ELSEVIER

Journal of Retailing 81 (2, 2005) 83–88

Journal of Retailing

Editorial

The concept of the "Big Middle"

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Abstract

Although several hypotheses have been proffered to explain changes in the structure and evolution of retailing institutions, none provides a comprehensive explanation of how and why retail institutions evolve. This editorial first introduces the concept of the "Big Middle," the marketspace in which the largest retailers compete in the long run. It then hypothesizes that these large retailers generally originate as innovators or low-price retailers that focus on a particular niche but migrate into the Big Middle in search of greater revenues and profits. The goal of this editorial is to suggest an initial framework for investigating those factors that create the structure and motivate the evolution of retailing institutions.
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Keywords: Big Middle; Marketspace; Retail institutions

Introduction

From time to time, it grows instructive to reflect back on the progress that has been made in addressing important and interesting topics in retailing. The recent passing of Professor Stanley Hollander, a retailing theoretician, marketing historian, outstanding colleague, and dear friend, has given rise to such an occasion. Two of Stan's best known contributions to the retailing literature—"The Wheel of Retailing" (Hollander 1960) and "Notes on the Retail Accordion" (1966)—both addressed hypotheses relating to the structure and evolution of retailing institutions, and together, they stimulated the substance of this editorial. Because examining the past often provides the best insights into the future (Savitt 1989), this editorial begins with a brief historical account of Stan's two hypotheses.

The wheel of retailing

One of the first, and perhaps the most famous, attempts to explain changes in retailing institutions was the wheel of retailing hypothesis; note the schematic diagram in Fig. 1. The wheel hypothesis apparently first was proposed by Malcolm P. McNair in a speech in 1957; this speech later appeared as a book chapter (McNair 1958). Hollander's (1960) article on the wheel of retailing succinctly summarized its major tenet:

> The wheel of retailing ... hypothesis ... holds that new types of retailers usually enter the market as low-status, low-margin, low-price operators. Gradually they acquire more elaborate establishments and facilities, with both increased investments and higher operating costs. Finally they mature as high-cost, high-price merchants, vulnerable to newer types who, in turn, go through the same pattern. (p. 37)

The evolution of the department store aptly illustrates the wheel of retailing hypothesis. In its entry phase, as Fig. 1 shows, the department store was a low-cost, low-service venture. After World War II, department stores moved into the trading-up phase, during which they upgraded their facilities and increased their stock selection, advertising, and service. Today, department stores sit in the vulnerable phase. They are vulnerable to various types of low-cost, low-service formats, such as full-line discount stores and category specialists.

Despite the intuitive appeal of the wheel hypothesis, Hollander (1960, p. 37) posed three rhetorical questions regarding its generality and usefulness: "Is this hypothesis valid for all retailing under all conditions? How accurately does it describe total American retail development? What factors

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0022-4359/$ – see front matter © 2005 Published by Elsevier Inc on behalf of New York University
doi:10.1016/j.jretai.2005.04.001

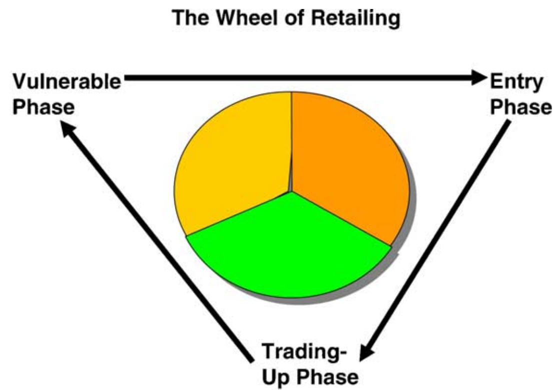

Fig. 1. The wheel of retailing.

cause wheel-pattern changes in retailing institutions?" Hollander responded to these three questions, and his critique of the wheel hypothesis spawned a plethora of commentaries during the following four decades. Most commentators (e.g., Goldman 1975) have been critical of the hypothesis (and agree with Hollander's conclusions), though a few (e.g., Brown 1995) have been supportive. In general, though, the consensus seems to be that the wheel hypothesis offers only limited explanatory or predictive power.

