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Revolution in retailing

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REVOLUTION IN RETAILING

ANOTHER "SHOT HEARD AROUND THE WORLD" WAS FIRED in Massachusetts in April, 1961. The setting this time was Amherst rather than Concord, and the world affected was the world of retailing. While it is generally agreed that this revolution in retailing began several years ago, it was only when over 500 enthusiastic, inquiring discount house operators stormed into Amherst to attend a discount seminar sponsored by the University of Massachusetts that the real impact of this revolution was recognized. Strangely enough, the more optimistic University of Massachusetts officials estimated attendance for the conference at only 75. Furthermore, attendees were expected only from the New England states. Instead, over 500 discounters were on hand from as far away as Florida, California, and Canada!

As a result of the enthusiasm shown at the University of Massachusetts conference, a second discounting conference was held in New York City in August, 1961. Over 1,300 people representing food chains, drug chains, variety chains, and department stores in addition to discount houses attended this one. The fact that so many forms of

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retailing were represented indicates the degree of impact which the discounting revolution has had on the entire field of retailing.

Further evidence of the effect discounters are having on the retailing industry is supplied by the large number of traditional retail companies who, during 1961, announced plans to enter the discounting field. Among these companies are Allied, Federated, and The May Company in the department store field, Woolworth in the variety store field, and Food Fair and Jewel Tea in the food chain field. These companies are getting into discounting either by forming their own chain of discount stores, purchasing an existing discount chain, or by converting existing facilities to a discount operation.

How Did They Do It?

How did the discounters in a period of less than 10 years establish themselves in the retail industry so that in 1961 their total volume was estimated at four to five billion dollars? Essentially, they did it by taking a new approach toward selling merchandise to a growing suburban population.

The discounter realized that there was a demand for low priced merchandise. This demand was accentuated in suburbia by the failure of department stores to include the bargain basements of their downtown stores in the branch stores which they built in suburban locations. Furthermore, the traditional department store had always concentrated on maintaining a uniform percentage markup on all merchandise. This meant that in a department store an item costing $6.00 would be priced at $10.00 while an item costing $.60 would be priced at $1.00, even though the first item yielded a $4.00 gross profit while the second yielded only $.40 gross profit. The discounter recognized that the costs of handling and selling an item were not in proportion to the retail price of the item. In fact, in some cases, it might cost more to handle and sell a $1.00 item as compared with a $10.00 item. As a result, the discounter priced his merchandise more in terms of the dollar gross margin contribution of the item, rather than in terms of percentage markup. Consequently, the item costing $6.00 might be priced at $7.49 while the $.40 item might be priced at $.95.

In order to make low margin selling profitable, the discounter had to operate with low expense. As a result, many of the services of the traditional department store–such as floor salespeople, credit, and delivery–were either not offered by the discounter or, in the latter two examples, were only available for an added charge. The discounter was thus able to keep operating costs low enough to permit a gross margin of 20-25% to provide a substantial net profit. In fact, the combination of low gross margin and low operating expenses coupled with a policy of carrying limited lines of rapid-turnover, fast-moving items has permitted the average discounter to develop a return on investment far in excess of the average traditional retailer.

Another important factor contributing to the rapid growth of discount stores was the large number of nationally advertised brands the discounter was able to carry. National advertising assured the customer that lower prices did not mean lower quality. Furthermore, national advertising meant that the customer was "pre-sold" before entering the store so that self-service, another trademark of the discounter, was readily accepted.

The discounter adopted several other practices which had wide appeal. He opened in locations that had plenty of parking space and were easily accessible–generally on main highways. He stayed open

Suburban locations, offering plenty of parking space, helped the popularity of discount centers, which offer a variety of merchandise.

long hours for added shopping convenience. In adopting the self-service method of selling, the discounter capitalized on the training his customers had received from shopping in supermarkets. The combination of low prices, self-service, convenient locations, and long store hours has proven to be a successful one for the discounter.

Evolution of Discount Stores

Discounting had its beginning in the late 1940's when small dealers began selling name brand appliances at off-list prices. The more successful of these dealers developed into formidable chains of stores and took on other lines of merchandise.

At the same time, the factory outlet store dealing in clothing and soft lines came on the scene. The factory outlet store originally was located in a manufacturing facility and served as a retail outlet for factory seconds. With the passage of time, however, these factory outlets began carrying merchandise other than that produced by the factory. Eventually these stores were moved to separate locations devoted entirely to retail selling. In the beginning such stores were often established in abandoned textile mills (particularly in the New England area) or in converted factories or warehouses.

