A THEORY OF INSTITUTIONAL CHANGE
IN RETAILING

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

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* * * * *

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CHAPTER I

INTRODUCTION

The Problem

The tendency for retailing to adapt to changing environments has been suggested in many textbooks.\(^1\) Especially prominent in such discussions is the view that the retailing field as a whole is adaptable in the sense that "when the need for a new type of institution is apparent, it evolves."\(^2\)

The most popular attempt to explain retail change, Malcolm McNair's "Wheel of Retailing," and other writings which support this explanation, cast this type of

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\(^2\)Beckman and Davidson, *loc. cit.*, p. 312.
adaptability in a rather negative light. According to McNair, retail distribution follows a cycle often beginning with a low-cost innovative institution. After becoming established, the institution trades up, improving such features as assortment, quality, appearance, etc., until it becomes respectable in the eyes of the public and trade, and enjoys a period of growth at the expense of existing institutions. Increasing capital investment


\[\text{4For purposes of this study, the following definitions are applicable:}\]

\begin{itemize}
  \item \textbf{Institution} (vs. firm, retailer, store, member): Each different type of retailing (such as department stores, discount houses, and supermarkets) encompasses one retail institution. All firms, retailers, and stores which can be classified into a particular one of these "types" are considered "members" of that institution.
  \item \textbf{Total Product}: the entire bundle of satisfactions or values offered by a retail institution or desired (and purchased if available) by a segment of the consumer market.
  \item \textbf{Total Product Spectrum}: the entire range of levels of total product demanded by the various segments of the consumer market and, for the most part, satisfied by existing retail institutions. (Whenever a significant segment's demands are not being satisfied by existing institutions, an opportunity develops for a new institution.) To simplify later presentation of the new theoretical model, the total product demands of each segment of the consumer market are lumped together into three categories: low, middle, and high total product. (A more detailed explanation of this concept is presented in Chapter IV.)
\end{itemize}
and operating costs also result from this trading up process, as the institution matures.\(^5\) Such a maturity phase generates, according to McNair:

\[\ldots\text{topheaviness, too great conservatism, a decline in the rate of return on investment, and eventual vulnerability.}\ldots\text{to the next revolution of the wheel, to the next fellow who \ldots starts his business on a low-cost basis, slipping in under the umbrella that the old-line institutions have hoisted.}\(^6\]

Thus, the retailing field's adaptability (in terms of its ability to develop new institutions whenever the need arises) results, according to McNair, from the inability of its existing, mature institutions to change when changes are necessary. Other students of the subject who are in substantial agreement with McNair on this question explain such an inability in a relatively specific manner. P. D. Converse opines that "there is inertia which usually increases with the age of the retailer."\(^7\) P. C. Kelly and N. B. Brisco state that the established retailer develops "soft spots" which are filled by a new institution, which "before long \ldots settles into its

\(^5\)McNair, \textit{op. cit.}, pp. 17-18.

\(^6\)McNair, \textit{op. cit.}, p. 18.

niche with a fairly constant share of the total retail business and in turn becomes complacent and conservative.ler

Theodore Levitt espouses as a basic theme in his book, *Innovation in Marketing*, that large firms (including retailers) often are outstripped by newcomers because of the older firms' unwillingness to adapt to new ways of fulfilling consumer needs.\(^9\) J. J. Corson argues that a "common deterrent to innovation in the large enterprise is the dead hand of the supervisor who is firmly ensconced in his rut."\(^{10}\) Duncan and Phillips point to "lethargy" of existing institutions as the means by which doors are opened for many new institutions.\(^{11}\)

It is clearly implied by such supporters of the wheel hypothesis that the complacency, conservatism, top-heaviness, lethargy, etc., of the mature institution are responsible for the development of new institutions. In addition to the strong possibility that such an assumption may not be valid, several other gaps or conflicts are

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apparent in such an explanation of retail change:

First, such an explanation is not compatible with the views of those marketing scholars who discern a relatively high frequency of adaptive behavior among mature institutions.

Second, it is quite possible that mature retailers are more rational in their behavior than those who support the Wheel hypothesis appear to believe.\(^12\)

Third, the Wheel hypothesis fails to account for those institutions which have developed new strengths during maturity, rather than the vulnerability which it ascribes to them.

Fourth, the Wheel hypothesis does not appear to recognize the possibility that a new institution could enter at some other point than the lower end of the total product spectrum.\(^13\)

Although complacency, lethargy, etc., may indeed contribute to the behavior of some mature individual

\(^12\)The term "rational," when used without a preceding descriptive adjective, does not, in this study, indicate the ability of a firm to maximize, the level of certainty under which it operates, or the level of "correctness" of its actions. When used without such an adjective, the term merely implies that the use of reason contributed to the behavior under study.

\(^13\)See Chapter III for a more detailed analysis of the Wheel hypothesis.
retailers, historical research often indicates that mature retail institutions exhibit somewhat more rational and adaptive behavior than such characteristics can explain.\textsuperscript{14} Thus, despite the popularity of the Wheel hypothesis, and of the explanations which support it, the gaps listed above suggest that the advancement of retailing theory could be enhanced by an attempt to develop a new explanation of the phenomenon of institutional development.

\textbf{Possible Solution and Hypotheses}

It is now clear that "the evolution of marketing science must be the joint contribution of men working not only in marketing itself, but in the related social sciences."\textsuperscript{15} This is amply illustrated by the work of Charles E. Lindblom, James D. Thompson, Herbert A. Simon, and others, which contributed significantly to the analysis made in Chapter III which, in turn, aided the development of the theory of retail change presented in Chapter IV of this study.

\textsuperscript{14}See Chapters IV, V, and VI for examples of the adaptive behavior of several retail institutions.

\textsuperscript{15}Robert Bartels, "Can Marketing Be a Science?" \textit{Journal of Marketing}, XV (January, 1951), 328. While the value of the other social sciences to marketing science is discussed by several writers in the current literature, Bartels was among the first to recognize and fully articulate this point.
For example, a concept developed by Lindblom, incrementalism, was first utilized in *Politics, Economics, and Welfare*, by Dahl and Lindblom, in explaining political party behavior.\(^\text{16}\) That it could also be related to retailing behavior was first recognized by Dr. Alton F. Doody.\(^\text{17}\) In describing political party behavior, Dahl and Lindblom argue that political parties tend to change their positions on issues through a process of gradual, rather than drastic, modifications of existing positions. Such incremental modifications are the output of the political parties' use of a strategy called incrementalism. Preliminary analysis indicates that incrementalism applies equally as well to retailing behavior.

It is the primary purpose of this dissertation to utilize this and other related concepts originating in the social sciences as a framework for the development of a new theory of retail change. Prior to a detailed listing of the study's objectives, several tentative hypotheses


are presented.

First, incremental change is a discernible characteristic of the behavior of successful retail institutions.

Second, the concept of incremental change and relevant social science concepts can serve as effective catalysts in the development of a new theory of retail change.

Third, although the resulting theory will offer an explanation of the historical development of institutions which enter at the low end of the total product spectrum, it will also be capable of indicating why it might be possible for future major institutions to enter at some other point on the spectrum as well.

Fourth, utilization of relevant social science concepts can help to eradicate the conflict between the views of marketing scholars such as Beckman, Davidson, Doody, etc., and those of supporters of the Wheel hypothesis, by indicating that the entrance of new institutions, and the development of such institutions throughout their lifetimes (including their period of maturity), may result from somewhat more rational and adaptive behavior than that which is attributed to them by supporters of the Wheel hypothesis.
Objectives of the Study

The primary purpose of this dissertation is to develop a first approximation of a new theory of institutional development in retailing which, by utilizing incremental change and other relevant social science concepts, can offer a useful framework for future empirical study of this phenomenon.

In addition to this primary objective, several secondary objectives shall be fulfilled:

First, the study will illustrate the payout that can be derived from utilizing the work of social scientists in the development of marketing theory.

Second, the study will offer an example of the contribution which can be made by historical analysis in illustrating the possible applicability of a newly-developed theory of change.

Third, the study will offer a new direction to others involved in the development of retailing theory.

Scope and Methodology of the Study

It is recognized that the researching, development, testing, refinement, and exposition of theory is a continuous process. As a result, no single attempt at theory
development will offer the "last word" in explaining the phenomena under study. However, it is certainly within the scope of this dissertation to make a comprehensive study of the literature of incrementalism and related social science concepts, to utilize the relevant ideas which result from this study in an analysis of the Wheel hypothesis, and to use the framework derived from the latter analysis in developing a first approximation of a new theory of institutional change in retailing.

Specifically, the study is being carried out in the following steps:

1. Research, study, and evaluate the most relevant social science literature, involving the concept of incrementalism and related ideas. This process will cover works in the following disciplines, among others: economics, political science, the behavioral sciences, management, marketing (including retailing), and philosophy.

2. Upon completion of the search for, location of, and analysis of each potentially valuable piece of literature, evaluate each piece in terms of its relevance to the study at hand. The criteria utilized in making such an evaluation include: (1) the literature must deal largely with change, with emphasis on institutional change; (2) it should discuss change as it takes place over time; (3) the major idea (or ideas) must appear to be a
potential contribution to a theory of institutional change in retailing.

3. Next, each piece of literature which meets the above specifications is intensively analyzed in order to ferret out those ideas which may actually contribute to a theory of retail change. (The ideas selected on this basis are summarized in Chapter II.)

4. Prior to the exposition of the new theory, the Wheel hypothesis is critically analyzed in order to justify the development of a new explanation of retail change. Several of the concepts summarized in Chapter II contribute significantly to this analysis. The cumulative result of this evaluation of the Wheel hypothesis is a framework which can be useful to the development of a new theory of retail change. (The evaluation and resulting framework are presented in Chapter III.)

5. The author's experience and observations, along with several of the ideas gathered in the literature research, are then brought together for further analysis and synthesis. From such a process, ideas for the theory are generated. Such ideas are, in turn, evaluated to determine their relevance to actual retailing behavior, and the consistency or logic of their relationship to each other. Those ideas which meet such tests of relevance and logic are then organized into an outline of a theory of
institutional change in retailing. Such an outline is then carefully evaluated, again with regard to relevance and logic. This evaluation of the outline is aided by further analysis of the relevant literature concerning retailing theory and retailing behavior. After the results of the evaluation are studied, appropriate revisions are made in the outline. A theory of institutional change in retailing, based on the revised outline, is then developed. (See Chapter IV for exposition of the theory.)

6. Next, the potential application of the new theory to actual retailing behavior is illustrated in Chapters V and VI through historical analysis of selected examples of institutional development.

In Chapter V, a retailing firm history is intensively analyzed and reanalyzed to illustrate the possible applicability of the theory. The firm selected is the R. H. Macy and Co., and the book selected is *History of Macy's of New York*, by Ralph Hower. Macy's is chosen because it is generally considered to be the member of the department store institution which best typifies the development of the institution as a whole. Hower himself

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states that: "... the story of Macy's is to a large extent, the story of the American department store." 19

Hower's book itself is utilized because in both depth and breadth it offers the most illuminating description of Macy's development. An intensive analysis and interpretation of the history offered in this particular book, thus, offers a uniquely productive basis for historical analysis of the department store's pattern of development.

7. In Chapter VI, a rigorous examination of the periodical literature regarding the discount house is undertaken, to further illustrate the possible applicability of the theory. All issues of the three discount retailing periodicals (Discount Merchandiser, Discount Store News, and Modern Retailer) are carefully analyzed. In addition, all literature available in the Library of Congress concerning discount retailing, which has been offered in non-discounting publications (between 1950-1968), is researched. Over one thousand issues of periodicals and several thousand articles on discount retailing behavior are studied in developing inferences regarding the possible relationship of the theory to such behavior. As such inferences result largely from

19Ibid., p. 4.
cumulative impressions on the author's thinking produced by the discount retailing research as a whole, only limited references to specific instances of the relationship between actual and theoretical behavior are presented. Since no definitive empirical studies have yet been published on the development of discount retailing, such cumulative impressions gained through research and analysis of several thousand articles, serve as an appropriate means of illustrating the possible relationship of discount retailing behavior to the theory.\textsuperscript{20}

8. Determine and present in Chapter VII the conclusions of the study in the following manner:

First, analyze to what extent the objectives of the study have been fulfilled. Second, summarize the

\textsuperscript{20}The analyses of department store and discount house development offered in Chapters V and VI are not presented as "proofs" of the validity of the theory. As such validity can only be determined through extensive empirical testing, such analyses merely represent an attempt to illustrate the potential relevance of the theory, which, in turn, should provide a rationale for actual empirical testing of the theory at some future date. While it is possible to consider this lack of empirical testing as a limitation, it is also possible that the development of the new theory itself may be viewed as a significant enough contribution to make up for this deficiency. In Chapter VII, the contributions of the study are further analyzed.
major conclusions of the study as related to the hypotheses. Third, discuss the nature of the contribution made by the study. Fourth, suggest additional research that should be undertaken as a result of the study.
CHAPTER II

IDEAS COLLECTED FROM THE LITERATURE

The purpose of this chapter is to summarize the results of the literature research by presenting the most pertinent ideas gathered in this process.

The ideas of Alton F. Doody and Charles E. Lindblom, which provided the impetus for the undertaking of this study, are appropriately summarized at the beginning of the chapter. Following this, the ideas of many social science scholars, in a variety of disciplines, are presented. As the views of organization theorists significantly influenced the author's thinking (see especially Chapter III), a substantial portion of the chapter is devoted to concepts which they contributed.

Doody

It is the basic premise of Alton F. Doody's paper, "Historical Patterns of Marketing Innovation," that utilization of rigorous historical analyses which involve a confined area of investigation may be fruitful to
marketing scholars as they seek meaningful generalizations in their analysis of certain marketing phenomena.¹

In considering the current changes taking place in retailing, Doody points out that such changes all have had their roots in the past, and that similarity between past and present is striking. For example, the merchandising strategy used by Macy's in its early years is little different from that utilized by E. J. Korvette a hundred years later. But Doody feels that the question of what happens to the established institutions which allows new types to enter the market is even more important.²

The paper summarizes the points of view of several marketing writers on this question. Included in this discussion are the thoughts of McNair, Converse, Ginsberg and Reilley, Kelly and Brisco, Levitt and Corson. As mentioned previously, these authors mention conservatism, apathy, inertia, complacency, etc., of existing firms as explanations for the entrance of new institutions. Doody, however, suggests that studies of historical evidence may suggest an additional hypothesis which can further add to explanations of this phenomenon.

²Ibid., p. 248.
He opines that in some cases, especially those which result from a high expense structure, the vulnerability may not have been brought about by complacency at all. Thus,

... given a particular competitive market environment, management may have little or no control over the tendency for its operating expenses to increase... The reason for this is found in... the way the expenses increase, which is an extremely gradual process over an extended period of time. 3

He then utilizes Macy's as an example of this process, pointing out that, although gross margin increased from 17% to 33% and operating expenses from 14% to 24% between 1888 and 1919, examination on a year to year basis shows that the increase was a very gradual one. He argues that such a pattern of gradually increasing gross margin and expenses may be attributed largely to the competitive situation. He opines that once a firm finds itself in such a pattern, competitive conditions may also make it impossible for it to reverse this pattern. He supports this by arguing that once a firm develops an image, such an image cannot be easily changed, as present customers expect the firm to stand for certain things. To run counter to the pattern of development is too great a risk for the firm to incur. As a result, most adjustments are made as

3Ibid., p. 249.
incremental modifications of existing situations rather than large scale changes whose results cannot be accurately predicted.

Doody, in concluding his article, further suggests that too much emphasis may have been placed on the mature firm's complacency as an explanation of innovation and not enough on the competitive market faced by such firms. In order for the complacency argument to be valid, the mature, vulnerable firm must have flexibility. However, the innovator has no history! He thus has a flexibility of operation which simply is not available to the established firms. By contrast, established firms have a long standing historical commitment which brings with it a certain unavoidable rigidity.\(^4\)

Lindblom

In preparing the way for their discussion of comprehensive processes for rational calculation in *Politics, Economics and Welfare*, Dahl and Lindblom use a case involving the decision-making process of a committee of the U. S. House of Representatives which illustrates four basic problems of rational calculation: (1) information, (2) communication, (3) the number of variables, and

\(^4\text{Ibid.}, p. 252.\)
(4) the complexity of relations among the variables.\textsuperscript{5}

In brief, the authors believe that the individual or groups making a decision concerning a possible change (in this case a Congressional committee) often are not able to obtain enough facts to make a competent decision; do not have adequate techniques for communicating the information that is able to be acquired; cannot hold in their minds the number of variables which should be considered in reaching a decision; and, even if they were able to cope with the latter problem, are further impeded by the fact that these variables often do not bear a fixed relationship to one another.

In describing the aids to rational calculation, the authors distinguish between those which primarily help to reduce the problems of information and communication (discussion and codification); those which help to diminish the problems involving number and complexity of variables (quantification in comparable values, sampling, and delegation), and those which aid decision-makers in coping with all four basic problems of rational calculation. The latter processes include: (1) science, (2) incrementalism, (3) calculated risk, and (4) utopianism. A

summary of the significant points brought out by Dahl and Lindblom in discussing these processes is presented in the paragraphs below.

The authors point out, in discussing science, that scientists utilize systematic observation to deal with the information problem; a precise, logical language (such as mathematics) to deal with the communication problem; and specialization controlled by experiment, quantification, systematic analysis and exclusion of phenomena not amenable to those methods, to deal with the variables problems.

However, Dahl and Lindblom believe that there are important limits to the applicability of rigorous scientific methods to social action. First, as man is a creature with many different kinds of goals, it is usually not possible for him to quantify the value of alternate courses of action in comparable units, due to an inability to come up with any uniform, quantifiable unit of measure. Secondly, because of this, the problems of information and communications are intensified. In the absence of quantification, qualitative language must be utilized in describing alternate courses of action. Even if one assumes that the consequences of each alternative are capable of being determined, the problem then becomes one
of ascertaining how many units of one goal, such as dignity, are worth \( X \) units of another, such as GNP. In addition, information and communication are handicapped further by the fact that men often cannot be sure which alternative they prefer until they have experienced each of them, and sometimes the choice of one alternative excludes another. Finally, the authors feel that, although the absence of factual information concerning consequences that are in principle predictable may be an obstacle that can largely be removed with the growth of scientific knowledge, as a practical matter this obstacle will remain a giant one for a long time to come. Thus, for these reasons, the authors conclude that scientific methods, although extremely useful to rational calculation of social policy, are severely limited. They may be considered a supplement to, but not a substitute for, other comprehensive aids to rational calculation, such as incrementalism.

The concept of incrementalism is next defined as

\[
\text{a method of social action which takes existing reality as one alternative and compares the probable gains and losses of closely related alternatives by making relatively small adjustments in existing reality, or making larger adjustments about whose consequences approximately as much is known as about the consequences of existing reality, or both.}\]

The authors also point out, in defining this concept, that when existing reality is known to be undesirable,

\[\text{Ibid.}, \text{p. 82.}\]
and small or incremental changes will not achieve the desired objectives, and consequences of larger increments are not known with assurance, incrementalism may give way to calculated risk (a third aid or process for rational calculation). Thus, they suggest that science, incrementalism, and calculated risk represent a continuum of policy-making methods.

Several reasons are presented to explain how incrementalism, or emphasis on alternatives not far removed from existing reality, can be an aid to rational calculation. These reasons include:

First, the consequences of alternatives which bear a relatively close relationship to existing reality are easier to predict than those which do not bear such a close relation.

Second, people cannot rationally choose among alternatives or goals substantially different from existing reality. Only after experiencing such alternatives can they know if they really desire them. Incrementalism is a process whereby one's preferences are continually tested by experience.

Third, incrementalism helps to isolate the results of one's choices, since when this method is utilized often only a single variable is altered. The results after such a change may be compared with conditions existing
prior to the change, thus, making the actual effect of the choice ascertainable.

Fourth, incrementalism enables supervisors to insure control by enabling them to issue detailed instructions and/or check in detail the actions of their subordinates, both of which would be much more difficult if a drastic change was being attempted.

Fifth, incrementalism is reversible. Thus, when an error in policy is made, a return to the old policy is a relatively simple task, and any damage can usually be repaired.

Sixth, this process allows the organization to make continuous alterations, but at the same time helps prevent its destruction. Attempts to secure abrupt, large-scale change often fail because the organization, aided by its codes and norms, resists such change. In order for this type of change to become a reality, existing norms must be destroyed. But the results of such efforts are quite unpredictable, for one cannot foresee the consequences of the control system that was required to destroy the norms in the first place, nor can one be sure what kinds of norms will replace the already existing ones.

Their description of incrementalism is concluded by the authors with the following three points:
First, in order to utilize incrementalism, one does not have to believe that small changes are always preferable to large ones. The greater the amount of useful scientific information available relative to an alternative, the larger the increment of change which can be rationally made, as long as people are sure of their preferences.

Second, incrementalism should not be confused with experimentalism, at least that type which concerns itself with a deliberate experimentation with people. However, there is no conflict between incrementalism and the type of experimentalism which involves a post hoc examination of events. In the latter sense, a body of comparative experience (different solutions already in use) can be used in appraising alternatives without any conscious and deliberate experimentation. The authors point out that there is very little deliberate experimentation with the forms of organizing industrial operations, but a variety of new forms are created, some of which survive and grow and some of which die out as managers learn by observation the relative advantages and disadvantages of one form or the other.

Third, before rational incrementalism in social action is feasible, there must be a considerable agreement
on basic goals. For when such is the case, differences among participants can be narrowed down, and the task becomes one of merely finding specific techniques for specific goals, rather than that of having to search for the right general type of goal.