The retail accordion and other hypotheses

Hollander's second major contribution to understanding the structure and evolution of retailing institutions appeared in 1966. He wrote that

> The history of retail development seems to demonstrate an accordion pattern. Domination by general line, wide-assortment retailers alternates with domination by specialized, narrow-line merchants . . . [and] many astute students of retailing history have discerned these rhythmic oscillations. (Hollander 1966, p. 29)

During the early development of the United States, relatively small general stores succeeded by offering rural Americans various categories of merchandise under one roof (expansion of the accordion). As cities grew, they were able to support retail specialists such as shoe, clothing, drug, and food stores (contraction of the accordion). Then, department stores developed during the next expansion of the accordion. Somewhat like giant general stores, these department stores again offered customers multiple merchandise categories under one roof. This time, however, the depth of selection improved as well. The next contraction of the retail accordion resulted from specialty stores' tendency to become more specialized. Retail formats known as "category killers" or category specialists offered consumers deep selections from a limited number of merchandise categories.

Although several other hypotheses have been profferred to explain changes in the structure and evolution of retailing institutions, none has obtained the discourse level of the wheel of retailing or the retailing accordion hypotheses, though three have gained some attention. One is Maronick and Walker's (1974) hypothesis pertaining to the dialectic process of thesis, antithesis, and synthesis. Their hypothesis posits that new retail institutions result when retailers borrow the "best practices" of very different competitors, much like children result from the combination of their parents' genes. The established retail institution, known for its relatively high margins, low turnover, and plush facilities, is the department store—the thesis. Discount stores in their early form were the antithesis of service-oriented specialty stores. That is, they were characteristically low-margin, high-turnover, Spartan operations with broad variety. Over time, the best practices from department stores and discount stores were synthesized to form category specialist retailers.

Another hypothesis, natural selection, has strong intuitive appeal for understanding change in retailing institutions (Dreesmann 1968; Forester 1995). This hypothesis follows Charles Darwin's theory that organisms with improved fitness will pass on their characteristics to future generations because of their enhanced possibilities for reproduction, which thereby improves the likelihood of the survival of the species.[1] Organisms evolve and change on the basis of the survival of the fittest; in retailing, those institutions best able to adapt to changes in their customers, technology, competition, and legal environments have the greatest chance of success.

Yet another hypothesis pertains to the retail life cycle, which, as might be expected, parallels the product life cycle (Davidson, Bates, & Bass 1976). This hypothesis posits that retail institutions evolve through defined stages that include birth, growth, maturity, and decline.

For the most part, extant hypotheses regarding the structure and evolution of retailing institutions are deficient in that they fail to offer comprehensive explanations of how and why retail institutions develop. In particular, these hypotheses are primarily descriptive in nature and do not address the factors that motivate institutional changes in retailing. Moreover, as can be surmised from the dates of the publications cited, with the exception of some of Brown's (1995) thinking, little theorizing or even speculation has occurred about retailing institutions in recent years. Consequently, the goal of this editorial is to stimulate new thinking and foster renewed research about the structure and evolution of retailing institutions.

Toward this goal, the remainder of this editorial presents the concept of the "Big Middle" as the basis of a preliminary hypothesis regarding how retailing institutions begin and develop.[2] Together, the concept and the hypothesis

[1] We thank Eric Arnould for clarifying Darwin's contribution.

[2] The Big Middle concept was introduced to the authors of this editorial by Bob Connolly, Executive Vice President of Marketing, Wal-Mart Inc., at the 2004 Retailer Ruminations Conference, University of Arkansas.

constitute a working framework for investigating factors that motivate the structure and evolution of retailing institutions.

