ABSTRACT

This paper reviews the theoretical literature on retail institutional transformation, evaluates the available theoretical models, and examines their application to the study of the department store. The models may be classified around three major groups of theories: Environment Theory, Cyclical Theory, and Conflict Theory. This paper focuses on a powerful model within Cyclical Theory: the Retail Life Cycle. The Retail Life Cycle concept is developed from the well-known concept of product life cycle in marketing studies. It explains the rise and fall trend of retail institutions in four stages: innovation, accelerated development, maturity and decline. The Retail Life Cycle model has been widely employed to study retail formats in EU countries and in the US. The majority of such studies focuses on the evolution of life cycle of each type of retail formats. Studies suggest that the department store industry in EU countries is at the maturity stage, and that in the U.S. has taken approximately 80 years to mature. An understanding of the evolutionary process of department stores allows us to predict or explain their institutional changes in different national contexts. The model will be invaluable for investigating the department store industry in Hong Kong, for example.

Keywords: department store, retail life cycle

I. Theoretical models of retail institutional change

In this section, I summarize theories of retail institutional change in the current literature. Although retailing is vast field of study, we can identify three groups of basic theories out of the numerous schools of thoughts in the study of retail institutional change — Environmental Theory, Cyclical Theory, and Conflict Theory of retail institutional change (Brown 1987).

Environmental Theory contends that a retail institution’s operational milieu give rise to institutional changes. An environmental view of institutional evolution portrays the structure of the retail system as the sum total effect of the economic, demographic, social, cultural, legal and technological conditions of the marketplace (Shaffer 1973; Bartels 1981). Retail institutions emerge, develop, mature and decline in direct response to these numerous environmental circumstances (Hall, Knapp et al. 1961). During the beginning of the 1970s, it was widely believed that environmental models would enable marketers to predict retail trends in different
nations (Cundiff 1965; Wadinambiatarachi 1972). It is now generally acknowledged that a universal model of retail development is not obtainable (Brown 1987). The wide disparity of social, political, cultural, legal and historical forces at work among individual countries entail institutional diversity rather than uniformity in retail institutional evolution (Dawson 1979). It is also pointed out by critics that the environment does not really determine what will occur, but creates possibilities that each individual organization accepts or rejects as it sees fit (Brown 1987).

Cyclical Theory maintains that retail institutional change arises in a cyclical trend. Four alternative conceptual models are proposed in the literature: the Retail Accordion, the Wheel of Retailing, the Retail Life Cycle and the Polarization Principle (Brown 1987). The Retail Accordion describes the evolution of modern retail system in terms of the general-specific-general cycle that is typically found in product lines (Hollander 1966; Gist 1968). Hower (1943) was the first to notice this cyclical pattern in merchandising assortments. Hollander then extended the general-specific-general cycle principle to individual institutions to describe their widening and narrowing of inventories over time (Hollander 1966). Malcolm P. McNair (McNair and May 1976; McNair and May 1978) was the first proponent of the Wheel of Retailing model. It describes how retail formats begin by selling at low prices and then evolve into high cost modes of distribution. It was subsequently adopted to explain many institutional types, including department stores, mail order houses, discount houses, supermarkets, and shopping centers (Hollander 1960; Oxenfeldt 1960; Brand 1967; Lord 1984). Most commentators point out that the entry and trading up phase of the Wheel model may not be universally applicable. The Retail Life Cycle model derives from the concept of product life cycle in marketing discipline (Bennett and Cooper 1984). The model portrays the evolution of institutions through four stages: birth, growth, maturity and decline, and argues that this evolution process is unavoidable. Sales volume, profitability and market share determine a retail institution’s stage in the cycle. The Polarization Principle describes the polarization process of the retail system (Brown 1987). The multi-polarisation model explains institutional change but says nothing about the retail performance of the institutions.

Conflict Theory argues that inter-institutional conflict exists among different retail formats. When retailers are threatened by other powers in the retail system, they counteract against the competitive pressure. A synthesis process is resulted, when existing retail techniques are altered to meet the competition. Occasionally, this process may end up generating completely new forms of retail technique (Brown 1987). This model is not as widely recognized as the models of Cyclical Theory.

II Conceptual framework of the Retail Life Cycle model

After outlining the basic theories of retail institutional change, I turn in this section to an assessment of them. I am especially interested in identifying a powerful model for explaining retail institutional evolution, and I am going to argue that the Retail Life Cycle model stands out among them as the most practically useful perspective.
The environmental approach focuses on trends in the retail environment (Hensel 1973; Board 1980; Liversey and Hall 1981), an industry’s responses to opportunities and threats (May and McNair 1977), and visions of future retail format (McNair and May 1978). Both the birth and development of retailing change are explained in terms of environmental conditions. While we may grant that environmental factors determine retail institutional changes, these factors do not adequately explain the sequential evolution processes of retail institutions. The conflict perspective is proficient at explaining how inter-institutional conflicts give rise to institutional changes, but neither does it explain the sequential evolution of retail institutions.

The cyclical approach is most appropriate for investigating the macro, long-run, and diachronic dimensions of retail institutions. The Wheel of Retailing and the Retail Life Cycle are both powerful in this regard. Both describe the introduction, development, maturation and demise of retail institutions (Dawson 1979; Davidson and Smallwood 1980; Davidson, Sweeny et al. 1983; Brown 1987). The Wheel of Retailing is a well-known and widely cited theory, and it continues to stimulate lively scholarly debate in the field. While the model provides a detailed understanding of evolution patterns, its shortcoming is that it tells us nothing about profitability and market share. The Wheel theory is not really equipped to explain the rise and fall of particular retail formats (Davidson, Bates et al. 1979).

