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### Abstract

Retailers have various ways of meeting customer needs through the organisation and design of their retail outlets. This chapter describes the different types of retail institutions that represent different types of retail strategies for selling goods and services in the food and near-food sector.

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### 2.1 Types of Retail Institutions

From a managerial point of view, understanding the different types of **retail institutions** is important because they have a competitive impact on the retail business. Several types of retail institutions mirror retailer business operations. Thus, each type represents a specific retailing strategy.

Several systems of retail classification have been developed by government institutions to collect and analyse business data more effectively. One of the first classification systems was the **Standard Industrial Classification** (SIC) code, which was developed for the *US Census Bureau* in 1930 and uses special codes (sets of numbers) to identify types of retailers. This served as the basis for the further development of international classification systems such as the UN's **International Standard Industrial Classification of all Economic Activities** (ISIC), the NAICS (**North American Industrial Classification System**) or the NACE (**Nomenclature statistique des Activités économiques dans la Communauté Européenne**) in the European Union (see Fig. 2.1)

Under these classification schemes, retailers are assigned hierarchical codes based on the types of products and services they sell. However, retailers selling the same category

**G - Wholesale and retail trade; repair of motor vehicles and motorcycles**  
**G47 - Retail trade, except of motor vehicles and motorcycles**

<b>G47.1 - Retail sale in non-specialised stores</b>		
G47.1.1 - Retail sale in non-specialised stores with food, beverages or tobacco predominating		
G47.1.9 - Other retail sale in non-specialised stores	<b>G47.6 - Retail sale of cultural and recreation goods in specialised stores</b>	
<b>G47.2 - Retail sale of food, beverages and tobacco in specialised stores</b>	G47.6.1 - Retail sale of books in specialised stores	
G47.2.1 - Retail sale of fruit and vegetables in specialised stores	G47.6.2 - Retail sale of newspapers and stationery in specialised stores	
G47.2.2 - Retail sale of meat and meat products in specialised stores	G47.6.3 - Retail sale of music and video recordings in specialised stores	
G47.2.3 - Retail sale of fish, crustaceans and molluscs in specialised stores		
G47.2.4 - Retail sale of bread, cakes, flour confectionery and sugar confectionery in specialised stores		
G47.2.5 - Retail sale of beverages in specialised stores		
G47.2.6 - Retail sale of tobacco products in specialised stores		
G47.2.9 - Other retail sale of food in specialised stores		
<b>G47.3 - Retail sale of automotive fuel in specialised stores</b>	<b>G47.7 - Retail sale of other goods in specialised stores</b>	
G47.3.0 - Retail sale of automotive fuel in specialised stores	G47.7.1 - Retail sale of clothing in specialised stores	
<b>G47.4 - Retail sale of information and communication equipment in specialised stores</b>	G47.7.2 - Retail sale of footwear and leather goods in specialised stores	
G47.4.1 - Retail sale of computers, peripheral units and software in specialised stores	G47.7.3 - Dispensing chemist in specialised stores	
G47.4.2 - Retail sale of telecommunications equipment in specialised stores	G47.7.4 - Retail sale of medical and orthopaedic goods in specialised stores	
G47.4.3 - Retail sale of audio and video equipment in specialised stores	G47.7.5 - Retail sale of cosmetic and toilet articles in specialised stores	
<b>G47.5 - Retail sale of other household equipment in specialised stores</b>	G47.7.6 - Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	
G47.5.1 - Retail sale of textiles in specialised stores	G47.7.7 - Retail sale of watches and jewellery in specialised stores	
G47.5.2 - Retail sale of hardware, paints and glass in specialised stores	G47.7.8 - Other retail sale of new goods in specialised stores	
G47.5.3 - Retail sale of carpets, rugs, wall and floor coverings in specialised stores	G47.7.9 - Retail sale of second-hand goods in stores	
G47.5.4 - Retail sale of electrical household appliances in specialised stores	<b>G47.8 - Retail sale via stalls and markets</b>	
G47.5.9 - Retail sale of furniture, lighting equipment and other household articles in specialised stores	G47.8.1 - Retail sale via stalls and markets of food, beverages and tobacco products	
	G47.8.2 - Retail sale via stalls and markets of textiles, clothing and footwear	
	G47.8.9 - Retail sale via stalls and markets of other goods	
	<b>G47.9 - Retail trade not in stores, stalls or markets</b>	
	G47.9.1 - Retail sale via mail order houses or via Internet	
	G47.9.9 - Other retail sale not in stores, stalls or markets	

