Volume 59 Number 3 Fall 1983

Emerging Trends for the Retailing Industry

JAGDISH N. SHETH
Professor of Marketing
University of Illinois
Urbana, Illinois

The purpose of this paper is to describe a number of emerging environmental changes that affect retailing. Many retailers do not see these emerging trends, partly because they are more evolutionary 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 sufficient excuse for lack of longer-term focus on strategic issues facing their corporations.

A number of emerging environmental changes are significant enough to require retailers, and particularly national or regional retail chains, to reexamine their corporate missions, competitive strategies, organization structures, and day-to-day business operations (Berry and Wilson 1977; Michman 1979; Davidson and Rodgers 1981). This article summarizes some of the major trends that are already starting to impact the retail industry and which will continue to affect it 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 (*Business Week* 1978, 1976).

Customer Demographics

The aging of the United States, the prevalence of dual-income households, and the emergence of nontraditional households, such as singles and mingles, are all resulting in highly diverse, adult-oriented and individualistic life styles in which time, rather than money, has become the scarce resource (Nesbitt 1982; *Progressive Grocer* 1982). It is no exaggeration to assert that America is becoming a superactive affluent nation resulting in a time-poor, money-rich society.

Postindustrial Technology

With the emergence of the postindustrial electronics age of civilization, 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 marketplace.

Nontraditional Competition

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

Furthermore, the old idea of a large number of competitors generating a lot of competition is 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 when 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.

Changing Regulatory Focus

The regulatory focus is also shifting dramatically as compared with the decades of the 1950s and the 1960s. First of all, there is a strong sentiment, at least at the federal level, to deregulate industries such as airlines, telecommunications, and professional services including health care, insurance, and banking. At the retail level, this deregulation has already resulted in the blurring of boundaries between products and services. For example, dry goods retailers, such as Sears, are committed to financial services business, and supermarket chains (for example, Kroger) look more like one-stop neighborhood convenience centers with lots of nongrocery products and services (*Economist* 1983; *Fortune* 1983).

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, partially due to guilt-by-association prejudgments by consumer advocates and partially due to the retail industry's realization that the presence of consumerism is a shame of marketing.

These four environmental forces combined 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, six major trends relevant to retailing will be enumerated.

EMERGING TRENDS FOR RETAILING

Premium versus Functional Products

With the decline of the traditional middle class as a consequence of career-oriented, dual-income, and adult-oriented life-styles, 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 (*Chain Store Age* 1982, October). 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 (*Advertising Age* 1979; *Chain Store Age* 1983, September). 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 (*Chain Store Age Executive* 1982). Examples include such premium retailers as Neiman-Marcus, Bloomingdale's, Dayton Hudson, Marshall Field, and many others (*Marketing & Media Decisions* 1982; *Chain Store Age Executive* 1982). Even middle-class stores such as Sears and J. C. Penney are also attempting to upgrade their merchandise through signature labels and non-store premium-brand names.

At the same time, those retailers that offer mass-market functional products and services will find it more and more difficult to survive (*Chain Store Age* 1982, November). As the single-class, mass-consumption society partitions itself into a dual-class, mass-consumption society, inevitably the total market share of functional products will decline, with resultant intense price competition to protect or increase market shares. Lower market shareholders 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 discontinue its appliances and automotive services business (*Automotive News* 1983). Even K mart has experienced difficulties in its auto-care program and fashion goods (*Chain Store Age* 1982, November). Packaged goods business at both the manufacturing and the retail level is also going through a similar consolidation. Among grocery manufacturers, including Pillsbury, General Foods, General Mills, Nabisco, Proctor & Gamble, and many others, one observes a good deal of jockeying for position by mergers and acquisitions as well as their abandonment 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 such regional chains as IGA.

Dominance of Wants over Needs

As the society progresses on Maslow's hierarchy from physiological and safety-security needs to those for love, affection, and self-esteem, psychological wants will come to dominate the consumer motivations over the physiological needs. It is no exaggeration to state that as an affluent nation, the United States 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 the physiology of markets. This may be one of the explanations for the growing trend in most shopping malls to provide excitement by presenting lots of atmospherics, activity, 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 ever more 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 change 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-cycles. Indeed, it means that retailers will have to plan major technological and marketing innovations with shorter payback periods. An example of one way to accommodate this emerging trend in a highly capitalized "brick and mortar" business is the recent announcement by Sears to reorganize its future store interiors into many boutique shops and specialty counters.

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, in addition to newer retail institutions such as specialty chains and party-plan selling.

