

# **Impact of Format on Retailers' Brand: Its Threats and Opportunities**

## **A Theoretical Analysis<sup>1</sup>**

### **Abstract:**

Historically, retailing was carried out in traditional store format, with minor non- store variation, like catalogue selling, direct sailing and telemarketing till the last decade of twentieth century. Even those non- store formats were restricted among fringe players, while big retail houses concentrated more on on-land business model. The last decade witnessed a wide metamorphosis in the retailing business. Propelled by growth in technological innovation, mainly World Wide Web the retail industry is evolving to serve the more convenience and value seeking shoppers. As a result, retailers are venturing into multi-format structure to deliver higher value proposition to the shoppers.

But adoption of new formats brings with it opportunities, as well as, threats. The fall-out can be distinguished into three heads: 1) When a patron of the parent format switches occasionally or permanently to another format, even of the same retail brand, he/she seeks an altogether different value proposition. 2) While switching of format, the shopper carries to the new format the expectations, built on shopping experience and perceived brand image. If expectation are disconfirmed, shoppers engage in constructive processing that can result in revised brand image 3) As a consequence, retailer's success (or failure) in synchronisation of delivering and communicating retail value proposition across formats, results into reinforcement (or distortion) of retailer's brand image.

The present article attempts to bring out the nature and dimensions of threats and opportunities faced by the retailers and its consequence in the light of the above mentioned issues. It is hypothesised that a retailer with multi-format system would need to define, design and deliver integrated values across the formats and there by creating consistent brand image.

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## **Introduction:**

For the last two decades, retailing industry has gone through a metamorphosis and wide transformation so far as introduction and induction of different formats is concerned. Invention of high-end technology, marketers' innovation to apply it in customised situation and wide diffusion of technology among shoppers has accelerated the process. Desire to increase the reach and need to ward off competition from the other formats have also contributed in this direction (Michael, 2002). So, along with traditional retailing formats, alternative channels have spurt up to reach the shoppers, whose need is more varied than ever before.

A format can be defined as a particular combination of the ingredients of retail mix, used by of retailers (Levy and Weitz, 1998). We define multi channel retailers as those retailers whose business models consist of both store and no-store format or any combination of retailing channels.

Basically, there are two types of retail formats: store format and non-store format. Super market, convenience store, department store, discount store, category specialist, and warehouse club and mall are some of the store formats. Non-store formats are those forms of retailing where end users are served without meeting them in physical store. Non- Store formats are represented by catalogue and direct mail retailing, telemarketing, television home shopping, direct personal selling, vending machine selling, and internet selling. Facing a market place overflowing with competitors, most retailers in recent past are tirelessly searching for new ways to grow. Customers also are continually seeking new outlets and demanding more from those retailers, they choose to patronise. The so-called four waves of retailing (Ferne, 1998) in developed countries have contributed in growth out-of-town retail formats. The first two phases are associated with the growth of super stores, developed initially by food retailers. The third wave adopted dual location strategy, there by establishing high street and out of town development. The fourth stage has unleashed value for money offerings like ware house and factory outlet. Jonathan, Suzanne et al. (1996) argue that the growing popularity of alternative retail formats like garage sales, arts and crafts fairs, swap meets, car boot sales, craft fares, flea market etc. due to favourable economic and hedonic experience. Catalogue retailing has expanded at about twice the pace of store retailing (Anonymous, 1996).

### **Shopper's Expectation from Diverse Formats:**

Today's shoppers no longer visit to "look-alike boxes"; rather they expect a unique experience while shopping, from each buying situation. When shoppers decide to visit a particular retail format, they anticipate fulfilment of their shopping motives. In case of existing formats, they are often aware of the behaviour that they are engaged, to obtain the highest benefit from their interaction with the retail environment.