Next on Dahl and Lindblom's continuum of policy methods are calculated risks. These are necessary when existing reality is highly undesirable, scientific methods have produced little knowledge concerning the probable consequences of large incremental changes, and small changes clearly will not achieve the desired goal. In such cases, the calculated risk is the only rational action, for all the alternatives, including doing nothing, are calculated risks. Thus, in situations in which existing reality is highly objectionable, the continuation of existing policy may involve a greater risk than discarding it in favor of an alternate calculated risk, the consequences of which are not as well known. In other words, those who view doing nothing as the most "conservative" course of action may often simply be admitting their failure to calculate the risks relative to their alternatives.

The final aid to rational calculation discussed by Dahl and Lindblom is utopianism. The authors point out that the incremental approach (incrementalism and calculated risk) is fundamentally at odds with utopianism,
because the latter represents the antithesis of rational calculation. The reason for this is that, although the incremental approach is based on the premise that the consequences of attempts to make large-scale changes become more indeterminate the larger they are, the holistic or utopian planner believes that the results of sweeping changes are definitely predictable. In addition to viewing the consequences of "sweeping the slate clean" as predictable, the utopian argues that in order to act, man must have a complete model portraying precisely how he wants society to be. Such assumptions merely postulate the need for rational calculation out of existence, for if man knows exactly what he wants, and also knows precisely by what method it can be achieved, he will naturally choose such a method. However, the problem is that people do not often know exactly what their preferences are, and even when they do, the best way to achieve them is usually not very predictable.

The authors then ask the question: Do utopias have any values at all as aids to rational calculation? They conclude their discussion by arguing that utopias, although highly dangerous because they can make men forget the difficulties of rational calculation as well as the aids which help reduce these difficulties, can, when kept
in the proper perspective, serve as models which stimulate imagination and indicate possible directions into which the search for alternatives to existing policy may move. They may also help one to be aware of long-run goals, which prevents incrementalism from degenerating into petty change, fear of the future, tolerance of the existing situation, and an unwillingness to take rational calculated risks.

The authors conclude that the primary danger in utopias is not in utopias themselves but in their application which often blinds man to the need for rational calculation.

Lindblom again discusses incrementalism in a paper, "The Science of Muddling Through," and in a book, A Strategy of Decision. In both the article and the book, he expands the concept of incremental change (incrementalism) into a decision system or strategy. He argues that the characteristics of such a strategy enable it to be quite adaptable to several of the problems of problem-solving encountered by man.

These problems include man's limited intellectual capacities; his limited information; the costliness of

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analysis; his difficulty in constructing a comprehensive ranked set of objectives; and the interrelationships existing between means and objectives.

The characteristics which make incrementalism adaptable to such problems are outlined as follows:

1. The strategy utilizes incremental or margin-dependent choice. Features of incremental choice include: consideration of policies which are only slightly different from the status quo; consideration of alternative policies whose expected consequences differ only incrementally from the status quo; evaluation of policies is made by analyzing only the differences in the consequences of each alternative; choice among alternatives is made through ranking in order of preference the increments in which the consequences differ.

2. In restricting the variety of alternatives considered to only those which differ incrementally from the status quo, the system limits the number of alternatives which the analyst must evaluate. Since the analyst often does not have adequate information, theory, etc., for evaluating non-incremental alternatives, restricting alternatives in this manner is considered an advantage, rather than a disadvantage of this method.

3. Incrementalism evaluates only those consequences which differentiate the policy from other alternatives.
As is the case with the previous attribute, this not only helps to simplify the analyst's job, but also has the advantage of not requiring information which the analyst may not possess.

4. Objectives are adjusted to policies, rather than the reverse situation which Lindblom believes is true of the synoptic or rational-comprehensive method. Such a characteristic is highly advantageous, since it makes it possible to select objectives which are actually achievable at a given point in time by available means.

5. Incrementalism fosters a reconstructive response to changes in information received by the analyst. If facts concerning the problem, available means, or relevant objectives change in the course of analysis, incrementalism is flexible enough to allow such changes to enter the decision-making process.

6. Policy making proceeds through long chains of policy steps. The analyst does not hope to solve a major problem through a single step, but merely to alleviate such problems through a series of steps.

7. Finally, a similar characteristic is the remedial orientation of analysis and evaluation in incrementalism. As a result of this the analyst is encouraged to determine situations that require moving away from
rather a set of difficult-to-identify goals toward which he should move.

McNair

A popular attempt at an explanation of institutional change in retailing is the Wheel of Retailing developed by Malcolm P. McNair. McNair's views on the Wheel may be summarized as follows:

American distribution exhibits a definite cycle or pattern which usually begins with an innovation: an idea for a new kind of retail enterprise. Although at the outset he is ridiculed and considered "illegitimate," the innovator is able to attract the consumer through low prices made possible by his lower cost structure resulting from the innovation. Soon he trades up his merchandise quality, appearance, etc., to gain a measure of respectability.

If successful, the firm begins a period of growth in which it takes away much of the share of market formerly held by established institutions. As the new institution grows, it becomes more respectable in the eyes of both

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consumers and investors. However, at the same time, its capital investment and operating expenses rise and the institution enters the stage of maturity, in which it competes primarily with similar institutions. This phase is soon followed by:

top heaviness, too great conservatism, a decline in the rate of return on investment, and eventual vulnerability . . . to the next revolution of the wheel, to the next fellow who has a bright idea and who starts his business on a low cost basis, slipping in under the umbrella that the old line institutions have hoisted.9

Hollander

In an article entitled, "The Wheel of Retailing," S. C. Hollander, although noting that the Wheel may apply to some types of retailing, finds many examples of behavior which are contrary to this hypothesis.10

Foreign examples of non-conforming behavior include the fact that supermarkets and other modern stores have been introduced into overseas areas largely at the high end of the price scale. In addition, the vigorous price competition engaged in by mature, well-established Japanese, as well as British, merchants runs counter to the Wheel hypothesis.

9Ibid., p. 18.
The "most modern" American form of retailing to depart from the Wheel hypothesis is the automatic merchandising field which started out as a high cost, high margin, high convenience type of retailing. Other American examples cited by Hollander include the entrance of department store branches and planned shopping centers at the upper end of the price scale, the price cutting engaged in by existing, mature institutions in the 1930's, and the remarkable stability in overall distributive margins during the 1919-1947 period.

Nielsen

In an article, "Developments in Retailing," Orla Nielsen notes that each of several types of retail establishments to appear in this century (department stores, chain stores, mail order firms, supermarkets, discount houses and others) seems to have followed a similar "pattern of development in its operational policy."\(^\text{11}\)

This pattern involves such new types of retailing starting with an "anti-service" policy, followed by gradual alteration of this policy in the direction of more extensive

service, expansion of the commodity mix, and rising costs.

Nielsen then briefly outlines what he considers to be the most important hypotheses posed so far with reference to the forces causing such a pattern of development: changes in the attitude of management (an increase in cautiousness); the desire to avoid a price war; and adaptation to demand (a rising demand for services inherent in a rise in disposable personal income).

Also briefly mentioned are the views of Robert Nieschlag, who opines that retailing has not only been involved in a trading-up process, but an assimilation process as well. As a result of the assimilation process, the policies of new types of retailing and established types gradually become similar to each other not only through the trading-up process, but also because of the fact that established retail outlets adopt the best features of the methods applied in the new type of retailing.

Another hypothesis, "The Wheel of Retailing," is also mentioned, with Nielsen noting its failure to include the assimilation process. Nielsen then lists several examples of retail behavior which apparently do not conform to the Wheel hypothesis, as taken from an article analyzing the Wheel by S. C. Hollander (see above). He then proceeds to the purpose of the article: to arrive
at a first approximation of a broader model into which such non-conforming examples of behavior may fit.

The basis of Nielsen's ideas is his assumption of a definite relationship between consumer's preferences for various stores, and the prices charged by such stores. Implicit in this assumption is another assumption: that the higher the price, the higher will be the quantity and quality of services offered. Thus, Nielsen assumes that if one moves along an axis from stores offering low prices and services on one side to stores offering high prices and services on the other end of the axis, that the over-all consumer evaluation of such stores will rise as price and services are raised until a certain point will be reached. After this point, consumer evaluations of higher prices and services tend to decline. According to Nielsen, there is a tendency for competition to push the retailers into the middle of the price-service axis, where consumer preference (sales potential) is the highest. As a result, vacua are created at both ends of the axis which create opportunities for new retailers to start out at the low price or high price end of the axis. If the new firms open at the low end of the price-service axis, competition forces a trading-up process to occur, moving these firms along the axis, and thus creating a new vacuum. If the new firms open at the high end of the price-service
axis, competition will force a trading-down process, also eventually creating a new vacuum at that end of the axis.

Nielsen concludes his article by pointing out how inclusion in his model of vacua at the higher end of the price axis, as well as his view that total sales potential is highest at the middle of the axis may help to explain many of Hollander's examples of behavior which are non-conforming to the Wheel hypothesis.

McCammon

In an article, "Alternative Explanations of Institutional Change and Channel Evolution," Bert C. McCammon points out that although institutional innovation and change have been extensively studied in other fields, comparable research has not been undertaken in retailing. He then proceeds to point out several ideas or hypotheses, many of which were developed in other disciplines, which he argues should be utilized by marketing analysts in explaining institutional change. Many of them are relevant to the present study.

McCammon opines that marketing institutions must adapt continuously to their environment if they are to avoid economic obsolescence. Institutional change in marketing tends to be a process in which firms adapt to their environments through a series of minor, almost imperceptible revisions in their practices.

He points out that resellers often function as a highly cohesive group by bargaining with resources and adjusting to their environment collectively as well as individually. As resellers who are organized on this basis must maintain internal harmony and a workable consensus, they tend to support traditional trade practices and long-established institutional relationships.\textsuperscript{13}

McCammon argues that a well-established firm is an historical entity whose members and customers may not easily accept change. The latter group may threaten to withdraw their patronage. As a result, most firms absorb innovation through a series of incremental adjustments. A firm's reaction to change is often a function of the extent to which an innovator has penetrated its core market (that group of customers which are so attracted to the firm that their patronage is virtually assured). As long as the core market remains intact, the organization will respond incrementally to change and innovation. If

\textsuperscript{13}Ibid., p. 481.
the innovator has penetrated the core market, however, the firm must quickly respond with emulation or counter strategies to ensure its continued operation.  

Additional relevant points offered by McCammon are that innovation in retailing has historically occurred outside the established power structure and that the concept of differential advantage can be useful in helping to explain many of the changes which have taken place in retailing.  

Alderson


Alderson's functionalist approach to competition begins with the assumption that every firm must seek a function in order to maintain itself in the market place. As the location, product, operating methods, or customer sets off each firm to some degree from all others, each business occupies a position which is in some respects

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unique. Each firm, in attempting to make the most of its special character, is constantly seeking to establish some competitive advantage.

This unending search for differential advantage keeps competition dynamic. A firm which has been bested in some way by a competitor has the option of turning the tables by developing something new in other directions. As departures from previous products or practices will be successful only if they appeal to buyers' needs, differentiation by the seller is an adaptation to the differences in requirements among customers.

New firms enter a field because they expect to enjoy a certain differential advantage. The profit incentive may provide the drive for vigorous competition, but this competitive drive is directed toward differential advantage because markets are heterogeneous, not homogeneous.

Competition among firms tends to be quite dynamic. If a seller is operating under a disadvantaged position, he is likely to do his utmost to change that position, and will constantly explore for new dimensions of advantage. Competition becomes a war of movement in which each participant searches for strategies which will improve his relative position. According to Clark, active competition consists of a combination of (1) initiatory moves by a firm, and (2) a complex of responses by other business
firms. The advantage to a firm which initiates differential advantage consists of increased sales, wholly or partly at the expense of rivals. A rival's response seeks to neutralize or offset such an advantage by developing a positive sales-increasing advantage for himself.

As economic activity expands, the opportunity for new firms proliferates. In other words, the opportunity for entry and survival of new firms develops precisely because of the success of existing firms. The already-existing firms help to determine the character of the opportunity as well as to make the opportunity available. The three basic types of proliferation are simulation, deviation, and complementation. Simulation is popular because it tends to reduce the uncertainty of the firms who utilize it.

As far as deviation is concerned, the pioneer generally assumes some definite position as to product characteristics and sales policies which brings corresponding expectations from customers so that he is not free to deviate from his pattern. The original firm, by taking a specific stand, opens the way to others who are free to deviate from his policies. Alderson opines that the first firm can do little to prevent others from gaining a foothold in this manner.
In another book, *Dynamic Marketing Behavior*, Alderson briefly analyzes McNair's "Wheel of Retailing." He is critical of the wheel because it does not give the consumer an important place in the system. He points out that the survival of newly-emerging types of retailers is dependent upon their acceptance or rejection by the consumer. Consumers are loyal to a type of retailer only as long as it offers a desired bundle of services. If it offers unwanted services, and a new institution streamlines the bundle in a manner which attracts the dissatisfied consumers, such consumers will then shift to the new institution.

However, "the older type of store cannot easily abandon its traditional bundle of services since to do so would risk losing the customers it still has who appear to want these services."  

**Clark**

According to J. M. Clark, in *Competition as a Dynamic Process*, the type of competition prevailing in the U. S. "may be viewed as a series of initiatory moves..."
and defensive responses." He views this kind of competition, with its initiatory moves or searches for competitive advantage, in a favorable light because he believes it has played an important role in our progress. He argues that despite its "imperfections," such dynamic competition is more "effective" than the pure or perfect competition norm, largely because of such resulting progress.20

In regard to retailing, Clark opines that most of its initiatory competitive moves "are of a minor character and make no radical departures from familiar and customary appeals." This situation tends to be counteracted by new competition (such as the discount house), however.

Clark also states that his definition of competition does not incorporate the effort to maximize profits. He views as the chief defect of this concept its implication of a precision which is unattainable. The drive for profits, according to Clark, is an exploratory, unprecise, and uncertain affair. It is a process of trial and error which is prevented by changing conditions from achieving

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19 J. N. Clark, Competition as a Dynamic Process (Washington: Brookings Institution, 1961), p. 471. (See the Alderson section of this chapter for the marketing applications of this concept.)

20 Ibid., pp. ix, 490.

21 Ibid., p. 477.
a precise result. In the face of such uncertainty, the firm is more concerned with not exposing itself to unexpectedly unfavorable outcomes, than with merely selecting the alternative which could lead to the most favorable outcome. In addition, such a concept (profit maximization) may be deficient because it does not give a complete picture of the goals of the firm. For example, Clark argues that a drive for growth is in many firms an end separate from the pursuit of profits.  

Cole

In his book on entrepreneurship, Business Enterprise in its Social Setting, Arthur H. Cole includes a section on the "process of entrepreneurial change," the most relevant points of which are noted here.  

First, a basic motivation of change and growth in business enterprise is the "need for achievement" of the entrepreneurial figures in that enterprise.

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22Ibid., pp. 18, 92-96.

Cole then points out that "... entrepreneurial practices, like other human actions, tend to harden into conventions or thought-patterns that possess force in part because 'the memory of man runneth not to the contrary,' as was said in English manorial courts." Thus, an old enterprise or industry possesses less flexibility than its younger equivalents, in entrepreneurial attitudes, as well as industrial technology.

Next, he suggests that trading on experience or image provides a growth impetus for the firm. In employee relations, good relationships proceed step by step, with each favorable move being prepared by the favorable acceptance of the previous action. The same dynamic element occurs in the extension of the line of goods produced or sold by a firm. For example, the good image gained by Hotpoint stoves led General Electric Co. to add Hotpoint refrigerators to their line. Also, the American Telephone & Telegraph Co. is engaged in many electrical activities having nothing to do with either the telegraph or telephone. This ability to utilize one's image or good will is viewed by Cole as quite valuable to both the survival and growth of the business firm.

Ibid., p. 238.
He also argues that innovations result, in part, from the fact that "each business situation, a brief conjuncture, as it were, in a time-bound flow, is also individual, for each enterprise has its own evolved past." Thus, a firm whose past is different from others in its field, when confronted with a hither-to-unknown situation, may well exhibit a response which is innovative in nature.

Finally, the author states that innovations in entrepreneurial behavior usually are evolutionary in character. They usually represent the carrying forward of some idea or aspiration already utilized before in entrepreneurial life. For example, Filene's "bargain basement," according to Cole, was largely developed from well-known bargain sales.

Drucker

According to Peter Drucker, opportunities may be classified by their "fit" to a firm. A course of action which is easy for one firm to follow can be difficult for


another. Opportunities need to be judged, therefore, by considering the experience of a firm and its past successes and failures. If a firm has not been successful with a certain type of opportunity in the past, the chances of success whenever that kind of opportunity reappears are small, and the risks are high.

Ginzberg and Reilley

After an exploration into the process of change in large organizations, Eli Ginzberg and Ewing W. Reilley report several tentative conclusions. These conclusions include:

First, the bringing about of large-scale change is never an event, but always a process.

Second, a company's plan for change cannot be a duplicate of another company's, but must be hammered out in discussions, involving the firm's key personnel, which take into consideration the unique history, present circumstances, and future potential of the company.

Third, the history of an organization largely determines the nature and limits of the changes it undertakes.

Fourth, unless a plan for change is sensitive to the unique characteristics of the firm, both in its design and implementation, it will inevitably fail.

Fifth, significant gains in business usually carry important risks and costs. Thus, management must weigh the benefits vs. costs to determine whether or not a change is likely to yield a net advantage. If an organization has been losing ground for years, and the future looks no better, it is not difficult for management to assume risks involved in change, for it has nothing to lose and much to gain.

Popper

Karl Popper, in Chapter IX of his book, The Open Society and its Enemies, discusses the attributes of two methods for bringing about changes in society: utopian engineering and piecemeal engineering.²⁸ Utopian engineers (those who hold the view that utopian engineering is the best way to improve society) believe that to act rationally, man must always act with a certain ultimate end or blueprint for society in mind.

On the other hand, piecemeal engineers do not always have an ultimate end in mind, are aware that if perfection is attainable it is only in the far distant future, and feel that present generations have a right not to be made unhappy where it can be avoided. As a result, piecemeal engineers adopt a method of searching for and battling against the great evils of society, rather than promoting a new blueprint for society.

Popper opines that piecemeal engineering is the only rational method of improving society. He, thus, centers his discussion on reasons why piecemeal engineering is a more favorable method of social engineering, and why utopian engineering would not be a workable method.

He believes that piecemeal engineering is superior to utopian engineering because: First, utopian engineering risks great increases in human suffering. Second, although piecemeal engineering may be tried at any moment, utopian engineering must await favorable conditions. Third, piecemeal engineering is more likely to gain the support of the people than a fight for an ultimate end, because it is easier to see an evil. Fourth, if piecemeal changes are made, and these changes go wrong, little damage is done, and readjustment is not difficult. Fifth, piecemeal engineers can achieve improvements by democratic methods,
but the utopian engineer may need the power of a dictatorship to get things done. Sixth, no rational way of determining an ultimate ideal is available due to our limited experience. Seventh, the consequences of any sweeping changes are difficult to calculate because of limited information.

Thus, Popper feels that social changes should come about through piecemeal engineering: by making small adjustments on a trial and error basis, which can be corrected without repercussion if a mistake is made, and using the knowledge gained from these adjustments as a background for decisions regarding new adjustments. Popper further opines that the large-scale method only works where the piecemeal method has furnished planners with a large number of detailed experiences.

Margolis

Julius Margolis, in a discussion on the theory of the firm, argues that "a model of the firm which assumes that the firm chooses an equilibrium solution under conditions of complete knowledge is an inadequate tool for the analysis of the behavior of the firm."\(^{29}\) In place

of traditional economic theory, Margolis substitutes his own model, in which the firm does not have complete knowledge. It, thus, is not aware of all alternate courses of action open to it, and is not fully aware of the consequences of those courses of action which it has identified.

Such a firm is deliberative in its action, rather than maximizing, and thus, it seeks profits which are satisfactory, rather than maximum, as it cannot have knowledge as to what maximum profits are.

According to the Margolis model, managerial knowledge is largely restricted to current sales, prices, customer characteristics, etc., and a memory of business history. Such an institutional memory helps structure many situations where information is not adequate. Margolis feels that consideration of institutional memory has been somewhat neglected by economic theorists, and that this variable should be introduced into analyses which seek to explain how decisions are reached.

The term, satisfactory profits, is defined as a level of profits which is at least equal to the aspiration level of the firm. Such an aspiration level extends only as far into the future as the planning period of the firm and is conditioned by two requirements: it must be high
enough to assure the long-run survival of the firm and for future periods it must be equal to or greater than current normal profits.\textsuperscript{30}

Because of relative uncertainty concerning the future, information on past and present activities forms the basis of decisions on changes in the firm's actions. Such imperfect information about the future also causes the firm to exhibit a tendency to decide in favor of changes in activities whose consequences are the least uncertain. Thus, for example, if a firm has a choice between a very risky change, such as lowering the price drastically on a uniform product in an oligopolistic market, versus introducing a slightly dissimilar new product into a different segment of the market, it will normally choose the latter course.

In addition to the fact that less risk of great loss is involved in the one alternative, a further safety factor lies in the consequence of error: if a mistake is made and profits are reduced, it may be easier to abandon one line, than to return to a higher price. The new product serves as an experiment which can be dropped with good grace.

\textsuperscript{30}Ibid., p. 190.
Finally, the informational aspects of multiproduct policy are significant. By introducing new models, further aspects of consumer acceptance of the product are tested, which enhances the firm's limited information concerning its demand curve. Thus, an important element of the Margolis model is that the behavior of firms with regard to change typically resembles sequential decision-making behavior, in which the additional information generated as a consequence of actions provides the basis for future decisions.

