

STRATEGIC RECONFIGURATION AND MANAGEMENT OF RETAIL CENTRES CREATING COMPETITIVE ADVANTAGE THROUGH COMMUNICATIVE COMPETENCE

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ABSTRACT

In the last decade, the retail industry in many countries, including some Asian countries has undergone great changes due to a more dynamic and turbulent environment. This amongst other things has led to a concentration of retail functions in out-of-town regional shopping centres. This development can be explained by pointing to the traditional, segmentalist ways of strategic management in the retail sector, which to a large degree has looked upon location as the most important, and in many cases, the only source of competitive advantage. It has also treated the retail centre as a nexus of contracts based in turn on a series of bilateral contracts. These ways are in our opinion no longer able to deal with an increasingly dynamic environment, especially in traditional town centres. We are given some examples, however, where successful strategic response is characterized by extensive market research and intimate consumer knowledge, but these kinds of capabilities or skills seem to be confined to the typical multinational chain organization. One seldom finds innovative town centres or dynamic shopping centres with similar capabilities. Our view is that a dynamic reconfiguration will have to take place and be coordinated in a more multilateral fashion without having to resort to excessive communication and information processing to achieve a transformative reconfiguration. In this paper we have tried to show that an approach based on a socio-cybernetic framework and the development of several types of communicative competences, may be effective for the development of competitive advantage for a retail centre.

INTRODUCTION

The retail industry in many countries, including some Asian countries, in the last decade has undergone great changes due to a more dynamic and turbulent environment. Several factors have contributed to radical changes in many types of retail centres, including town and in-town shopping centres and department stores, for example:

- Concentrated arrival of foreign multiples
- Greater consumer mobility
- Greater variety in lifestyles and shopping behaviour
- Concentration of retail functions in out-of-town regional shopping centres
- Polarisation of retail formats, leaving traditional stores and centres 'stuck in the middle'

While these kinds of changes may be seen as normal features of the structural development of an industry, the economic recession, which in many Asian countries has hit retailers very hard, has had a triggering role with regard to the pace of development. The total loss of purchasing power in Asia in the twelve months from the middle of 1997 has been estimated at 500 billion US dollars (Davies, 2000). Consequently, we have in many of these countries been witnessing a speedier introduction of new retail formats than one would have had reason to expect without the recession.

This kind of development can obviously be given a structuralist form of explanation, showing that structural changes in the environments of local centres will inevitably necessitate adapting to and imitating new retail formats in order to survive the competition.

The development pattern can also be explained by pointing to the traditional ways of strategic management in the retail sector, which to a large degree has been based upon location as the most important, and in many cases the only source of competitive advantage, and that these ways are not any longer able to deal with an increasingly dynamic environment, especially in traditional town centres.

In this paper, therefore, we will argue that present approaches to strategic management of retail centres are not particularly effective with regard to developing the necessary competitive advantage for these centres, and that present theories of strategic management do not provide adequate conceptual support for developing the managerial capabilities to manage the changes. There is a need for approaches and ways of thinking which pay more attention to the real nature of the processes involved in strategic management. Finally we will demonstrate an approach based upon what we shall call communicative competence, applied in a case of town and retail centre restructuring and reconfiguration.

PRESENT APPROACHES TO STRATEGIC MANAGEMENT OF RETAIL CENTRES

To illustrate what we may call the present approaches to strategic management, let us first consider a structuralist interpretation of the retail responses to the Asian economic crisis, and then show that these are examples of a more general approach to strategic management of retail centres prevailing in most developed countries today.

A Structuralist Interpretation of Retail Responses to the Asian Economic Crisis

The Asian economic crisis had led to a change in government attitudes towards foreign retailers. This had resulted in changes in the structure of retailing in the region (Davies, 2000).

According to Davies, one immediate consequence was that governments in the region were pressured by the World Bank and other institutions to liberalize their investment laws and allow foreign retailers to enter their countries. This led to increased competition from foreign retailers and many Asian retailers came to recognise the need for consolidation of operations. With regard to changes there were, however, differences between the countries. In Hong Kong, the bulk of the decline in retail sales came from department stores and clothing stores, while super markets and food stores held up relatively well. In Singapore, there were just too many of certain types of shops, and again clothing was hit harder than furniture or department stores, while the supermarket sector had growth. In Japan, the bigger shock was the decline of department stores and the fact that the growth of the supermarket and other forms of mass retailing had overtaken the department stores.

The problems for many local retailers were not solely due to the economic crisis, but the crisis triggered a restructuring of the retail sector which to a large degree could be linked to the growth of new forms of retailers in Asia in many cases foreign firms, but just as often an indigenous firm.

Davies further pointed out that these multinational firms have considerable levels of potential power in the previously fragmented Asian markets. In particular, the European retailers, backed up by their home and other overseas store networks, had reasons for expanding into Asia (saturation in their home markets), as well as the experience of devolving management to the local level.

The growth and spread of these multinational retailers is based upon a number of factors discussed in some detail by Davies, the most important for our purpose being:

- Duplication of existing formats
- Market research and consumer knowledge
- Information technology and systems

In particular, the use of sophisticated research and survey techniques to determine customer needs and wants allowed the multinational retailers to tailor or remodel their stores faster and more efficiently than many of their Asian counterparts.