The Big Middle

The Big Middle, depicted in Fig. 2, is defined as the marketspace in which the largest retailers compete in the long run, because there is where the largest number of potential customers reside. Although retailers do not have to be in the Big Middle to be successful in the short run, those that become the largest and, by implication, the most successful are inexorably drawn there over time in their search for scale economies, increased revenues, and incremental profits. For many successful retailers, a move to the Big Middle requires that they expand their offerings into broader and deeper product lines and/or expanded markets. Oversimplifying somewhat, these retailers become volume-driven firms (Sheth & Sisodia 2002). Their initial customer bases simply cannot generate sufficient dollars to support their desired growth. In turn, one of the consequences of being volume driven is that retailers in the Big Middle tend to become generalists.

According to the concept of the Big Middle, retail institutions tend to originate as either innovative or low-price retailers, and the successful ones eventually transition or migrate to the Big Middle. Fig. 2 illustrates the Big Middle concept and the hypothesis (as reflected by the arrows in the figure) in the context of two retail strategy dimensions: relative price, which is depicted on the horizontal axis, and relative offerings, depicted on the vertical axis. Although these strategic dimensions admittedly are oversimplified for expository purposes, they serve to focus the discussion and elucidate our major points.

The structure of retailing is such that retailers typically exist in one of four segments: innovative, Big Middle, low-price, and in trouble. Retailers that occupy the innovative segment direct their strategies toward quality-conscious markets who seek premium offerings. Low-price retailers appeal to price-conscious markets, Big Middle retailers thrive because of their value offerings, and in trouble retailers are unable to deliver high levels of value relative to their competitors.

As Fig. 2 implies, many occupants of the Big Middle have migrated there by initially providing an innovative offering, a low price, or both, which gave superior value to customers. At the same time, because they excel at innovating, offering low prices, or both, consumers gravitate to them. In other words, Big Middle retailers have succeeded by transitioning from the innovative or low-price segments by leveraging their respective strengths and thereby transforming their niche appeal into mass market or large segment appeal. As a consequence, Big Middle retailers possess an entirely different position in the marketspace, from which they offer innovative merchandise (variety and breadth of stockkeeping units) at reasonable prices. They successfully have transformed perceptions of themselves from innovative leaders or low-price leaders to a hybrid of the two that appeals to a much larger customer base and provides great value for a broader array of merchandise.

However, after they move into the Big Middle, retailers cannot expect to rest on their laurels. Simply being in the Big Middle is not sufficient for long-term viability. Although the Big Middle is desirable because of its revenue and profit potentials, it is also the most dangerous and competitive marketspace. A case in point is conventional department stores. Once the darlings of Wall Street, they now are considered among the dinosaurs of retailing because they have not been able to sustain superior value through innovative offerings and reasonable prices.

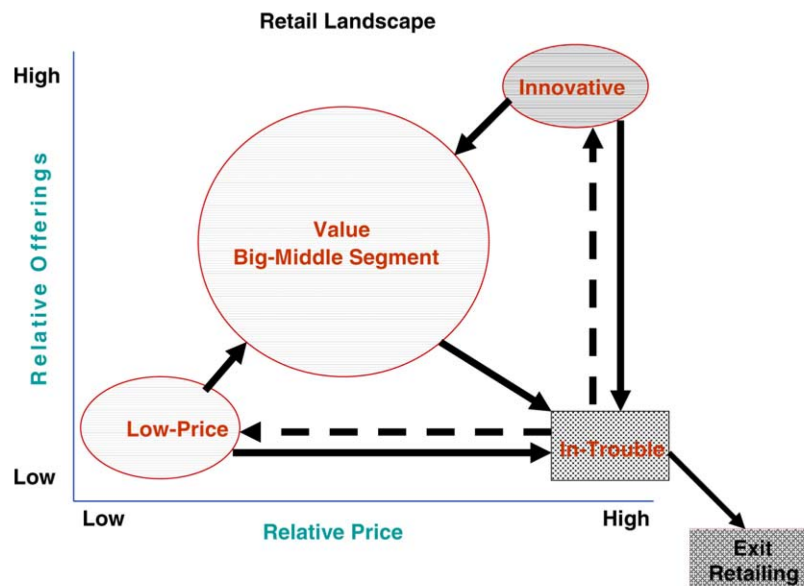

Fig. 2. Retail landscape.