Bliss

Joseph Schumpeter, according to Perry Bliss in "Schumpeter, the Big Disturbance and Retailing," believes that the usual method of competition, intrainstitutional, is not the "competition that counts." The latter type of competition must result from new institutions who enter the market with new ways of organizing things, new sales-cost relationships, new methods of selling. Such new institutions represent the innovators which disturb the existing system by causing significant imitation and adaptation. The main point argued by Bliss is that such

31 Perry Bliss, "Schumpeter, the Big Disturbance and Retailing" Social Forces, October, 1960, p. 72.
innovating institutions are a common element of retail competition. While the department store, chain store, mail order house, and supermarket were recognized as innovating institutions by Schumpeter himself, Bliss also opines that non-food supermarket-type retailers, discount houses, and planned shopping centers represent more recent examples of innovating institutions.  

Simon

The most significant contribution of Herbert A. Simon (as far as this study is concerned) relates to his analysis of the level of rationality of organizational behavior.

In his Administrative Behavior, he argues that the "social sciences suffer from a case of acute schizophrenia in their treatment of rationality." At one extreme are those economists who attribute to man omniscient rationality. Such an economic man must have a complete system of preferences; must be completely aware of what his alternatives are; and is not limited in the


complexity of the computations he can perform in order to determine the best alternative.

At the other extreme are those tendencies in social psychology which attempt to show that people are much less rational than they have been thought to be. Simon believes that the next generation will have to show that people are far more rational than we now describe them as being -- but with a rationality less grandiose than that proclaimed by economics . . . it seems obvious enough that human behavior in organizations is, if not wholly rational, at least in good part intendedly so.\textsuperscript{34}

According to Simon, man does not achieve perfect rationality because: (1) complete information as to the consequence of alternate actions is not obtainable; (2) the values which can be attached to future consequences can only be imperfectly anticipated; and (3) only a few of the possible alternatives come to the decision-maker's attention.\textsuperscript{35}

In diagnosing why most business organizations maintain fairly stable objectives, Simon attributes this to: (1) sunk costs which make rapid adjustment unprofitable; (2) the know-how acquired by a firm in a particular

\textsuperscript{34}Ibid.

\textsuperscript{35}Ibid., p. 81.
field -- a "sunk asset;" and (3) the fact that the organization acquires good will, also a sunk asset, which may not be readily transferable to another area of activity.36

In another work, Models of Man, Simon describes the principle of bounded (limited) rationality.37 As the capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world . . . the intended rationality of an actor requires him to construct a simplified model of the real situation in order to deal with it. He behaves rationally with respect to this model, and such behavior is not even approximately optimal with respect to the real world.38

According to Simon, an essential element in bounded rationality is substitution of the goal of satisficing (finding a course of action that is "good enough") for the goal of maximizing. An organization which satisfies has no need for knowledge of all alternate courses of action open to it, for knowledge of all consequences of each alternative, or for a complete preference ordering of the values which can be attached to future consequences (the limits on rationality noted earlier). For the latter, preference ordering, an aspiration level (satisfactory

36Ibid., p. 120.
38Ibid.
pay-off) may be substituted. Instead of having to know all alternatives and all consequences of such alternatives, those alternatives which are known are examined and/or tried sequentially until a satisfactory outcome is reached. 39

Simon also believes that it is important to contrast between bounded rationality and irrationality. Both the theory of man's behavior which assigns supremacy to reason and that which gives predominance to nonrational (passion) aspects ignore the bounds or limits on rationality noted above. Bounded rationality does not seek to substitute the irrational model for the rational, but to revise the rational model in such a way that it can be applied realistically to human beings. Simon opines that when progress toward such revision is achieved, the pendulum will swing from emphasis on the nonrational explanations of human behavior to interpretation of many facets of such behavior as rational. It is such a belief that leads Simon to characterize behavior in organizations as intendedly rational. 40

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39 Ibid., pp. 204-205, 241-256.
40 Ibid., p. 200.
March and Simon

Organizations, written by Simon with James G. March, analyzes the preferred treatment given by organizations to alternatives that represent continuation or slight change in present programs over those which involve new programs (innovation). Such a preference or persistence results largely because the organization is engaged in satisficing. It does not search for alternatives to continuing (or changing gradually) the present program unless such a course does not yield satisfaction. As long as continuing or gradually changing a program yields results which are satisfactory, search for new alternatives (especially new programs) is suppressed. When satisfaction is not achieved (such as when survival is threatened) the amount and extensiveness of search increases. Thus, persistence to a particular program is not attributed to "resistance to change," but merely to the absence of rigorous searches for new programs under circumstances in which the present program is satisfactory.

In discussing the application of aspiration levels to business organizations, March and Simon argue that such

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42 Ibid., p. 174.
aspiration levels tend to adjust over time to the level of achievement. In other words, "the level of satisfactory performance is likely to be very close to the actually achieved level of recent performance." 43 They also note that the adjustment of aspiration levels is a slow process; that when the situation is in a relatively steady state over a significant period of time, aspiration levels tend to gradually rise. As a result, even in the absence of other environmental change, there is a continuous mild pressure toward change.

Cyert and March

In A Behavioral Theory of the Firm, Cyert and March characterize the firm as an adaptively rational system rather than an omnisciently rational system. 44 They assume that an adaptive system has the following properties:

1. There exist a number of states of the system. At any point in time, the system in some sense "prefers" some of these states to others.

2. There exists an external source of disturbance or shock to the system. These shocks cannot be controlled.

3. There exist a number of decision variables internal to the system. These variables are manipulated according to some decision rules.

43 Ibid., pp. 182-183.
4. Each combination of external shocks and decision variables in the system changes the state of the system. Thus, given an existing state, an external shock, and a decision, the next state is determined.

5. Any decision rule that leads to a preferred state at one point is more likely to be used in the future than it was in the past; any decision rule that leads to a nonpreferred state at one point is less likely to be used in the future than it was in the past.45

According to Cyert and March, uncertainty avoidance is an important feature of organizational decision making. The firm must live with uncertainties regarding the behavior of the market, suppliers, competitors, shareholders, government, etc. Rather than using procedures for finding certainty equivalents (expected value) to deal with risk or introducing rules (game theory) for living with uncertainty, studies by Cyert and March indicate quite a different strategy of uncertainty avoidance on the part of organizations.

To avoid uncertainty, organizations: (1) avoid the need for correctly forecasting events in the distant future by emphasizing short-run reaction to short-run feedback, rather than anticipation of long-run uncertain events, and (2) avoid the requirement that they anticipate future reactions of other parts of their environment by

45Ibid.
arranging a negotiated contract through such devices as industry tradition and uncertainty-avoiding contracts.46

As far as (l) is concerned, Cyert and March view the firm as a fire department, not a long-run strategist, which makes decisions sequentially by solving problems as they appear. When decisions do not fall naturally into such a sequence, they are modified until they do. Such problems usually involve the failure to achieve an organizational goal. When such is the case, search is implemented to find an alternative that satisfies the goal. Such search typically places a high premium on alternatives that are similar to alternatives chosen in the recent past by the firm or other firms of which it is aware. When a decision is reached to try a particular alternative, it is extended like a feeler which, depending on the feedback, is withdrawn or confirmed. If the alternative satisfies the goal, search is ended. If the alternative fails to satisfy the goal, search broadens and new alternatives are discovered and tested sequentially. In the event that a problem cannot be solved by

46Ibid., pp. 118-120.
any alternative, the goal (aspiration level) is revised to a level that makes an available alternative acceptable. 47

Regarding (2), the authors argue that instead of treating their environment as uncontrollable and uncertain, firms attempt ways to make parts of it more controllable and less uncertain. In the case of competitors, one such method is the establishment of industry-wide conventional practices. If "good business practice" is standardized through trade associations, journals, etc., then most competitors will follow it. As a result, a certain stability in certain practices can be achieved without resorting to collusive, illegal agreements. For example, prices are set in the department store field (at the time of publication of the book) on the basis of conventional practice. Such variables as the rate of mark-up, price lines and standard costing procedures become subject to industry-wide practices in this field. The net result is that such devices allow parts of the uncertain environment to be made relatively less uncertain. 48

47 Ibid., pp. 86, 119-122. As the views of Harold J. Leavitt appear to correspond relatively close to Simon, Cyert, and March in such areas as limited search, limited rationality, satisficing, feedback, etc., his ideas are not summarized here. See Harold J. Leavitt, Managerial Psychology (Chicago: The University of Chicago Press, 1964), pp. 343-357.

48 Ibid., pp. 120, 128-133.
Advance orders also enable the department store and its suppliers to make a part of their environments less unpredictable through contractual commitments.

These devices, Cyert and March argue, are not used as aids to profit maximization. Rather, they are utilized to help avoid uncertainty while obtaining a return that satisfies the profit and other goals of the organization. The authors feel that the lack of a profit-maximizing goal is indicated by (1) the relative stability of certain practices over time; and (2) the occasional instances of success by new institutions willing to violate the conventional procedures.  

Wilson and Alexis

In an article, "Basic Frameworks for Decisions," Wilson and Alexis discuss two frameworks for decision: the closed and the open. The closed framework is based largely on the concept of rational man: an individual is faced with a situation in which several courses of action are available. He is aware of all such relevant alternatives, as well as the consequences of each alternative.

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49 Ibid., p. 120.

He also has available a preference ordering of goals. By taking into account the possible consequences of actions open to him, and utilizing the preference ordering, he chooses that alternative which maximizes his fulfillment of the predetermined goals.

In the open model, (1) predetermined goals are replaced by an aspiration level; (2) all alternatives and consequences are not predetermined; (3) the relationships between specific alternatives and outcomes are not always defined; (4) the ordering of all alternatives is replaced by a search routine which considers fewer than all alternatives; and (5) the individual seeks to "satisfy" his aspiration level, rather than maximize.51

In discussing the multiple-choice open model, the authors point out that such a model represents a hierarchy of single decisions, with each successive decision an attempt to improve the outcome in light of new information gained in previous decisions. In such a model, the individual begins with one or more goals or aspiration levels. Next, he engages in search activity in order to define a limited number of alternatives and outcomes. He makes no attempt to establish the relations rigorously. Following this limited search, he then studies the limited

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51 Ibid., p. 193.
alternatives to find a satisfactory solution in terms of his aspiration level. The results of the selected solution are then compared with the aspiration level.

If the solution results in a reasonably satisfactory outcome in which the attainment discrepancy (difference between aspiration level and outcome) is nonexistent or quite small, additional search is improbable. If, however, attainment discrepancy is positive, the aspiration level adjusts upward, and search is again initiated among a narrowed range of alternatives. If a negative attainment discrepancy occurs, the aspiration level adjusts downward and search activity is broadened.

Such a model is viewed as adaptive because both the goals (aspiration levels) and search activity are adjusted according to the level of achievement resulting from each decision. The authors conclude that such an open model, with its hierarchy of decisions from which the individual learns by experience, provides a highly realistic simulation of problem-solving. As a result, it should provide a fruitful path for those engaged in the development of a complete decision model. 52

52 Ibid., p. 194.
Mansfield

Edwin Mansfield, in a recent book, *The Economics of Technological Change*, analyzes technological innovation as it has occurred in manufacturing-type industries.\(^53\) Although his discussion does not involve innovations which relate to nontechnological factors (which are frequently the type which occur in retailing), and emphasizes innovation among existing firms (although in retailing the major innovations seem to have resulted largely from new institutions),\(^54\) certain of his ideas can be useful to the present study.

In discussing the rate of technological change, Mansfield points out that although there is often a tendency to focus on major spectacular innovations, in many industries such change may result from a succession of minor improvements.\(^55\)

Mansfield, in describing industrial research and development, argues that an R & D project may be regarded as a process of uncertainty reduction, or learning.\(^56\)


\(^{54}\) See Bliss, *op. cit.*, pp. 72-76.


In analyzing the decision to innovate, Mansfield lists two factors as being the most important: the expected rate of return and the risks involved. He notes that the risks of innovating are quite substantial. As a result,

if the expected returns from the introduction of an innovation do not exceed those obtainable from other investments by an amount that is large enough to justify the extra risks, the innovation should be rejected.\textsuperscript{57}

There are advantages and disadvantages in introducing innovations at a future date. Among the advantages is the reduction in risk that results as more information becomes available on the performance and market of the innovation.

In a short section on the external sources as innovators, Mansfield mentions that such sources (new firms, firms in other industries, etc.) are of significant importance in the "less science-based industries."\textsuperscript{58} In mature industries such as textile, machine tools and construction the proportion of major innovations is lower than it is for less mature and more technologically sophisticated industries such as chemicals, electronics, and aerospace. Those relatively few innovations which have been adopted in the mature industries seem to have been assimilated

\textsuperscript{57}Ibid., p. 105.

\textsuperscript{58}Ibid., p. 111.
from outside sources, such as small new firms, and other industries.

An important point made by Mansfield in discussing the rate of diffusion of innovation is that as the number of firms adopting an innovation rises, the probability of its adoption by a nonuser increases.

The assumption seems reasonable because, as experience and information regarding an innovation accumulate, the risks associated with its introduction grow less, competitive pressures mount, and bandwagon effects increase.59

Thompson

James D. Thompson, in Organizations in Action, develops several interesting propositions, some of which are relevant to the study.60

Thompson asserts that there are two fundamental types of models underlying most of organization theory: rational or closed system models and natural or open system models. The closed system requires that all variables be comprehensible, and controllable (or if not controllable, at least predictable). Certainty is emphasized in such

59Ibid., p. 120.

a system. In an open system, all variables may not be comprehensible at one time, some variables may be relatively uncontrollable or unpredictable, and thus, uncertainty is assumed.

Thompson feels that both the rational and natural models are useful and that synthesis ought to be attempted. In his view, complex organizations are open systems, faced with uncertainty, but at the same time subject to criteria for rationality and hence needing an element of certainty and closure. 61

Thompson points out that the technical core (the part of the organization engaged in production), rather than those sections dealing with customers, suppliers or other parts of the uncertain environment, is more amenable to closure. However, for this to occur, those variables which are not controlled by the organization must not be allowed to interfere with the technical core. Thus, "organizations seek to seal off their core technologies from environmental influences." 62

Organizational rationality cannot be gained, however, unless three component activities: (1) input activities, (2) technological activities, and (3) output activities are

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61 Ibid., p. 10.
62 Ibid., pp. 18-19.
correctly geared to each other. Since the input and output components are interdependent with the environment, organizational rationality must be viewed as involving an open system. In order to foster closure on the part of the technological core, organizations seek to buffer, level out, or adapt to environmental influences at the input and output component level.

An extremely important point is Thompson's conception of the "domain consensus." He argues that all organizations must establish a "domain" in terms of their range of products, market served, and services rendered. Since the organization's technology (or technologies) is only one part of a technological matrix, its domain always falls short of the total matrix. Thus, the domain determines the points at which the organization becomes dependent on support from the environment.64

Since such support is necessary to the existence of the organization, establishment of domain cannot be an arbitrary, unilateral action. Only if the organization's claims to domain are recognized by such a supporting environment (suppliers, customers, etc.) can a domain be operational. The relationship between the organization

63 Ibid., pp. 19-24.
64 Ibid., pp. 26-27.
and its relevant environment is primarily one of exchange. If there is no prior consensus regarding domain, sufficient exchange will not take place to permit survival of the organization. Domain consensus defines for both members and environment what they can expect the organization to do and not do. It provides an image of the organization's role in a larger system, "which in turn serves as a guide for the ordering of action in certain directions and not in others."65

Another relevant point raised by Thompson is that organizations employing a mediating technology (their primary function is to link interdependent elements of the environment) such as banks, railroads, insurance firms, and retailers seek to expand their domains by increasing the market served. For example, Sears, whose original success came by saturating rural territories via mail order, expanded still further by blanketing fast growing urban areas with retail outlets.66

Finally, like several of the author's views discussed above, Thompson also views the organization as a satisficing, rather than maximizing, entity.67

65Ibid., pp. 28-29.
66Ibid., p. 42.
67Ibid., p. 88.
Conclusion

It is apparent from the contents of this chapter that many of the ideas are mentioned (under varying titles) by several of the authors in a variety of disciplines. To illustrate this point, the ten perhaps most vital ideas collected from the literature, together with the authors who utilized them, are presented in Table 1 as a means of briefly summarizing the chapter. These ideas or concepts selected are (1) limited rationality; (2) satisficing; (3) aspiration level; (4) limited search; (5) avoidance of risks or uncertainty; (6) sequential decision-making; (7) domain consensus or firm history as a constraint; (8) incremental change; (9) differential advantage; (10) major innovations in retailing initiated by new institutions.
TABLE 1
MAJOR CONCEPTS GATHERED FROM THE LITERATURE

<table>
<thead>
<tr>
<th>Concept</th>
<th>Utilizers of Concept</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited rationality</td>
<td>Simon, Cyert &amp; March, Margolis, Lindblom, Thompson</td>
</tr>
<tr>
<td>Satisficing</td>
<td>Simon, Cyert &amp; March, Margolis, March &amp; Simon, Wilson &amp; Alexis, Thompson</td>
</tr>
<tr>
<td>Aspiration level</td>
<td>Margolis, Simon, Cyert &amp; March, March &amp; Simon, Wilson &amp; Alexis</td>
</tr>
<tr>
<td>Limited search</td>
<td>Cyert &amp; March, Simon, Lindblom, March &amp; Simon, Wilson &amp; Alexis, Papper</td>
</tr>
<tr>
<td>Avoidance of risks or uncertainty</td>
<td>Cyert &amp; March, Clark, Margolis, Mansfield</td>
</tr>
<tr>
<td>Sequential decision-making</td>
<td>Cyert &amp; March, Simon, Lindblom, Wilson &amp; Alexis, Margolis</td>
</tr>
<tr>
<td>Domain consensus or firm history as constraint</td>
<td>Thompson, Doody, Cole, Alderson, McCammon, Ginzberg &amp; Reilley, Margolis</td>
</tr>
<tr>
<td>Incremental change</td>
<td>Doody, Lindblom, Popper, McCammon, Margolis</td>
</tr>
<tr>
<td>Differential advantage</td>
<td>Clark, Alderson, McCammon</td>
</tr>
<tr>
<td>Major innovations in retailing initiated by new institutions</td>
<td>McNair, Doody, McCammon, Bliss, Schumpeter</td>
</tr>
</tbody>
</table>
CHAPTER III

A CRITICAL ANALYSIS OF THE WHEEL HYPOTHESIS

As mentioned in Chapter I, most supporters of the Wheel hypothesis believe that mature retail institutions tend to be unresponsive to changing environments. In their view, such institutions exhibit inertia, ruts, complacency, apathy, conservatism, lethargy, etc., during their period of maturity. The result of such behavior, according to such writers, is the entrance and development of new institutions who respond to an environmental opportunity created largely by the mature institutions' lack of responsiveness.

The present chapter will first analyze this assumption of mature institution nonresponsiveness from the standpoint of retailing history. As such an analysis will indicate that this assumption does not appear to be altogether correct, the next section of the chapter will look to some of the organization theory concepts in Chapter II in an attempt to find a possible source for such an assumption. The analysis of organization theory will
propose that the Wheel supporters' assumption of mature institution nonresponsiveness may have, in part, resulted from the frame of reference they may have applied regarding the level of rationality of organizations.

The final section of the chapter will utilize recent analyses by Simon and others concerning such a level of rationality to indicate possible reasons for what Doody and McCammon contend is the incremental nature of mature institution change behavior. Such an application of Simon's frame of reference regarding organizational rationality to retail institutions, and especially to the incremental behavior of mature institutions, will serve as a foundation and rationale for the development of the new model or explanation of retail institutional development presented in Chapter IV.

The Wheel and Retailing History

A study of retailing since World War II brings forth three general problems concerning the Wheel and the explanations of its supporters concerning mature institution behavior.

First, in arguing that new retail institutions enter on a low cost basis and incur rising costs during much of their lifetimes, the Wheel appears to rule out the
possibility that a new institution may enter at some other cost-level. The crux of the matter is that there is no reason why, if costs are interpreted as the means necessary to furnish a market segment with a total product which it is willing and able to pay for, a new institution cannot enter at whatever cost level is required to profitably satisfy the total product demands of an unserved market which possesses adequate buying potential. In fact, perhaps both the entrance of future high total product institutions,\(^1\) as well as the higher costs incurred by maturing institutions, might be in part related to the importance of the markets for the middle and higher total products which such relatively higher costs might support.\(^2\)

Second, the Wheel and its supporters opine that complacent mature institutions become \textit{vulnerable} to new institutions. However, as aptly pointed out by Otteson, Panschar, and Patterson, mature institutions do not simply decline and pass away if such a "vulnerability" point is reached. Instead, such old institutions often "adapt and

\(^1\)Hollander argues that several such institutions have already entered the market. See Chapter II, pp. 32-33.

\(^2\)See Chapter II, p. 35, for Nielsen's similar views on this point. Also see Chapter V for a department store example which supports this argument.
adjust" in such a way that they are able to retain a "market niche for their services." Examples of the adaptive behavior of mature institutions will be offered below. However, the point to be brought out here is that if mature institution "vulnerability" actually is responsible for the entrance of new institutions, how does this account for the relatively strong showing of both the supermarket and department store in the last several years?

Supermarkets, in data published by the Super Market Institute, controlled over 75% of grocery store sales in 1965, despite the growth of such new food retailing institutions as "7-11" stores. The department store, despite the rapid growth of the discount house, has been able to hold a relatively stable share of total retail sales over the last decade. Although discount department stores rose in their share of total retail sales from one and one half per cent in 1958 to over twelve per cent in 1967, conventional department stores declined only about one per cent in their share of total retail sales during that period.

