping.<sup>14</sup>

#### HOW TO COPE WITH RETAIL TRENDS

A healthy corporation is very much like a healthy human being. You must be both physically fit and mentally alert to survive and grow despite changing physical and social environments. Therefore, a healthy corporation must be equally strong in its operations (body) and in its managerial leadership (mind). In short, it must be a well balanced organization between the doers (line organization) and the thinkers (staff organization).

We will describe three managerial areas (mission, strategy and structure) and three operational areas (productivity, professionalism and customer focus), which are likely to become significantly important for the corporate retailers.

1. Broaden Your Horizons

It will become increasingly necessary for most retailers to understand competitive forces outside the industry. These forces are more commonly associated with substitute technologies and with the end user customers producing their own products and services rather than buying from the market place. At the same time, it will become necessary to redefine businesses more broadly than in the past. For example, supermarkets must redefine their business away from the grocery products to convenience goods even if it means dealing with very different suppliers and very different distribution channels. Banks must redefine their businesses as financial services as the electronics technology bypasses the regulated geographical franchises. Appliance dealers must redefine themselves as shopping goods suppliers which includes videogames, computer, and other high-tech products and services. Finally, giant retailers such as Sears and J.C. Penny must broaden their business definition which transcend the dry goods image. Of course, the smart retailers are already planning or implementing this change in the mission of their corporation.

2. Practice Pluralistic Strategies

No single retailing approach is likely to be sufficient in the future simply because markets are becoming more and more divergent with respect to wants, needs, and buying power. Therefore, a single way of doing business is unlikely to appeal to all market segments.

It will be necessary for most large retailers to offer multiple product lines with significantly different price points and to market their products through multiple channels of distribution as well as develop relationships with multiple suppliers. Most retailers will find it necessary

to offer the same assortment of dry goods or grocery products through separate outlets. For example, grocery chains such as Jewel Companies sell through box stores (self-service) as well as through Superbazaars (full service); Dayton-Hudson (full service) has a successful alternative retail channel called Target (self service).

### 3. Decentralize the Company

The span of control versus cost of control is encouraging increasing decentralization of the corporation. It is therefore possible to provide greater autonomy to individual store locations without losing the span of control. The result is that one can easily eliminate as many as two levels of management ranks from the organization without jeopardizing the coordination and control objectives.

In general, it will become desirable to break up the monolithic organization into separate lines of business (mini profit centers) based on the commonality of manufacturing, distribution, or profit life cycles. Not only is the decentralized organization more cost effective, it also enables the corporation to better focus on the market and thereby become responsive to changing market behavior. This is clearly evident in the retail industry where specialty chains such as T.J. Max and Hit or Miss are allowed to operate autonomously of the Zayre tradition. Indeed, the store of the future concept promoted by Sears in many ways suggests this type of decentralization under one roof by allowing autonomous operations to All-State, H & R Block, office equipment and other departments.

### 4. Focus on the Market

With the maturity of the consumer markets (experienced consumers and powerful competitors), it is absolutely essential that retailers

constantly search for win-win situations between the company and the market place. This will mean striving to deliver more value to the consumers without jeopardizing corporate profitability. It means subordinating technology to customers. It means bending the organization (products, distribution, promotion) to fit the market place rather than bending the market place (customers, intermediaries, competitors) to fit the organization.

While this is an obvious and deceptively simple rule of survival it is as difficult to accomplish as breaking a habit or going on a diet. Large corporations have a way of creating and perpetuating the bureaucracy (traditions and work procedures). Indeed, even the top management team may need to be changed to those who can see the forest while gazing at the trees. In retail business, this clearly implies shifting away from the corporate buying groups as the driving force to retail store operations as the driving force in the organization. In other words, it is shifting away from selling whatever is bought to buying whatever the market needs or demands.

##### 5. Manage Your Costs

With the lowering of entry-exit barriers as well as global competitive perspectives, it will become necessary for management of large corporations to identify cost structures separately for each merchandise-store combination. With very large and diverse merchandise lines, it becomes very difficult if not impossible to identify and trace various cost components. Furthermore, these costs should include all functional activities associated with procurement, marketing, and management overheads. Greater financial controls and development of

on-line real-time information systems will be required. The two most common methods of cost control are functional consolidation and automation. The former is an effort to retrain the specialists into generalists, and the latter is the replacing of specialists by microprocessors.

In the retail industry, this can be accomplished only by on-line computerized sales transactions and mainframe software systems which will provide on a daily basis the profitability of each store and each merchandise group. In short, retailers must shift focus away from sales to profits, and the only way this can be achieved is to keep track of all costs and allocate them to individual merchandise lines and individual stores. Reportedly, highly successful specialty chains such as The Limited claim their success equally to their financial controls as they do to their market focus.