The Retail Life Cycle model is the most powerful tool for understanding the rise and fall of retail institutions. The life cycle concept provides a useful perspective to predict the business performance of retail institutions because it specifies the series of stages that every major retail format has to go through. Similar to products (Davidson, Doody et al. 1975; Davidson, Sweeny et al. 1983) retail institutions must pass through the cycle of innovation, accelerated development, maturity and decline. During the innovation stage, customer acceptance causes sales to rise. Profit suffers at the start-up period. Profit grows as the initial operating problems are overcome. Toward the end of this stage, sales volume increases even more sharply. In the second stage of retail evolution (accelerated development) sales volume and profit experience rapid growth, and market share also increases steadily. Market share and profitability tend to reach their maximum level near the end of the development stage. At the third evolution stage (maturity stage), market share first levels off and then drops approaching the end of the stage. Sales volume reaches its maximum and profitability begins to decrease. At the fourth stage (decline stage), sales volume reduces, profit drops sharply, and market share decreases.

The institutional life cycle concept suggests that the four-stage evolutionary process is inevitable and current empirical studies of market phenomenon seem to support this observation. Although it is difficult to pinpoint the exact year in which a particular retail institutional format reaches maturity, the Retail Life Cycle model provides valuable help in setting up development plans and business strategies for retailers (Davidson, Bates et al. 1976).
The department store is an major retail format with a long history, and an understanding of its institutional possibilities is important (Rachman 1975). The explanatory power of the Retail Life Cycle theory is vividly demonstrated in its application to the department store because the whole evolutionary process can be examined with historical data.

Retail formats are clearly defined and classified in the discipline of retailing (Diamond and Pintel 1996). The prevalent formats include department stores, supermarkets, specialty stores, and discount stores. A department store is a departmentalized retail institution that offers a variety of soft and hard goods. According to the Standard Industrial Classification Manual of the United States, department stores are defined as

“Retail stores carrying a general line of apparel, such as suits, coats, dresses, accessories; home furnishings, such as table and kitchen appliances, dishes and utensils. These and other merchandise lines are normally arranged in separate sections or departments with the accounting on a departmentalized basis. The store’s departments and functions are integrated under a single management. The stores usually provide their own charge accounts, deliver merchandise and maintain open stocks.”

Bluestone, Hanna, Kuhn, and Moore (1981), sponsored by the Economic Development Administration of the U.S. Department of Commerce, studied the department store industry because of its ability to generate employment as well as its overall role in economic development. They believe that the department store industry has played a crucial role in the emergence of modern retailing. The evolution of the department store informs us about the developmental dynamics of the economy.

How does the Retail Life Cycle theory help us understand the department store industry? It lets us trace the evolutionary process of department store format. And on the basis of dating the rise and fall trend of the department store, we will be able to predict large scale transformations in the retail structure and devise retail institutional development plans accordingly.

The department store industry has expanded widely in the past decades and become an important retail institution globally. The very first department store is Bon Marche in Paris. A lively culture of retailing emerged with the proliferation of department stores in Paris including Louvre, Printemps, and Galeries Lafayette (Miller 1981). In England, department store first appeared in the cities of Northern Britain in the late 1830s. The origins of the British department store are rooted in the twin processes of industrialization and urbanization (Lancaster 1995). Diamond and Pintel (1996, p.4) provide a brief history of department store in America. The American department store was nurtured in the New England region in the United States, which is well-known as the birthplace of numerous innovations in the retail industry (Bluestone, Hanna et al. 1981). Department stores began its quantitative growth in the second half of the nineteenth century and by the turn of the twentieth century, the department store format became widely accepted and established.
In the European Union, the life cycles of six types of retail formats have been studied. They include food retailing in supermarkets, hypermarkets and discounters, and non-food retailing in department stores, mail order retailers and large-area specialists. The four main stages of the life cycle are found in these six types of retailers (Eurostat 1993). Mcgoldrick (1999), employing the same data used in these EU studies, concludes that the department store industry is in the maturity stage in EU countries. In the United States, Davidson et al. (1976) claim that the downtown department store, variety store, supermarket, discount department store and home improvement center display different speeds in reaching their maturity stage. They estimate that the department store in America has taken approximately 80 years to mature (Davidson, Bates et al. 1976).

While department stores of the EU and the US have been studied with the Retail Life Cycle model, no comparable work has yet been done on the department store industry in Hong Kong. Research of department stores in Hong Kong will be a very worthwhile undertaking. It is not often noticed that the department store witnessed a long history in Hong Kong. The first department store, Lane Crawford, was established in 1850, and other retailers such as Sincere and Wing On founded their first store in 1900 and 1907 respectively (Sun, 2001). The department store industry played a significant role in shaping the history of the retail industry in Hong Kong.

IV Conclusion

The current literature provides us with three basic theories of retail institutional change: Environment Theory, Cyclical Theory, and Conflict Theory. The Retail Life Cycle model explains retail institutional change through specifying four stages of evolution that every retail format will experience. I argue that this model is the most powerful model for explaining and predicting institutional evolution because of its practical business strategic implications. The Retail Life Cycle model is especially successful in its application to examine the evolution of the department store industry. For instance, it reveals that the department store industry in EU countries is reaching the maturity stage and that in the U.S. has taken approximately 80 years to mature. I suggest that we may adopt a similar approach to investigate the department store industry in Hong Kong.

References