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Third, a major assumption of the supporters of the Wheel is that the mature institutions' failure to adapt to changing environments is in large part responsible for the development of a new institution. Yet it appears that both the supermarket and department store have, throughout their maturity periods, adapted quite frequently to changing environments.\(^6\)

Supermarkets have, for example, responded to changes in consumers' residential locations by placing an increasing emphasis on suburban locations which feature extensive parking facilities. At the same time, they have adapted to the changing buying habits of consumers by gradually increasing the use of evening and Sunday openings. By 1965, 70 per cent of all supermarkets were open at least six nights a week and 31 per cent were open on Sundays, both representing substantial increases from the early 1960's.\(^7\)

In recent years, a significant development has been the growth in the suburbs of small, highly specialized food outlets, many of which in attempting to obtain a better "fit" to their market, develop rather unique personalities. In response, many supermarkets have

\(^6\)Such adaptions are detailed in many books on marketing. See, for example, Beckman and Davidson, op. cit., pp. 282-284, 300, 310-312.

\(^7\)Beckman and Davidson, op. cit., p. 300.
successfully changed their appearance from that of one giant store, to many appealing individual shops. In addition, they have adapted by delegating increasing authority and responsibility to members of management not on the central administrative staff, including individual store managers. This has served the dual function of increasing incentives among lower and middle management (often a problem within large supermarket firms) and enabling the stores involved to better adapt themselves to local market conditions.

Faced by the consumers' move to suburbia, increasing congestion and parking problems in the central business districts, and the concurrent growth of highly specialized retailing in the suburbs, department stores have adapted in a variety of ways including: gradual development of a system of branches in the suburbs; provision of new parking garages at downtown locations; influence over governments to accelerate completion of freeway systems; upgrading of downtown store appearance; support of programs aimed at giving new life to central business district areas; improving of mail and telephone order services; and recently development of the "boutique" shop concept to enhance store atmosphere and shopping convenience.

In response to the growth of discount houses, department stores have implemented such practices as
warehouse sales and continuously operating warehouse stores; cost analysis and reduction programs; elimination of services not required by customers; re-evaluation of price-setting methods; new tactics with regard to advertising of prices; development of a separate image for budget stores; and, in some cases, opening of discount stores themselves.

The Wheel and Organization Theory

As it is apparent from the above discussion that the assumption of Wheel supporters involving the nonresponsiveness of mature institutions may not be completely valid, it is necessary to attempt to discern the possible source of that assumption.

It is quite possible that the source might involve the frame of reference held by the Wheel supporters concerning the level of rationality of organizations. According to Simon, the prevailing thrusts in this area at the time he wrote Administrative Behavior, emphasized either the perfect or omniscient rationality or the relative nonrationality of organizations. The point of this observation is that it is quite likely that those evaluators of the retailing scene who categorized mature

\[8\] See Chapter II, pp. 53-54.
institutions as nonresponsive, held either one prevailing view or the other.

Although there is no proof available for this assumption, the ability of either frame of reference to capably explain the Wheel supporters' use of such terms as inertia, rut, apathy, etc., leads the author to believe that it may be valid.\(^9\)

If, for example, the Wheel supporters believed in the perfect rationality norm, they would certainly expect mature retail institutions, given the substantial changes occurring in their environments, to implement changes of a more dramatic character. Since such mature institutions often implement changes in a highly incremental manner, which McCammon contends are often "imperceptible,"\(^10\) it is apparent that any writer with omniscient rationality as a norm would not have, in observing mature institution behavior, found what he was looking for: dramatic changes. It would then be perfectly natural for such a writer to view such institutions as lethargic, complacent, etc., since such institutions certainly were not meeting the

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\(^9\)On the other hand, as is explained later in the chapter, the now popular frame of reference, bounded rationality, developed by Simon and others, would probably have led such writers to a quite different interpretation of mature institution behavior.

\(^10\)See Chapter II, p. 37.
standards of the frame of reference he was utilizing.

On the other hand, it is also possible that some of the Wheel supporters might have been influenced by the other prevailing frame of reference which emphasized the nonrational aspects of organizations. If influenced by such a viewpoint, it would be understandable how such writers could look at mature institution behavior, and not witnessing any dramatic moves, assume that the new institutions resulted from some sort of irrationality on the part of the mature institutions. Such terms as rut, apathy, inertia, lethargy, would then follow quite easily from such an assumption.

In summary, the assumption that mature institutions are nonresponsive (lethargic, complacent, etc.) might well have largely resulted from such writers' holding of frames of reference concerning organizational rationality which in their traditional forms have, within the discipline of organization theory at least, become relatively obsolete in recent years.

**Adaptive Rationality**

In the last fifteen years has come increasing acceptance of a new frame of reference regarding the level of rationality of organizations. Fostered by Simon, March,
Cyert, and others, this school of thought views organizations as acting with bounded, limited, intended, or adaptive rationality.\(^{11}\) Their basic argument is that organizations, although not omnisciently rational, are also not as nonrational as the latter school of thought believes. Rather, organizations are faced with certain constraints which limit the level of rationality which they can achieve.

Such constraints include an inability to be aware of all relevant alternatives; incomplete information concerning the consequences of such alternatives; and imperfect understanding concerning the values with which the organization seeks to evaluate such alternatives. Organizations tend to be rational within the bounds made necessary by such constraints. Thus, rather than viewing the less than perfectly rational organization as nonrational (as certain of the Wheel supporters may have done), such theorists conclude that organizations do apply reason in attempting to fulfill their objectives.

However, instead of being aware of all relevant alternatives, consequences and goals, and merely computing the best alternative in any situation, organizations,

\(^{11}\)See Chapter II, especially pp. 53-62, for a more detailed discussion of this concept.
according to this viewpoint, must search for alternatives, and make decisions with a much less than complete picture of their goal structure or of the consequences of each alternative discovered in the search process.

As a result, a complex goal structure tends to be replaced by a level of aspiration which is flexible enough to vary with the performance of the organization, and the lack of information concerning consequences (along with the constraints of cost and time among others) tends to limit search, at least initially, to alternatives which are relatively similar to alternatives already used by the organization or comparable organizations. By using alternatives of this type some information about their future consequences is gained from the consequences of their present or past application.

If a selected alternative satisfies the current level of aspiration (rather than maximizes profits, etc.) search is temporarily halted. If the opposite is true, search tends to be expanded, with each newly-discovered potentially satisfactory alternative tested in a sequential manner. If search does not yield a satisfactory alternative, the level of aspiration tends to adjust to the level of achievement which can be attained by the best of the discovered alternatives.
Adaptive Rationality and Retail Institutions

It is this author's opinion that such a bounded or adaptive rationality may be more applicable to retail institutions than either of the other two (omniscient rationality or relative nonrationality) frames of reference concerning the level of organizational rationality. Although (as is true for many points made later in this study) no empirical studies have been made of this assumption, several years of experience and observation in retailing have indicated to this writer that retail institutions operate under the same constraints and tend to adapt to such constraints by utilizing many of the same bounded or adaptively rational techniques mentioned above, and detailed in Chapter II.

But more important for the present study is the question of how someone with an adaptively rational frame of reference regarding organizational rationality would differ, from those holding the other two viewpoints, in interpreting change behavior of mature retail institutions. Of course, the author cannot speak for others who ascribe to the adaptively rational frame of reference. However, as one who himself ascribes to such a frame of reference, it ought to be possible for this writer to interpret such behavior with results at least partly
similar to interpretations which might be made by other disciples of bounded rationality. In making such an interpretation, it will be noted how it differs from the interpretations which would likely be made by adopters of the other previously mentioned frames of reference.

A summary of the major points of such an interpretation are as follows:  

First, the AR disciple, as he is not looking for a particular type of change, would be likely to notice the numerous incremental changes implemented by mature retail institutions. In contrast, the OR man, as he expects more dramatic changes, would be apt to "miss" a large portion of such incremental changes.

Second, an AR person would be more apt to view such incremental behavior in a relatively positive manner than would OR or NR scholars. OR's could be expected to consider such changes as nonrational since they do not meet the standards of their frame of reference. NR's would probably interpret such moves as resulting from something other than reason. But an AR disciple would probably argue that incremental changes are indicators of the adaptability which can be achieved by a firm or

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12In the remainder of this chapter AR is often substituted for bounded or adaptive rationality, OR is often used in place of omniscient or perfect rationality, and NR refers to the belief that organizations are relatively nonrational.
institution operating under bounded rationality.

Third, such a positive view of the adaptability of mature institutions would allow an AR person, in contrast to OR or NR disciples, to look favorably upon the arguments presented earlier in discussing current retailing history that (1) the higher cost level of some mature institutions might in part be attributable to an intentional attempt to serve the middle total product market; (2) as certain quite mature institutions (such as the supermarket and department store) have exhibited significant indicators of strength in recent years, despite the influx of new institutions, the so-called "vulnerability" of matured institutions may not be the trigger of new institutions, which Wheel supporters believe it is; and (3) the examples presented of recent supermarket and department store responses to their environments may actually be indicative of the adaptive behavior sometimes exhibited by such mature institutions.

Fourth, an AR person, both because he would notice rather than miss their incremental responses and would recognize the adaptive nature of such responses, would more than likely interpret the change behavior of mature institutions as at least relatively responsive, rather than nonresponsive. As a result, he would probably not find it useful to apply to such institutions the terms (such
as inertia, rut, etc.) utilized by supporters of the Wheel hypothesis.

Fifth, he would be apt to search the concepts underlying his AR frame of reference to determine if such concepts might be helpful in explaining why the incremental changes, which Doody, McCammon and this author contend are a prominent characteristic of the behavior of retail institutions especially as they mature, are utilized to such an extent. Such a search would probably yield many possible rationales for such incremental behavior. Some of the major rationales which might result from a study of AR concepts include:

1. Buffer the effects of the environment on the technical core: a successful innovating institution may have relatively little trouble with its environment during its growth period because it offers a differentiated total product which a relatively unserved segment of the market strongly desires. Thus, it is not particularly difficult for the institution during such a period to successfully utilize its input and output components to buffer the effects of the few environmental disturbances, which may occur, from the technical core. The latter, according to
Thompson, is a common organizational aim.\textsuperscript{13} However, as the institution matures, the environmental picture changes. Its once relatively unserved market is gradually transformed into a market saturated with both intratype and intertype competition. As a result, the once relatively "sure" paths to satisfaction of levels of aspiration (such as outlet expansion) may no longer do the job. Relative assurance concerning the ability of selected alternatives to achieve desired outcomes is replaced during maturity by relatively less assurance as to what environmental response to expect from each selected alternative.

As a result of such declining certainty,\textsuperscript{14} the institution becomes aware of the increasing probability that an implemented alternative might elicit such a negative response from its environment, that the input or output components could not buffer such effects from the technical core. In order to reduce the opportunity for this to happen, the institution may resort to selection of incremental alternatives or moves whenever possible.

\textsuperscript{13}See Chapter II, p. 69. In retailing perhaps the input component might be viewed as the buyer's function, the output component as advertising, and the technical core as such tasks as sales clerking, stocking, credit, receiving, and marking, etc.

\textsuperscript{14}Certainty and uncertainty do not refer, in this study, to complete predictability or a complete absence of predictability. They are used here as relative terms, with certainty indicating a higher level of predictability than uncertainty.
Such incremental moves help to prevent such damaging environmental responses by serving as a "feeler." If the "feeler" is accepted, it can easily be enlarged in scope if such is necessary to achieve a level of aspiration. However, if the "feeler" is rejected, it can be withdrawn before serious damage, which might disturb the technical core, develops.

2. Avoid uncertainty: Viewed in a larger perspective than the desire to protect the technical core, the use of incremental changes may be considered a means utilized by each member of a maturing institution to avoid uncertainty. Such uncertainty avoidance, contend Cyert and March, is a major aim of organizations. The intensifying competition mentioned earlier, coupled with significant changes that often take place in resource and consumer markets, make the maturing institution so uncertain as to which moves it should make, that it will resort to incremental changes. Such uncertainty is avoided by using information on past or present experiences with similar alternatives to help predict the unexpected outcomes of the incremental changes. In addition, not only is the technical core protected, but the possibility of

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15 See Chapter II, pp. 59-62.
serious damage to any part of the firm resulting from an improper selection of an alternative is reduced, since incremental moves can normally be relatively easily reversed.

3. Adaptability of the level of aspiration and the search process:

First, maturing institutions usually find that they grow at a much slower pace than during previous periods. In effect, their level of achievement rises much more gradually than in the innovation and growth phases. If the level of aspiration continued to rise at the rate which it rose during such earlier periods, the institution would probably be forced to attempt drastic changes in order to have any hope of satisfying level of aspiration.

However, whenever the growth of an institution is slow, the level of aspiration adapts to such gradually increasing level of achievement by maintaining itself just slightly above the current achievement level. The relative closeness of level of aspiration to level of achievement means that incremental changes may be all that are required to produce the desired results during such a period.

Second, the search process is adaptable to the relationship between the level of aspiration and level of

\[\text{16}^{*}\] See Chapter II, pp. 57-58, 60-61, 63-64.
achievement. The search process typically starts out by looking for alternatives which differ only incrementally from past or present practices. Such alternatives tend to be tested by the institution in a sequential manner until it locates an alternative which satisfies level of aspiration. Only if none of the discovered incremental alternatives can satisfy level of aspiration, is the search expanded to nonincremental alternatives. Since the level of aspiration tends to be situated only slightly above current level of achievement during maturity, some kind of incremental alternative or move usually can be found which will satisfy the level of aspiration. Thus, the search process ordinarily does not have to explore beyond the realm of incremental changes during the maturity period.

A possible exception to this would be if level of achievement in the core market declined at a relatively rapid rate. It is likely that in such a case, level of aspiration might not respond as quickly, with the result that the large discrepancy between level of achievement and level of aspiration would ultimately require a search for and application of nonincremental alternatives. A firm whose survival was seriously threatened by a new institution and who reacted by changing over to that new institution is an example of such a situation.
4. Domain consensus: An extremely significant possible rationale for use of incremental change by retail institutions is the concept of domain consensus. As an institution grows and/or matures it tends to develop a well-defined domain involving range of products, markets served, services rendered, etc. Both resource and consumer markets come to expect the institution to live, at least for the most part, within the bounds of such a domain. An unwritten agreement may exist between the institution and such markets over what the institution may and may not get into.

Of course, if an institution has achieved a high level of domain consensus, this tends to be a significant aid to its level of effectiveness. However, there are also pressures to cross the boundaries of a domain. In weighing such pressures against the values of retaining domain consensus, the institution will, of course, be aware of the possible alienation or resentment that such a move might induce among consumers, suppliers, personnel, money market representatives, etc., each of which expects the institution to stick at least relatively close to its well-established domain.

The result is that when an institution is faced with the task of changing a part of the domain it has worked quite hard to build, it tends to introduce such changes

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17 See Chapter II, pp. 69-70.
incrementally. By doing so, the institution seeks to prevent any really serious alienation or breaks in the domain consensus, and at the same time hopes to use the greater time inherent in such incremental changes in an attempt to gain acceptance for the direction of the change and, thus, hopefully repair any breaks in the consensus.

Implications

By utilizing adaptive or bounded rationality as a frame of reference, it has been possible to offer a different interpretation of the adaptability and responsiveness of mature retail institutions than that held by supporters of the Wheel hypothesis. It also appears that, by applying some of the major concepts underlying such a frame of reference, the question of why retail institutions, especially during maturity, seem to prefer and make extensive use of incremental change has been at least partially answered.

The author's belief that limited or adaptive rationality may be the frame of reference most applicable to retail institutional development does not imply that all members of an institution operate at such a level of rationality. It merely assumes that most members of an institution operate within such a bounded level of rationality. It should also be pointed out that the writer's tendency to make more use of the term, "adaptive," rather than "intended," "limited," "bounded," as the adjective used with the word, "rationality," does not mean that retail institutions' level of rationality is any different than the latter three terms suggest. As is the case with Cyert and March, the writer merely prefers the term "adaptive" to the other adjectives even though all are descriptive of essentially the same concept.
CHAPTER IV

A NEW MODEL OF THE DEVELOPMENT OF RETAIL INSTITUTIONS

If adaptive or bounded rationality may be relatively more applicable to retail institutions than either omniscient rationality or relative nonrationality, as was argued in Chapter III, then it follows that an explanation of the development of such institutions would profit by utilizing it as a frame of reference. However, it appears that the currently-accepted explanation (the Wheel hypothesis), and those supporters who have attempted to explain it, may have applied other, less appropriate, frames of reference. Therefore, it is the purpose of this chapter to utilize adaptive rationality as a frame of reference for a first approximation of a new explanation or theory of retail institution development.¹

¹As empirical studies of institutional change in retailing are largely lacking, the new theory utilizes many interpretations and assumptions which have not, as yet, been tested. It is hoped that presentation of the theory will provide a framework which will initiate an increased interest in empirical testing of institutional change in retailing. Those portions of the theory which especially warrant such empirical testing are noted in appropriate footnotes.
The adaptive rationality frame of reference, and the hypothetical interpretations of mature institution behavior based on such a frame of reference, offered in Chapter III, served as an important unifying force throughout this chapter.

In addition to such a unifying force, the experiences and observations of the author, together with the ideas of several prominent evaluators of the retailing scene, contributed significantly to the theory. Especially important were the contributions of Doody, Alderson, Davidson, McCammon, and Nielsen. The writings of such authors were of significant help in the development of the model not only because of their retailing knowledge, but also because of their apparent at least partial acceptance of adaptive rationality as a frame of reference regarding the rationality level of retail institutions.$^2$

The new theory is offered through explanation of a model which depicts the phases characteristic of a

$^2$The tendency to apply such adjectives as adaptable, responsive, etc., to retail institutions consistently in their writings indicates the probable acceptance of such a frame of reference. The source of such acceptance is of no importance here. Whether it developed through reading Simon, March, etc., observation of retailing behavior, or some other source, the point is that since their explanations were based on the same frame of reference as that utilized in this study, their insights were especially helpful.
successful retail institution's development. (See figures one, two, three, four, and five.) The phases in the model include:

1. Development of the opportunity.
2. Recognition of the opportunity.
3. Entrance of the new institution.
4. Seeking of niche by new institution.
5. Striving for early growth by new institution.
6. Entrance of additional members by imitation.
7. The search for differential advantage and its effect on the institution's total product offering.
8. Creation of new gap or opportunity.
10. Entrance of new institution.

In order to illustrate the potential relationship of the model to actual retailing practice, brief illustrations of the behavior of supermarkets, department stores, and discount houses are interspersed where appropriate throughout the explanation of the model. Later chapters will illustrate this possible relationship in greater detail.

\[\text{\textsuperscript{3}}\] The source of each figure is that portion of the theory which is discussed on the pages immediately preceding it. The figures are found on pp. 102, 107, 112, 117, 122.
Before presenting the model, however, it is necessary to identify the hypothetical assumptions underlying the total product spectrum, a concept which is utilized throughout the discussion: 4

The total product spectrum is the author's method of defining and classifying the highly diverse consumer market available to retailing institutions. The entire total product spectrum encompasses the widely-varying total product demands of the entire consumer market. To simplify exposition of the theory, the spectrum is divided into only three basic categories: low, middle, and high total product markets.

The lower segment of the total product spectrum includes those consumers who seek low prices and accept the relatively low level of services, quality, location, assortment, etc., which tend to be commensurate with such prices.

The consumers who make up the broad middle segment of the total product spectrum seek a relatively greater total product than do the low total product segment members, and are willing and able to pay the relatively

4 It is suggested that the untested assumptions upon which this concept is based would serve as an interesting research project for someone interested in consumer behavior.
higher prices required to offer such higher total product to them. The relatively smaller number of consumers who fall within the high end of the total product spectrum demand the highest in total product offering and are also willing and able to pay for it.

The middle section of the total product spectrum typically houses the majority of consumers in the market because under normal conditions the total product offered in that portion of the spectrum most closely matches the demands of the mass market. Under abnormal conditions, such as a serious depression, the lower end of the spectrum could, of course, house the largest consumer segment.

The proportion of the consumer market demanding the highest level of total product, and, thus, falling within the high end of the spectrum, is relatively smaller than that of the middle portion of the spectrum because of the law of diminishing marginal utility. Due to the limits on individual consumer purchasing power, consumers weigh the benefits of the various levels of total product versus their costs. The largest portion of consumers demand and are willing to pay the price of a total product offering which falls somewhere within the broad middle range of the spectrum. However, a point is
reached within that middle segment of the spectrum after which the majority of consumers determine that the benefits of additional total product are not balanced by the added costs required. As a result, once this peak point in the spectrum is passed, demand for higher total product falls off as the higher prices required for such total product are not amenable to most consumers.

An exception to such a principle would occur if, and when, a new retail institution offering high total product is able, also, to provide this product at a price typically charged by institutions serving the middle section of the spectrum. In such a situation, the institution could easily expand from the higher end of the spectrum into as much of the middle portion as its efficiencies and resulting price policies would make possible.

It should also be pointed out that the total product spectrum is a "dynamic" concept. The quantities of total product offering and price levels which make up the range of each category in the spectrum (low, middle, and high) vary with environmental conditions. For example, if the present trend toward rising levels of living, increasing demand of services, higher incomes, and higher prices continues, the total product and prices applicable to
each of the spectrum's segments will rise with such a trend.

Finally, it should be noted that the categories which make up the total product spectrum (low, middle and high total product) do not correspond to the lower, middle, and upper income groups. Although income undoubtedly influences the total product demands of consumers, it is quite possible, for example, for a middle or even high income consumer to be satisfied with, and sometimes even search for, a relatively low total product retailer in certain buying situations. In summary, as the total product demands of a consumer (and, thus, his position on the spectrum) are determined by many factors (of which income is only one), it is not feasible to use any one such factor as an automatic means of classifying what total product would be likely to satisfy that consumer.