**Fig. 2.1** NACE codes – examples. (Eurostat 2015)

of merchandise are not necessarily direct competitors. These classification schemes, therefore, are mainly used for data collection and statistical analysis to provide insight into the development of the various retail institutions at a national or international level. For retail managers, the more strategic aspects of the different types of retail institutions are crucial. Therefore, classifying retail institutions based on the characteristics of the strategies they employ to sell goods and services is important for **strategy development** and competitive analysis. These types of retail institutions are referred to as **retail formats**. Retail formats are specific configurations of retail marketing mix that are maintained consistently over time (e. g., type of store design and atmosphere, merchandise offered, services provided, pricing policy, type of location, approach to advertising and promotion, etc.).

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## 2.2 Theories of Retail Evolution

### 2.2.1 Overview

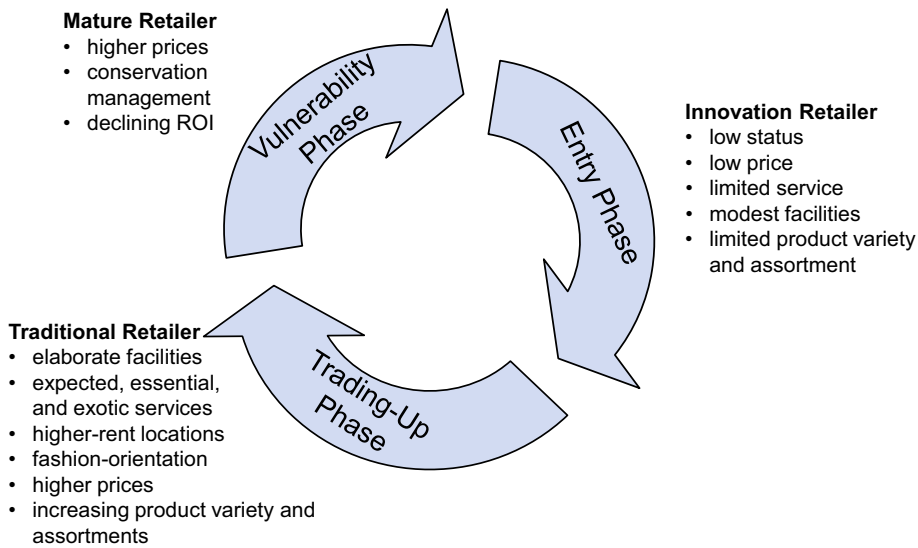
There are a number of theories to explain the present structure of the retail industry and predict the future development of current and new retail formats. In this context, the **wheel of retailing** and the **retail lifecycle** are two particularly important theories.

### 2.2.2 The Wheel of Retailing

The **wheel of retailing** (McNair 1931) is a well-established framework for explaining developments in retail institutions. The theory suggests that retail institutions go through cycles during their development (see Fig. 2.2). The theory is that as low-end retailers upgrade their strategies to increase sales and profit margins, new forms of low-price (discount) retailers take their place in the market.

The **wheel of retailing** describes institutional changes that occur when new competitors enter the market. In its initial form, the wheel of retailing consists of a three stage cycle (McNair and May 1978; Brown 1988; Berman and Evans 2013, pp. 143–145):

- According to the wheel theory, retail innovators often appear as low-price operators. Thus, the cycle begins with retail institutions starting off with **low prices** and **low service levels**.
- The second phase is **trading up**. Retailers who wish to expand their business and attract more customers enhance the quantity and quality of merchandise they handle, provide more services and open outlets in more convenient locations. This leads to an increase in operating costs and prices and thus offers opportunities for new competitors to enter the market with low-price strategies.
- The third phase sees **increased competition** for services of all kinds and a convergence of retailers' marketing mixes as they mature. They become vulnerable to new competitors entering the market with low prices.



**Fig. 2.2** The wheel of retailing

The wheel of retailing describes a circular retail format development process of alternating trading up and dissolution of retail formats due to a competitive environment, characterised by innovators entering the market as low-price competitors.

