



# A View of Retailing Formats Based on the Assortment Dimension: An Analysis in the Spanish Context

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**Abstract.** Assortment, as a key component of marketing mix, constitutes a fundamental positioning tool for retailers. Assortment composition can influence both current and future product choices by helping shape consumer preferences. Consumers expect retailers to provide a suitable mix of products; the impact that a retailer's assortment design has on their sales and profit margins is clear. Assortment planning, therefore, represents an opportunity for the academic world to contribute to improving retail practice, although a dominant solution to such planning has not yet emerged. Several criteria have been used in literature to classify retail stores. A relevant classification is the one that classifies retailers attending to the variety, or breadth and depth, of the assortment. In Spain, the most recognized retail store commercial formats are: traditional commerce, specialized commerce, category killer, convenience store, self-service, supermarket, hypermarket, department store, popular store and discount store.

**Keywords:** Retailing · Assortment · Private label · Commercial formats

## 1 Introduction

Assortment is a fundamental positioning tool for retailers, helping both the strategic positioning of the store (McGoldrick 2002) and the classification of commercial formats (Peng 2008), by identifying offer at the point of sale. In fact, together with quality and prices, assortment determines the positioning and image of the store (Kunkel and Berry 1968; Lindquist 1975; Mazursky and Jacoby 1986; Ailawadi and Keller 2004; Mantrala et al. 2009).

Several criteria have been used in literature to classify retail stores. Some involve the classification of retailers into generic categories that must be defined according to the merchandise assortment, type of owner, size and interior design, or from a combination of these (Mollá et al. 2010). Eurostat (Structural Business Statistics) meets the dimension criteria to classify retail stores in the countries of the European Union. Nielsen,

also considering its size, mentions the following self-service retail formats: self-service, super-service or small supermarket, medium supermarket, large supermarket and hypermarket. Other retail formats are discount stores (e.g. Wal-Mart, Lidl or DIA), category killers, convenience stores (e.g. Opencor, Repshop or Depaso), department stores and popular stores (Sánchez et al. 2011).

A well-known classification of retailers addresses the variety or breadth and depth of the assortment. The variety can be wide (multiple product lines) or narrow (few lines), and we can speak of a deep assortment (many products in one line), or shallow (few products in a line). The typology of Tordjman (1991) distinguishes four strategies: 1) defensive strategy, wide and shallow assortment; 2) offensive strategy, narrow and deep assortment; 3) push strategy, narrow and shallow assortment; and 4) pull strategy, wide and deep assortment.

Another important aspect to consider when talking about retailer's assortment is the substitutability of products. When the consumer does not find certain product, they can choose to buy a substitute product. Customer willingness to substitute a product within a specific category is an important parameter in assortment planning. If customers have a high propensity to substitute a product of a certain category, then having a very deep assortment with a high stock rate is less relevant; the opposite would be also true (Kök et al. 2009).

Three patterns can be defined with respect to customer substitution: (1) *Stockouts-based substitution*. Consumers usually buy a product for daily consumption in a store, but some days there is out of stock and they buy another product; (2) *Assortment-based substitution*. Consumers identify in advertising, or because they have seen it in other stores, a product that they like, but when they want to buy it in their usual store, they realize that the retailer does not have it in their assortment, so that, finally, they buy another product; (3) Consumers *choose their favourite product* from those they see at the store shelves and buy it when they think it has more utility than not purchasing it. There may be other products that they would have preferred, but did not see at the store, either because of a stock outage or because the retailer does not include them in its assortment. Although, it can be said that the consumer substituted the product, she was not aware that these other products exist and, therefore, she did not consider that her purchase decision process contemplates the substitution of products. The first two patterns are common in daily consumer goods (e.g., food), while the latter is more common in consumer durables.

## 2 Legislation and Classification of Retailers in Spain

In Spain, currently retail trade is regulated by Law 1/2010, of March 1, reforming Law 7/1996, of January 15, on Retail Trade (*Ordenación del Comercio Minorista*), which established a legal framework in the distribution sector and was issued considering the need to adapt to the reality of markets. Law 1/2010, of March 1, modified the retail trade regulation to adapt it to the European Directive 2006/123/EC, regarding services in the common market.

Article 2 of the aforementioned Law speaks of commercial establishments and says in point 1 that the following are those that will have such consideration: "premises

and buildings or installations of a fixed and permanent nature, destined for the regular exercise of commercial activities, either continuously or on specific days or seasons". In point 2, it states that "kiosks and, in general, facilities of any kind that fulfil the purpose indicated therein are included, provided they have the character of real estate in accordance with article 334 of the Civil Code".