As is shown below, the chief value of the total product spectrum concept, however, is not in the exactness of its categories, but in its ability to help explain the behavior of successful retail institutions in typically incrementally seeking out some, if not all, portions of the middle segment, after having entered as a new institution with usually the low end of the market as their primary objective.
Development of the Opportunity

Prior to the inception of a new retailing institution, an opportunity must first develop and be recognized by prospective entrepreneurs. The development of such an opportunity results from the interaction of several environmental factors (see Figure 1):

First, the consumer environment is characterized by the growth or maintenance of a relatively "unserved," reasonably large consumer segment, which typically develops at the lower end of the total product spectrum.

Second, the highly intensive competitive environment facing the already existing institution, among other factors, has influenced such an institution to vacate incrementally the portion of the total product spectrum (TPS) which it originally served (typically also the lower end of the spectrum) in favor of gradually seeking out the larger, middle portion of the total product spectrum. 5

Third, the internal environment is characterized by a desire for growth which works with the competitive

5In the remainder of this study, "TPS" and "TPO" are frequently substituted for "total product spectrum" and "total product offering," respectively.
FIGURE 1. -- Gap or Opportunity Opens Up for New Retail Institution

GAP or opportunity for new institution develops after an existing institution trades up to middle section of TPS.

Remainder of TPS is served by existing institutions. (One of which has traded up from lower section of TPS.)
environment to induce the existing institution gradually toward the middle of the total product spectrum, where it can compete for the higher sales potentials available in that section.  

The cumulative result of the latter two environmental factors is that the existing institution tends to, as it grows and matures, place greater emphasis on serving the middle sector of the spectrum rather than the market to which it originally appealed. However, such original markets do not disappear, but frequently may actually retain or even increase in their relative size. The latter factor, along with the existing institution's policy to continue to reach for the middle portion of the spectrum (to do otherwise might risk the profitability and perhaps the domain consensus it has developed over the years), creates a gap in retailing in that section of the spectrum which is no longer effectively served by an existing institution. Such a gap serves as the opportunity for successful entrance of a new institution. 

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Although the above three environmental factors may be considered responsible for the opportunity's development, the resource markets are of equal importance, since without the capital, land, facilities, merchandise, and personnel that such markets make available, entrepreneurs would not be able to take advantage of such opportunities.
In the case of the department store, supermarket, and discount house, the intensive competition and desire for growth of the existing institutions of the time (clothing retailers, food stores, and department stores, respectively) resulted in such institutions placing increasing emphasis on the large, middle market of the total product spectrum. Ultimately (in each case), as the lower portion of the spectrum was no longer effectively served, a gap or opportunity for a new institution was created. Since such a gap was not filled by the existing institutions (who may have been interested in maintaining their domain consensus), opportunistic entrepreneurs quickly noticed such gaps and began to search for proper ways to utilize them.

7An alternate possibility may be that as the existing institutions were having little difficulty in satisfying their levels of aspiration, they did not consider such an alternative at this time. Later, when such levels of aspiration became less readily achieved, in part because of the inroads made by a new institution, such a nonincremental alternative as attempting to move back into such a market, through imitation, was often approved. In any event, the reasons why such existing institutions do not fill the gap deserve special research attention.
Individual entrepreneurs, located in various sections of the country, then begin to recognize the developing opportunity. Typically such entrepreneurs have had previous retailing experience, although such is not always the case. Regardless of such experience, however, the entrepreneurs most likely to recognize and attempt to take advantage of a new opportunity are those who are not tied down to the policies of a successful existing institution. Such individuals, according to one source, are interested in innovation because they may have the most to gain and the least to lose by disrupting the status quo.

Once the opportunity is recognized by such entrepreneurs, they proceed to develop ideas or plans for a new institution which will be capable of fulfilling the wants of the consumers in the gap or portion of the spectrum not being effectively served at that point in time.

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9Ibid., p. 489.
Entrance of New Institution

The new institution then enters the market with the intention of filling the gap which has developed (see Figure 2). Such an entrance does not appear to result from the nonrationality of existing mature institutions. Rather, it is made possible, in part, by the decisions of such institutions to pursue their presently profitable markets in the middle segment of the total product spectrum, instead of risking possible alienation of their favorable relationship with consumer and resource markets by drastically changing their character to satisfy the gap market.

The "new" ideas utilized by such entering institutions often resemble those utilized by institutions which entered the market in response to similar environmental conditions in a previous era. When this is the case, such ideas are new only in the sense that they differ significantly from current retailing practice and/or in the technology through which they are applied. For example, the policy of supermarkets, department stores, and discount houses in reaching the lower segment of the total product spectrum through low prices, is, of course, as old as retailing itself. The "newness" of such a policy centers on the fact that relatively few competitors
FIGURE 2.—New Institution Enters to Take Advantage of Opportunity

Opportunity is recognized, new institution enters, and seeks to build niche.

Remainder of TPS is served by existing institutions.
of these institutions emphasized such a policy at the time of their inception. In addition, certain of the techniques utilized to make such low prices feasible (including cash only buying and selling in department stores such as Macy's; self-service in supermarkets; and application of self-service to a wide variety of non-food items by discount houses) were popularized for the first time by such institutions.

Some innovators utilize the new ideas as the basis for a new firm, although others may graft the seeds of a new institution onto an existing firm. The supermarket and discount house frequently used the former method, and the department store often developed in the latter manner.

**Seeking of Niche by New Institution**

After entering the market, the members of the new institution attempt to build a niche for themselves. Their success in reaching this initial objective is closely related to how well adapted the new idea(s) is to the environmental conditions which induced the institution's entrance. Whether or not the new idea(s) differs enough from current retailing practice to be noticed and favorably accepted by the target market also has an important
bearing on the institution's early performance.

As mentioned earlier, department stores, supermarkets, and discount houses, each entered the market with emphasis on a similar idea: emphasis on low price. Although the means by which such low prices were made possible differed, the point here is that in each case, such an idea represented an excellent method of taking advantage of the environmental opportunity (a gap in the lower portion of TPS) existing at the time. In addition, its relative lack of use by existing institutions made the low price policy easily noticed and accepted by consumers in the lower portion of the spectrum.

Striving for Early Growth by New Institution

The new institution, if it meets the requirements mentioned above, usually has little difficulty in building a niche for itself. Such is the case because the new institution appeals to a relatively unserved section of the total product spectrum which has not lost its desire to be well served.

Most members of the institution are not satisfied with merely the building of a niche, however. In fact, it is apparent that many members seek growth as a goal.\(^10\)

\(^{10}\)Such an assumption is in harmony with the frequently mentioned argument in organization theory that organizations possess a multiplicity of goals. The drive for early growth by E. J. Korvette and other discounters, as noted in Chapter VI, illustrates this point.
Such growth is typically fostered, at this stage of the institution's development, by such tactics as merchandise line expansion, experimentation with store-size expansion, and new outlets. Such moves to stimulate growth are sometimes implemented in an incremental manner in order to help the new institution protect the foothold it has gained in the gap market, and allow it, at the same time, to seek a larger share of that market.

As the core market of most members of the existing, mature institution is not yet threatened, they tend, at this point in time, to compete, without taking any particularly drastic action, such as complete assimilation.

Although competition between the new and existing institutions often does develop in intensity, the existing institution's policy of not moving too quickly (if at all) into assimilation, coupled with the fact that the first outlets opened by members of the new institution do not fill up the "gap," often help make the new institution's early attempts to grow quite successful.

Entrance by Imitation of Additional Members of Institution

As a result of the growth enjoyed by the new institution and the freedom of entry which exists, a flow of new, imitative members soon enters the market seeking to
cash in on the innovating-members' formula for success. (Though such entrance by imitation occurs throughout the history of a retail institution, it happens quite frequently in response to the institution's early growth.) Imitation is utilized by new firms, as well as firms which previously had operated stores solely within another institution. Successful members of existing institutions, who seek to retain the position already achieved in their current market, often become members of the developing institution through creation of a separate, new division and new stores, after the potential of the new institution is recognized. On the other hand, firms whose success has not been sufficient (or is declining), as members of another institution, frequently make a practice of incrementally entering the new institution through changeovers in their existing outlets, as well as by the former method. Thus, the intertype competition which has developed among the new and existing institutions is joined by intratype competition, among original and imitative members, which intensifies as the gap, which created the original opportunity, fills up (see Figure 3).

Since such imitators often offer the same advantages which were responsible for the original members' successful niche-building and early growth, the members
GAP
EXISTING INSTITUTION
NEW (DEVELOPING) INSTITUTION
TPO TOTAL PRODUCT OFFERING
TPS TOTAL PRODUCT SPECTRUM

Niche is built, early growth achieved, and additional members enter.
RESULT: GAP IS FILLED

Remainder of TPS is served by existing institutions.

FIGURE 3. — New (Developing) Institution Fills Gap
gradually begin to recognize that new differential advantages will soon be needed to help them retain their relative positions and foster further growth.

In the case of department stores, imitators often included existing members of the clothing trade who after witnessing the benefits of the innovator's strategy, began to utilize it themselves.

In supermarket, the original members were often followed by other entrepreneurs who started new firms to develop such stores. But a primary factor in the growth of the supermarket was the incremental movement of existing grocery firms, especially chains, into the supermarket field.

Discount retailers represent a very frequently-imitated type of retailing today. Throughout discounting's post-World War II history, many new and existing firms have become a part of this fast-growing phenomenon. ¹¹

The Search for Differential Advantage and its Effect on the New (Developing) Institution's Total Product Offering

As mentioned above, the filling up of the gap, further intensifies the intratype competition for that

¹¹ See Chapters V and VI for illustrations of the process of imitation.
portion of the total product spectrum which the institution has been attempting to serve.

The problem, however, is that as such competition increases, the competitive advantage held by any member diminishes. In an institution which entered at the lower end of the total product spectrum, a low price policy typically has offered the members a major differential advantage over other institutions. As the membership increases, such a policy no longer serves as a significant advantage for most members.

Thus, a situation develops in which the members, each seeking further growth as a primary objective, find that both the gap in retailing and the differential advantage, which made early growth relatively easy to achieve, are becoming extinct. As a result, the successful members of the institution search for new differential advantages in such areas as new merchandise lines (mentioned earlier), new and improved services, improved atmosphere, etc.  

In other words, having reaped most of the benefits which a low price and commensurate low total product offers

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12 Several apparent examples of such a search process are offered in Chapters V and VI. Empirical studies are needed to determine the relative significance of this process in various institutions.
could bring them, many members begin to look for an incrementally greater total product offer as a means of differentiating themselves from the "average" members of the institution. Such moves are frequently implemented in an incremental manner because the members involved do not want the higher prices resulting from additions to total product to outweigh the advantages that such additions should provide them. Thus, they seek to find and implement total product increases which are both significant enough and appealing enough to attract the consumer. But at the same time they seek to make price increases gradual enough to prevent the advantage from deteriorating into a disadvantage.

Although additions of desired total product at minimal price increases do offer those members who use such a policy advantages over those who do not, such advantages are only temporary. This is true because as soon as one or more members gains a significant advantage, it is recognized and matched or surpassed by a competitive member. Thus, the search for differential advantage is a practice which continues, among successful members of the institution, throughout the institution's lifetime.

A further impetus to the search for new differential advantages is the desire for further growth which
is retained by several of the institution's members (see Figure 4). Not satisfied with the potential for growth available in serving a market whose (gap) need has become well-filled, such members soon begin to reach out incrementally for a portion of the middle segment of the total product spectrum. (The fact that they have already been adding to total product does not hurt them in this endeavor.) Such members typically do not want to give up their following in the lower end of the total product market, but merely want to aid their growth by appealing as well to a share of the consumer market which desires a relatively higher total product. Their assumption that the middle portion of the total product spectrum may contain a larger proportion of the total market, and that their own present market is almost saturated, certainly spurs such foresighted members to seek out new combinations of higher total product and relatively low prices which will appeal to consumers in the larger market.

But because such members do not want to risk giving up the basis for their early growth (their capture of the lower end of the spectrum) while reaching into a new market presently controlled by well-entrenched institutions, such moves are again made incrementally. The additions to total product which can appeal to consumers
Market expansion results from new differential advantages and additions to TPO. Middle section of TPS is served by existing institution and now in part by the trading up of developing institution. High section of TPS is served by an existing high total product institution.

**FIGURE 4.** Developing Institution Achieves Further Growth
higher on the total product spectrum must be made, but prices must not be allowed to rise so fast that the developing institution's success in the lower end of the market is threatened.

Such a conflict is often at least partially diminished because at the same time many members of the institution are adding more total product in order to gain differential advantages in their own market (lower end) and also reach a portion of the middle market, a significant portion of their lower end consumers are gradually moving up the total product spectrum themselves. As members of the institution recognize this, their moves into the higher total product typically offered to entice consumers in the middle range of the market also become the tactics necessary to retain the portion of the lower market whose total product demands are also rising.

Thus, the search for differential advantage, which often began as a competitive necessity, continues to flourish as time passes because of the successful members' desire for further growth, and the increasing total product demands of many of the consumers who made up the

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13 Such a point should be tested through consumer research. Possible illustrations are presented, however, in the next two chapters.
members' original market. In other words, the environmental factors (consumer, competitive, and internal)\textsuperscript{14} which created the original opportunity for a new institution to serve the low end of the total product spectrum combine later in the lifetime of the institution to cause it to move into an intensive intratype and intertype competition for a share of the middle portion of the spectrum. Since the middle portion of the spectrum is quite broad, its consumers quite numerous (and their demands are ever-changing) and as each new advantage tends to be quickly erased by competition, the incremental changes implemented by members of the developing institution during this process may continue indefinitely.

Creation of New Gap or Opportunity

As the competition within the middle market intensifies,\textsuperscript{15} the developing institution places increasing emphasis on its capacity to serve such a market. The

\textsuperscript{14}Resource markets serve as important catalysts in this move by assisting such institutions to improve their merchandise quality, fixtures, services, etc. For example, many discount houses, prior to offering their own credit plans, utilize plans made available by finance companies, etc.

\textsuperscript{15}Since the model's purpose is to trace the development of a new institution through the various phases of its lifetime, the response offered by the already-existing, mature institution at this stage in the process receives little emphasis. Such an institution's pattern of response is discussed in a separate section of the chapter entitled, "The Mature Institution's Response to the Developing Institution's Effort to Capture its Core Market."
cumulative effect of such a new emphasis, and the continuous searches for new differential advantages, result in the developing institution attaining a character (TPO) somewhat different from that offered at its inception.

At the same time, the type of market served originally at the low end of the spectrum does not disappear. By adapting to and dealing with changing competitive, consumer, internal, and resource environments throughout its history, the institution gradually moves up the total product ladder until it no longer effectively serves those consumers whose total product demands place them in the lower end of the spectrum. However, the successful members of the institution see no reason at the present time to reverse this direction, and attempt to serve the original market anew, because they believe that their success has resulted, in large part, from such incremental moves. To move abruptly in the opposite direction might endanger the success which they have built up over a lifetime. 16

Developing, of course, from such a situation is a new gap in retailing (again, at the lower end of the total

16 As mentioned earlier, the members' belief in the importance of maintaining domain consensus might contribute to such an assumption on their part.
product spectrum), and along with it another new opportunity for entrepreneurs to create a new institution (see Figure 5).

As far as the department store is concerned, such a process from inception to the creation of a significant-enough gap to create a new opportunity, seems to have taken the better part of a century. On the other hand, it appears that it has taken less than four decades for the supermarket's development to create such a gap, and the process should prove to be even shorter in the case of the discount house.

Recognition of Opportunity and Entrance of New Institution

Once again the environmental forces mentioned at the beginning of this discussion (the competitive environment which has influenced the existing institution to phase out of its original consumer market; the desire for growth of the existing institution which has also

17The R. H. Macy Co., as discussed in Chapter V, offers an example of the considerable length of time often utilized by department store organizations in passing through the various phases of the model.

18The rapid rate of the development of the discount house is, in large part, a result of the institution's heavy dependence, during its entrance and growth periods, upon the operations of leased departments. This view is amply documented in a recent study of leased departments: James R. Lowry and William R. Davidson, Leased Departments in Discount Merchandising (Columbus, Ohio: The Ohio State University, 1967).
I  I  GAP

EXISTING INSTITUTION

DEVELOPING INSTITUTION

TPO TOTAL PRODUCT OFFERING

TPS TOTAL PRODUCT SPECTRUM

High section of TPS is served by an existing high total product institution.

Middle section of TPS is served by the further trading up of developing institution (and by the existing institution.)

NEW GAP or opportunity is created through developing institution's success in middle section of TPS.

FIGURE 5.— New Gap or Opportunity Opens Up for New Retail Institution
influenced it to vacate its original market; its unwillingness to risk the success it has achieved in the larger, middle market through an attempt to again serve the original market; and the resulting development of an unserved segment in the consumer market) have created a gap in retailing upon which the entrance of another new institution will be based. As before, individual entrepreneurs will recognize the opportunity and begin to create the ideas around which a new institution will be built. As soon as such entrepreneurs become ready, the new institution will enter the market and the pattern of retail institutional development will begin anew.\textsuperscript{19}

**The Mature Institution's Response to the Developing Institution's Efforts to Capture its Core Market**\textsuperscript{20}

A developing institution's effort to move into an existing institution's stronghold (or core market) does not mark the "end" for the members of the mature

\textsuperscript{19}Of the three institutions mentioned throughout this chapter, only the department store has witnessed the entrance of a new institution designed to satisfy the market it originally served. However, see Alton P. Doody and William R. Davidson, "Next Revolution in Retailing," Harvard Business Review, May-June, 1967, pp. 4-20, 188, for a model of the central distribution warehouse, which may well be the next new institution to enter food retailing.

\textsuperscript{20}This section looks at the attempt of the developing institution to capture the existing, mature institution's core market from the point of view of the latter. Many of the views offered here are shared by McCammon. See Chapter II, pp. 37-38.
institution. As mentioned above, the successful members of the mature institution would not be likely to respond by drastically changing their character when the new institution first entered the market. Two reasons account for this: First, the new institution, at its inception, does not seek the primary market or portion of the total product spectrum controlled by the existing institution. Second, the mature institution has probably been relatively consistent in achieving its goals (levels of aspiration), and also may well have been quite successful in maintaining a high degree of domain consensus. The institution might not want to endanger either of these advantages, as long as its core market is not threatened.

However, as the impact of the developing institution increases (especially if it begins to enter the mature institution's core market), pressure on the latter institution to implement incremental changes which involve larger increments also increases. If, and when, the developing institution actually begins to capture a sizeable share of the core market, assimilation of the major customer-attracting features of the developing institution, or implementation of a hopefully strong countermeasure, may be effected by the mature institution, as a means of attempting to hold onto as much of its market position as
possible. But even such major moves are sometimes implemented in an incremental manner by successful members of the mature institution who, in doing so, hope to retain a large proportion of their loyal, satisfied customers, and at the same time hope to prevent the advantageous relationships which have been developed with resource markets from evaporating. If all others fail, the member's final step might involve transferring the entire firm from membership in the matured institution to membership in the developing institution, or even going out of business.

The crux of the matter is that there appears to be a continuum of levels of moves available to a mature institution which is threatened by a new institution. First, are incremental moves of the size which were effective prior to entrance of the new institution. Second, are incremental moves which utilize larger increments than the previous level. Third, are projected major moves which are implemented incrementally. Fourth, are major moves which are implemented in a nonincremental fashion.

For example, as mentioned in Chapter III, the department store has responded in a variety of ways to the discount house. When the discount house first began to seek the department store's core market, most successful
members of the existing institution both reminded their customers of the advantages offered by them, including greater services, selection, credit, etc., and at the same time such members also reevaluated their price and service policies.

As the impact of discounting continued to increase, such evaluations often led to: elimination of services not required by customers; cost analysis and reduction programs; at least partial elimination of the traditional mark-up method of price setting; and expansion in the use of self-service. Other significant responses included development of a separate image for budget stores; warehouse sales; and opening of continuously-operating warehouse stores.

The ultimate in such an incremental escalation of moves was the opening of discount houses themselves by many department store organizations. Some less successful members ultimately found it necessary to transform their entire system into discount houses in order to survive.

On the other hand, most of the stronger representatives of the department store institution have both emphasized their own strong points and incrementally assimilated certain of the more attractive features of the discount house (and in some cases those of the
suburban specialty shop) so that today such adaptions have left this mature institution in a relatively strong position. The ability of the department store institution to retain almost all of its share of total retail trade in the last decade (as mentioned in Chapter III), while discount houses advanced eleven per cent in their share of retail trade, is indicative of the strength of the many successful department store members who have successfully adapted to attacks on both ends of their market (by the discount house and suburban specialty shop). With their own strength as department stores, thus, reaffirmed, such successful members of the existing institution have frequently seen fit to move incrementally into the discounting field through separate divisions, which would not dilute their identity as department stores.

The Possibility for Entrance of a New Institution at Other Points on the Total Product Spectrum

The Wheel hypothesis assumes that high-cost, matured institutions are, in large part, responsible for the entrance of new institutions, as they create the

opportunity necessary for each new, low-cost institution which initiates the cycle. By, thus, emphasizing the low-cost nature of such new institutions, the Wheel does not appear to be cognizant of the possibility that new institutions could perhaps enter at some other point on the spectrum. Although the model developed in this chapter also depicts the behavior of institutions which enter only at the low end of the TPS, it does so, not to preclude other possible starting points, but because this low total product-entrance appears to have been utilized by most of the major institutions which have entered the market in the past.

More importantly, however, the present model identifies only two basic requirements which need to be met if an opportunity for entrance of a new institution is to be forthcoming:

1. A reasonably large, relatively "unserved" market must develop at some point on the spectrum.

2. Existing institutions, possibly because they are achieving their goals by serving other markets, do not look with favor upon the possibility that they implement the changes required to successfully reach the "unserved" market.