Stone, Horne et al (1996) advance economic factors hedonic factors or the combination of two to find out shoppers' motives behind shopping in alternative retail formats. Lumpkin, Greenberg, and Goldstucker (1985) found that elderly shoppers are less price conscious and feel shopping as a recreational activity and their choice is heavily dependent on entertainment value. A store is also chosen based on the self-confidence that the customer has regarding the store about the nature and quality of the product and service the store would deliver. It also depends on the involvement in the shopping situation. Stone, Horne et al. (1996) found impulse purchasing, bargain hunting, experiencing the environment and social contact as the motivating factors behind car boot sales in a study in U.K. Kenhove, Wolf and Waterscot (1999) found store choice is determined by nature of task. Sinha, Banerjee and Uniyal (2002) conclude image and perception along with individual characteristic has significant impact on final outcome. Perception about stores is, in turn, derived substantially by tangible characteristics of the stores.

While, Donthu and Garcia (1999) found enjoyment, navigation, convenience are the online factors, shoppers seek. Degeratu et al. (2000) indicated that on line shoppers were found to be less price sensitive. They found that shoppers show different behaviour, across formats, so far as shopping occasion and shopping need are concerned. There was also a wide disparity in the demographic, socio- economic and psychographic profile of the shoppers among different formats. In demographic parameter women's share to e commerce revenue is only 17% in US in the year 1999 (Rosen and Howard 1999), which may explained by their favourable inclination towards touch and feel experience, available in store- format shopping only.

Broadly, it can be inferred that shopper's profile, need and purchasing power lead to format selection decision, which is focused on the value sought at that particular purchase situation.

After living with a wide variety of format choices the customer today choose a medium as an information source and another medium to purchase the product. Today shoppers can check product availability on line and pick up at a store; buy online and return product at store.

The shifting trend in format patronage among US shoppers with in store category has been studied by (Rousey, Morganosky, 1996) and is given in the Table - 1:

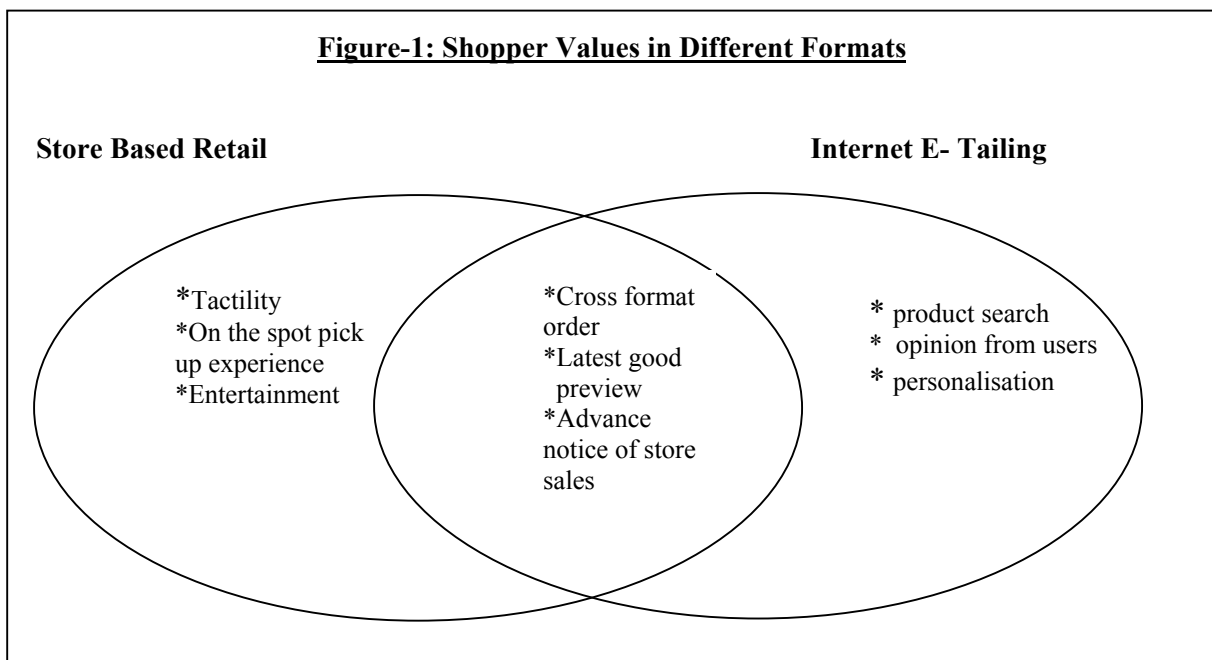
<b>Table - 1: Comparison of change, over five years in patronising habit of shoppers across different retail formats.</b>			
Retail Formats	Patronising Less %	Patronising More %	Difference %
Department	30	17	-13
Mass Merchandiser	21	23	+2
Used	22	27	+5
Speciality	22	29	+7
Manufacturer Outlet	13	31	+18
Off-price	14	43	+29
Discount	11	41	+30
Mail Order	15	53	+38
Warehouse Club	5	72	+67

