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Retail evolution model in emerging markets: apparel store formats in Brazil

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Abstract

Purpose – The purpose of this paper is to develop a taxonomy to describe and synthesize the retail strategies and store formats in the fast-changing modernization context of emerging markets. It identifies how these different formats are related to the existing literature about retail evolution. The paper proposes analogies between the empirical findings and the Big Middle Theory model developed by Levy *et al.* (2005).

Design/methodology/approach – Structured observations and personal interviews were conducted with managers/owners of 108 apparel stores located in three unplanned shopping districts in São Paulo, Brazil. Cluster analysis was used to derive the store formats.

Findings – The results identify four store formats – old fashioned, price focused, specialized, and consolidated – reflecting diverse marketing strategies and different stages in the retailing modernization cycle. There is a striking resemblance between these empirically derived formats and the four types of retail segments (Big Middle, Low price, Innovative, and in Trouble) proposed by the Big Middle model.

Research limitations/implications – There are limitations due to the exploratory nature of the research: the specific context (São Paulo, apparel retail sector) where the empirical data was collected restricts the generalization of the results to other situations; lack of precision in the appraisal of the variables might limit the research replicability. Nevertheless, this research contributes to expanding the scarce knowledge about the retailing phenomenon in emerging markets. An extension of the Big Middle model is suggested to depict the existing retail formats in emerging markets, offering therefore a theoretical contribution to the retail literature.

Practical implications – The study provides retailers with a framework against which to map their format, competitive strategy, and stages of the modernization cycle, enabling them to better adjust the configuration of their marketing mix variables. It also offers a classification scheme of stores formats which will help to describe the apparel retailing industry in emerging markets.

Social implications – Public policies are suggested to technically assist the modernization process and survival of more vulnerable retail formats.

Originality/value – Considering the fast-growing economic importance of the new “low-middle class” of emerging markets, and also the relevance of apparel retailing, this research is relevant and unique because it helps to bridge a gap in the limited literature and knowledge in this area.

Keywords Brazil, Emerging markets, Apparel store formats, Big middle theory, Low income consumers, Retail evolution model

Paper type Research paper



Introduction

Diversification in retail formats has arisen as a result of the dynamic character of business models developed by retailers, who create, alter, and discard formats in response to changes in the competitive environment (Reynolds *et al.*, 2007). In Brazil,

the substantial increase in the purchasing power of low-income consumers has accelerated the pace of modernization within retailers located in the large urban unplanned shopping districts (USD) serving these segments. Apparel stores, a major component of the store mix of USDs, represent a wide diversity of formats, sizes, strategies, and levels of retail modernization. One can find traditional, outmoded, local, single-unit formats next to and intertwined with very modern retail formats of large national and international chains. They provide therefore a fertile ground for investigation of the diversification of store formats and the evolution cycle of modernization which is under way in the Brazilian retailing industry serving low-income consumers.

Retailers are continuously innovating in order to attract more consumers, serve them better, overcome the competition, and take advantage of advancing technology. The strategy designed by the retailer to meet the needs of its target customer is implemented via the configuration of variables which determine the store format. In fact, the determination of the store format reflects the defined retail strategy. Retail strategies and store formats are therefore intimately intertwined (González-Benito *et al.*, 2005).

Because retailing is a context-driven discipline, retail characteristics vary across different regions according to the local economic, social, and institutional conditions. The rapid expansion in purchasing power of large emerging countries like Brazil, China, and India is transforming these countries into the leading markets for consumer goods. Companies all over the world have realized that expansion of their activities and new opportunities will mostly occur in fast-developing, emerging countries. A study conducted by Roxburgh *et al.* (2011) from the McKinsey Global Institute indicates that the most potential for economic growth in the world lies in the urban areas of emerging countries, due to the explosive growth of cities in these regions. The McKinsey study highlights the rapid development and growth in these areas of a new urban low-middle class of consumers (defined as those individuals with an annual income of more than US\$3,600 or US\$10 per day at purchasing power parity (PPP) using constant PPP dollars). The focus of this study is precisely to investigate the retail context in this fast-growing urban market, which is fuelling the development and expansion of retailing activity to cater for the new demand of consumer and durable goods.

Brazilians enjoy a higher purchasing power than most other major emerging countries (*The Economist*, 2012). Over 85 per cent of its population lives in urban areas, the annual per capita income is about US\$10,000 (Instituto Brasileiro de Geografia e Estatística (IBGE), 2010a), and modern retailing occupies a dominant proportion of the Brazilian retail landscape. As has been identified in other studies about retailing in emerging countries (Amine and Lazzaoui, 2011), we still find a substantial contrast in shopping habits and retailing structure between Brazilian upper and lower socio-economic classes. The upper-income segments are served by very modern apparel retail formats of large and well-structured retail chains, which are located in planned shopping centres or enclosed malls. Retailing activity for the lower class takes place in USDs, where hundreds of stores, at different stages of modernization, are settled around terminals of public transportation. As income within this segment has grown, the economic importance of these USDs has expanded, not only encouraging local small entrepreneurs to start new retailing ventures, but also attracting larger chains of national retailers and a high number of units of leading national banks.

Despite the importance of low-income markets, there is very little research mapping the existing retailing formats in urban shopping agglomerations and the retail modernization process taking place in emerging markets. Work is either concentrated on contrasting consumer preferences and market strategies of small and large retailers in urban areas (Paswan *et al.*, 2010; Uncles and Kwok, 2009; D'Andrea *et al.*, 2006; Monteiro *et al.* 2012), or investigating the structure of subsistence marketplaces in very poor small villages or rural areas (Viswanathan, and Rosa, 2010; Aithal, 2012). Also, we were unable to find in the existing literature an established classification of different apparel store formats.