The net result of the development of the "unserved" market, and the lack of interest among existing
institutions in such a market, is the creation of a gap in retailing or an opportunity for entrance of a new institution. There appears to be no logical reason why such a relatively large, "unserved" market, which fails to interest existing institutions, could not develop at other points on the TPS, in addition to the lower end. Thus, by eliminating the assumption that a high cost, mature institution must create an "umbrella" under which a new, low-cost institution may slip, the new theory's explanation erases any restrictions regarding possible entrance-points for new institutions.

What may seem like a minor point takes on added significance, if viewed in the perspective of the trend toward increasing consumer affluence, sophistication, leisure time, etc. With each passing year, it appears that the possibility for the development of some type of "unserved market" at the high end of the spectrum increases. Perhaps such a new institution might combine the selling of high-quality merchandise of some kind with the provision of certain newly-developed activities designed to help the higher end customer make more pleasurable use of his leisure time.

However, the kind of new institution which may enter is of no real concern here. The real point is that
it is not unreasonable to expect that the future may yield important institutions which enter at points on the spectrum which are not typical of such entrances in the past.

**Conclusion**

The present chapter has offered a first approximation of a new explanation of the development of retail institutions. By utilizing bounded or adaptive rationality as a frame of reference, it has been possible to develop a theory which hopefully will prove to be a useful framework for the extensive empirical research of institutional change which is urgently needed if significant advances are to be made in our understanding of this phenomenon.

The next two chapters will utilize examples to illustrate the potential relationship of certain portions of the theory to actual retailing behavior.

The possible contributions of the theory will be evaluated in the final chapter, in which the conclusions of the study are presented.
CHAPTER V

THE EVOLUTION OF A DEPARTMENT STORE

The next two chapters offer examples, gathered through historical analysis, of the potential applicability of the new theory by illustrating the apparent relationship between such examples and the model presented in Chapter IV.

The present chapter is based on an intensive study of an important firm history, the R. H. Macy & Co., as detailed in History of Macy's of New York by Ralph M. Hower.¹ The Macy Co. has been chosen for analysis because it was one of the first (if not actually the first) members of the department store institution, and because its historical development has generally been considered "representative" of much of the rest of the institution's membership as well. Hower's book has been selected, not

¹Ralph M. Hower, History of Macy's of New York, (Cambridge, Mass.: Harvard University Press, 1943). It should be pointed out that the examples presented in this chapter (as well as the next) represent illustrative material offered only to indicate the theory's potential applicability. Such illustrations cannot be considered tests, verifications, or proofs of any part of the theory. It is hoped, however, that the study will provide the impetus needed to bring about such empirical research.
only because it represents the most analytical description of the R. H. Macy & Co. history, but because it is the most detailed attempt to depict the role of the environment in the history of a retail firm that the author has yet discovered. Thus, an intensive analysis and interpretation of the information offered in this particular book represents a potentially quite fruitful method for obtaining relevant illustrative material concerning a highly significant department store organization.

The chapter is divided chronologically into sections according to the phases of the institutional development model, as listed in Chapter IV, page 96. However, for convenience of presentation, in certain cases discussion of two of the phases is combined into one section. The titles of each section of this chapter, together with the phases of the model which each section covers are as follows:

1. Development and Recognition of the Opportunity: Phases one and two of the model.
2. Entrance and Building of Niche by New Institution: Phases three and four of the model.
3. Early Growth: Phase five of the model.
4. Imitation and the Search for New Differential Advantages: Phases six and seven of the model.
Phases eight, nine, and ten of the model are not covered explicitly in this chapter because the Hower book was completed prior to the time in which the organization experienced them. However, as these last three phases in the development of the department store (Creation of New Opportunity, Recognition of New Opportunity, and Entrance of New Institution) are relatively equivalent to the first three phases in the development of the discount house, they are discussed in the next chapter, which outlines the development of the latter institution.

Development and Recognition of the Opportunity

When Rowland Macy opened his small dry goods store in New York in 1858, a significant trend toward specialization was prevalent in retailing. Though this trend eventually helped open the way for Macy's and other stores to evolve the diversified institution known as the department store, it also resulted in little emphasis being placed on price as a means of attracting customers by existing retailers. Those stores which did mention low prices in their advertising apparently were giving

\(^2\)Ibid., p. 37.

\(^3\)Ibid., pp. 37, 50, 96.
little more than "lip service" to such a policy, since they carefully avoided giving specifics.\(^4\)

Thus, as postulated in the model in Chapter IV, a gap in retailing developed. This gap or opportunity resulted from the failure of existing institutions to cater to that segment of consumers who were more concerned with low price than other aspects of total product. How clearly Rowland Macy actually recognized this opportunity at the low end of the total product spectrum is not explicitly discussed in the Hower book. However, the fact that he aggressively promoted actual low prices soon after the store opened, while existing dry goods stores emphasized the elegance of their physical facilities, strongly indicates that he was fully aware of, and knew how to take advantage of, such an opportunity.\(^5\)

**Entrance and Building of Niche by New Institution**

Macy's entered by attempting to fill the gap created by the failure of existing institutions to cater to the low price market. The specialists, highly successful at appealing to the majority of the market, with fancy marble edifices, could not be expected to cater to the low end segment, as well.\(^6\)

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\(^4\)Ibid.  
\(^5\)Ibid., pp. 42-43, 48-54.  
\(^6\)Ibid., pp. 42-43.
Though the basic policies used by Macy’s at its entrance (buying for cash, selling for cash, one-price for all customers, low prices, and aggressive advertising) were not really new, they did, as the model suggests, differ significantly from current retailing practice.7

After entering the market, Macy’s soon began to seek a niche for itself. As argued by the model, success in this objective is determined by how well adapted the new policies are to the environmental situation, and whether or not they differ enough from prevailing retailing practice to catch the consumer’s eye. Macy’s policies definitely filled both requirements. According to Hower, "... Macy succeeded in New York not because he was lucky but rather because he consciously adopted a course of action which was especially appropriate to the situation in which he found himself."8 Hower also indicates that Macy’s policies probably were quite important in helping it to survive the "bad times" or financial crisis which occurred in 1859-1861. Many retailers who were not so well-adapted to their environment failed to survive this period.9

7 Ibid., pp. 37, 96.
8 Ibid., pp. 37-38.
9 Ibid., p. 48.
As already mentioned, the cash only, low price and one price policies did differ significantly from the policies of existing retail institutions, and were, thus, easily noted by those interested in the price aspect of the total product. By incrementally strengthening such unusual policies, Macy's was able to build a solid niche for itself, even though the store's location, quality and selection of merchandise, and store equipment did not match that of its rivals.  

Macy's unusual advertising was also a most effective tool in helping to develop this niche. It was superior to competitors in readability, interest, layout, the use of specifics, and in the proportion of sales (3% as compared to 1% for competitors) allocated to it.  

It should be noted that, although utilized from the start, the Macy policies of selling for cash and one price were not advertised until two months after the opening of the store. This is the first indication in the store's history of a consistently-applied incremental policy: the testing of a possible change on the consumer market before publicizing it and, thus, making it a part

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10Ibid., pp. 51, 54.
11Ibid., pp. 54-65.
12Ibid., pp. 49-50.
of the store's permanent image. By implementing many of its moves in this manner, Macy's made changes whenever profitable, but did so without giving up the opportunity to rescind those moves which such "testing" proved to be in error. The publicizing of such changes at their inception would have led Macy's customers to expect them, and would have, therefore, made such erasing difficult to implement.

Early Growth

Price competition which intensified as Macy's success became more apparent, and its desire for growth, combined to provide the impetus behind the store's increasing emphasis on its low price policy, and the diversification and integration which were to result in Macy's incrementally evolving into a full-fledged department store.

As Macy's had not yet become a department store, it was not yet a different institution from existing dry goods specialists. Thus, it was relatively less difficult for competitors to compete (by "lip service," if not in actual deed) in terms of the low price aspect of Macy's differentiation, than is suggested by the model for those cases in which a new institution's inception is on the same date as a new store's entrance.
This resulted in Macy's incrementally expanding its low price policy and the advertising claims which went with it. After having determined to sell at low prices, Macy's initial emphasis was on pricing its goods below the prices of Broadway competitors. Gradually, however, a policy of underselling all competitors began to emerge. At first this was expressed in occasional claims that Macy's goods were cheaper than other stores in the city. Later it was amplified with specific assertions that Macy's prices on particular items were lower than in other stores. The theme of underselling competitors was unmistakably sounded in 1873, when Macy's stated that its goods "sold at such low prices as cannot be met by any house." Finally, in 1875, this incrementally-increasing emphasis on featuring low prices had reached such a point that Macy's ads declared: "We will not be undersold."\footnote{Ibid., pp. 119-120.}

Diversification played an important role in Macy's early growth, as well as in later phases of its development. Prior to 1860, this diversification was essentially limited to the addition of more fancy dry goods. After 1860, the store broke out of the "fancy dry goods only" mold. Books, toys, candy, china, glassware, and silver were among the new departments introduced.\footnote{Ibid., pp. 100-101.}
able to develop a temporary advantage over other stores during this period because, while others grew by trying to capture more trade in one field (such as dry goods), Macy's attempted to grow by expanding within each line and adding new lines outside its original field.¹⁵

During this period, Macy's also differentiated itself from competition by becoming one of the first retailers to enter into such activities as direct buying, importing, and even manufacturing. The store also was one of the first to offer its own private brand.¹⁶

By 1877, Macy's had developed into a true department store.¹⁷ Just as the growth of New York City had helped Macy's, the store had been expanding its service to New Yorkers by offering them both a convenient place to perform an increasing variety of their shopping tasks and low prices as well.¹⁸

What is perhaps even more significant about this diversification process is the incremental manner in which it took place. According to Hower: "The new pattern

¹⁵Ibid., p. 107.
¹⁶Ibid., pp. 112-113.
¹⁷Ibid., p. 141.
¹⁸Ibid., pp. 113, 122.
developed slowly, possibly because Macy was feeling his way towards a goal which at first he could not clearly see . . . . 19

Hower also points out that

Macy's shifted from specialized to diversified merchandise so gradually that the whole process of increasing variety must be regarded as one of slow growth, rather than distinct innovation. The final outcome was of revolutionary significance to be sure, but it came as the result of a series of small changes, most of which taken separately seem to have no particular importance and to emerge quite logically and naturally from what went before.20

Whether it was glassware, books, candy, etc., Macy's typically initiated sales of a new line on a piece-meal, experimental basis. Such experiments were run as part of already existing departments, or as small new departments. If an experiment was successful, Macy's gradually expanded the size of the department, and featured it in its advertising. On the other hand, if the experiment was not successful, the store was able to drop the line without difficulty.21

19Ibid., p. 98.
20Ibid.
21Ibid., pp. 98-106.
Incremental expansion of the floor space accompanied the gradual diversification process. During the 1858-1877 period... piecemeal addition went on until the Macy business occupied the ground space of eleven stores... "22

Thus, in searching for a means of maintaining superiority over its competitors and assuring its continued growth, Macy's emphasized diversification, along with low prices, during the period from 1860-1877. That by 1877 such a process enabled Macy's to arrive as the first department store may be attributed largely to the growing urban population which made such large-scale stores feasible and which also was highly appreciative of the convenience of being able to shop under one roof.23 Thus, just as it made for a successful entrance, adaption to changing environments helped make Macy's early growth a successful phase in its history.

Imitation and the Search for New Differential Advantages

The fact that Macy's did not enter as a new institution, but incrementally evolved into it, as stated above,

22 Ibid., p. 107.
23 Ibid., pp. 146-148.
made it less difficult than normal for imitators to develop among existing firms. Thus, Macy's did not have the advantage of "breathing time" which often results for a new institution which enters in that form and does not attract substantial imitation until later in its early growth. From its earliest attempts to build a niche, Macy's was forced to compete with others who, witnessing the causes of the store's growth, attempted to imitate each of its new policies.

Thus, relatively early in its early growth period, Macy's was forced to abandon specialization, at low prices, as a basic competitive weapon, because imitation had wiped out its profits.\textsuperscript{24} However, by incrementally diversifying, it was able to increase its attractiveness to buyers, and, through the operating economies developed as it grew in size, to maintain its leadership in price competition.\textsuperscript{25} Thus, Macy's was able to pursue its growth objectives during the early growth period, and later in its history as well, by adding both merchandise lines and departments ahead of competitors and remaining first in the price arena also.

\textsuperscript{24}Ibid., p. 151.
\textsuperscript{25}Ibid., pp. 150-151.
Soon after 1877, when Macy's reached the point at which it could be called a department store, some of its New York competitors began to achieve the same status. Though it may have led the way, Macy's could never afford to rest on its laurels. The search for new differential advantages over competition which had brought about the evolution into department store status was equally responsible for Macy's later drive, after 1877, to add comforts and conveniences along with further incremental expansion of merchandise lines. The relative lack of difficulty by which others, newly-arrived at department store status, copied such moves made the search for differential advantage, as shall be illustrated, a permanent fixture in the firm's history.

Among the comforts and conveniences incrementally added during the continuous searches for differential advantage after 1877 include: telephones, telegraph offices, areas for writing, improved lighting, new ventilating equipment.

\[26\] Ibid., p. 168.

\[27\] Ibid., p. 167.

\[28\] Ibid., pp. 166-167.
It appears that the consumers who had provided the original low total product market had risen in affluence, to the point where they desired a relatively higher total product (similar to that required by the middle portion of the total product spectrum) at still relatively low prices. As a result, the added comforts, as well as the new store building, new services, added lines, etc., discussed below, were brought about not only by competition and the desire for continued growth, but by the changing consumer as well, according to Hower. 29

After the death of the founder, succeeding managements continued to follow the store's policy of implementing changes incrementally. As stated by Hower: "The enterprise continued to grow in size and complexity, . . . but much of the subsequent development came about by an accumulation of relatively inconspicuous alterations." 30

For example, the policy of incrementally adding new merchandise lines remained intact after Macy's death. From twenty-two at his death, the number of departments gradually expanded to thirty in 1887, and had reached

29 Ibid., p. 168.
30 Ibid., p. 231.
sixty-five by 1902.\textsuperscript{31} Private branding of such merchandise also increased during the 1890's.\textsuperscript{32}

Merchandise expansion continued to be implemented through two basically incremental methods: the gradual filling out of existing lines to the point where splitting of departments is indicated; experimenting with a small part of a line for a year or more, followed by carrying the whole line if the experiment proved worthwhile.\textsuperscript{33}

Some of the unusual lines incrementally added included: refrigerators, ready-made clothing, harnesses and saddles, groceries, and furniture.\textsuperscript{34} The success of the staple and fancy grocery department, which had failed in the early 1870's, is attributed by Hower to the fact that by the 1890's, New Yorkers had grown to expect almost anything in a department store. What was essentially an incremental move as far as consumers are concerned in the 1890's, was too radical a move for them to be able to accept in the 1870's.\textsuperscript{35}

\textsuperscript{31}Ibid., pp. 106, 162, 239.

\textsuperscript{32}Ibid., p. 251.

\textsuperscript{33}Ibid., pp. 234-237.

\textsuperscript{34}Ibid.

\textsuperscript{35}Ibid., pp. 235-236.
The store's advertising also was improved incrementally in an attempt to achieve another differential advantage. According to Hower, during the 1890's, "a number of improvements began to appear gradually in Macy's advertising."\textsuperscript{36} These changes involved less crowding, more use of white space, more distinctive appearance, less emphasis on price, and more emphasis on product attributes, and store services.\textsuperscript{37}

Competition, along with the changing consumer, and the desire for growth through satisfaction of changing demands of such consumers, also added to the store's costs, due to the improvement in services offered.\textsuperscript{38} Included in such service expansion were: improved and expanded coverage of delivery service, more liberal return privileges, more sales clerks, attractive rest-rooms, elevators, post office, information booth, gift wrapping, restaurants, and the gradual abandonment of the no-credit policy.\textsuperscript{39}

As Hower also stated: "In many respects, of course, the new building itself must be regarded as a kind of

\textsuperscript{36}Ibid., p. 274.
\textsuperscript{37}Ibid.
\textsuperscript{38}Ibid., p. 279.
\textsuperscript{39}Ibid., pp. 279-286.
service to customers . . . .^40 Thus, the new building
may be considered the ultimate manifestation of the
firm’s incremental trend toward more services to cus-
tomers. It may also be considered merely a link in the
incremental chain of service improvement since many such
improved services appeared both before and after 1902,
when the new building was completed.41

In order to expand its growing appeal to more
affluent middle market customers, Macy’s in 1902 began a
credit plan, and in 1908 began a long-term trend which
involved trading up the quality of merchandise it sold.
In 1902, Macy’s established a Department of Deposit.
Customers deposited money against which they could charge
their later purchases. Such accounts could be replenished
at will. Macy’s paid 4% on the unspent balance. The
Department of Deposit may be considered an incremental
move since its lack of bad debt or credit investigation
expense made it possible to put it into effect without
raising prices and risking alienation of the “cash only”
customers, to whom the store had long offered the lower
price advantage of such a buying method. Besides this,
the store received much good publicity from the move.42

^40 Ibid., p. 333.
^41 Ibid.
^42 Ibid., pp. 341-344.
An advisory council was set up consisting of store executives and five merchandise managers. Among its functions was responsibility for fostering the trading-up trend throughout the store. Fashionable, higher price goods were added; more sophisticated window and interior displays became common; Vogue magazine was sent to all buyers; and models were hired to show new styles. The emphasis gradually changed from that of providing customers with special bargains, to one of filling all a customer's normal requirements. 43

In summing up the period, Hower states:

.. whether competition took the form of gifts to customers, additional services, more advertising, or price wars, the tendency was to increase retail costs. To be sure, there were other factors involved in the rising cost of distribution, but competition for business was an important element. And the general public, by patronizing those stores which made the increased expenditures, thereby voted in favor of more expensive retailing. Those who want "progress" and "efficiency" have to pay for it. 44

The main body of the book covers Macy's history from 1858 through 1919. However, in an epilogue chapter, Hower notes that since 1919, most of the moves responsible for Macy's continued success have resulted from

43 Ibid., pp. 381-382, 334.

44 Ibid., p. 294.
"methodical (incremental) application of policies which either existed or were coming into existence prior to 1919."\(^45\)

An important element in Macy's continued success after 1919, was the continued, and in some respects incrementally intensified policy of aggressive price competition. Though low prices had been one of the firm's most consistent policies since it entered business, "in 1919, Macy's began a comprehensive and systematic attempt to set its prices at a point at least six per cent below those of competing stores for comparable merchandise . . ."\(^46\)

The store continued to pursue its already initiated trends toward trading up in merchandise quality and assortment and in expanding its credit policy.\(^47\) As such credit customers still were forced to pay all credit costs themselves, Macy's, through such credit expansion, was able to appeal to a new market segment, while reemphasizing, once again, to those customers who preferred to buy for cash, the advantages of buying in such a manner.\(^48\)

\(^{45}\)Ibid., p. 402.

\(^{46}\)Ibid.

\(^{47}\)Ibid., pp. 403-405.

\(^{48}\)Ibid., p. 405.
In recent years, Macy's has indicated that a mature retailer can be responsive to environmental changes. With the movement of more and more of its customers to the suburbs and beyond, Macy's has continued to push forward its growth through a program it initiated first in 1925: the incremental addition of more stores through both purchase of existing stores, and construction of new stores.\(^4^9\)

By the 1960's, this expansion process had caused such a problem in the handling of the buying and selling functions of merchandise departments, that a new method of carrying out such functions, involving a controversial change in the buyer's job, was required.

In order to make sure this controversial change was carried out in a manner which would create acceptance, not alienation, it was implemented throughout the Macy organization in a truly incremental manner, as the following steps indicate: (1) tried out the change on one buyer in one store; (2) tried out the change on several buyers in one store; (3) tried out the change on one-half the departments in one store, thus, including several merchandise managers; (4) tried out the change on a whole

\(^4^9\)Ibid., p. 404.
store; (5) developed a management guide to explain the change, which along with the previous steps, facilitated acceptance and eventual application of the change by the other divisions (stores) in the Macy organization; (6) applied the change to other divisions in the Macy organization.50

In summary, dynamic environmental forces, which fostered the entrance and early growth of the firm, also have made it necessary for Macy's to implement many differential advantages in a continuous manner during later phases of its history. The cumulative, directional effect of this process has resulted in the incremental development of significant changes in store character, price structure, and market effectively served. A store which once offered bargain buyouts, few services, and appealed most to the type of consumer who wanted low prices and little else in total product, has incrementally become a group of stores in which the needs of the large, middle portion of the total product spectrum are very effectively served, and the higher total product required to satisfy such a market has become, along with relatively low prices, an important part of such stores' character.

Implications

This chapter has offered illustrations of the relationship between the theory and the history of the R. H. Macy & Co., one of the country's most important department store organizations. Four implications may be tentatively drawn from the chapter:

First, the general pattern of development of the organization appears to fit relatively well into the phases of development depicted in the theoretical model, offered in the preceding chapter. 51

Second, the firm appears to have made quite an extensive use of incremental change, an important element in the theory. Perhaps the firm's apparent favorable inclination toward incremental change, from an early point in its lifetime, can be partially explained by the fact that the founder had failed in a previous attempt to operate a retail store successfully because, according to Hower, he had implemented advertising and price policies which were too far advanced to be accepted at that time. 52

51 Hower, op. cit., p. 31.

52 Hower, op. cit., p. 31.
Thus, his previous failure, coupled with the fact that the failure was caused by nonincremental moves, may have led Rowland Macy to instill an incremental "flavor" into the firm.

Third, the fact that Macy's was one of the first retail firms to become involved in importing, direct buying, private branding, and manufacturing of some of its products, suggests that its founder may also have been one of the first retailers to recognize both the importance of resource markets, and the desirability of attempting to at least partially integrate some of these markets into the firm's system.  