**Convergence of Formats and Consequent Changes in Format Selection Pattern:**

After the rise and consequent pre-mature demise of dotcom euphoria, a growing interest is emerging in multi-channel retailing. Given the pure-play model did not deliver value as envisioned, online retailers are considering on-land operations. While the brick and mortar stores take advantage of online medium to leverage on-land strength, eventually paving the way for multi-channel structures from both direction. According to BCG Report (2000) multi- channel retailers (Clicks and Mortar) now account for two-thirds of on line sales revenue. BCG 's recent study reveals that consumer spending on line will increase by 41%, from \$ 51.3 billion in 2001 to \$ 72.1 billion by the current year in the United States itself. Schultz (1996) predicted that the 21- st century marketplace would be multi-media and multi-channel with customers enjoying a wide range of media and channel options. Rosen and Howard (2000) estimated the future impact of electronic commerce on traditional retail sales. They opine that those with a physical presence and brand name will have a competitive advantage over those with only virtual presence. As a consequence, physical retailers with e-com capability are expanding their physical presence at the above average rate. Retailers without e-presence are closing store at an above average rate.

However, retailers expanding virtually are also growing physically, with a view that Internet will complement their physical presence.

Out of availability of diverse retail formats and cross-shopping pattern of consumers, rise some hitherto unobserved issues. Based on data of U.S. customers, Morgaonsky (1997) argues, which makes shoppers' format patronage habits complex and convoluted is that in the emergence of new formats consumers do not necessarily replace one format with another. According to him, as many of the emerging formats emphasises price savings, the consumer may be exchanging time for money, in their multiple format patronage. Online retailing, which has provided time and money savings, fails to provide touch and feel and other hedonic benefits. A study by Master Card International revealed that, as format option increases, consumers become more adventurous in their shopping habits. (Solomon, 1993). Figure – 1 elicits the bases on which shoppers may like to look at the combined format retailers (McKinsey, 2000).



Researches have been done to assess the impact of different form of retailing, namely stores, catalogues, TV and internet by examining the shopping experience in terms of product display, shopping time, delivery time and price. But the influence on retailer's brand by the emergence of multi format structure has not been looked into.

### **Format Switching and Consequent Possibility of Brand Image Revaluation:**

Rasch and Lintner (2001) observed 85% browsers brought offline the brand and product they identified online and concludes that the online channel has a profound influence on consumer's offline behaviour, and therefore will play an integral role in an increasingly multi-channel world. The concept of retail store's image is described as an overall impression of a store as perceived by consumers, (Keaveny and Hunt, 1992), or as an individual's cognition and emotions as inferred from perceptions or memory, that are attached to a particular store (Baker et al., 1994). Retailer's image can be described as a combination of functional and psychological attributes that are meaningful to the shoppers. A shopper confronts retail mix in the form of elements, namely, a) Variety and assortment of merchandise b) Store design, display and ambience c) Price d) Customer service and facility and e) Accessibility.