### 2.2.3 The Retail Lifecycle

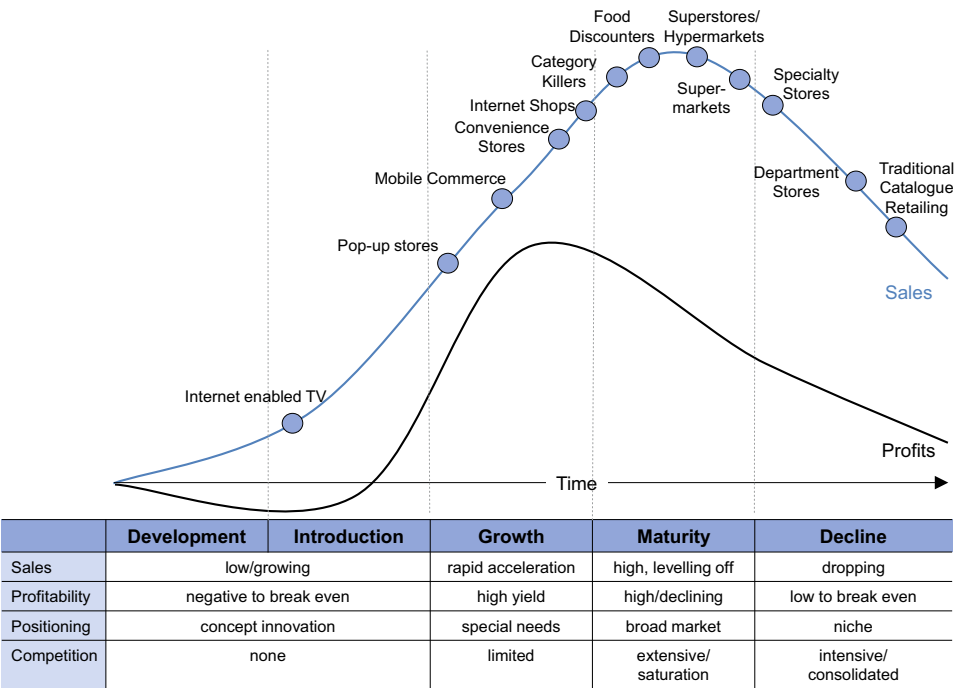
The retail lifecycle is a succession of identifiable stages that a retail format goes through over time (Berman and Evans 2013, pp. 146–148):

- In the **development stage**, the new format is introduced to the market. It is different from existing retail institutions' strategies, as at least one element of the marketing mix is altered in the new format.
- In the **introduction phase**, sales and profits are low, but growing. Costs and risks are high because long-term success is not assured at this stage.
- The **growth phase** is characterised by the rapid growth of both sales and profits. Existing companies expand their markets and new competitors employing the same retail format enter the market. Towards the end of this stage, growth acceleration begins to decline and cost pressures may emerge.
- The next stage is **maturity** of the retail format, brought on by market saturation, which in turn is caused by a high number of firms using this retail format and competition from new formats. Sales growth declines and profit margins may have to be

- reduced to stimulate sales. Once maturity is reached, the main goal is to prevent the business from declining and to sustain profits for as long as possible.
- In the final stage, **decline**, sales volumes decline and prices and profitability shrink. Companies can try to avoid decline by **repositioning** their retail format, but many companies abandon the format altogether and introduce new formats to keep their customers or attract new ones.

Fig. 2.3 illustrates the characteristics of these five stages and indicates the stages which current retail formats have reached in Western or developed countries, including the United Kingdom, France, the United States or Germany.

In the context of the retail lifecycle, **store erosion** (Berger 1977) is defined as a reduction in a retail company’s appeal and ability to attract customers over time because of changes in the company’s internal and external conditions. In a **dynamic environment**, new retailing formats that meet new customer needs render existing retail formats obsolete. In order to avoid decline and survive, retail companies must adapt to changing marketplace conditions and **reposition** their retailing concepts.



**Fig. 2.3** The retail lifecycle. (Adapted from Berman and Evans 2013, p. 146; Zentes et al. 2005, p. 34)

## 2.3 Store Formats in Food and Near-food Retailing

### 2.3.1 Overview

Over the past few decades, food retailing has undergone substantial changes. **New competitors from general merchandise retailing** have entered the market by expanding their assortments and selling **food** and **near-food articles** (i. e., articles of daily use such as health and beauty aids, cosmetics and hygiene products). But, in most cases, traditional food retailers also carry merchandise outside their traditional lines of food and near-food items (i. e., general merchandise) and offer other kinds of services. These developments indicate that it is difficult to precisely allocate retail institutions to either food or general merchandise retail formats. This section will present the formats of superettes, conventional supermarkets, superstores, combination stores, hypermarkets and supercentres, convenience stores, food discounters, drugstores and warehouse clubs. Table 2.1 provides an overview of the characteristics of the most important retail formats.