Finding success in this new form of low-overhead selling, the operators began constructing specially designed buildings, adding more lines of merchandise and bringing in hard goods. Some stores established grocery departments and pioneered in "one-stop shopping."

Most new discount stores which are opened today are specially designed and built. They are usually single-level stores with ample free parking and are located on or near major highways. The stores vary in size from 50,000 square feet to 150,000 square feet. To build traffic, a grocery department is generally considered essential. The stores are simply constructed to facilitate maintenance and stocking of merchandise. Fixtures are simple and are designed to provide a broad selection of merchandise for self-service. Merchandise within the store is often arranged in great piles to impress the customer with the feeling that great masses of merchandise are available.

The Discounter and Management Services

The rapid growth of discounting has created a need for management services in many discounting companies. Often these discount companies began as one-store operations, where management was able to keep a tight personal control over all phases of the business. However, as more and more stores are added, the management of the discount chain must rely more on management information and less on personal contact in controlling the business. As a result, many discounters are becoming increasingly interested in financial reporting, expense control, inventory control, and data processing.

Furthermore, the growth of discount houses has created financial problems in the form of the need for greater capital. Often discounters are not aware of the type of information required when they visit their bankers; often they are not sure whether they should borrow money or sell stock. If they think they should bring in equity capital they do not realize the need for good financial statements, consistently prepared, going back as far as five years.

What is a discount store?

A discount store is not an easy business to define. The next U.S. census of business will contain no data on discount stores or discount selling because there is no definition of precisely what constitutes a discount store. Self-service is not wholly indicative–some self-service stores (supermarkets, for example) are not considered discounters while some discounters are not entirely self-service. While low markup is an essential ingredient of a discount operation, this is becoming a nebulous criterion as more and more forms of retailing adopt this pricing principle. At best, we can only list the characteristics which can usually be associated with a discount store:

1. Sales are made on a cash and carry basis.
2. Self-service is the method of selling most of the merchandise carried.
3. Central check-out is used for recording sales.
4. Simple and inexpensive store fixtures are used.
5. Most operations are located in single story buildings.
6. Merchandise is displayed in large quantities.
7. The stores are usually located on major thoroughfares with ample parking facilities.
8. The stores are generally open long hours.
9. Limited customer services are available. Where such services as credit, repair, and delivery exist, the customer usually must pay a fee to obtain them.

The term "discount store" is a poor one. It effectively pins a common label on a group of merchants who are really dissimilar. There are many broad forms of discounting. For example, there is the mill-end chain which deals primarily in soft lines and is the outgrowth of the manufacturers' retail outlet mentioned previously. There are specialty discounters who sell only selected categories of merchandise such as toys, appliances, or records. There are soft-line "supermarkets" which deal only in soft lines but generally carry a more complete line of merchandise than the mill-end chains. Finally, there is the fastest-growing form of discounting, the "one-stop" discount department store which combines hard lines, soft lines, and food under one roof.

Discounters can also be categorized by method of operation. A discounter may operate either an "open-door" or a "closed-door" company. In an open-door store, the general public is free to shop, but only members may shop in a closed-door store. Membership in such closed-door stores is usually attained by payment of a small membership fee. Generally, membership is restricted to some one group such as government employees, veterans, or homeowners.

Another variation of practice in discounting is the degree of use of lessees. In traditional department stores, all but 5% to 10% is sold by the operating company. The balance is, of course, sold by concessionaires or lessees. Discounters, however, have no such fixed behavior patterns, since some operators may sell 100% owned merchandise while others sell only through lessees. In between are probably as many gradations as there are discounters. The question of whether to lease departments or to operate them is one on which discounters disagree. One large company has an announced policy that they will operate a department only until they can find a suitable lessee. At the same time, other discounters predict that as discounting becomes well established the importance of lessees will diminish.

Future of retailing

Discounting has made a dramatic impact on retailing as evidenced by events during the past year. No one knows at this time how deep or how lasting this impression will be. It is doubtful that there will ever be a time when all merchandise will be sold on a low-margin self-service basis, with no customer services available. On the other hand, it is equally doubtful that the discounter is a passing phenomenon. Some experts in the retail field seem to think an ultimate meeting, resulting from an upgrading of service by discounters and an elimination of some services by department stores, will develop. Others think there will eventually be a delineation by types of merchandise. Merchandise which lends itself to self-service mass merchandising will be sold supermarket style; merchandise which requires sales assistance and service will be sold in the traditional department store fashion.

Regardless of what the final result may be, we are truly witnessing a revolution in retailing. The effects of this revolution will be far-reaching and will influence and change the shopping habits of the public, the distribution patterns of goods and services, and the thinking of businessmen in retailing as well as in other industries.

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