A shopper may switch to a new format either permanently or intermittently changing among formats. While switching to new format a satisfied patron will be inclined to shop from favourable retail brand, also present in that particular format. Though in a different format and shopping situation, the shopper carries expectation of identical value proposition congruent to retailer's brand image perception in the parent format. Buchanan, Simmons and Bickart (1999) emphasised retailers' ability to influence on manufacturer's brand equity, either through physical encounter (store format) or through direct communication (non- store format). He has further put forward how the inconsistency created at the retail point may lead to revaluation of brand. In the same manner, when retailers themselves proliferate into different formats, the shoppers evaluate their experience about the retail brand from past shopping experience. Shoppers visit a retail format with some expectation, which is mainly derived from earlier experience. So, while visiting a new format of a patronised retail brand they may encounter a new set of retail mix and a different level of retail value proposition. When expectation are disconfirmed, shoppers engage in constructive processing that can result in revised brand valuation. If the value is lower than the earlier experience, the retailer's brand equity is exposed to the risk of dilution. On the contrary, if the retail value proposition offered by retailer is equal or higher than original format it reinforces and increases brand equity. To sum up, it can be said, when expectation are disconfirmed, shoppers engage in reprocessing that can result in revised brand valuation. Abdelmessih and Stanger (2001) pointed out the risk of delivering consistent experience is high as dissatisfaction in one channel can be carried out to other channels also. He found that many retailers who become frustrated with an online site, for functional failure, blame the retailer not the Internet (Table- 2).

<b>Table- 2 : Shoppers' response to functional failures</b>		
	Percentage of Shoppers' experiencing failures	
	1999	2000
I stopped shopping online	6	2
I stopped purchasing online	10	2
I stopped shopping at that particular website	28	41
I stopped purchasing at that particular website	23	30
I stopped purchasing from the offline stores of that particular company	6	9

In the year 1999 itself, at least 6 percent of shoppers switched their patronage habit in the off-line store, due to dissatisfaction in online experience. The number of switchers increased to 9 percent in the year 2000. In absence of complete information about a store, shopper makes inferences from available information cues before forming perceptions of the store (Monroe and Krishnan, 1985). Here the experience in online version of the store acts as a cue that helps the shoppers to form impression about the onland store. The situation warrants more attention, as valuable premium segment customers are more exposed to multi channel shopping and very sensitive towards the brand image of the retailer they patronise. To achieve multi channel offering, retail need to understand shopper's attitude behind each shopping situation across channels and how these situation shapes shopping behaviour.

**Opportunities arising out of proliferation of retail formats:**

The new area of retail business ushered lots of opportunity both for the shoppers and retailers. Shoppers acquire benefits from savings in terms of time price and searching effort, expanded information on goods and services, shopping convenience and greater availability of customised products, uninterrupted accessibility and smooth flow of transaction choosing any of the available format.

To the retailers e-commerce offers greater efficiencies in market and information access, providing scope of better services, reduced operating and product procurement cost. (Rosen and Howard, 2000). McKinsey study (Calkins, Farello and Smith, 2000) revealed that traditional store based retailers only need spend about \$5 a person a person to bring their existing customer online,

which is as high as \$45 case of pure e- retailers. Retailer with strong brand equity enjoys shoppers' preference and loyalty, and extracts either price premium or volume advantage (in case of price parity), or both. (Stevenson, Shlesinger and Pearce, 1999).

**Synchronisation in Delivering and Communicating Retail Value Proposition:**

According to Henderson and Mihas (2000), new multi category retailers have emerged that combined functional benefits like price, convenience and service, with the emotional relationship that gives a retail brand true personality. They cited example of office supply industry in the U.S, where retail players have started opening smaller stores, giving the shoppers the killer assortment of goods through whatever format or channel best suits a given transaction. The culmination of this trend is emergence of electronic commerce through WWW. They point out the retailer's challenge of multi channel management and the need to provide a consistent brand statement across each channel.