The establishment of the requirements by virtue of which the large commercial area qualification will be granted will depend on the Autonomous Communities, although point 3 of the same Article 2 of the Law sets guidelines when stating that: "in any case, they will have this consideration, for the purposes of authorizations and the provisions of commercial regulations, commercial stores, which, intended for the retail trade of any kind of articles, have a useful area for exhibition and sale to the public of more than 2,500 square meters".

Among the self-service stores, those in which the products are placed on shelves and it is the customer who selects and withdraws for herself what she wants to buy, paying in cash, we can distinguish the following (Esteban and Lorenzo 2013):

- *Self-service*. Total sales area not exceeding 400 m<sup>2</sup>. They emerge as an evolution of traditional grocery stores and food or drug stores. A very small area of influence is estimated, around 300 m.
- *Supermarket*. It is the most popular format, with a sales area between 400 and 2,500 m<sup>2</sup>. A sub-classification is usually made between small neighborhood supermarkets (up to 1,000 m<sup>2</sup>) and large supermarkets (up to 2,500 m<sup>2</sup>, and usually with parking). They base their strategy on location, proximity being of great importance. The best-selling product categories are food, cleaning and household. As examples we can mention Mercadona, Caprabo, or Carrefour Express.
- *Hypermarket*. Large establishment, with a sales area of over 2,500 m<sup>2</sup>, although the average size is around 10,000 m<sup>2</sup>. They offer mass consumption products, with large assortments, which allow customers to make a wide purchase, which includes fresh and packaged food, personal hygiene products, household goods, clothing and domestic equipment. They have high sales volume and high product turnover, allowing them to keep low prices. They offer parking and are usually located outside urban centers. Examples, among others, Carrefour, Eroski, Alcampo, or Hipercor.
- *Discount Store*. Medium size, generally smaller than supermarkets, they offer a limited assortment, but with large sales volumes, as they have very competitive prices, for which they reduce the services offered or automate some of them, focusing on reducing costs. Their goal is to sell a small number of items, with high turnover products, at the lowest possible price. It is possible to distinguish between the *Hard Discount*, with a reduced number of references, a large presence of private labels and low and aggressive prices (e.g. Aldi, Lidl) and the *Soft Discount*, with a wider assortment than the previous one, based mainly on national brands, and with a low price policy applied especially to its private labels (e.g. Día).
- *Convenience Store or Drugstore*. They are characterized by very wide-ranging schedule, between 18 and 24 h a day. It has a wide but shallow assortment, with a reduced variety in each product category. According to the Law 2/1996 complementary to the Retail Trade Regulation, they are "those stores that, with a commercial area of no more than 500 m<sup>2</sup>, remain open to the public for at least eighteen hours a day and

distribute their offer in a similar way, including books, newspapers and magazines, food items, records, videos, toys, gifts and miscellaneous items”. They are normally found in urban settings. Examples in this category are Seven Eleven and VIPS.

- *Category Killers (Specialist Superstores)*. They have a sales area normally above 2,000 m<sup>2</sup>, with a very deep assortment, specialized in a certain product category, in which they try to become a reference for consumers. Examples of this category are Ikea, Toys “R” Us, or Decathlon.

Taking into account criteria such as sales area, breadth of the assortment, linear layout and sales system, Santesmases (1999) distinguishes up to ten retail store commercial formats (see Table 1): Traditional Commerce, Specialized Commerce, Category Killer, Convenience Store, Self-service, Supermarket, Hypermarket, Department Store, Popular Store and Discount Store.

**Table 1.** Types of retailers according to commercial formats

Commercial format	Sales area	Assortment	Sales system	Examples of retailers
Traditional store	Very small	One class of products Shallow	Assisted	Neighborhood stores
Specialized store	Very small	A single line of products Shallow but great depth	Assisted	Cortefiel, Zara
Category killer	Large	A single line of products Wide and deep	Self-service	Toys R Us, Decathlon
Convenience store	Small, drugstore style	Food, drinks, books, perfumery...	Wide-ranging schedule	7-Eleven, VIPS
Self-service	– Small: <100 m <sup>2</sup> – Large: 100–400 m <sup>2</sup>	Food and household products	Self-service	Local character. E.g. Supremo
Supermarket	– Small: 400-1,000 m <sup>2</sup> – Large: 1.000–2,500 m <sup>2</sup>	Food, cleaning and household Wide assortment	Self-service Departments. Proximity to the client Complementary services	Mercadona, Consum

(continued)

**Table 1.** (continued)

Commercial format	Sales area	Assortment	Sales system	Examples of retailers
Hypermarket	Large. More than 2,500 m <sup>2</sup>	Very wide assortment. Great variety of products (more than 20,000 references)	Self-service. Parking for more than 1,000 vehicles. Wide-ranging schedule. Low prices	Carrefour, Alcampo
Department store	Large	Wide variety of products (but less depth than specialized stores)	They usually operate in branch chains. Departments. Extensive services. High prices	El Corte Inglés
Popular store	Smaller than the Department Store	Specialized in substandard product lines	Reduced services. Low prices	Champion, C&A
Discount store	Large	Very limited offer, with high turnover products	Reduced services. Many private labels. Very low prices	– Hard Discount: Aldi, Lidl – Soft Discount: DIA