Like products, retail institutions and retail formats follow an evolutionary pattern similar to the life cycle: birth, development, maturity, and decline. Based on the premises that new retail institutions or formats emerge as a result of the adaptation to different market needs and environmental forces, different hypotheses have been developed to describe and explain this evolutionary cycle (McNair, 1958; Hollander, 1966; Maronick and Walker, 1974; Dreesmann, 1968). More recently, Levy *et al.* (2005) developed the "Big Middle" model, aimed to describe and explain how the retailing formats and institutions evolve. Levy's evolutionary model proposes a classification of retailers on four segments (Big Middle, Low-price, Innovative, and In Trouble), providing a valuable conceptual framework to enrich the analysis of the different retail structures. Based on the realities of the North American mature and modern retail landscape, the taxonomy developed by the Big Middle model has been so far only applied to the USA. A valuable contribution to the retail literature would be to investigate how a taxonomy of retail formats in emerging countries, where old and new formats coexist, compares to the propositions of the Big Middle model.

Our work has been motivated to expand and develop a more structured knowledge about retail apparel formats within the context of the rising lower-middle class in emerging markets like Brazil, and to bridge, therefore, some gaps in the existing literature. The following questions have guided this research: how can one better describe and synthesize the wide diversity of store types into a taxonomy of retail formats? How can we better describe and synthesize the wide diversity of apparel store types, found in Brazilian USDs, into a taxonomy of retail formats? How different are the strategies used by apparel stores in transitional emerging markets in terms of retailing mix variables? How has the apparel store formats found in this empirical research compared to the taxonomy derived by Big Middle model? Can the Big Middle model be adapted to portray the transitional retail structure and store formats found in emerging markets?

The overall purpose of this paper is, therefore, to seek answers to these types of questions. To achieve these objectives, we conducted personal interviews and observations in 108 stores located in three different USDs in the city of São Paulo. Cluster analysis was used to identify the different stores formats. Considering the growing potential of low-income markets and also the economic importance of fashion retail, this research is relevant and unique because it bridges a gap in the limited retail literature about the structure and evolution of retail formats in lower-income markets. The study is divided into five parts, in addition to this introduction. It begins with a conceptual review about traditional and modern retailing in emerging markets, retail evolution theories, store formats, and the marketing mix variables which determine the formats. We then present further information about the local context and about the three USDs in São Paulo, where the empirical data was collected. Subsequently, the methodology used in the study is explained, followed by an analysis of the format

results derived from a cluster analysis. Three of the four types of stores formats found keep a striking similarity with the formats identified in the Big Middle Theory. Finally, the paper concludes with a discussion of the major findings, conceptual implications and managerial implications, and provides a recommended agenda for further research.

Conceptual background

Traditional and modern retailing in emerging markets

It has been recognized that retail and channels of distribution modernization is a wider context-driven evolutionary phenomena, and in emerging countries it differs in many points from the western retail development (Samiee, 1993). Old traditional formats tend to be gradually replaced by more efficient forms of modern retailing. In Thailand, for example, the seven to 11 convenience stores are the modern version of the traditional corner shop (Feeny *et al.*, 1996). Compared to the more traditional single-unit retailing structure in poorer markets, richer markets are predominantly served by multi-unit larger stores.

There is no widely accepted definition of organized or modern retailing, or clear frontiers separating organized from traditional or non-organized retailing. Modern retailing is characterized by more competitive multi-line formats, broader assortment (Myers and Alexander, 1997), modern facilities (Trappey and Lai, 1996), safe and clean environment (Alexander, 1999). They are retailers which adopt more up-dated technologies of information management, merchandizing, marketing, and branding techniques. Modern or organized retailing in general refers to more efficient formats, such as supermarket, self-service formats, chain stores, and multi-channel retailers. The traditional or non-organized retailing includes open-market peddlers, old-fashioned and single-unit small family stores, in general catering to lower income consumers (Aithal, 2012; D'Andrea *et al.*, 2006)

“Theories” of retail evolution

Many different hypotheses have been proposed to offer useful frameworks to help our understanding of the evolution phenomenon of retail institutions and formats.

The Wheel of Retailing (McNair, 1958) proposes that new retail formats begin as low cost operations, with non-frill facilities, low level of services, low margins, and very competitive prices. The success of the new format attracts competitors who begin to up-grade the initial format, increase margins, and gradually loose the low cost competitive advantages that initially differentiated them from traditional retailers. The Retail Accordion (Hollander, 1966, p. 29) considers product assortment as the main driver for format innovation. It is also a cyclical type of theory as it posits that retail evolution follows a continuous movement of expansion and contraction of product assortment. During the expansion phase, the assortment grows in width but declines in depth, and the opposite takes place during the contractions phases. Historically this theory finds support as retail institutions have moved from generalists (general store) to specialty store and then back again to new expansion and contraction cycle.

Based on conflict theory (Bliss, 1967), the dialectic process (Maronick and Walker, 1974) offers another explanation for the evolution of retail institutions, as it implies that the new format is the synthesis of two conflicting and opposite forces (thesis and antithesis). The theory proposes that retailers mutually adapt, borrowing characteristics from “opposite” competitors. The dialectic process suggests that opposite format retailers tend to adapt to each other - the blend of the two previous formats generates a new format. The “environmental Theory” (Dreesmann, 1968; Forester, 1995) is based on the

concept of the survival of the fittest in Darwin's theory of natural selection. The environmental hypothesis posits that retail evolution responds to the changes in environment and consumer needs.

