Study: Store layout an important variable for retailers

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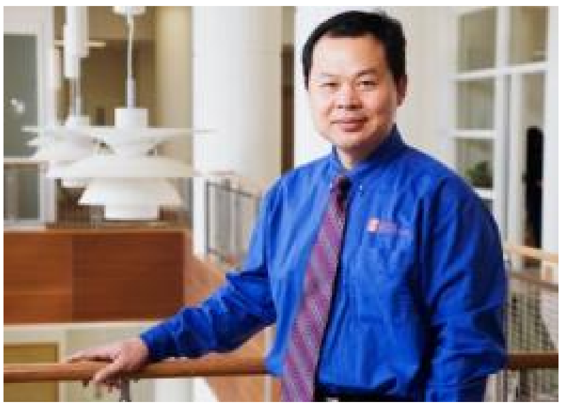

Yunchuan "Frank" Liu, a professor of business administration, says a retailer's optimal store layout is driven by an incentive to balance the shopping process of uncertain consumers and the pricing behavior of upstream suppliers. Credit: L. Brian Stauffer

A retailer's optimal store layout is the result of balancing the interests of two different types of markets – consumers and suppliers, says new research co-written by a University of Illinois business professor.

According to Yunchuan "Frank" Liu, a retailer's strategic manipulation of store layout is driven by an incentive to balance the shopping process of "fit-uncertain consumers" and the pricing behavior of upstream suppliers.

"Retailers face two different kinds of markets – the consumers who buy goods, and the manufacturers that supply goods," he said. "It's a very important variable for local retailers and marketing managers to play with in this era of increased competition with online retailers, and it has important implications for companies and consumers."

The study, which will appear in the journal Marketing Science, is the first paper to formally study the significance of store layouts, said Liu, who co-wrote the study with Zheyin (Jane) Gu, a professor of marketing at the State University of New York, Albany.

"If we look at the current retailing environment, local retailers are in intense competition with online retailers, which means real-world retailers really need to think about how they're going to differentiate themselves," Liu said.

Although consumers live in an information-rich environment, where they know just about everything – reviews, price and quality – about a product before they handle it, they know virtually nothing about the unique "fit" of the product until they walk into a store and handle the product, Liu says.

"For many products, consumers typically remain uncertain about a product's fit until physically inspecting it," he said. "That could mean how a shirt feels when you try it on, or what a certain size tablet feels like in the consumers' hands. And since the consumer has to travel to the store and compare the products, that is to the local retailer's advantage, because that's something that online retailers can't do."

Another way retailers can compete with online merchants is by making the physical act of shopping as convenient as possible for consumers. In a market characterized by what the researchers call "consumer-fit uncertainty," a retailer may design the layout of a store to facilitate the simultaneous inspection of products, Liu says.

"For basic goods like toothbrushes, the fit probability is really high, because to most consumers, a toothbrush is a toothbrush," he said. "In that case, the retailer should group all toothbrushes together in the same location, forcing the manufacturers to compete on price."

But making the consumer shopping experience as easy as possible may not be the best retail strategy for certain products, Liu says.

According to the research, sometimes retailers might want manufacturers to compete on location in the store, even if it's inconvenient for consumers, which may sound counterintuitive to marketing managers.

"Sometimes it's not in retailers' interests to make certain things convenient to consumers, because they have to consider the balance between the consumer market and the manufacturer market," Liu said. "By affecting consumers' fit inspection processes, the retailer's store layout design also influences pricing behaviors of upstream manufacturers."

Not only do marketing managers have to decide whether to group competing firms' products together or separately, they also must balance that strategy with consumers' perception of the store.

"Think about Bloomingdale's versus Sears – high-end luxury items versus basic items," Liu said. "Sears puts all of a manufacturers' products together. If you're looking for a table at Sears, they're all stocked together. If you go to Bloomingdale's, you'll notice that they sell furniture by brands. If you go to this room, it has everything from one manufacturer. If you want to look at another set of table and chairs, you have to go to another room."

That's because for basic products, such as the table from Sears, the product's fit probability is very high, Liu says.

"But if you go to Bloomindale's, they have the high-end furniture – and for high-end products, people have different tastes," he said. "So Sears wants manufacturers to compete on price, while Bloomingdale's wants manufacturers to compete for the best location in the store."

It also depends on the product itself, Liu says.

"Even within high-end stores, individual product strategies will be different," he said. "For some product categories, such as kitchenware, which is quite standard, even a high-end retailer will sell everything together."

Name-brand clothes, however, are usually sold by the brand.

"Macy's puts some goods from competing manufacturers together, but if you look at clothing – jeans, shirts, sweaters – they usually sell them by brand," he said. "Calvin Klein is here, but Ralph Lauren is way over there."

But for low-fit probability products such as shirts, where each shirt is different, "even if retailers put them all together, like toothbrushes, the price competition is not that intense, because consumers have different preferences for shirts than they do for toothbrushes," Liu says.

"Even if one shirt manufacturer is running a promotion with a lower price than the competition – if that shirt doesn't fit me; if its material irritates my skin; if it doesn't have the color I like, it doesn't matter how low the price is, because I won't buy it," he said.

"In this case, if the retailer sells all of the products together, it doesn't intensify the competition from the manufacturers. So the retailer should put the products in different locations so the manufacturers have to compete on the locations rather than on prices."

Although many retailers also offer the price-matching policy with online retailers like Amazon.com, that's really not the smartest strategy, according to Liu.

"Retailers probably do not want to play the pricing game with online retailers," he said. "They have certain inherent advantages in their store, in that the consumer has to find the right 'fit' for certain products. That's the frontier on which they have the advantage. So they should not give ground by playing the pricing game."

Provided by University of Illinois at Urbana-Champaign

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