Food retailing store density is relatively high in most countries.

Fig. 2.4 presents the density of retail stores of different sizes in European countries. While larger store formats are growing more relevant, stores below 1000 m<sup>2</sup> dominate in all country markets by store numbers. These play an important role in proximity retailing, among others.

### 2.3.2 Superettes

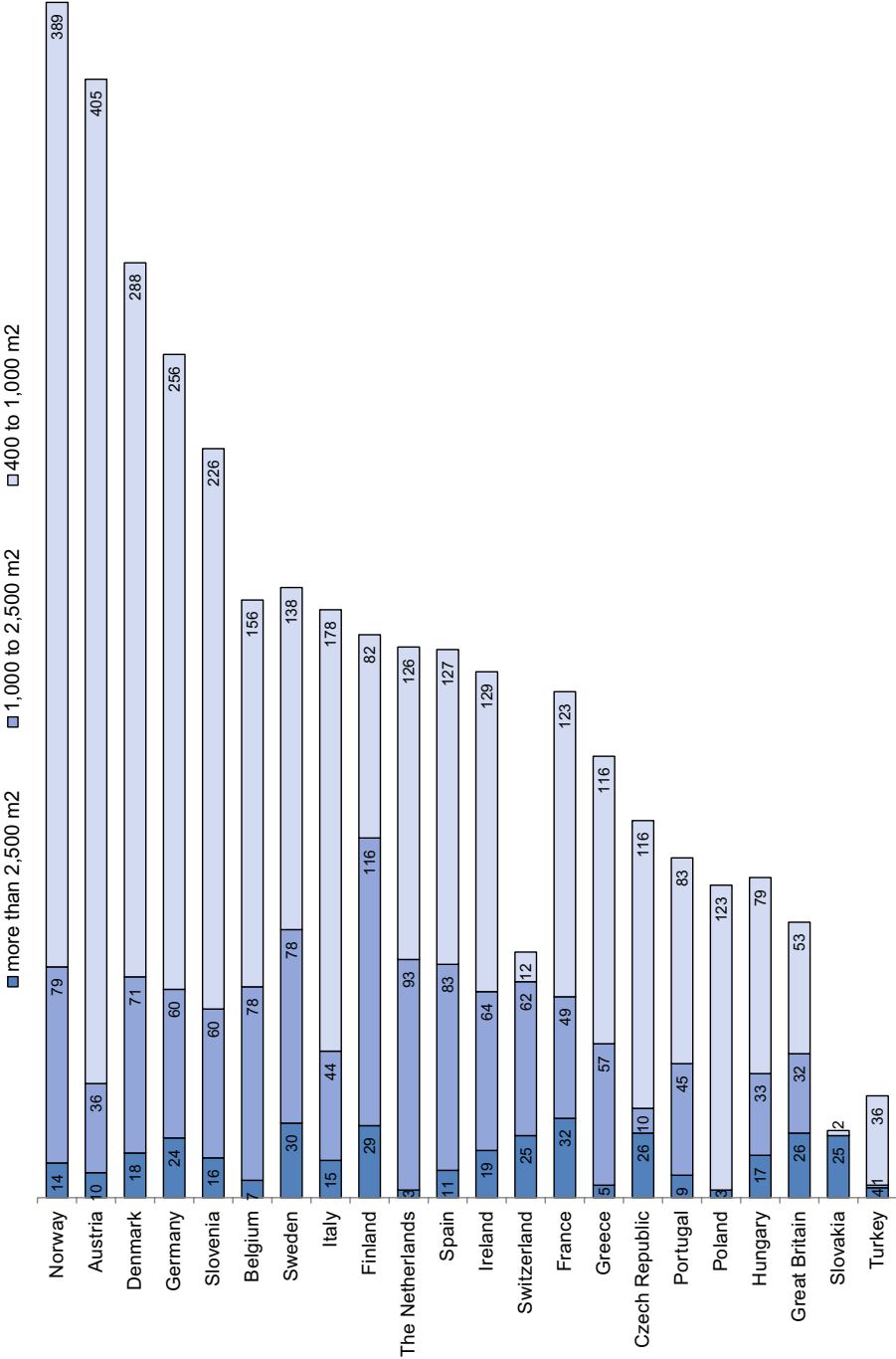
Superettes, **minimarkets** or **minimarts** are very small store formats (smaller than 400 m<sup>2</sup>) that offer a limited assortment of food and related items of daily and short-term requirements. These formats have been under pressure for a while, even though these were once the traditional neighbourhood store format for food retailing. However, they remain important in some markets, such as the Asia-Pacific region.