As it is illustrated in Figure 1, the "Big Middle" model (Levy *et al.*, 2005) aims to describe and explain how the retailing formats and institutions evolved into the big main stream retailers. The concept of the "Big Middle" (Levy *et al.*, 2005) is defined as the market space where the bulk of retailers compete to serve the mass market segments. It proposes that large dominant retailers – general line, wide-assortment formats – originated either from innovators or from low-priced retailers of specific market segments. According to the Big Middle model, "retail institutions tend to originate as either innovative or low-price formats, and the successful ones eventually transition or migrate to the Big Middle [...] a hybrid of the two that appeals to a much larger customer base and provides great value for a broader array of merchandise" (Levy *et al.*, 2005). In contrast, "in trouble" retailers are unable to develop a competitive advantage or deliver high levels of relative value. The competitors of the big middle retailers are either another big middle player, or a significant number of specialized or low-price retailer competing for the "middle" consumer market. Based on the Big Middle hypotheses, retail institutions and formats can be classified in four formats or stages (Levy and others, 2005):

- (1) "Innovative" or Specialized – premium offerings to quality conscious markets;
- (2) "Low-price" – strategy to price-conscious markets;
- (3) "Big Middle" – thrive because of their competitive advantage, offering innovative merchandize (width and depth) and reasonable prices; and
- (4) "In trouble" – unable to offer a competitive advantage compared to their competitors.

Store formats and retail marketing mix

A retail format is a type of retail composition adopted by certain companies to satisfy consumers' needs (Levy and Weitz, 2011). Retail format classification can help to

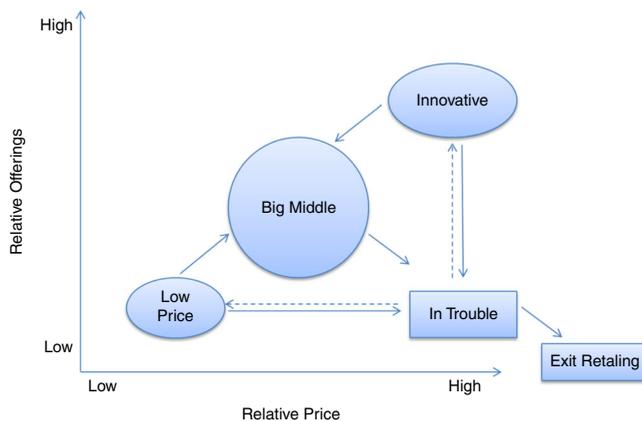


Figure 1.
The Big Middle and other segments

Source: Adapted from Levy *et al.* (2005, p. 85)

identify the competitors and the main changes that occur in the sector (Dunne *et al.*, 2010). It has been recognized that definitions of store formats, or types, tend to be imprecise, overlap, and are often confusing (González-Benito *et al.*, 2005; Dawson, 2000). Retail stores which serve overlapping needs and target segments tend to be classified according to a certain store format. From the consumers' point of view, store formats within one industry (like apparel, food, or electronics) can be considered as competing categories that satisfy specific consumption needs or different shopping situations. As such, different retail formats characterize the retail competitive structure, and indicate how they attract distinct market segments (González-Benito *et al.*, 2005) due to their different value propositions. In response to changes in the consumer behaviour and in the competitive environment, retailers tend to create, alter and discard formats (Reynolds *et al.*, 2007).

Two levels of competition can be identified within each retail industry (Dunne *et al.*, 2010): competition within a same-store format (intra-format), as rivalry among department stores: and, as the Big Middle Model has identified, competition between different store formats (inter-format), for example, department stores vs specialized store. A clear identification of how the retailing mix variables affect consumer choices will help retailers to better confront the arrival of new competing store formats (Paulins and Geistfeld, 2003). The determination of retail formats is based on the configuration of the marketing mix offered by the retailer. The following six controllable variables of the retailing mix have been identified to characterize store format: product, price, presentation, promotion, personnel/service and location.

Product

This can be considered the most important element of the retailer's competitive strategy (Simonson, 1999). Making adequate decisions on assortment, quantities and delivery time can be among the most vexing problems that retailers face (Grewal *et al.*, 2009). The product assortment strategy can be designed according to decisions on width – the quantity of categories or classes of products offered; and depth – the variety of items in the same category or product class (Levy and Weitz, 2011). As we have previously seen, product strategy decisions are major determinants of the formats proposed by the Big Middle Model: narrow and deep assortment for the specialized or “Innovative” format; wider assortment for the Big Middle format. Retailers face difficult trade-offs (e.g. financial and space constraints vs. consumers' assortment demands) in designing an attractive product assortment portfolio (Mantrala *et al.*, 2009). For apparel, there are other product dimensions which influence the store strategy: general quality of the products, how intensively the store follows fashion trends, private label strategy and life style positioning (Dekimpea *et al.*, 2011). In serving low-income consumers, retailers must avoid the mistake of thinking that because these consumers are poor, they do not desire higher quality products (Pralhad, 2005).