Personalized Procurement and Consumption

With the emergence of nontraditional households as well as dual-income, career-oriented life-styles, 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 car demanded in the marketplace. 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 a per household basis. This trend is already evident in the banking and medical services.

Third, as we shift from the home preparation of food to the consumption of already prepared food, 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 items 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 more likely that each member of the family will watch his or her own television or cable programs rather than that families will watch together, partially because of time constraints and partially 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 as they watched Walter Cronkite for a generation. In short, news will have to be offered on a continuous 24-hour basis.

Similarly, recreation activities will probably 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 their personal computers 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 way the retail industry 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 these goals 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 lay-away plans must be redesigned to suit individual 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.

Blurring of Home-Workplace Boundaries

Because of both demographic and technological changes, it will become increasingly common not to separate the time and place 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 postindustrial society. It is also growing popular to shop at home through electronic shopping and direct marketing systems.

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 (Rosenberg and Hirschman 1980; *Broadcasting* 1980; *Telecommunications* 1981; *Stores* 1980; *Sales & Marketing Management* 1980). 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 one another will be determined primarily by the trade-offs of costs and benefits to each participant.

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 possible 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 that 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 (CMA) 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.

Emergence of Specialized Markets

Pluralism in our values, life-styles, 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, the next two decades can be expected to bring 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 segments will include ethnic groups such as blacks, Hispanics, Orientals, and Asians as well as more traditional European groups. Other unique specialty segments include the handicapped, foreign tourists, people who work at home, farmers, and other distinctive groups such as truck drivers and traveling salespeople. These people all have unusual needs and wants either because of biogenic needs or 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, the computerized technology will make it 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 that will cater to the needs of the handicapped and the ethnic segments.

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 existed for several years now, as is evidenced by the emergence of shopping malls and neighborhood shopping centers. However, the future moves 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, including insurance, tax preparation, real estate, investments, and money management services will be transacted in a Sears or a J. C. Penney store (*Duns Business Monthly* 1983). Finally, practically all products and services are likely to be shopped for and procured in the privacy, convenience, and comfort of the home through electronic shopping (Davidson, Dorrington, and McCoy 1982).

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 its managerial leadership (mind). In short, an organization must be well balanced between the doers (line organization) and the thinkers (staff organization).

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

Broaden Your Horizons

Most retailers will find it increasingly necessary 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 than with buying from the marketplace. At the same time, it will become necessary to redefine businesses more broadly than in the past. For example, supermarkets must redefine their businesses away from the grocery products to convenience goods even if they have to deal 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 of such items as videogames, computers, and other high-tech products and services. Finally, giant retailers—Sears and J. C. Penney, for example—must broaden their business definitions to transcend the dry goods image. Of course, the smart retailers are already planning or implementing this change in the mission of their corporations.

Practice Pluralistic Strategies

No single retailing approach is likely to be sufficient in the future simply because markets are diverging more and more 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 to 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 though 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).

Decentralize the Company

The span of control versus cost of control is encouraging increasing decentralization of the corporation. Greater autonomy can therefore be provided 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 (miniprofit 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 focus better on the market and thereby become responsive to changing market behavior. This is clearly evident in the retail industry where specialty chains (say, T. J. Maxx and Hit or Miss) are allowed to operate autonomously of the tradition of their parent company, Zayre. 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.

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 marketplace. They must strive to deliver more value to the consumers without jeopardizing corporate profitability. It means subordinating technology to customers. It means bending the organization (products, distribution, and promotion) to fit the marketplace rather than bending the marketplace (customers, intermediaries, and competitors) to fit the organization.

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

Manage Your Costs

With the lowering of entry and 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 the 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 replacement of specialists by microprocessors.

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

Professionalism of Employees

Finally, there is a need for selective recruitment of the work force (both store operations and corporate staff) and for 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, the top management of large retail chains will find it increasingly necessary to provide charismatic leadership and the opportunity for hero worship. All we need do is 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), Thomas Watson (IBM), and Theodore Vail (AT&T).

EXECUTIVE SUMMARY

Based on demographic, technological, regulatory, and competitive changes, this paper identifies six major emerging trends that 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 that 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 retail corporation must do the following to survive these trends: (1) Broaden the definition of what business it should be in; (2) develop multiple channels of distribution; (3) decentralize the corporation into several miniprofit centers; (4) focus on the market needs and not on the suppliers; (5) manage its costs through computerization; and (6) inculcate corporate culture in its employees through a charismatic style of management.

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