Because of its long trend of dwindling market share, many retailers in Western markets have written off **superettes** and streamlined their store chains. However, thanks to the efforts of retail chains such as *EDEKA* or *REWE*, which have supermarkets but also operate superettes, this retail format is experiencing a resurgence. These retailers have changed the positioning of their small store formats by using trading-up strategies in their retail marketing mix. This strategy of positioning superettes as a form of neighbourhood-oriented proximity retailing – not to be mistaken with convenience stores – in **neighbourhood locations** or in cities, with modern in-store designs, revamped assortment strategies and usually lower prices, has made this store format relevant again.

Because one of the main problems with superettes in the past was store productivity, many retailers have also changed the **ownership structure**. In most cases, they now operate their superettes as franchise systems or voluntary chains to guarantee their profitability (see Chap. 7).

**Table 2.1** Selected characteristics of store-based formats in food retailing. (Adapted from Berman and Evans 2013, p. 150; Levy et al. 2014, p. 42)

	Superettes	Conventional Supermarket	Superstore	Hypermarket	Convenience Store	Hard Discounter
Size (m <sup>2</sup> )	100–399	400–1000	1000–5000	5000–30,000	200–400	500–1500
SKU's	20,000	20,000–30,000	30,000–40,000	40,000–150,000	1000–3000	700–1500
Merchandise	Small to medium breadth and depth of assortment; average quality; manufacturer and store brands	Extensive breadth and depth of assortment; average quality; manufacturer and store brands	Full assortment of supermarket items, plus health and beauty aids and general merchandise	Extensive breadth and depth of assortment; full selection of supermarket and drugstore items, and general merchandise	Medium breadth and low depth of assortment, average quality	Medium breadth and low depth, heavy use of store brands (up to 90 %)
Percentage Food	90 %	75–90 %	60–80 %	60–70 %	90 %	80–90 %
Prices	Average/competitive	Average/competitive	Competitive	Competitive	Average to above average/high	Very low
Atmosphere and Services	Average	Average/good	Average	Average	Average	Low
Location	City or neighbourhood	City or neighbourhood	Community shopping centre or isolated sites	Community shopping centre or isolated sites	Neighbourhood, city or highly frequented sites	Neighbourhood, traffic-oriented
Promotion	Little to moderate	Use of newspapers, flyers, coupons	Heavy use of newspapers, flyers, coupons	Heavy use of newspapers, flyers, coupons	Little to moderate	Heavy use of newspapers and flyers



**Fig. 2.4** Number of stores per 1 million inhabitants in Europe in 2013. (Nielsen 2014)



### 2.3.3 Conventional Supermarkets

Conventional supermarkets are self-service stores that carry a wide range of **food items** (mainly groceries, meat and produce), including fresh food (e. g., fruits and vegetables) and related items. The share of general merchandise offered in this retail format is limited to between 10 and 25 %, including, for example, health and beauty aids and products (Berman and Evans 2013, p. 152).

Supermarkets are usually located in city or neighbourhood locations with sizes between approximately 400 and 1000 m<sup>2</sup>. Important players that use this format include *Sainsbury's*, *EDEKA*, *REWE*, *Ahold* or *Intermarché* in Europe and *Kroger* and *Albertson's* in the USA.

This has traditionally been the main retail format for grocery shopping and has accounted for the majority of sales in food retailing for several decades. However, it faces **intense competition** from new formats offering more convenient shopping facilities, more product lines and more varied assortments or lower prices as a result of lower operating costs (Levy et al. 2014, pp. 42–43).

Companies such as *REWE* or *EDEKA* have successfully **repositioned** their supermarkets and thus improved their competitive positions by emphasising freshness and high quality assortments, introducing medium- to high-level store brands and improving store atmosphere in order to provide a better **in-store shopping experience**.