Price

Pricing decisions are very sensitive, as they directly affect not only the store image, but also sales and profitability. A major strategic pricing decision, for instance, is the level of price in relation to the competition: higher, equivalent or lower. Some of the formats proposed by Levy's Big Middle are characterized by the price level: Higher prices for the “Innovative” format; competitive prices for the “Big Middle” format; and lower prices for the “Low Price” format. In the retail apparel industry, due to the short life cycle of fashion goods, markdown reductions are practiced in all formats. In relation to

the low-income consumers, as the Brazilian apparel retail formats demonstrate, it is possible to create an attractive value proposition by designing a strategy that is not exclusively based on low prices, but on all other variables of the retailing mix. Credit plays a major role in the evaluation of price strategies geared to the low-income population, once this is a major form to expand this segment's purchase capacity.

Presentation

This important variable deals with the way in which visual product merchandizing and the store atmosphere are presented. The store's presentation is a major tool in the differentiation strategy. More specifically, the atmosphere created from variables like colour, store layout, music, flooring, lighting and merchandize layout can create a unique shopping experience (Turley and Chebat, 2002; Jain and Bagdare, 2011). Merchandize exposition also plays an important role in the evaluation of apparel stores, as good coordination, mainly in complementary products, offers an aesthetic appeal and a positive impression which can be transferred to the products themselves (Lam and Mukherjee, 2005). Based on the authors' observations, compared to upper-income retailers, visual presentation in lower-income stores tends to be: more lively, with more vivid colours; more crowded in terms of merchandize displays and number of customers; and more promotion-intensive.

Promotion

The retailer uses different promotional tools at the point of sale to generate traffic and purchases, and to reinforce its strategic positioning format characteristics. Promotional actions are presented to consumers through signs or banners, and tend to be very effective since a good part of the final shopping decision occurs inside the store. Promotion in the store can be done in different ways: in-store price promotions, loss leaders, and in-store displays (Grewal *et al.*, 2009). When working with low-income customers, issues about communication content are very relevant and should be carefully considered in the formulation of the communication strategy (Barki and Parente, 2010). Due to lower literacy levels, stores tend to use simple messages in large, bold type.

Personnel

The type and level of service are important elements in characterizing the store format. Service levels can vary from self-service, or minimum services, to complete service, in which the store employees provide a wide range of assistance to ensure customers' comfort. The service level selected by the retailer has a direct impact on the retailer's image. Service and employees' customer orientations affect customer satisfaction and thus have an impact on their behaviour (Jayawardhena and Farrell, 2011). The intensity of the interpersonal relationship between customers and employees reinforces the format characterization and is considered a key store success factor (Menon and Dubé, 2000). In "Innovative" or "Specialized" stores, the level of personnel services tends to be higher than in the "Low Price" ones.

Location

The choice of store location is extremely crucial for its success, and is one of the most important decisions a retailer can make. In addition to the traditional use of experience and intuition, there is now an increased use of technical evaluation to help in location decisions (Reynolds and Wood, 2010). The choice of an enclosed mall or an USD has a

major influence on the type of clientele drawn to the store. In Brazil, while malls attract mostly higher-income customers who drive to reach them, USDs attract lower-income segments, which either walk or take public transportation to access the stores. As apparel store formats mostly sell products perceived as shopping goods, they favour locations within store agglomeration centres, where consumers can take advantage of the cumulative attraction of a larger array of alternatives. While the “Innovative (or Specialized) format stores tend to be located in shopping centres, the “Low Price” are usually located in USDs.

The context of this research

Over the last ten years, low-income Brazilians have experienced a substantial increase in their purchasing power. The minimum wage increased faster than inflation, and this has helped to promote a less unequal distribution of income in the country. To illustrate the striking rise in income, the minimum wage in 2000 of only about US\$80 has almost quadrupled in the last decade. The rapid expansion of this new kind of “consuming low-middle class”, not only in Brazil, but also in countries such as China and India, has transformed these large emerging countries into the leading consumer markets for many consumer goods industries.

With a population of 11 million inhabitants (about 20 million in the metro area), the city of São Paulo is the largest and richest in Brazil (IBGE, 2010a). According to ABRASCE (the Brazilian Association of Shopping Centres), the city of São Paulo houses about 40 modern regional shopping centres, or large enclosed malls (Associação Brasileira de Shopping Centres (ABRASCE), 2012); there are also about 100 USDs (Parente *et al.*, 2011). Most upper-class consumers shop at shopping centres, while the lower-income consumers patronize stores in USDs. Apparel or fashion stores are the major component of the tenant mix of these USDs, accounting for about 20 per cent of their stores (Parente *et al.*, 2011). The three USDs regions selected for this investigation are large agglomerations, with an average of about 400 stores in each of these districts, and have similar family income levels, of about one to two thousand US dollars per month, and represent the largest social class in Brazil, known in the country as “Emerging Class C”, or, as coined by the McKinsey study (2011), the “new urban consuming low-middle class”.

Based on the interviews done with the executives in our sample of stores in the three USDs, we have identified that about 40 per cent of the investigated stores belong to very small single-unit retail companies, many of them still adopting more traditional rather old fashioned retailing methods. As we previously discussed, the strong presence of the single store ownership structure reflects a traditional situation and a major peculiarity among low-income markets, in contrast to the retail structure found in developed countries - mostly dominated by larger store chains.