To maintain their leadership positions, Big Middle retailers must continue to focus their efforts on maintaining and sustaining their value proposition; that is, the skills that got them to the Big Middle must be constantly audited, fine tuned, and, in many cases, changed if they are to remain viable. Residing in the Big Middle frequently means that a retailer must develop new organizational structures and invest heavily in fixed assets to achieve the requisite revenue volume. This necessity in turn means that overhead typically will be a major determinant of their financial performance.

These Big Middle retailers must be careful of falling into a dominant logic mindset (Bettis & Prahalad 1995; Prahalad & Bettis 1986). Bettis and Prahalad (1995) define the term "dominant logic" to refer to an information filter that causes managers to focus only on information and data "deemed relevant by the dominant logic" of the organization (p. 7). They believe that a firm's dominant logic places constraints on its ability to learn and, more important, precludes a firm from the "unlearning" required to effectuate strategic change. This inability to learn and adapt to structural changes (D'Aveni & MacMillan 1990) is likely to result in the displacement of Big Middle retailers by new entrants from the innovative or low-price segments. Additional organization science theories and findings should help develop and expand the Big Middle concept.

Customers become loyal to Big Middle retailers partially because these retailers provide them with what they need, what they are accustomed to, good service, and excellent relationship management programs. However, the skills that enable a retailer to transition into the Big Middle sometimes become the seeds of its demise. Retailers in the Big Middle are sometimes myopic and either internally focused or fixated on other competitors in the Big Middle, such that they fail to recognize external threats from the innovative or low-price segments. Thus, over time, Big Middle customers can be lured away by retailers that offer better value through innovative products or formats, low prices, or both.

Big Middle retailers that fail to maintain their value proposition will transition to the in trouble segment. Some in trouble retailers then will transition to the innovative or low-price segment, some will remain in the in trouble segment and exist as marginal competitors, and some will exit retailing altogether.

Modern retailing history is rife with examples of retailers who used to exist in the Big Middle but somehow lost their ability to provide customers with an offering they considered valuable. For example, Woolworth's and Montgomery Ward, once the stalwarts of America's Main Street, no longer operate stores in the United States. At this writing, Kmart still is considered by many to be in trouble, though it emerged from Chapter 11 bankruptcy in May 2003. Since it acquired Sears in late 2004, newfound hope suggests Kmart may somehow morph into either a new innovative or low-price retail format and emerge out of being in trouble.

According to the Big Middle hypothesis, retailing institutions typically originate in another segment (innovative or low-price), and the successful ones migrate to the Big Middle. Oversimplifying a bit, fledgling retailers in each of these two segments typically can be categorized along a continuum from product specialists to market specialists that fulfill certain consumer needs. In other words, new retail firms can specialize by offering a deep and broad product array that has a wide appeal (e.g., batteries), or they can specialize by meeting the needs of a particular demographic, geographical, or other market (e.g., golfers). Starbucks and Foot Locker are examples of product specialist retailers, whereas Old Navy and Abercrombie & Fitch represent market specialist retailers. Research is needed to determine how product/market specialist strategies combine with innovation/low-price strategies to influence retailing success or failure in the segments, as well as whether, in concert, these strategies influence a retailer's transition to, and performance in, the Big Middle.

In the 1960s and 1970s, the Big Middle was dominated by traditional department stores. These stores provided a one-stop shopping experience, and due to the lack of significant competition, they were somewhat insulated from failure. Customer service was generally high relative to today's standards. Sears, JCPenney, and Montgomery Ward ruled the value segment through their standardization of stores and merchandise, as well as through buying economies of scale. Specialty stores such as Casual Corner, 5–7–9, and Florsheim Shoes dominated the innovative segment with interesting assortments that were deeper and more targeted than those that department stores provided.

The 1980s brought significant change to both the competitive environment and the Big Middle. Department stores remained in the Big Middle, but they were no longer dominant. Credit purchases, which were pioneered by traditional department stores, had been adopted as standard practice by both specialty and discount retailers. In addition, the growth of suburban malls enabled the innovative and value retailers of the 1970s to occupy the same geographic locations as the department stores. Some of these same retailers expanded their markets and migrated to the Big Middle.

