

5.7: Retail Growth Opportunities

Learning Objectives

- Classify strategic retail growth opportunities

Growth is an imperative in business. And, while it may be tempting to cynically question whether growth should be an objective in its own right, it's important to understand that growth has two benefits. The first is that firms often access capital through loans or other financial instruments. Thus, growth is required to repay lenders and investors with interest. In doing this, firms maintain access to capital, which funds new initiatives that drive innovation. Second, growth is a reflection that the firm is meeting customer needs. Thus, there's a virtuous cycle:

- Firms access to innovate
- Innovation attracts customers, who increase their spend with the firm
- The firm repays its investors with interest before accessing new lines of capital to invest in innovative strategic initiatives to service customers better

Growth is a positive and reflects that the firm is delivering customer value. Yet, there are many paths to take to drive growth. At its most basic level, they can be evaluated as penetration, expansion, development, and diversification. The easiest way to think about this is by imagining a simple matrix.

Firms can grow with their current customer target and current business by increasing penetration levels. For retailers this means capturing a larger share of their shoppers' spending by increasing the frequency of trips or size of transactions. What's important to understand here is that the firm stays within its current scope of capabilities, and customer target.

Firms can also choose to grow by targeting new customers with their current offerings. In retail, we'd typically think of expansion as opening new stores or outlets in a new market. Kroger is a good example of this growth strategy, as they have acquired other supermarket chains like Dillon's, Fry's, Smith's, and others to extend their geographic footprint across the country.

Firms may choose to grow through development, such as servicing their current target with a new business. In retail, we'd consider an expansion of services like online ordering or at-home delivery of the creation of a new format. Wal-Mart provides a number of good examples of this. Their acquisition of jet.com gave Wal-Mart new capabilities in e-commerce, accelerating what they could have developed on their own. Similarly, their test of multiple formats like Wal-Mart discount stores, SuperCenters, Neighborhood Markets and Wal-Mart Express reflects an effort to satisfy their current target with slightly new businesses.

The final way a firm can choose to grow is through diversification: targeting new customers with a new business. The best examples of this within in retail are outside of the food space. For example, in fashion retail, some brands own manufacturing and retailing functions; they are vertically integrated. This is more difficult to do in food retailing because the product assortment is not necessarily unique across outlets. That is, a can of Campbell's Condensed Tomato Soup is the same whether it is found in a Kroger or a Target or a Piggly Wiggly store. That said, diversification can be a viable strategic growth strategy, especially if a retailer has the means to develop and produce its own store brand/private label items.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9190>

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