#### 6. Professionalism of Employees

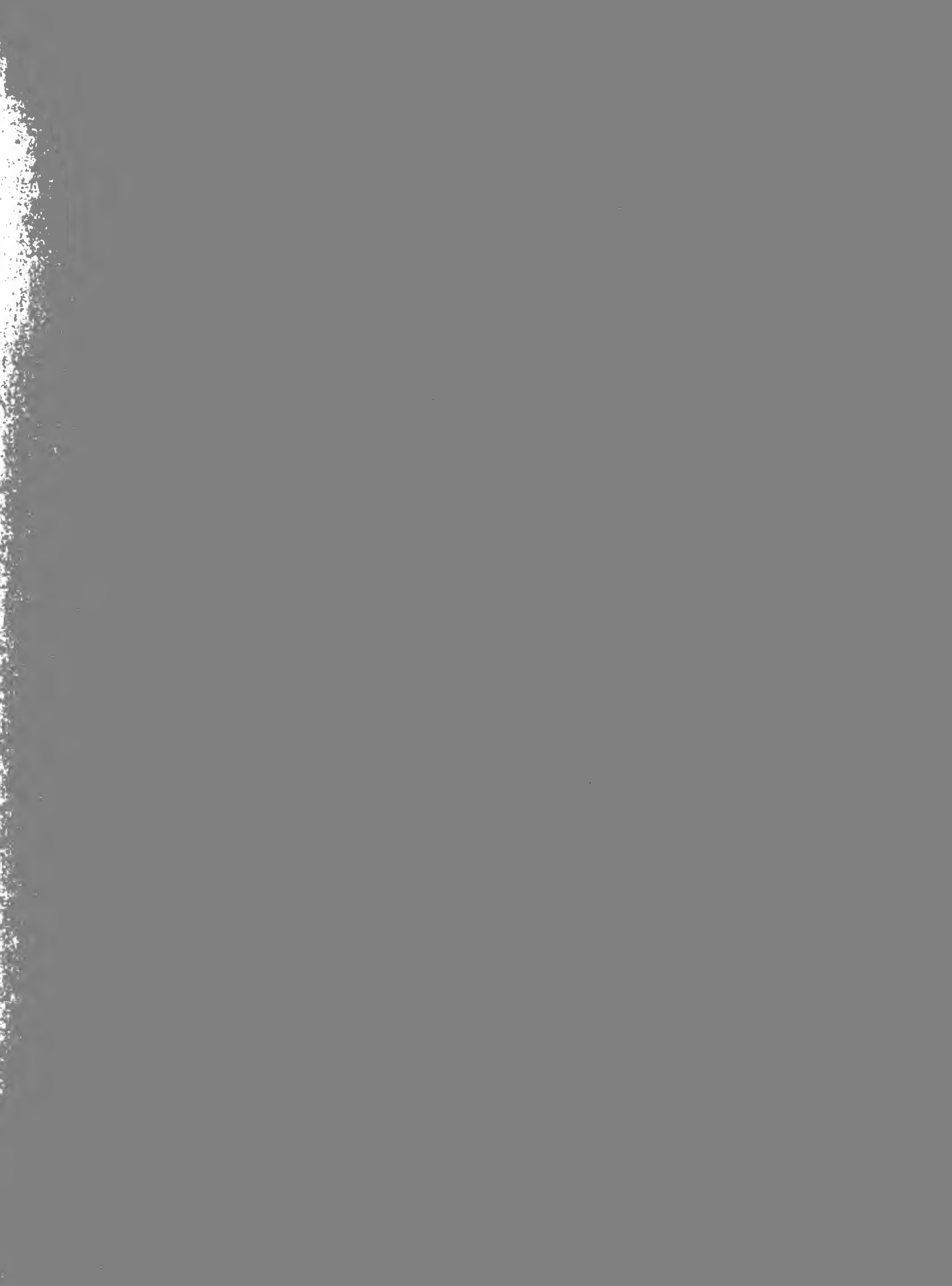
The last but certainly not the least is the need for selective recruitment of the workforce (both store operations and corporate staff) and inculcating corporate culture through training and incentives (both psychological and economic). While it is nice to learn how the Japanese excel at managing human resources through quality circles and practicing theory Z principles, it will become increasingly necessary for the top management of large retail chains to provide charismatic leadership and hero worship. All we have to do is to go back in the business history books and emulate such great business leaders as Alfred Sloan (General Motors), General Arthur Wood (Sears), S.S. Kresge (K-Mart), and Thomas Watson (IBM), and Theodore Vail (AT & T).



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