

2.5: Wheel of Retailing

Learning Objectives

- Identify the four levels on the wheel of retailing
- Explain the retail life cycle

The wheel of retailing refers to the general life cycle retailers experience over time. It has four phases:

- Entry
- Growth
- Maturity
- Decline

Please know that this framework is a convenient way to describe how organizations change over time. It is not, however, a systematic process, meaning that not all retailers pass through the phases along the same timeline. Each phase may pass rapidly or stretch over decades.

Entry

During the entry phase, a retailer penetrates a new market. This phase is marked by low prices, low retailer margins, and low customer awareness or affinity, reflected in low(er) reputation for the retailer.

In the entry phase, the retailer's focus is on streamlining operations to support the new venture. It leverages low-cost infrastructure, focuses on specific product categories, limits services, and competes on price to drive store traffic. It's through these low prices that the entry retailer provides value to the shopper.

Growth

During the growth phase, a retailer has a foothold in the new market and seeks to expand, either through the breadth of its product categories, new services, or additional store locations. This phase is marked by higher prices and retailer margins compared to the entry phase and improved customer awareness or affinity, reflected in increasing reputation for the retailer.

Provided it has gained traction in the market, the retailer shifts its focus to expansion. It invests in its infrastructure to support a growth plan, expanding product categories and services and competing on multiple dimensions beyond price. At this stage, the retailer is adding customers more quickly than it is losing them.

These retailers are able to add new customers because they're adding stores and replicating the competitive capabilities of other retailers in the market. For example, think about rival grocers or supermarkets in your area. It's very likely that one entered the market and grew to compete with the other that was already established.

Maturity

During the Maturity phase, a retailer operates at full capacity. It has a steady customer base where new customers offset customer losses (attrition). This phase is marked by high prices, high retailer margins, and high customer awareness or affinity, reflected in a good reputation for the retailer.

At this stage, the retailer is a well-established player within the market. It has robust infrastructure, capabilities, and service. While these factors supported customer acquisition during the growth phase, they're now liabilities because of high investment and ongoing costs. Furthermore, the retailer is not adding customers faster than it is losing them, so it must maintain customer satisfaction to support loyalty.

Decline

During the decline phase, the retailer is vulnerable to lower cost operations and those competitors with greater flexibility. These new rivals enter the market with similar characteristics of the retailer in its own entry phase. The established retailer loses customers to the new entrant faster than it can replace them. This affects the retailer's cost structure as its infrastructure and services come at very high costs and are not offset with enough customer traffic.

Please note that entry into the decline phase does not guarantee the retailer will fail. Instead, retailers in decline can reinvent themselves through acquisition, divestiture, or strategic change. However, it is important to know that when customer acquisition falls below the rate of customer loss, a retailer is in decline and must reevaluate its strategy.

✓ A&P: A Case Study

From 1915 to 1975, The Great Atlantic & Pacific Tea Company, commonly known as A&P, was the largest retailer in the United States, yet it is gone today. A&P went through all four stages on the wheel of retailing, changing their strategies along the way. Ultimately, its strategies when in decline were not enough to save the company, but A&P's history provides a good example of each stage.

- **Entry:** A&P opens its doors in 1859 as Gilman & Company, a tea and coffee retailer. For the next twenty years, A&P grows, building a customer base with a focus on tea and coffee products.
- **Growth:** After a couple decades, A&P began using promotions and discounts, introducing the “economy store” concept to the industry. After World War I, A&P expanded their product offerings to meat and produce.
- **Maturity:** By the 1930s, A&P had around 16,000 stores. It began building 4,000 larger superstores while phasing out smaller stores.
- **Decline:** By the 1950s, other competitors were offering lower prices and more modern conveniences, costing A&P customers. High operating costs caused A&P to reduce its efforts to provide good customer service, and by the 1970s A&P stores began to close.

? Practice Questions

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