Methodology

The apparel stores located in Unplanned Shopping Centres (USDs) are the units of analysis in this work. These serve mainly low-income consumers. In this descriptive exploratory study, we adopted a judgment sampling approach to choose three representative USDs, reflecting centres of different sizes and locations in the city of São Paulo. Surveys were conducted in 108 apparel retailers within these three areas. In order to identify the different store formats, the instrument for observation was designed to capture the stores’ marketing mix characteristics; a short questionnaire

was developed to obtain complementary information from the stores' managers (or owners). The observations and interviews were conducted by a single researcher in order to avoid differences in perception that could create some personal bias in the analysis. One of the authors directly conducted the field work, strictly following a methodological criteria to objectively evaluate the stores characteristics. Cluster analysis was the statistical data treatment method used to derive taxonomy of store formats. Methodological details are presented below.

Objective definitions and variable choices

The variables chosen for this study are those identified in the literature as determinants of the store formats, i.e. the marketing mix variables: product, price, presentation, promotion, personnel/service and location. Table I summarizes all variables, the measures used in the operationalization of these variables (observed variables), and the data collection method. With the purpose of making the measure of the variable "fashion" less subjective, the following procedures were adopted: with the help of a specialist consultant in fashion, we identified the major recent fashion trends, and also researched the sites of the leading mass retailers in Brazil – Zara, C&A and Renner. In addition, we studied photos of a recent and important summer fashion event (Senlac Mode Informação). The stores which presented products reflecting the identified fashion trends were considered as "fashion yes". In relation to the variable "price", the evaluations were based on the price range (lowest price and highest price) of the items not on promotion for the following categories: men's and women's jeans, and men's and women's t-shirts.

Procedures for data collection, treatment, analysis and validation

Two complementary data collection methods were adopted: structured observation and survey through personal interview. Altogether, 108 stores were investigated. In order to eliminate researcher bias in the store selection, all apparel stores in the central part of each shopping district were surveyed. The categorical variables were transformed into binary number variables (Everitt *et al.*, 2001) and the metric variables "size", "width", "depth" and "exposition level" were linearly transformed into new values of between zero and one. For each of the four subcategories (men's and women's jeans, and men's and women's t-shirts), the average store price was compared with the average market price. Different products were selected for the stores which did not sell either jeans or t-shirts. The TwoStep method of the SPSS was used. It allows not only the utilization of continuous and binary variables, but it also suggests the number of groups by the method itself (Bacher *et al.*, 2005). For the automatic definition of the number of groups, the TwoStep procedure adopts two steps based on the hierarchical method. In the first, a number of groups are estimated and in the second this initial estimate is refined searching for the greatest distance change between the two closest groups (SPSS, n.d.). The number of groups was still verified with the application of the hierarchical method (Ward Linkage method with squared Euclidean distance). The dendrogram, Figure A1, in Appendix suggests the existence of three to four groups. After a qualitative analysis, the result with four groups seemed more adequate.

Different methods of validation were adopted in this study, and these generated very satisfactory results. Analysis was processed using the two methods available in SPSS – TwoStep cluster and *K*-means cluster – and their results presented a high level of agreement at 84 per cent. The κ agreement indicator presented a 0.77 value, 1 being

Criteria	Observed variable	Description	Value	Method
Product	Assortment width	Number of categories in the sales area	1-5 (categories counted in the sales area)	Observation
	Assortment depth	Variety of items in one category. Observation of the main category of the store	1-5 (small to large in depth)	Observation
Price	Private label	The presence of a private label in most product categories sold	Yes or no	Observation
	Fashion	Fashion products available in main product categories	Yes (fashion products present according to trends identified) or no	Observation
	Price	Average price compared to other stores evaluated	Prices – superior and inferior – of four products: jeans and cotton t-shirts for men and women	Observation
Presentation	Payment conditions	Payment options	Easy payment: yes or no	Interview
	Credit card	Store card	Yes or no	Interview
Promotion	Display	Merchandise display for the store's main product category	1-5 - Weak, display arranged by product category; good, display coordinated and arranged by style	Observation
	Physical ambience of store	Furniture condition, windows, walls, layout and signs	Modern or antiquated	Observation
Promotion	Store atmosphere	Lightning, music, temperature	Adequate or inadequate	Observation
	Advertisement	Use of external media	Yes or no	Interview
Personnel/ service	Promotional calendar	Follow promotional calendar with special promotional actions	Yes or no	Interview
	Promotional signs	Quantity of displays and/or promotional and price signs	Moderate (less than 30 per cent of fixtures used signing); or intense (over 30 per cent)	Observation
Location	Type of service	Type of store service	Assisted self-selection (client is not directly approached, but requests assistance whenever necessary); or full service (salesperson directly assists; may receive commission)	Observation
	Salesperson appearance	Use of uniforms, makeup, general presentation	Good or bad	Observation
Size	Consumer services	Product adjustment service	Yes or no	Interview
	Estimated size of sales area (in square metres)	Location of other stores in case of chains	Street/shopping malls (the chain has units in malls)	Interview
Property	Property type	Property type	Independent	Interview
			Small chain (two to ten stores)	Interview
			Large chain (above ten stores)	Interview

Table I.
Observed variables
and measurement
methods

perfect agreement and the range between 0.60 and 0.80 being strong agreement (Landis and Koch, 1977). The sample was also randomly divided into two and the TwoStep method was applied to each sub-sample. The same result occurred in 96 per cent of the cases. The TwoStep method results were considered in the analysis.

Results – analysis and discussion

From the total marketing mix variables presented in Table I, the following variables were used in the cluster analysis, as they represent the major elements of the definition of store formats: assortment width, price, type of service, promotional signage, layout and presentation, and store size.