### 2.3.4 Superstores

Food-based **superstores** are larger and more diversified than conventional supermarkets. Their size varies between 1000 and 5000 m<sup>2</sup>, with expanded services such as a deli, bakery, seafood counter and general merchandise sections (Berman and Evans 2013, pp. 152–153). They are “**true**” **food stores** with a share of general merchandise ranging from approximately 20 to 40 %, but also offer consumers expanded **one-stop shopping** possibilities.

**Combination stores**, as they are sometimes known, are a similar store concept. They tend to be larger than superstores (up to 9500 m<sup>2</sup>) and offer a higher share of general merchandise (from 25 to 50 % of sales). These stores combine food and general merchandise, thus offering a higher level of one-stop shopping for consumers than superstores (Berman and Evans 2013, p. 153).

This combination of food and general merchandise in superstores and combination stores yields operating efficiencies and cost savings, mainly because non-food items tend to have higher margins. Superstores and combination stores usually follow either a **high-low pricing strategy** (HiLo), which means that they are very promotion-oriented (e. g., intensive advertising or distribution of flyers), or an **everyday low-price strategy** (EDLP) using few promotions and selling their merchandise at fixed low prices (see Chap. 13). Superstores and combination stores can be located in city or neighbourhood locations as well as in isolated sites or in shopping centres and oriented towards customers travelling by car. Important players that operate superstores or combination stores include *Intermarché*, *REWE*, *Tesco* or *Albertson's*.

### 2.3.5 Large Retail Formats

Over the past few decades, large retail formats have gained market share in grocery retailing. These large-scale retail formats are also referred to as “big-box retailers”.

While this trend has developed similarly worldwide, specific formats have developed in different countries. **Hypermarkets**, which originated in France, are the largest of these. Their size ranges from 9000 to 30,000 m<sup>2</sup> (e. g., *Carrefour* and *Auchan*). The German “**SB-Warenhäuser**” (e. g., *Metro’s Real* format or *EDEKA’s Marktkauf* format) tend to be smaller, with sizes starting at 5000 m<sup>2</sup>. While these European formats have a larger share of food items, ranging from 60 to 70 %, in the USA **supercentres** (e. g., *Walmart*, *Kmart*, *Target*) range from 14,000 to 21,000 m<sup>2</sup> and carry a broader assortment of general merchandise. Thus, the share of general merchandise is higher, ranging between 60 and 70 % (Levy et al. 2014, p. 45).

These large retail formats usually follow an aggressive, promotion-oriented **low-price strategy**. The stores are generally located in isolated sites or found near to or integrated into shopping centres. The architecture is usually cost-oriented, with a simple store design and **function-oriented** store atmosphere. As these large retail formats offer a broad assortment of food and general merchandise and thus provide **one-stop-shopping** opportunities, customers usually buy more. These store formats have a greater market area than smaller store formats (e. g., supermarkets), meaning customers are willing to drive further. These stores, therefore, provide substantial parking facilities. Because of their low operating costs and the combination of food with higher margin general merchandise, which allow for **aggressive pricing strategies** and increased shopping convenience (e. g., in terms of a broad and deep assortment), over the past few decades large retail formats have gained market share mainly at the expense of conventional supermarkets. However, some countries (e. g., France) seem to have reached a saturation point, and hypermarket operators are searching for ways to modify the format to maintain market share.

### 2.3.6 Convenience Stores

Convenience stores (“c-stores”) are usually in easy-to-access locations, such as heavily frequented areas or urban neighbourhood locations. They open long hours (up to 24 hours, depending on local or national legislation). The stores are small and facilities are limited, with an average atmosphere and average service level. Convenience stores can be operated as standalone units (e. g., *Tesco Express*, *7-Eleven*, *Auchan*, *Coop Pronto*), but are often coupled with petrol stations (e. g., *Shell Shops*, *BP* or *Aral Stores*, *Esso Shops*).

The focus of convenience stores is on **ease of shopping**. They offer fast shopping, allowing customers to pick their merchandise quickly and check out quickly (Levy et al. 2014, p. 46).

The **very limited assortment** of these stores is food-oriented. Convenience stores thus also offer “mental convenience”, as the limited assortment enables customers to make their choices quickly (Berry et al. 2002). A high proportion of sales are impulse pur-

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