

Future of Retailer Profitability: An Organizing Framework

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Abstract

Retailers are dynamic in nature, and their strategies keep evolving with changing scenarios and availability of new technologies. In the current scenario, there is a need for a comprehensive and organizing framework for retailers to develop and implement a complex set of strategies. In this article, we broadly categorize retailers' implementation of strategies at four levels—market, firm, store and customer. The four-level categorization has been done using a triangulation approach consisting of inferences from previous literature, interviews with practitioners, and reviewing popular press. In the future, retailers will expand to even more countries, and there will be plenty of scope for using advanced technologies and big data. This organizing framework accommodates for any such changes as well as guides retailers about ways of increasing profitability in the future. In this article, we also provide generalized expectations of strategies under each level which not only can be used by researchers as a direction of future research but also by practitioners to understand and implement their strategies in an effective and efficient way. © 2016 New York University. Published by Elsevier Inc. All rights reserved.

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Introduction

The retail industry is one of the largest and most diversified operations in the world. The structure of the business industry connects manufacturers to consumers by providing products and services from the producer to the customer. New technology, and the presence of an ever-changing competitive market structure, requires the business industry to adapt their practices accordingly. Between 2009 and 2014, big box and department store retailers' annual growth dropped by roughly four percent while the annual growth of online retailers grew ten percent (Globalmna 2015). The closing of 100 Macy's stores in 2016 is a direct result of this shift in consumer behavior. Sixty percent of customers say they shop at their favorite retailer because of price and 52% of consumers prefer shopping at a physical store, despite an uptick in online research of certain products (particularly electronics and computers) (PWC 2016). Such dynamic changes add to retailers' existing multi-dimensional problems,

forcing them to develop new strategies to address each of these challenges. Retailers are particularly concerned with strategies such as pricing, product selection, location choice, and store format. Though the retailers' strategies can be profitable, the difficulty lies in identifying the source of profitability in the complex retail structure. This complexity arises due to various possible combinations of independent strategies at different functional levels of retailers. Following the literature on configurational approach of organizational theories (Meyer, Tsui, and Hinings 1993), retailer strategies can be used for the market as whole entity, as well as the smaller segments of the market.

In this article, we broadly categorize retailer strategies at four levels—market, firm, store, and customer to develop comprehensive framework. The main criteria of this division are the levels at which practitioners and researchers observe decision strategies, and how they implement those strategies. In this article, we categorize the strategies based on strategy implementation by retailers. This enables us to determine the source of profitability and narrow down potential problems in the event of a failure, as strategies which are configured at individual levels are similar in their implementation approach. Each level is comprised of multiple strategies which affect the profitability of

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retailers in their own way. Further, we offer a set of generalized expectations (GE) for each of these strategies to guide retailers and researchers. We use a triangulation approach to develop the proposed framework wherein we review the retailing literature extensively, gather information from popular press, and survey executives in the retail industry about the current and future trends and issues.

The implementation of these strategies at the four levels is contingent on the retailers' (a) localized strategies in global expansion and (b) adoption of advanced technology and big data analytics. Slow growth in the domestic market, growing competition from other multinational retailers, and the ability to use knowledge learned in multiple markets, drives retailers to move to diverse international markets. Retailers are concerned about many of their existing strategies, such as whether to enter the market as a joint venture or as wholly owned subsidiaries, and whether to sell standardized products or customized products. In addition, retailers are, and will be, confronted with abundant advanced technologies and an abundance of data about customers' purchase behaviors. This technology, while helpful, is expensive for retailers and requires change in current practices to account for the digital fluency brought by new technology adoption. Adoption of advanced technologies and big data has a larger effect on store and customer-level strategies, which are more dynamic when compared to market and firm-level strategies.

In this article, we draw upon previous literature and existing retail practices to organize the framework. [Hollander \(2002\)](#) suggests that studying patterns from historical papers will help pave the way for a better future in the retail industry. Our classification of a retailer's strategies is also consistent with [Mason, Mayer, and Wilkinson \(1993\)](#), and [Miles et al. \(1978\)](#) who suggest that structural classification of the retail industry is useful for understanding and implementing retailing strategies efficiently. The expansion to foreign markets and a high influx of data and technology will bring about active changes in the retail industry. Our organizing framework is also in line with extant literature that discusses retailers' choice of strategies when moving to an international market, for example, whether to opt for a 'global integration' or 'local responsiveness' strategy ([Swoboda, Elsner, and Morschett 2014](#)). Following [Zhu and Kraemer \(2005\)](#), we also argue that the adoption of innovative technologies affect retailers' organizational routines and impact overall performances.

To understand further the practical relevance of dividing strategies at the four levels, we conducted interviews with managers in the retail industry from different countries and different types of merchants. We conducted 80 personal interviews, including senior managers of small and large retail firms as well as managers from chain and single store retailers. We interviewed 22 chief marketing officers (CMO) and 22 directors of marketing from developed nations (sixteen from the United States and 28 from Europe), eighteen CMOs and eighteen directors of marketing from emerging markets (24 from Asia and the Middle East and twelve from Latin America). The questions we asked focused on sources of profitability, strategy implementation based on the type of retail setting, global orientation of the company, and the adaptation of future technologies. We specif-

ically focused on how the individual organizations deal with competition in a dynamic environment, how they strategize for top and bottom line growth, how they increase store traffic, and how they maximize customer value. We also emphasized upon questions related to their strategies for long-run survival in the dynamically changing environment. We analyzed the qualitative responses of the managers and found that the division of levels based on the literature regarding implementation of strategies matched up with thoughts and practices of individuals in the field.

We contribute to research in the retail area by offering a comprehensive framework that will allow researchers better understand retail strategies at different levels, and focus on individual strategies that need further research. The existing framework is also useful when retailers expand to multiple countries with varying cultures. The framework is also applicable to the technological changes, which are essential for the growth of retailers. Managers of the retail industry in developed nations and those planning to expand to emerging markets will benefit from this framework by learning to implement strategies, both effectively and efficiently, while identifying the source and degree of their profitability within each level. They can also use generalized expectation of strategies under each level discussed in this article for their future strategy implementation.

Organizing framework

In our proposed organizing framework, we discuss retailers' strategies at each level and multiple strategies within each of those levels. Market-level strategies consist of strategies relating to market structure, market share, market response to advertising, market-level pricing, market power and expansion strategies. Firm-level strategies include approaches relating to a firm's mergers and acquisitions, alliance, store branding, and multichannel strategies. Store-level strategies consist of approaches focusing on store marketing mix, location, and atmosphere related strategies. Finally, customer-level strategies are comprised of strategies dealing with customer experience, satisfaction, loyalty, profitability and engagement strategies of retailers. Finally, we discuss the effects of retailers' localized strategies in global expansion, and the effect of the adoption of advanced technology and big data analytics on the relationship between each level of strategies and the retailers' profitability. [Fig. 1](#) contains organizing framework of strategies at four levels and appropriate actions for practitioners at each level affecting retailers' profitability.

Market level

Market-level strategies are *strategies which are implemented at the aggregate market level and are unique to that particular market*. Retailers implement their differentiating strategies to position themselves uniquely against their competitors in the market. Our selection of strategies under the market level is consistent with the relevant literature as well as with managers' responses who are concerned with increasing competition across different market segments, expanding their business, and

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