The cluster analysis revealed four interesting and distinct store formats, which we initially named as follows, to reflect the dominant characteristics of each format: Cluster 1 – “Old fashioned”; Cluster 2 – “Price focused”; Cluster 3 – “Specialized”; Cluster 4 – “Consolidated”. Table II presents the groups found, their respective store quantities, and a summary of the characteristics’ average values for each group. Three of the four distinct store formats show a surprisingly resemblance with the formats proposed by the Big Middle model. Due to this similarity, we have adopted their names: “Innovative” or “Specialized”, “Low Price” (formerly Price Focused), “Big Middle” (formerly Consolidated). The “Old Fashioned” name was maintained as there was no equivalent format in model developed by Levy *et al.* (2005). A more detailed analysis of the four clusters is presented below:

Cluster 1: “Old Fashioned”

This group is formed of 40 stores found in the three investigated districts. Averaging a sales area of around 1,000 square feet, most of the stores in this group are single-unit enterprises, what suggests that they are either not achieving good performance or are run by entrepreneurs with no ambition or competence to expand. Their product assortment is poorly developed as it lacks consistency and attractiveness – there are no private labels or updated fashion trends. These stores offer average prices and do not provide attractive price offers or store promotions; therefore, they do not attempt to project a favourable price image. Most declare not to follow a typical retailing seasonal promotional calendar, nor offer their own credit card. The stores’ physical and visual presentation also denotes carelessness – for instance, they are poorly lit. They are still in the early stages of product merchandizing – in general, products are displayed within product subcategories, encouraging a “commodity” type of buyer behaviour. There is no attempt to add value to the products, or to suggest coordination of pieces or

Table II.
Clusters and average values of variables

Criteria	Cluster 1 “Old Fashioned”	Cluster 2 “Low Price”	Cluster 3 “Specialized”	Cluster 4 “Big Middle”
Number of stores	40	43	12	13
Estimated size of sales area (in square feet)	1,000	1,500	600	7,000
Assortment width	1.8	2.2	2	4
Price	Average	Below average	Above average	Average
Layout and presentation	Antiquated	Antiquated	Modern	Modern
Service/people	Full service	Assisted self-selection	Assisted self-selection	Assisted self-selection
Promotional signs	Moderate	Intense	Moderate	Intense

outfits, which could make for a more attractive sales area. These stores adopt a traditional full-service style, in which salespeople stand behind a counter to which consumers have to go to be served. There is, therefore, little incentive for impulse-type purchase behaviour. The old fashioned format is still very representative, accounting for almost 40 per cent of the apparel stores in these USDs. Due to a lower competitive advantage, the old fashioned format has some similarities with the “in Trouble” segment of the Big Middle model. However, differently from the clearly defined format characteristics of the “old fashioned” cluster, the in trouble segment can be originated from any type of retailer (low priced, innovative, or Big Middle). This format is also generally restricted to lower-income areas, and is not found in the shopping centres serving upper income segments in Brazil. As in other emerging countries, the traditional “old fashioned” apparel formats are being gradually replaced by more modern formats, represented by the other three formats found in our empirical work.

Cluster 2: “Low Price”

With an average size of about 1,500 square feet, this group comprises 43 stores. They adopt a strategy very similar to the “Low-price” segment, as proposed by the Big Middle model. Part these stores belong to small chains (from two to ten stores). Lower prices seem to be the main differential of these stores. To reinforce this positioning they use very intense and aggressive pricing and promotional signage in the sales area and in their shop windows. The majority of these stores follow a promotional seasonal calendar that is widely adopted by the retail industry. About one-third of these stores have their own credit card – generally by means of a partnership with financial agencies. With regards to presentation and physical ambiance, most of these stores display an outmoded visual merchandize style, and are still adopting a commodity-type exposition. All stores work with an assisted self-selection style, but the appearance of their sales personnel is poor. In relation to product, most of the stores sell two or three categories, and do not offer up-dated fashion products or their own private labels. This format is generally restricted to lower-income areas, and is not located in the shopping centres serving upper income segments in Brazil.

Cluster 3 “Specialized”

This group is formed by 12 smaller stores, found in the two larger shopping districts, with an average size of 600 square feet. They adopt a strategy very similar to the “Innovative” segment, as proposed by the Big Middle Theory. This format shows indeed a more creative and differentiated strategy compared to the other two groups of small apparel retailers (old fashioned and price focused). As they are small, they seem to be able to compete due to their specialization strategy, in specific categories (like lingerie) or in lifestyle segments (like surf wear fashion). Most of these stores belong to small chains. Although they do not offer private-brand products, most of them carry products aligned with recent fashion trends. The prices they charge are higher, as they offer products to relatively more quality conscious consumers. Store presentation is at an intermediate level, with a pleasant atmosphere and merchandizing that adopts coordination among pieces. All of these stores use an assisted self-selection system, and the salespeople are well presented.