At the same time, a new set of innovative retailers came onto the scene. The Limited and The Gap entered on the fashion side, whereas category specialists such as Home Depot and Best Buy dominated hard goods. Most of these innovative retailers were perceived as offering moderately priced products and, therefore, as providing great value. Discounters like Wal-Mart, Target, and Kmart took the low-price position, which they achieved through operational excellence.

The composition of the Big Middle shifted again in the 1990s, as the 1980s value leaders Wal-Mart and Target moved to the Big Middle along with such innovative retailers as Home Depot, Best Buy, The Gap, and The Limited. The once-dominant traditional department stores became second-level competitors. They traded up to more expensive designer labels and reduced their assortments; unfortunately, the same designer labels and assortments could be found in virtually every department store. Department stores were perceived as offering good value only when merchandise was on

sale. Because predictable sales were frequent, profit margins eroded.

Now that Wal-Mart, Target, and Home Depot have migrated to the Big Middle, the low-price proposition currently comes from extreme value (Dollar) stores, and the innovation proposition comes from e-commerce. It is not certain which institutions will migrate to the Big Middle next. However, because the Big Middle is dynamic, it will continue to evolve and be redefined.

Although retailers in the Big Middle have changed and continue to change, the newest entrants retain the same characteristics that made them popular initially: They are generally innovative and/or they offer relatively low prices. Thus, they are perceived to offer good value.

Going forward

The Big Middle is a normative depiction of how retail institutions start and evolve over time. A few illustrative retailers have been noted to help provide perspective. We hope that this editorial will encourage additional research by looking at longitudinal data for a number of retailers to better grasp how they have evolved, the importance of various value success levers, and how these value levers link to outcome metrics such as sales and profitability growth.

In particular, five primary value levers—innovative merchandise, technology, supply chain management, price optimization, and store name/image—can be used by retailers to transition into the Big Middle or, once there, to maintain their positions. One of these levers that has a significant effect on consumer value is providing innovative merchandise and a need-satisfying assortment. To do this, retailers must understand consumer behavior from perspectives that heretofore have been ignored. For example, Arnold (2005) offers several wide-ranging speculations regarding a consumer-centric approach to retailing and retailing research that bear serious consideration. Another lever involves the use of technology to provide customer excellence through better customer service and customer relationship management. Sethuraman and Parasuraman (2005) pose a series of technology-related questions that should be answered in the context of Big Middle retailers.

The supply chain management lever can be deployed to lower costs and achieve operational excellence; for example, many scholars attribute Wal-Mart's success to its state-of-the art supply chain, including Brown, Dant, Ingene, and Kaufman (2005). Another lever for lowering costs is the ability to manage the pricing process actively using pricing optimization techniques (Levy, Grewal, Kopalle, & Hess 2004). Finally, the cost of attracting customers (store traffic) can be lowered if a retailer carefully develops, maintains, and strategically leverages the reputation and value of its store name and associated image (Grewal, Levy, & Lehman 2004).

One of the unanswered, and indeed too frequently unasked, questions relating to the Big Middle asks why some firms get "in trouble" and eventually leave the Big Middle. More generally, what factors drive institutions into and out of the Big Middle? The framework proposed in this editorial, we hope, will lead to a renewed interest in the structure and evolution of retailing institutions, topics sorely in need of creative attention.

Acknowledgements

Dhruv Grewal and Michael Levy acknowledge the research support of Babson College. The authors also acknowledge the helpful suggestions of Eric Arnould, Jim Brown, Rajiv Dant, Chuck Ingene, Pat Kaufman, Roger Kerin, A. Parasuraman, Raj Sethuraman, and Bart Weitz. The authors also thank Claudia Mobley, Director of the Sam M. Walton College of the Business Center for Retailing Excellence at the University of Arkansas, for inviting the *Journal of Retailing* Editorial Review Board to the 2004 Retailer Ruminations Conference, which gave seed to this editorial and the three that follow.

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