But Wileman and Jery (1997) describe that retail formats appear to vary substantially in their potential for supporting for the development of strong retail brands. While segmentation is easy for repertoire retailers, proximity retailers occupy the opposite end. Thus the task of retailers to bundle their retail strategy mix in a way that builds and maintain loyalty across formats is particularly challenging.

Palmer (1997) reveals there are significant differences (Table-3) among the four formats, namely In-store, Catalogue, Cable T.V and Internet in approaches to connecting with shoppers.

<b>Table - 3: Difference Among Four Formats in Connecting with Shoppers</b>				
<b>Format</b>	<b>Display</b>	<b>Time spent</b>	<b>Price</b>	<b>Delivery</b>
In-store	1 <sup>st</sup>	1 <sup>st</sup>	Highest	Lowest
Catalogue	3 <sup>rd</sup>	4 <sup>th</sup>	4 <sup>th</sup>	No significant difference among all non -store formats



Cable T.V	2 <sup>nd</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	
Internet	4 <sup>th</sup>	3 <sup>rd</sup>	3 <sup>rd</sup>	

Out of 120 separate products across four retail formats, his findings show that store design and product display are format specific. Convenience in terms of shopping time and payment option is significantly different across the formats. In providing accessibility (available shopping hours) WWW is highest followed by Cable TV, catalogue and in-store. In absence of complete information about a store, shopper makes inferences from available information cues before forming perceptions of the store (Monroe and Krishnan, 1985).

Chen and Leteney (2000) opined that successful Internet retailers are those who have been able to successfully transfer critical elements from traditional retailing to Internet. The desire of the multi channel retailers to co-ordinate price in such a manner so as to prevent internal competition among different formats of the same retail brand. Though, a study on standardised DVD brands (Tang and Xing 2001) finds that prices by pure Internet retailers are significantly lower than prices by on line multi channel retailers, the practice of charging differential price across format by the same retail brand has severe impact on the brand image. In the same manner, any one of the components of retail mix if not at par with the other formats, the brand image of multi channel retailer loses focus. Communication and positioning decision are likely to be more effective if the relationship among the objective environment of the format, motivating factors of the shoppers and preference for the retail brand attributes are known. But motivating factors are not uniquely associated with individuals across formats or with formats across individuals. So, the basis of positioning and differentiation can not be determined in individual or format level. Rather a decision of building retail brand, offering compelling proposition through different formats to meet shopper's different motivating factors is a pragmatic approach. The value proposition across formats is rarely fit, but the challenge to the retailers is to reduce the disparity and leveraging the parent brand's equity in the new format situation.

**Conclusion:**

The demand from the convenience seeking shoppers, technology, competition and urge to growth lead the retailer to adapt the multiple format modes. The development will no doubt bolster the

retailer's power in market creating positive synergy across the formats. But at the same time, it brings with more responsibility to the retailer, as shoppers are going to interact and judge the value offering dissimilar shopping occasion and environment. The value delivery mechanism of the retailer need to be consistent and reinforcing to maximise its brand equity, failing which, it stands the risk of dilution.

The opportunity lies in the fact that, retailers of a particular format appear to be increasingly successful in attracting customers from a widened variety of formats. Electronic retailing created a huge scope for the store-based retailer to reach out to a large customer base, overcoming the physical distance, by using technologically driven formats. Converting the threats into opportunities, the pure e- retailers are opening physical format and there by complementing the existing operation. It also in turn helps in operational and financial efficiency through economies of scale and greater bargaining power against the manufacturers. The scope of positive synergy in terms of brand, customer, merchandise and marketing activities are very much a reality in retailing.

However, to survive and grow in the new multi-channel environment retailers need to integrate branding by offering consistent value via the retail mix in every interaction with shoppers across retail formats. It requires a paradigm change in retailing by bringing into a cross channel focus on shoppers.

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