Cluster 4: “Big Middle”

The 13 stores which comprise this cluster are large in size, have an average sales area of around 7,000 square feet, and were found in all three shopping districts. Some of

these stores belong to fast-expanding large national chains of retailers, who have recognized the growing needs of the Brazilian “emerging low-middle class”. They are, therefore, in growing stages of the life cycle. All of them practice updated retail marketing and operational procedures, and have already reached a level of modernization and retailing competence similar to stores in developed countries. This cluster has similar characteristics to the “Big Middle” segment, as proposed by Levy and others (2005). They are generalists, carrying a wide range of apparel categories (women’s, men’s, children’s, shoes, cosmetics) and play a dominant role in these retail districts - compared to the other three clusters, they have the highest percentage of total sales area, considering the four retail formats. All of them are quite up-to-date with fashion trends, and private labels are dominant in most. They offer medium prices and provide their own credit cards. These stores present a massive style of product merchandizing in order to convey ideas of abundance and therefore eliminate an image of higher prices. Store presentation is very good; all have a modern physical environment and an adequate atmosphere. Merchandize is presented in a very coordinated way, and is classified by different styles or by type of occasion. Display of collections and coordination of pieces is fully consistent, from the window to the interior of the store. The new fashion trends in terms of colours, patterns, and shapes are reflected in the merchandize displayed in these stores. All stores work with an assisted self-selection system and care about the presentation of their salespeople. In relation to promotions, all of these stores follow the seasonal promotional calendar, advertise in local and national media, and adopt intense in-store promotional activities, with appropriate price signage.

Retail formats in emerging markets – analogies with the Big Middle model formats

Although the classification schemes are mainly descriptive, rather than explanatory tools, they can be useful in a relationship study or for hypothesis specification regarding the relationship between the objects of the classification (Bailey, 1994). Based on the taxonomy developed for the Brazilian apparel retailing stores and drawing from the existing literature about the evolution of retail formats, especially from the “Big Middle” concepts, analogies were derived comparing store formats, and tentative propositions or hypotheses were developed about the evolutionary life cycle of retailing formats, in transitioning emerging markets.

To integrate the findings of this investigation into the existing knowledge about retail formats and retail evolution, and to better highlight similarities and peculiarities found in the Brazilian retail landscape, we propose a new model named as Model of Emerging Market Retail Formats and Evolutionary Perspectives (Figure 2) with a similar framework of formats to the Big Middle model, previously presented in Figure 1: the vertical axis indicates the intensity of the offerings (assortment, fashion, store presentation, and atmosphere) and the horizontal axis (x) represents the relative prices. Similar to the model proposed by Levy *et al.* (2005), the four formats derived from the cluster analysis – Old Fashioned, Low Price, Innovative and Big Middle - are positioned in a way to reflect their value proposition (price and other offerings). Two types of lines connect the formats: full lines with arrows indicate our hypotheses about the direction of the format evolutionary path. They keep close analogy with the Big Middle propositions. The model shows dotted lines connecting the Low Price and the specialized formats to the Big Middle, as we were not able to find strong support either in the literature or in the empirical data to indicate evolutionary directions.

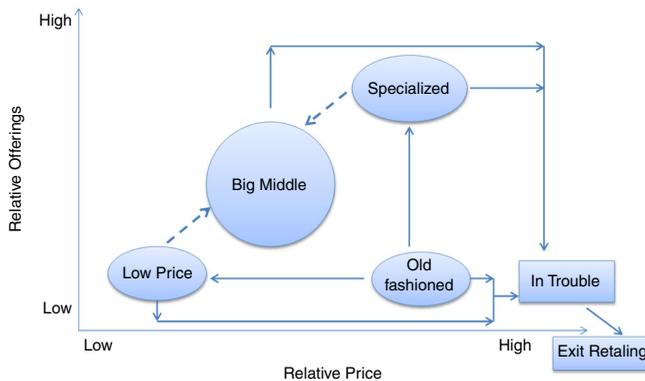


Figure 2.
Model of emerging
market retail formats
and evolutionary
perspectives

As it was discussed in the previous section, there are three formats which hold very close similarities between the store groups derived from the taxonomy of Brazilian apparel retailers and the segments proposed by the Big Middle: Specialized or Innovative, Low Price, and Big Middle. The proposed model (Figure 2) has placed these formats in equivalent positions as they were in the Big Middle model (Figure 1). This way we are suggesting that in emerging markets the characteristics of the store formats and some of the evolutionary movements among the formats the store formats seem also to maintain a similar pattern with mature and modern retail landscapes. Similar to the Big Middle model propositions, the Big Middle is a wide-assortment format, appealing to a large customer base and integrating the value propositions of the price focused and the specialized formats.

The proposed model, however, introduces the old-fashioned format to better portray the specific characteristics of retail evolution in emerging markets. The model proposes that, based on the existing trend vastly recognized in the emerging market retail literature, a major transforming trend consists in the transition from the small old-fashioned apparel format to more modern formats, such as to the Specialized or to the Low Price formats. Based on the empirical work done in this research, it seems that the small stores of the “old fashioned” group, single store enterprises, are gradually adjusting to more modern formats or are being replaced by them. These new formats seem to be more successful than the old fashioned, as most of them belong to multi-unit retailers. The “old fashioned” depicts a group of stores that still maintains an outmoded store format, reflecting traditional, small, and non-organized retailers, which are still dominant in many low-income markets. Their presence, however, tends to gradually decline as new modern and organized retailing formats are introduced and flourish, as a natural response to the increasing levels of income, education, and expectations of emerging markets’ consumers. Like in the Big Middle model, Figure 2 also displays the “in-trouble” segment, indicating that any retailer which is not able to maintain their competitive advantage should transition to this segment, and will, then, be forced to exit retailing if it is not able to recover or re-develop an attractive value proposition.

Final considerations

Considering the fast-growing economic importance of the new “low-middle class” of emerging markets, and also the relevance of apparel retailing, this paper has investigated the retail diversification phenomenon taking place in USDs in the city of

São Paulo, where there is a wide diversity of formats, sizes, strategies, and levels of retail modernization in apparel stores. Based on the identification of the marketing mix variable characteristics, the study was successful in empirically deriving a taxonomy of apparel formats which operate in USDs. We identified four distinct clusters which portray the major types of store formats in the very diverse universe of Brazilian apparel retailing: “Old Fashioned”, “Low Price” “Specialized”, and “Big Middle”. These represent not only a wide variety of retailing strategies, but also seem to be at different stages of retail evolution and modernization.