Source: Own elaboration from Santesmases (1999)

### 3 Conclusions and Implications

The assortment, as a key component of the marketing mix, becomes an instrument that, through strategic positioning, makes it easier for businesses to acquire and retain customers (Grewal et al. 1999; Kahn 1999; Koelemeijer and Oppewal 1999; Stassen et al. 1999). In addition to attracting consumers to the store, assortment composition can influence both current and future product choices by helping to shape consumer preferences (Simonson 1999; van Ryzin and Mahajan 1999). The impact that a retailer's assortment design has on their sales and profit margins is clear. Consumers expect retailers to offer them a suitable mix of products (Gruen and Shah 2000). Thus, if the assortment is not as expected, consumers will leave, leading to losses in both current and future sales (Mantrala et al. 2009).

The retailer must select the products that it will offer at its point of sale considering, on the one hand, the preferences of the clients and, on the other hand, optimizing the available space, by defining the appropriate quantities for each reference and attending to its levels of turnover, trying to achieve the highest sales index per square meter. The exchange in transaction or distribution costs that occurs between retailers and consumers must meet both the needs and desires of the latter and the profit objective of the retailers

(Ingene 1984; Goodman 1985; Betancourt and Gautschi 1988; Oi 1992; Betancourt 2004).

The objective of assortment planning is to design it in a way that allows to maximize the store's sales or its gross margin, considering that it is subjected to certain restrictions, such as a limited budget for the acquisition of products, a certain space for its exhibition, and a series of other obstacles, such as the desire to have at least two suppliers for each type of product (Kök et al. 2009). The store must offer its customers a certain number of references, since the possibility of choosing a specific product in the store is one of the main satisfactions of the customer (Bruel and Saint Cricq 1975).

Cristol and Sealey (2000) establish the concept of “*Simplicity Marketing*”, according to which it is convenient to reduce the number of products and brands that make up the assortment, thus simplifying customer decisions. This reduction in consumer confusion can be accomplished in a number of ways: by consolidating, adding, or integrating multiple functions into a single product or service. Simplifying customer decision making can become a competitive advantage against the inevitable excess of options that exists nowadays. Thus, these authors advocate that less is better, both in the number of options actually available and in the positioning and packaging of those options.

Other research suggests that very large assortments lead to consumer confusion and increased search costs, which do not lead to more purchases. Kök et al. (2009) conclude that very large assortments, with a wide variety of products, have reached a certain level of saturation and that, nowadays, reduce assortment may even lead to increase the profits of the retailer.

Meanwhile, and delving into this idea, Miller (1956) states that the average human mind cannot process more than seven units at once. For this reason, seven is a very frequent number in the lists to remember. Simon (1997) establishes the concepts of limited rationality and sufficiency, according to which people have problems when making decisions, when many factors intervene and the flow of information is excessive; thus, it raises the concept of limited rationality as a practical approach: since the optimal solution to a problem is not known exactly, a solution is chosen that reaches a certain level of acceptability.

Retailers are aware of the dynamic nature of the assortment management problem. Assortment planning addresses the need for periodic review by retailers and appropriate changes, even assuming that changing the assortment is an expensive process that incurs certain fixed costs (Caldentey and Caro 2010). There are several factors that require a change in the assortment (Kök et al. 2009), such as the inclusion of seasonal products, the introduction of new products and changes in consumer preferences. Product categories at different stages of their life cycle, categories with seasonal products, or even products with different growth potential, are strategic considerations that require different assortment planning approaches.

Many retailers test the initial assortment in some stores so that they can obtain early information, before the sale season, on consumer trends, as well as possible gaps in the portfolio, in order to redesign the assortment. However, most academic papers consider future consumer preferences to be stable (Kahn and Lehmann 1991) and analyze assortments as static. In that case, the main reason for offering variety in an assortment is to appeal to the heterogeneity of preferences of the target population. The assumption

of stability naturally leads to a static assortment policy. However, stable preferences should not be taken for granted. More recent works consider the assortment management problem as dynamic planning (e.g. Caro and Gallien 2007; Caldentey and Caro 2010; Ulu et al. 2012; Sauré and Zeevi 2013).

Assortment planning, therefore, represents an opportunity for the academic world to contribute to improving retail practice, although a dominant solution to such planning has not emerged yet. What the “perfect assortment mix” would be remains unclear to most retailers (Bauer et al. 2012).

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