Fourth, if Hower's interpretation of Macy's behavior is correct, the firm clearly appears to fit into the bounded or adaptive rationality frame of reference. The consistently-expressed theme of Hower's book is that the success of the firm resulted (not from high levels of certainty or predictability with regard to its environment), but from "Macy's long record of successful adaptation" to its highly fluctuating environments.  

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53 The concept of vertical systems is, of course, much discussed in marketing thought today. The values of contractual or other close relationships with resource markets is also a current topic in organization theory.  

Although one rather important firm appears to have fit the bounded rationality mold, this, of course, offers no evidence of the level of rationality of other members of the institution, some of which may not have exhibited as much adaptability as the Macy organization. But both the apparent close relationship between the firm's development and the process depicted in the theoretical model, and the resemblance between the frame of reference used as the starting point of the theory and the apparent rationality level of the firm itself offer at least a possible indication of the model's potential utility as a framework for empirical research of institutional change in retailing.
CHAPTER VI

THE POST WORLD WAR II DEVELOPMENT OF THE DISCOUNT STORE

As Chapter V offered for the department store, this chapter serves the function of illustrating the possible relationship between the actual development of the discount store, and the theoretical model of institutional development, depicted in Chapter IV.

The methodology of researching and writing this chapter has been detailed in Chapter I. As in the preceding chapter, the chapter is organized chronologically according to the phases of the theoretical model as listed in Chapter IV, p. 96.

See Chapter I, pp. 13-14. The reader is reminded that as the contents of this chapter are largely drawn from cumulative impressions on the author's thinking made by his discount store research as a whole, references to specific instances of the relationship between actual and theoretical behavior are not utilized as extensively as in Chapter V.

As is true of the previous chapter, nothing contained in this chapter should be considered as a proof, test, or verification of the theory. The chapter merely presents illustrations of the possible relationship of discount store development to the theoretical model. The discount store's institutional development, like that of other retail institutions, will be better understood after empirical studies of this phenomenon are undertaken. It is hoped that the theoretical model may prove useful as a framework for such studies. Several issues which especially need empirical study are pointed out in the footnotes.
The titles of each section of the chapter, and
the phases of the model which each section covers, are
as follows: Development and Recognition of Opportunity;
Phases one and two of the model; Entrance of New Insti-
tution: Phase three; Seeking of Niche by New Institution:
Phase four; Striving for Early Growth by New Institution:
Phase five; Entrance of Additional Members of Institu-
tion: Phase six; The Search for Differential Advantage
and its Effect on the Institution's Total Product Offer-
ing: Phase seven; Creation of New Gap or Opportunity:
Phase eight.

Development and Recognition
of Opportunity

As discussed in the previous chapter, a combina-
tion of several environmental forces resulted in
utilization, by successful members of the department
store institution (such as the R. H. Macy & Co.), of a
process of continuous search for, and implementation of,
differential advantages. The cumulative effect of such
a process has been that the department store has developed
a character somewhat different than that which it repre-
sented at its inception. Through incremental adaptions
to such environmental forces, it gradually moved up the
total product spectrum, until after World War II it
catered mostly to the demands of those consumers in the large, middle portion of the spectrum. As such consumers desire a greater bundle of satisfactions (and are willing to pay for it) than do those who make up the lower portion of the spectrum, it soon became clear that the department store was no longer effectively serving the market which offered it its original opportunity. As a result, a gap began to develop.

However, the department store members did not, as a rule, make any significant attempt, at that point in time, to alter this situation. An understanding of this institution's position should portray the possible reasoning behind such a decision:

The department store achieved (as a result of the process mentioned above) a dominant position within the middle portion of the spectrum. Though many members had not abandoned the lower portion of the spectrum, and made at least a limited attempt to retain some of that market, (basement stores are an example), the thrust of their development had culminated in their relatively strong control of the large middle market.

Any drastic moves which would be required to attract the lower market, in order to fill up the gap that had developed there, might risk the strong, favorable relationships which the institution had built up with its
existing consumer and resource markets. Such favorable relationships are, of course, quite important factors in an institution's continued success. It is not surprising, then, that most successful members of this institution did not see fit to risk such domain consensus by making any significant moves to fill such a gap.

However, while the department store maintained its preeminence in its chosen market, several factors combined to increase the significance of the gap in the lower total product market. Among these factors were: the existence of a large segment of young families whose wants were rising faster than their incomes and who desired an opportunity to stretch their buying dollars; the growing segment of former low income families whose rising incomes allowed them to shop for durables, but who had not yet acquired the desire for the services which conventional durable goods retailers usually offered; and the growing number of lower middle income and lower income families who, upon moving into suburbia, had found that the department store and specialty store branches then operating in the suburbs catered mostly to the upper income and upper middle income groups.

The profit potential in serving this substantial gap market, of course, could not remain unnoticed among
those entrepreneurs (and would-be entrepreneurs) who are continuously searching for such opportunities and the ideas necessary to take advantage of them. Thus, many entrepreneurs with experience in retailing (as well as others who, although they lacked such experience, had the foresight to discern the significance of the opportunity) and who had the vision to realize that a "new" institution was needed to serve this gap, began to develop the ideas upon which such an institution could successfully be based.

**Entrance of New Institution**

As espoused by the response model, the "new" ideas utilized by the new institution (the discount house) at its entrance, resembled, in part, those used to initiate certain institutions which entered the market in prior eras. The first post World War II discount houses (the concept which served as the trigger to the incremental development of the discount department store) were similar in many ways to the original supermarkets, as well as those stores which incrementally evolved into department stores (such as the R. H. Macy & Co.).

The discounters' definitive low-price policy was one means of entrance employed by both early
supermarkets and department stores. In addition, the new entrants' emphasis on self-service was first popularized by the original supermarkets. Finally, both department store and the discount store typically entered as relatively small stores carrying a narrow line of goods. Basically, the early discount house entrants combined the pricing policies of the early department stores and supermarkets with the self-service policy popularized by the latter, and the limited service concept offered at their entrance by the former and the latter. The result was a "new" idea for the selling of non-food items which was only really new in its application of previously-developed ideas to a different type of goods. Thus, in a very real sense, the discount house was only "incrementally" new.

For example, Two Guys from Harrison and E. J. Korvette (two of the firms most frequently mentioned in this chapter) each combined discount prices with self-service in the selling of durable goods (television sets by the former and luggage and appliances by the latter.² Except for the self-service policy borrowed from

supermarkets, these stores differed little from department store forerunners, such as the early R. H. Macy store. Macy's first attracted customers with an aggressive, low-price policy made possible, in part, by extensive use of opportunistic buying, just as did many of the original discounters. Although it later evolved into a store offering a wide variety of merchandise lines (as did the discount houses), Macy's, also like the first discount stores, entered the market as a small, highly specialized unit.

Although the situation altered somewhat later in its history, the discount house, in its early years, typically served as the basis for a new enterprise, rather than merely resulting from a change in an already-existing company's operations. Two Guys first entered retailing by opening a small 20' x 40' unit in New Jersey in 1947. Similarly, E. J. Korvette first came into being as a luggage store in a midtown Manhattan loft in 1948.4

Most other original discounters also sprouted from the openings of new businesses. However, later in the development of the discount store (as will be discussed below), many representatives of existing institutions (including variety stores, specialty stores, and

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3 Ibid.
4 Ibid.
department stores) entered the world of discounting. This was carried out either through the gradual opening of new discount units or the incremental grafting of discount store policies onto their current operations.

Seeking of Niche by New Institution

After entering the market, the original discounters, as opined in the model, attempted to build a niche for themselves by utilizing their "new" ideas to adapt to environmental conditions, and to differentiate themselves from existing retailing practice.

That the first discount houses typically were extremely well-adapted to environmental conditions can be revealed by a comparison of several such conditions with the early discounters' basic policies.5

As mentioned above, a large segment of the younger families had wants which were rising faster than their growing incomes. In such a situation, they welcomed any opportunity to make the most of their buying dollars. Similarly, many former low income families, whose rising

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incomes gave them a new opportunity to shop for durable goods, etc., did not develop a desire for the services offered by typical durable goods outlets (such as department stores) as quickly as their demand for the goods themselves grew. As a result, they also sought a relatively low total product establishment where such services (and resulting markup) would be curtailed.

At the same time, department stores and other conventional retailers were faced with such problems as standardized markups and the need for compliance with Fair Trade or list prices on large portions of their merchandise. Thus, in their emphasis on low prices, the early discounters took advantage of both the price preferences of important growing segments of the consumer market and the inability of conventional retailers to fulfill the current demands of such segments.

Prior to the development of the early discounters, consumers were gaining increasing confidence in advertised brands, and the effect of the retailer on their buying decisions was diminishing as a result. In addition, though self-service had become quite popular with consumers through its use in supermarkets, it was applied only sparingly, by other types of retailers. Since self-service in food products had developed a highly
favorable reaction among consumers, and their growing acceptance of nationally advertised brands had reduced their desire for help from salespeople, the spreading of self-service into non-food items (both hard and soft goods) by discount houses can be considered a well-timed innovation.

At about the same time, the growth of suburbia was moving into full swing, in a trend that was not limited to higher income groups. On the contrary, numerous middle income and lower income families, often aided by liberal credit terms, also moved into houses in the suburbs. Responding to the needs of the new markets, the suburbs became dotted with service stations, supermarkets, drug stores and other convenience outlets, as well as specialty shops and a number of department store branches in those areas in which population and income were sufficient to support them. Although such specialty shops and department store branches often catered closely to the needs of higher class customers, many failed to reach out for the new, middle income and lower middle income suburbanites, at least with regard to many commodity lines.

In addition, successful department stores often did not move into the suburbs with the early speed
exhibited by the discounters. One reason for this is that most suburbs were not thought to have reached a high enough level of development to be capable of generating a net addition to both total sales and total profits of the firm. To help protect their large investment tied up in downtown facilities, such successful department stores tended to refrain from opening branch stores in suburbs which, at that time, were considered capable only of transferring volume from one store (downtown) to another (the branch). It appears to be much less difficult for firms (such as the early discounters) which face no such problem to make such moves, and, needless to say, they did make them.

Thus, discounters utilized environment-created opportunities to gain a two-pronged advantage in the suburbs: First, they often were the first large shopping goods retailers to move into a given suburb. Second, they often represented the first shopping goods outlets to cater to a group other than the higher income classes.

Although proper adaption to environment helps a new retailing institution on the road to success, it should also be differentiated from the prevailing policies of existing institutions, if initial success is to be achieved readily. In the case of the early discounters,
substantial differentials from conventional retailers did exist, especially in regard to the three policies mentioned above in discussing discounting's "close fit" to its environment. The markup of such discounters often approximated one half (or less) of that typically utilized by department stores. The price lines were also significantly lower because of greater emphasis on lower quality goods and opportunistic buying, etc. Both allowed the discount firms to offer the consumer easily-noticed, substantial price differentials.

In addition, as self-service was not yet common in the "non-foods" (in which discounters usually got their start), application of such a policy offered the shopping goods consumer a "new" method of buying such items -- a method he often preferred to conventional techniques.

Finally, the nature of such discounters' entry into suburban markets significantly differentiated them from existing shopping goods institutions. Longer hours and more frequent Sunday openings appear to have contributed most to this differential advantage. Speedier entrance than other large-size establishments, larger parking areas, and an ability to cater to market segments often missed by department store branches also helped to build this important advantage. Thus, the successful

6 Ibid.
early discounters easily fulfilled two of the basic prerequisites to effective niche-building: excellent adaption to environmental conditions, and policies which provide differentiation in an amount which can be both noticed and accepted by target markets.

Two Guys offers an example of utilizing the above-mentioned three policies to fulfill this need for environmental adaption and proper differential advantage. It adapted to the demand for lower prices by operating in a manner which allowed it to sell television sets at only "$5 - $10 over cost."? Self-service was applied to the store to such an extent that the customers even wrote their own sales tickets! (Such customers probably did not mind performing such a task since they not only already accepted self-service, but realized that their handling of such a chore contributed to their ability to obtain such low prices.)

Although Two Guys' first store was not suburban in character, in order "to meet the needs of a booming population whose income was increasing and which was migrating to the suburbs, the Company opened (its later stores) ... in blossoming communities and on major

7"What's Behind the Rise of Two Guys," op. cit., p. 3.
arterial highways.\textsuperscript{8}

As is illustrated many times in this chapter, Two Guys' ability to adapt to their changing environment through continuous incremental moves, which enable them to maintain a consistent differential advantage over rivals, has been fostered throughout their twenty-two year existence. In fact, the slogan utilized as the keynote of their 1966 annual report was: "Twenty years of growth through flexibility."\textsuperscript{9}

\textit{Striving for Early Growth}  
\textit{by New Institution}

A large proportion of the early discounters had relatively little difficulty in building such a niche for themselves. By meeting the above-mentioned prerequisites, and frequently becoming the first members of the new institution to enter a given trading area, such firms were able to take advantage of the market's un-filled need for a relatively low-priced suburban retailer.

However, most discounters were not satisfied by the achievement of such a niche. As espoused by the


\textsuperscript{9}Ibid.
model, such an accomplishment marked the starting point of discounting's search for early growth. Such a search for ideas which would stimulate growth took many forms. Among the more typical of those utilized by discounters were: merchandise line expansion; experimentation with expanding store-sizes; and opening of new outlets.

Competition from affected existing retailers (which was to grow in intensity as the discounters' threat to their core market grew) was also, in part, responsible for the dynamism which discounters had begun to exhibit. However, such conventional retailers rarely made drastic attempts to defeat the discounters at their "own game" at this time, because such moves might have risked both their firm hold on the large, middle section of the total product market and their strong relationships with resource markets. Despite this inability to make a move to discounting in one large jump, such retailers, as they became increasingly affected by the new institution, tended to escalate their rebuttal moves in an incremental manner. From simply ignoring the presence of discounters, conventional retailers moved to support for Fair Trade legislation, pressure on suppliers not to sell to discount houses, and, attempts to meet the prices of
discounters on critical merchandise lines. Although
many of the conventional retailers later reached the
final stage in such escalation by incrementally moving
into the discount store field themselves (as is discussed
below), they rarely did so during this period of the
discounters' early growth. As the new institution had
not yet made significant inroads into the core market
prized by such conventional retailers as the department
store (the middle portion of the total product spectrum),
such retailers did not view it as an immediate threat to
their survival.

As a result of the conventional retailers' policy
to compete, but for the most part refrain from complete
assimilation, during this period, and the existence of
the still relatively unfilled large demand for the total
product offered by discounting to the gap market, the new
institution was able to grow at a relatively fast and
consistent pace in its early years.

For example, Two Guys started out with a tiny
800 square-foot unit which sold television sets. Through
the unique and popular policies mentioned above, it was
not long before Two Guys had developed a niche for itself.
As soon as this happened, the firm began to experiment
incrementally with different types and sizes of selling
units as well as new merchandise lines. "We were search­
ing for a retail pattern," according to Herbert Hubschman,
Two Guys' president at that time. \(^\text{10}\) In its first moves,
Two Guys branched out into other lines such as: "refrig­
erators, washers, dryers, small appliances, toys,
housewares, seasonal merchandise, and a handful of
specialty items." \(^\text{11}\) Following this, the company embarked
on further phases of a never-ending, incremental search
for the "proper" store. Among the experiments included
small satellite units (similar to Sears Catalog outlets),
buses equipped as mobile showrooms, along with the
previously mentioned experiments with various types of
suburban locations. During these experiments, "stores
were opened, closed, (and) enlarged in its continuing
search for the ideal discount store concept as the basis
for its future growth and expansion." \(^\text{12}\)

By proceeding incrementally throughout this search,
Two Guys was able to drop, without significant losses,
those trials which did not succeed while gradually

\(^\text{10}\) "What's Behind the Rise of Two Guys," \textit{op. cit.},
p. 3.

\(^\text{11}\) "Twenty Years of Growth," \textit{op. cit.}, p. 8.

\(^\text{12}\) "Twenty Years of Growth," \textit{op. cit.}, p. 8.
acquiring the proper characteristics which would carry it far along the road to success.

Entrance of Additional Members of Institution

As postulated by the model, after witnessing the relative ease by which successful early discounters built a niche and substantial early growth, a large number of imitators began to take advantage of the freedom of entry into retailing to become members of this institution. As it has grown in importance throughout the history of this institution, such imitation has added a new dimension to the competitive situation facing the discounter. At its inception, competition centered on the new concept (discounting) vs. existing retail practices. Such intertype competition has been gradually supplemented by an intensive intratype competition among original members and imitators.

The sources and forms of imitation were quite varied. A most significant technique was the taking over of vacant buildings by entrepreneurs who ascertained the potential profits in the fast rising discount field. Such entrepreneurs, many of which had no experience in
retailing, often would then lease the floor space to experienced merchandisers.  

13 As the members of other institutions usually did not see fit to transform themselves completely into discounting (for the reasons detailed above), they tended to seek other methods of competition which did not require such drastic assimilation. A frequently-utilized measure was to gradually open up new stores, operated as separate divisions (and under a different name), as discount houses. Other existing retailers quite gradually entered this field by incrementally grafting the differentiating features of discounting onto their existing operations (and often adding ideas of their own as well). It was also not uncommon for existing retailers to utilize both of these incremental methods of entrance into discounting.

13 Actually, as mentioned in Chapter IV, the utilization of leased departments is a primary factor in the accelerated growth of discounting. Both inexperienced imitators, and also many of the original entrants, frequently entered the field through extensive dependence on leased departments. In addition, many discounters entered the field as a specialist in hard or soft goods lines. As specialists of each type often had no experience with the other type of goods, a decision to fill out their merchandise offering often led directly to the use of leased departments. For a detailed treatment of the role and operation of leased departments in discounting, see: James R. Lowry and William R. Davidson, Leased Departments in Discount Merchandising (Columbus, Ohio: The Ohio State University, 1967).
Whether through careful observation and utilization of the policies of successful original discounters, the hiring away of management personnel from such innovative firms, or experimentation with the innovators' policies on a small scale prior to full-scale entry, or a combination of the above, imitators (of both the retail and nonretail variety) were often able to profit from the experience of the early discounters. This ability to learn from (and in some cases incrementally build onto) the practices of such original members, coupled with their astuteness in recognizing the existence of the many profitable locations which were not yet served by discount houses, enabled many of the new discounters to achieve a high degree of success.

The cumulative effect of such successful imitation was that the differential advantages which had made possible the niche-building and early growth of the original discounters (low-price policies as well as other factors discussed above, such as suburban locations and application of self-service to non-food product lines) were incrementally matched (and in some cases surpassed) by the newer entrants. As discussed in the next section of this chapter, such erasing of their original differential advantage led the discounters (both old and new) to
recognize the need for new differential advantages which would enable them to retain their relative positions and to stimulate further growth.

Neisner Brothers (for example), a prominent variety chain based in Rochester, New York, utilized the learning by experiment method. After seriously observing discount operations for several years and having been challenged by them at several of their own locations, the firm began to consider entering the discount phenomenon. But having a favorable position to protect, Neisner did not want to rush into the unknown without first being sure that discounting was "the way to go." 14

After much deliberation, the company took its first step by purchasing Myrtle Mills, a Connecticut factory outlet store. (Many other discounters also gained their initiation into discounting in this type of location.) According to Fred Neisner, chairman of the board, "the idea was to gain experience, to learn. The mill was a training ground for us. We ran it more than a year before we opened our first Big N discount store." 15

15 Ibid.
The S. S. Kresge Co., after becoming dissatisfied with its declining profit trend, initiated a search process. A vice-president, Harry Cunningham, was sent around the United States in 1957-1958 to investigate possible methods of increasing the firm's profits. Soon after Cunningham was elected president, in 1959, the decision was reached to move into discount retailing.

A "vice-president of discount operations" was appointed and charged with the task of studying "all major discount operations," including strengths and weaknesses, in order to "develop the standard upon which a Kresge-operated discount chain could live and grow on a sound basis." When the first K-Mart opened in 1962, a general blueprint for future success had been firmly established. Although experience and research are continuously resulting in incremental improvements, few important deviations from this carefully-programmed blueprint have developed.

In addition to developing K-Mart into perhaps the country's leading discount chain, Kresge also has been grafting discounting techniques onto its existing variety store outlets. Such a process has led the company to replace the Kresge name with "Jupiter K" at those variety

store locations which have been transformed into discount stores.17

The Search for Differential Advantage and its Effect on the Institution's Total Product Offering

As mentioned above, the intertype competition between the discounters and existing institutions was supplemented by an intensive intratype competition between original discounters and newly-entering discounters. This two-pronged competition resulted in a gradual erosion of the competitive advantages held by discounters at their inception. Since the original bases for their early growth no longer guaranteed them continued success, the discount firms, as espoused by the model, found themselves faced with a need to find new differential advantages. In response to this need, discounters began to experiment in many areas (including further expansion of merchandise lines, offering of additional services, improvement of decor and atmosphere, upgrading of locations, upgrading of merchandise quality).

Thus, a basic cause of the search for and implementation of new competitive advantages by discounters was

the increasing intensity of intratype competition and
the diminishing by such competition of the advantages
which had been responsible for their early success. However, competition was not the only important factor behind such moves. Equally important in causing such searches was the discounters' desire to increase their sales and profits. In other words, though competition may have made new differential advantages necessary to the discount firms' maintenance of their existing positions, their desire for growth also added greatly to the need for such new advantages. As the gap market was filling up, discounters began to look toward capture of a portion of the middle market as a possible means of achieving their growth objectives. They realized that any attempt to attract such a market segment would require additions and changes in their total product offering (the implementation of new competitive advantages).

Adding further impetus to the trading up process during this period was an apparent incremental upgrading among many consumers in the original discount house market. As their incomes, level of sophistication, and wants began to rise, their willingness, ability, and even desire to buy at stores offering a relatively higher total product (than existing discounters) also appear
to have risen. ¹⁸ Such a desire added further validity to the discounters' decisions to seek new competitive advantages involving relatively higher total product offerings.