By synthesizing the wide array of store types in a taxonomy of store formats, this study has helped to better describe the apparel retailing scenario in Brazilian lower-income USD districts. The four formats derived from the cluster analysis - “Old Fashioned”, “Low Price” “Specialized”, and “Big Middle” - found a striking similarity with the segments proposed by Big Middle model (Levy *et al.*, 2005). This “coincidence” has a far reaching impact as it suggests that the Big Middle framework, previously designed to reflect the USA retail market, can also be adjusted to emerging and transitioning markets.

The proposed Emerging Market Evolutionary Retail Model based on the Big Middle model, includes the “old fashioned” store format. This adjustment helped not only to better portray the retail landscape of Brazilian low-income markets, but helped to make the proposed model more generalizable in other emerging countries. In the empirical work of this investigation, 37 per cent of the stores (40 out of 108) were classified as “old-fashioned”. This format reflects the “non-organized” and traditional formats which in many poor countries still play a dominant role. One would expect that this percentage will vary in different countries and in different sectors of retailing. The level of retail modernization in emerging regions and the level of consolidation in different retail sectors, will determine the relative importance of the traditional formats compared to the other three retail formats “Low Price” “Specialized” and “Big Middle” in these markets.

The findings of this work have relevant managerial and public policy implications. They can offer retailers an overall marketing and competitive understanding of complex retail market dynamics, enabling them to better identify competitive effects of store formats, and respond with strategic and operational improvements in their marketing mix variables to better face fast-changing competition. The results can also serve as a warning signal to the traditional retailers, such as in the “old fashioned” format of retailers to proactively search for and move towards more strategically defined formats. Public policies could be developed to offer special assistance to help the survival of these local small entrepreneurs, by developing retail planning policies, regulatory laws and training programmes to help them adjust their strategies, and to adopt more modern and updated formats and retail techniques. In Brazil, the rapid expansion of large and comfortable Planned Shopping Centres is gradually affecting the vitality of the USDs where the Old Fashioned formats are found. As is happening in many other countries (Loukaitou-Sideris, 2000), public policies should be developed to maintain and restore the attractiveness of these town retail districts through: public investments in equipment - such as sidewalks, lighting, rest areas, restrooms, security-tax incentives for business investments in the area, support to the development of associations of local shopkeepers, and the establishment of an effective partnership with these local retail associations.

This research is an initial step in the study of apparel retail formats and proposes a model Retail Formats and Evolutionary Perspectives in emerging markets, and

presents hypotheses about the evolutionary perspectives of the existing formats. There are limitations due to the exploratory nature of the research: the concept of store format and the methodology to map it has not been yet clearly defined or established in the existing literature; despite the well-defined criteria to evaluate the store variables used in the cluster, there is a lack of precision and a subjectivity in this appraisal, what might limit the research replicability. The specific context (São Paulo and the apparel retail sector) where the empirical data was collected restricts the generalization of the results to other situations.

We suggest that similar types of research should be developed in different retailing contexts, such in downtown shopping districts, in different retail sectors, with different levels of retail consolidation, like food, appliances, furniture, and in emerging countries with different levels of retail modernizations. These replications will help to identify not only peculiar patterns of local retail structure, but we also expect that, despite the differences, generalizable global trends will be confirmed. Future studies could use larger and probabilistic samples, permitting a higher generalization power. They could also study consumers with regards to their perceptions and satisfaction in relation to these strategies and formats. Finally, a longitudinal study would be useful in order to improve understanding of the different paths travelled by store formats along the time dimension.

In spite of the natural limitations of an exploratory study, this work offers important contributions to deepen the understanding of the retail structure and formats in emerging countries as compared to more developed western countries, and presents perspectives about the evolution of retail formats in emerging markets. By developing a summarized way in which to describe apparel store formats, deriving a taxonomy of apparel stores formats, proposing a model of retail formats and evolutionary perspectives in emerging markets, and suggesting possible trajectories along their life cycles, this work sheds light on the retail phenomena within the context of the fast-expanding low-middle class of an emerging country, and therefore fills a gap in the literature in this area.

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Further reading

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Appendix

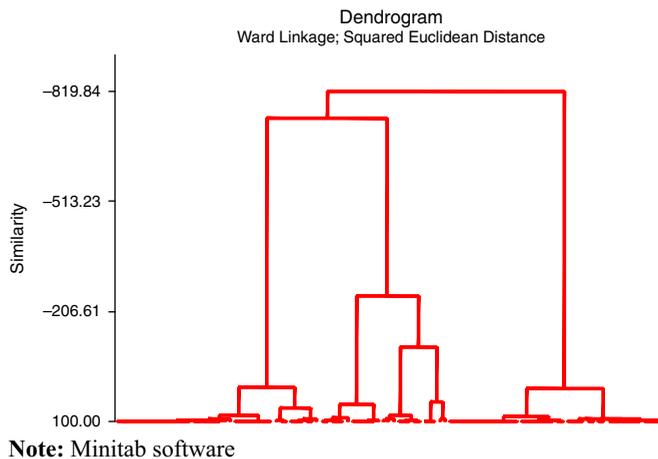


Figure A1.
Dendrogram
hierarchical cluster

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