The effect of such a competition for differential advantage has been an evolutionary, yet significant, trend toward greater total product. Among the specific features of the greater total product offering which such a trend produced in the discounting field are: better locations; improved store fixtures and equipment; expansion of customer services such as credit, delivery, guarantees, and exchange privileges; improved personal selling service; better quality merchandise; assortment rather than buy out merchandising; increasing diversification of merchandise lines. ¹⁹

Some typical illustrations of such a trend toward greater total product and certain of the factors which induced that trend include:

¹⁸ An indication that such a phenomenon was recognized by discounters, and entered into their "trading up" decisions, is offered in illustrations presented later in this section. However, additional research is needed to clarify both the extent of this phenomenon, and the role it played in discount house development.

The Executive Vice-President of Miracle Mart, a Canadian discount chain, in a speech presented to a retailing conference, argued that upgrading was essential to "correct" what he felt was an over emphasis on price as a competitive weapon. He proposed that convenience of location is equally as important as price. In addition, in responding to the "new consumer," he pointed out that the firm was upgrading such things as service levels, design, layout, training, personnel standards, executive development, merchandise, and statistical and quality control.

Two Guys continued the trading up of location, merchandise line expansion, and store size already initiated in their early growth period. Among the differential advantages developed by Two Guys over the years included: an excellent repair service reputation; a better than average internal capability which results in effective handling of the firm's own warehousing, construction, and advertising; an ability to maintain close control over the entire operation of the firm; leadership in the development of the one-stop shopping

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Ibid.
concept, including use of a discount supermarket; early implementation and expanded usage of communication and information systems, including electronic data processing; parallel merchandise growth among the various merchandise lines; modernization of stores in response to consumer desires.  

Atlantic Thrift spent much time testing out various upgrading proposals, before expanding its total product. After many of these proposals had proven successful, a company-wide trading up program was developed. Areas upgraded by the company included fixtures, displays, merchandise lines, use of sales personnel, advertising, and communications. Despite this upgrading, the firm did not abandon its "commitment to discounting." Rather it began to emphasize "value for price" as its basic appeal, instead of price alone.  

Such a move into trading up was considered by Atlantic as necessary in adapting to rising consumer incomes and tastes. The firm's desire to improve profits  


also supported this trading up process. Atlantic learned that since consumers exhibited a preference for such upgraded merchandise lines, etc., the profits generated by such moves were often superior to those experienced prior to embarking on the upgrading program. In summarizing the incremental nature of this program, the merchandising vice-president stated that: "It's a continuing, probing process."  

Of all the discounters, E. J. Korvette's continuous trading up has probably received the most publicity. One author has suggested that Korvette's distinction is that it has "moved further and faster than anyone else" in the discount retail field.  

According to a Korvette executive, "We are always seeking ways to increase sales if it augments profits and return on investment."  

Although such a burning desire for profit and growth undoubtedly was responsible for Korvette's speedy expansion in number of outlets, the trading up done in such areas as store size, merchandise lines and quality, store decor, fashion image, and sales service is considered by the

24 Ibid.


firm to have also been largely influenced by a combination of the existence of competitors and the ever-changing consumer market. As another Korvette executive explained:

"We have to keep improving. Too many retailers still don't realize that the day of blind customer loyalty is gone. The customer is fickle . . . you have to earn her loyalty every day."

The speed with which Korvette made its moves was in part responsible for the reputation it gained as the most well-known innovator in the industry. According to a Vice-President, the firm's management often made "decisions about $1 million in two seconds." However, such a nonincremental, "unprogrammed" approach to the seeking of differential advantages may bring on problems, as well as rewards. Although Korvette may have been a leading innovator on the discount scene, and its growth in volume may have matched this innovative pattern, by early 1965 profit performance had become extremely disappointing to management and stockholders alike.

As a result, in 1966 Korvette merged with Spartans Industries, Inc. in order to provide the control

27 "Schwadron: Korvette is Fusion of Best in Retailing," *Discount Store News*, August 24, 1964, p. 3.


and disciplined management that such a large and growing firm requires. 30 The new chairman, Charles Bassine of Spartans, had to deal with a management structure which was almost nonexistent (some executives boasted that it was unnecessary), and a "total lack of corporate direction." 31

In lacking such essentials, it is not surprising that Korvette went about the vital task of making and implementing decisions regarding each important move in the following manner: "Unable to decide into what areas the company should channel its energies, Korvette's management (merely) wandered into" each new area. 32

The implication which may be tentatively drawn from this discussion of E. J. Korvette's problems is that "intuitive leaps," 33 which one authoritative source defined as a probable cause of Korvette's troubles, may sometimes be effective during the entrance and early growth of a new type of retailing, but that perhaps such completely unprogrammed growth is not as effective after the intensive intratype competition, the resulting search

31 Ibid.
32 Ibid.
for differential advantage, and the increasing total product trend develop. In such an environmental situation, as discussed in Chapter III, the relative level of certainty with regard to the outcomes of projected moves is much lower than for earlier stages in an institution's development.

As suggested in some of the examples presented above (in certain of the internal changes implemented by Two Guys, Miracle Mart, and the rationales offered in the literature for Korvette's problem), perhaps a greater need for "control," "disciplined management," etc., develops as a result of the environmental situation outlined above. One result of discounting's so-called "shake out" period of the early 1960's was the development by most of those firms which survived, of a wide variety of control systems. Such is one area where Two Guys, among others, and most notably not E. J. Korvette, appears to have acted as "innovator."

Perhaps, had Korvette at least achieved the level of "imitator" in the area of management control, or management discipline, its problem of declining profits, and the necessity of its takeover by Spartans Industries, Inc.,
would have been avoided.\textsuperscript{34}

This was implied by Charles Bassine, chairman of Spartans Industries, when, in commenting on the discipline his firm would provide to Korvette's future, he stated: "This implies (having) a knowledge of . . . how to get there the most efficient way."\textsuperscript{35}

In any event, the possibility that programmed or controlled change or growth can reap handsome rewards is illustrated by the previously-mentioned rapid rise of K-Mart. In about seven years, the S. S. Kresge Company's carefully-programmed "blueprint" has enabled K-Mart to become one of the largest (if not the largest) discount chains in the country, and has been responsible, in large part, for the parent company's growing rate of return on net worth (4.37% in 1962, 14.90% in 1968).\textsuperscript{36}

\textsuperscript{34}An empirical study concerning the stage of an institution's development in which such control becomes necessary could be very valuable to those interested in institutional development. Also of value might be a study of the relationship, if any, between control and incremental change. Such a study could attempt to determine, for example, if implementation of controls leads to incremental change, if incremental change is actually one type of control, etc.

\textsuperscript{35}"Shrinking Profits," \textit{op. cit.}, p. 56.

\textsuperscript{36}Bert C. McCammon, \textit{The Changing Structure and Economics of the General Merchandise Market} (Columbus, Ohio: The Center for Advanced Studies in Distribution, 1969), pp. 7-9, 99. The assumption concerning K-Mart's ranking as a discount chain is based on the fact that the parent company's annual sales have risen by one and a quarter billion dollars since the first K-Mart opened in 1962, while growth was negligible in the four years prior to that time.
Creation of a New Gap or Opportunity

As the theoretical model postulated, the net result of the factors mentioned above has been that the discount house has developed a character quite different from that offered at its inception.

The cumulative effect of such a character transformation is that the discount house is fast losing its identity as a distinctive form of retailing institution.37

The extensive trading up undertaken by most discounters, the entrance into discount retailing by many conventional retailers, and the assimilation of the customer-attracting features of discount retailing by other retailers who did not choose to actually open up discount stores, has resulted in a convergence of the attributes of what were formerly distinctive types of retailing. The term "discount" soon may represent no more of an appeal than "self-service."38

With discounting already losing its identity as a distinctive form of retailing institution, the question becomes: How much longer will it take before a gap sufficient to create an opportunity for a new institution,

37 See Davidson, op. cit., pp. 24-28, or Davidson and Doody, op. cit., pp. 36-39.
38 Ibid.
will develop in the lower portion of the total product spectrum? Although the purpose of this study is not "prediction," it can at least be said that if the speed with which discounting has moved through previous phases of the theoretical model is any indication of what is ahead, the development of such a gap or opportunity could be completed in the not too distant future.

**Implications**

Although this chapter offered illustrations of discount store development which, as stated previously, cannot be used as the basis for conclusions concerning the theory, certain tentative implications with regard to the illustrations, may be offered.

First, it appears that Two Guys (Vornado, Inc.) has followed the general pattern of development depicted by the theoretical model presented in Chapter IV.  

Second, Two Guys appears to have utilized incremental change at several points in its development.  

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39 Implications with regard to the discount house institution as a whole cannot be drawn from illustrative material. An empirical study, conducted on a random sample basis, would be required before industry-wide implications are possible.

40 Although an intensive study of the limited literature was undertaken, it is difficult to make any absolute determination from such sources on this point.
Third, it seems, to this writer, at least from the limited literature available, that Two Guys also has exhibited a type of behavior pattern that one might reasonably expect to find in a firm whose level of rationality is similar to that indicated in the bounded or adaptive rationality frame of reference.

Fourth, it appears that E. J. Korvette, at least prior to its takeover by Spartans Industries, Inc., may not have made much use of incremental change. Such a possibility, even if true, does not invalidate the theory for two reasons: (1) Korvette does not appear to have reached maturity prior to the takeover. Although often utilized prior to maturity, incremental change appears to be used more extensively during an institution's maturity period. (2) As in the case of Two Guys, conclusions concerning the institution as a whole cannot be drawn from the behavior of a single firm.41

41 An empirical study of the firm to determine the effect of Spartans Industries' attempt to introduce "control and disciplined management," especially as it regards change behavior, would be quite appropriate.
CHAPTER VII

CONCLUSIONS

This final chapter presents the major conclusions which have been drawn from the study. As this study's primary function has been to develop a theory which could be used as a framework for future empirical research, many of the conclusions are tentative. The validity of such tentative conclusions, concerning certain of the hypotheses, contributions, and objectives, can be ascertained with accuracy only after such future research is conducted. The chapter is organized as follows:

First, a restatement of the objectives is presented.

Second, the conclusions of the study as related to the hypotheses are offered.

Third, the values and contributions of the study are explored.

Fourth, recommendations for future research are outlined.
A Restatement of the Objectives

It has been the primary purpose of this study to develop a first approximation of a new model of institutional development in retailing which, by utilizing incremental change and other relevant concepts from the social sciences, can offer a useful framework for empirical study of this phenomenon. Such future research will have to be undertaken before the fulfillment of this objective is verifiable. However, the ability of the model to serve as a framework for the historical analysis, offered in Chapters V and VI, suggests that it is quite possible that this objective will be realized.

In addition to this primary objective, the study also hoped to fulfill several secondary objectives. First, the study attempted to illustrate the payout which can be derived from the work of social scientists in the development of marketing theory. The important role played by such social science concepts as limited rationality (which served as a frame of reference for the entire theory), aspiration level, limited search, avoidance of uncertainty, domain consensus, and incremental change, among others, in the explanations and interpretations offered in Chapters III and IV indicate that this objective has been fulfilled.
Second, the study strove to offer an example of the contribution which can be made by historical analysis in illustrating the potential applicability of a new theory of change. Although the illustrative material gathered through such historical analysis, and presented in Chapters V and VI, did not and could not attempt to verify the theory, it does appear to have fulfilled this objective of at least illustrating the theory's potential applicability.

Third, the study hoped to offer a new direction to others involved in the development of retailing theory. It is believed that the new explanation of institutional development in retailing, by utilizing the concept of bounded rationality as a frame of reference, and integrating several social science concepts into the explanation itself, has developed a new direction which may prove to be useful to others engaged in the development of such theory.

**Conclusions as Related to the Hypotheses**

The following conclusions can be drawn concerning the hypotheses, offered in Chapter I:

It was first hypothesized that incremental change is a discernible characteristic of the behavior of
successful retail institutions. Illustrations of possible incremental change were presented in Chapters V and VI, and the contentions of two marketing scholars who argue that incremental change is a characteristic of retailing behavior were offered in Chapter II. However, only after much of the empirical research recommended at the end of this chapter is undertaken will it be possible to determine to what extent incremental change actually is a discernible characteristic of such behavior.

The second hypothesis suggested that the concept of incremental change and relevant social science concepts can serve as effective catalysts in the development of a new theory of retail change. Such concepts: (1) provided the author with a frame of reference for the theory; (2) were specifically applied in explanations of certain aspects of retail change behavior offered in Chapters III and IV; and (3) influenced the author's thinking with regard to explanations of other aspects of such behavior. Thus, social science concepts did serve as effective catalysts in the development of the theory presented in this study. (The potential values of social science concepts to marketing theory are discussed further in the next section.)
Next, it was hypothesized that, although the new theory will offer an explanation of the development of institutions which enter at the low end of the total product spectrum, it will also be capable of indicating why it might be possible for future major institutions to enter at some other point on the spectrum as well. As explained in Chapter IV, the theory identifies only two basic requirements which must be met if an opportunity for entrance of a new institution is to be forthcoming: (1) a reasonably large, relatively "unserved" market must develop at some point on the spectrum; and (2) existing institutions do not see fit, at that point in time, to make the changes required to serve such a market. In contrast to the Wheel hypothesis which offers a reason only for entrances at the low end, the new theory, through identification of the requirements mentioned above, indicates that an opportunity for a new institution may develop at any point on the spectrum in which such requirements are met.

Although the gaps in retailing required to induce such entrances have, in the past, largely developed at the low end of the spectrum, it was pointed out that there was good reason to believe that, in the future, such gaps may develop at other points on the spectrum as well.
Thus, by eliminating the requirement that a new institution can only enter as a result of a weakness on the part of a high cost institution, and substituting more general requirements of its own, it has been possible to indicate, in the new model, why the low end of the total product spectrum may not be the only point of entry for future institutions.

The final hypothesis indicated that the new theory, through utilization of relevant social science concepts, will be able to eradicate the conflict between the views of Beckman, Davidson, and Doody, etc., and those of supporters of the Wheel hypothesis, by indicating that the development of retail institutions may result from somewhat more rational, adaptive behavior than that which is attributed to such institutions by supporters of the Wheel hypothesis.

As a result of his research into such social science concepts, it was discerned by the author that a possible source of this conflict is the apparent frames of reference concerning organizational rationality adopted by supporters of each viewpoint. It was argued that most supporters of the Wheel hypothesis may have been utilizing an omniscient rationality, or perhaps a relative nonrationality frame of reference, while they studied
retailing behavior, and that supporters of the conflicting more positive view may have been utilizing something similar to the adaptive rationality frame of reference. As the author himself believed the latter frame of reference to be relatively more applicable to retailing institutions than the others, he then developed a new theory in which such a frame of reference served as a unifying force.

Since nothing in the theory has been verified by empirical testing, as yet, the validity of applying an adaptive rationality frame of reference while developing the theory cannot be determined at this time. However, by indicating a possible source of the conflict, the study may have provided the first step toward the ultimate eradication of the conflict. Thus, although not actually removing the conflict, the study, by offering a possible insight into its source, has indicated a way in which future research, and refinements of institutional change theory based on such research, may eradicate the conflict in the years ahead.

Values and Contributions of the Study

The present section outlines the values and contributions of the study.
First, and perhaps most important, the study has indicated the potential value to theory development which can be derived from a synthesis of marketing and other social sciences. Not until the latter stages of this project did even the writer realize the full extent of such a potential! It is hoped that this study will encourage others interested in the development of marketing theory, whether it deals with institutional change or any other aspect of marketing behavior, to utilize the valuable help that can be offered by other social sciences in such endeavors. It is the view of this writer that the progress of marketing theory will be greatly accelerated if such help is readily accepted.

Second, the new model not only hopefully offers a useful framework to those engaged in empirical research of institutional change in retailing, but also, and perhaps more significantly, may encourage more research of this type to be undertaken. Since it appears that research into institutional change is far more common in other disciplines, if the study successfully effects an increase of such research in retailing, this would represent a valuable output.

Third, the study may offer a fruitful direction to others engaged in the development of theory regarding
institutional change in retailing. By suggesting that the divergent views now prevalent in this area may largely result from differences in the frames of reference applied by the supporters of each view, the study has offered at least a possible means by which future theoretical developments may resolve such divergent views.

Fourth, the study has offered an example of the contribution which can be made by historical analysis to the development of marketing theory. This study would not have been undertaken had it not been for the insights into retailing behavior developed by Doody from historical analysis. In addition, many of the author's ideas were clarified by his own historical analysis, conducted in the process of developing the theory. As mentioned earlier, Chapters V and VI have indicated that historical analysis may serve the function of illustrating the potential applicability of a theory. Thus, another possible value of the study may be the encouragement of others engaged in theory development to make greater use of historical analysis, especially in regard to that type of analysis in which the area selected for investigation is confined. Doody has already pointed out and convincingly illustrated the value of the latter type of analysis to retailing
theory. It is hoped that Chapter V of this study will offer additional encouragement to those contemplating use of this type of analysis in future theoretical endeavors.

Fifth, certain aspects of the theoretical model may prove useful to teachers in their portrayal of the dynamics of retailing behavior. If later verified by empirical research, such aspects as the stages or phases of institutional development, the concept of incremental change, bounded or adaptive rationality's applicability to retailing as a frame of reference, and the total product spectrum may be of value to teachers in explaining such behavior.

Sixth, the model, by attempting to explain the conditions which create a gap in retailing, or opportunity for the development of a new institution, may be helpful to students of retailing, as well as would-be entrepreneurs, in their attempts to predict when an opportunity for such a new institution will develop. Especially helpful may be the study's contention that, in addition to the low end, future gaps or opportunities may develop at other points on the total product spectrum as well.

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Recommendations for Further Research

A major theme of this study has been the view that empirical research should be conducted in order to advance the state of our knowledge regarding institutional development in retailing. Such research would not only be useful in testing the model developed in this study, but, more importantly, could offer the insights upon which further development, revision, and refinement of institutional change theory can be based.

Specific recommendations for such research, many of which have been previously noted in Chapters III, IV, V, and VI, will now be offered.

1. It is suggested that members of the next new institution to enter retailing should be closely observed from their inception. It is felt that empirical research can perhaps be more valuable in discerning the realities of institutional change behavior if it is conducted at the time the phenomena being studied occur, rather than trying to discern the nature of such behavior after it has taken place.

2. Much more information is needed to determine if, in actuality, the adaptive rationality frame of reference is more applicable to retailing behavior than other
frames of reference. Thus, research which, as its major goal, attempts to discern the level of rationality of retail organizations would be quite useful.

3. Evidence of the extent to which incremental change applies to retailing behavior needs to be gathered. The illustrations offered in this study give no indication of just how prevalent such change is within the retailing system.

4. If it is ascertained that incremental change is a common element of retailing behavior, empirical research will be required to ascertain why this type of change occurs. The possible reasons offered in Chapters III and IV are not only hypothetical in nature (and must, thus, be verified), but as they probably only "scratch the surface," other actual influences on the use of incremental change need to be identified.

5. If at all possible, an institution should be studied, possibly through a continuum of several studies, over its entire lifetime. In that way, the applicability of the phases of development depicted by the theoretical model may be tested.

6. Before it is applied by theorists, teachers, etc., the concept of the total product spectrum, including its many untested assumptions, should be tested and
refined. Perhaps this would make an interesting project for a student of consumer behavior.

7. Research of existing institutions is needed to learn more about why the members of such institutions usually are not the first to take advantage of the gaps which develop in retailing.

8. The goal structure of retailing organizations needs further study. Although the author believes that the level of aspiration concept and multiplicity of goals concept may possibly be applicable to retailing behavior, much more information on this subject could be developed through empirical research.

9. Research is needed to determine the importance of the "search for differential advantage" in retailing, its effect on the direction in which an institution moves along the total product spectrum, and the reasons why it occurs. Especially useful would be a study of the roles of competition, resource markets, and consumer markets in such a process.

10. The role that may be played by such other organization theory concepts as domain consensus, limited search, satisficing, and avoidance of uncertainty in the development of a retail institution should be ascertained by empirical research, if possible.
11. The supermarket and department store, as they represent mature institutions, and the discount house, as it represents an institution which may be about to enter the stage of maturity, should be studied extensively, because one of the major differences between the Wheel hypothesis (and the views of its supporters) and the explanation of institutional change developed in this study involves interpretation of the behavior of the members of such mature institutions.\(^2\)

12. As there may be a significant difference in the extent of their application at various stages in the development of a retail institution, systems and techniques for managerial control should be studied to determine when and why retailers bring them into use, and what influence they may have on a retail institution's change behavior.

In closing this discussion of recommendations for future research, a possible future direction for theoretical efforts is suggested. Although the framework of the model developed in this study involved the assumption that bounded rationality or adaptive rationality applies

\(^{2}\)For research recommendations which apply specifically to the firms utilized for illustrative purposes in Chapters V and VI, refer to the appropriate footnotes in those chapters.
to retailing behavior, the author also believes it is likely that certain aspects of such behavior may approach that depicted by the omniscient rationality school of thought, and that at least some members of each retail institution probably do respond to environments in a less than adaptively rational manner.

Thus, future attempts to improve retail institutional change theory, as well as theories of other aspects of retail organization behavior, might, as Thompson has tried to do in *Organizations in Action*,\(^3\) attempt to integrate such viewpoints into a single, unified theory. In this way, it may be possible to explain behavior which does not fit the adaptively rational view of the firm, through reference to other models of the level of organizational rationality.

In view of the increasing utilization by retailers of management information systems, it is quite possible that retail firms may gradually move up the level of rationality "ladder," as their knowledge of their environments increases. If such a phenomenon does occur, then theories which are based on such a synthesis could become an essential element of accurate explanations of retailing behavior.

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Miscellaneous