In addition, Davies also highlights the fact that there are some large, well-run chains in Asia which have, almost unnoticed, expanded throughout the region. The best have begun from the consumer side of the equation, rather than acting as manufacturers' agents. They have grown by adapting the available technology and marketing practices to local conditions and have both market knowledge and considerable customer loyalty. No further details are given on this account, and we are therefore left with basically a structuralist form of explanation.

Generalizations

This kind of strategic response to a structural evolution is not confined to Asian retailing, but can be observed in most developed countries and, in our opinion represents a general approach to strategic management (or lack of strategic management) with two main characteristics:

1. Retail strategy is mainly a form of vertical strategy, with a central co-ordinator managing a group or portfolio of outlets or shops in a bilateral fashion.
2. Structural evolution and response to crisis is mainly based on imitation, including new formats and replacing old ones in an existing portfolio of outlets, whether it is organized as a chain of outlets, or as a configuration of outlets at a single site, i.e. a shopping centre.

Neither of these characteristics represents any dynamic capability to develop sustainable competitive advantages in the sense advocated by modern writers on strategy. We are given some examples, however, where successful strategic response is characterized by extensive market research and intimate consumer knowledge, among other things. However, these kinds of capabilities or skills seem to be confined to the typical multinational chain organization. One seldom finds innovative town centres or dynamic shopping centres with similar capabilities.

Turning to the retailing literature one frequently finds reference to the importance of the tenant mix in shopping centres. However, very little is written about the tenant mix or town centre configuration itself (Abratt, Fourie and Pitt, 1985; Esser and McKoin, 1998), and few present guidelines in this regard (Brown, 1992).

We therefore believe that the time has come to consider the need for and the ways to develop the necessary competences or capabilities which is required to manage strategically town and retail centres today. Let us therefore discuss some of the requirements for a dynamic capability, especially the need for a strategic plan and the management of a horizontal strategy. How can a town or retail centre differentiate itself from the competition and establish a competitive advantage? Do we have the necessary concepts and methods, is sustainable competitive advantage a realistic goal, and is dynamic capability an appropriate basis for competitive advantage? These are the questions we now turn to.

The Need for Strategic Planning and Horizontal Strategy

An effective retail plan is an essential element of a town centre's ability to provide differentiation. It must arise from an understanding of the ways shoppers behave, the nature of existing position, an analysis of future trends and a knowledge of the way ahead

(ATCM, 1999). The situation in reality, however is far from this ideal. We have for some years been working with several retail centres, both town centres and shopping centres, to initiate processes of revitalization and restructuring in order to achieve a more competitive position. Part of our research task has been to study and map current models of strategic management of retail centres like these.

We found however that most retail centres, if not all, do not base their activities on any explicit strategy at all, except for some rudimentary calculations and market considerations. Strategic management was basically a process of finding a suitable location, making a rude estimation of the market potential and see if additional sales area could be justified, given the existing state of competition, and, finally, whether there would be enough tenants to pay the rent needed to recover the estimated development costs.

Basically this amounts to a segmentalistic approach to strategic planning and management, as described by Kanter (1983). The retail organization is seen as not much more than a nexus of bilateral contracts orchestrated by a central coordinator.

Our main point is, however, that today's retailing is influenced by an increasing need to manage horizontal relationships, not only with regard to standardizing leasing agreements, but increasingly because the modern consumer demands and looks for value which cannot be satisfied by the sum of the values of the separate purchases alone. Shopping for groceries, for example, is also a process of shopping for a solution to tonight's dinner problem, health considerations, etc. Shopping for clothes is a question of lifestyle and identity and the kind of accessories needed to support this, just to mention a few of these kinds of interrelationships. What kind of strategy do we need for this task?

STRATEGIC MANAGEMENT AND STRATEGIC CAPABILITIES

Strategy can be seen as a multi-dimensional concept that embraces all the critical activities of a retail centre, providing it with a sense of unity, direction, and purpose, as well as facilitating the necessary changes, induced by the environment. Consequently we can view the various approaches to strategic management as approaches which confront and discuss one or several of what might be termed the critical dimensions of strategy and strategic management.

One of these critical dimensions is strategy as a response to external opportunities and threats, and internal strengths and weaknesses, in order to achieve a sustainable competitive advantage. Michael Porter has been the dominant figure in shaping and communicating this approach to business strategy (Porter, 1980). He proposed his now famous Five-Forces model to explain the different levels of profitability among industries, and the celebrated Value Chain model, that allows firms competing in the same industry to

be differentiated. A business is identified as having discrete but interrelated set of activities. Competitive advantage results from the firm's ability to perform the required activities, either at lower costs than their rivals, or in differentiated ways that create buyer value and allow the firm to command a premium price.

Another critical dimension is strategy as a means of investing in tangible and intangible resources to develop the capabilities that assure a sustainable advantage. This so called resource-based view of the firm (Barney, 1986; Itami and Roehl, 1987) has several basic premises to achieve competitive advantage (Hax and Majluf, 1996), among them unique competencies and sustainability. For a competitive advantage to be sustainable, the conditions of uniqueness associated with a business unit strategy should be preserved. From a resource-based point of view, the resources of a firm must be valuable, scarce, and difficult to imitate or substitute.

In the opinion of Teece, Pisano and Shuen (1997) however, strategic theory is replete with analyses of firm-level strategies for sustaining and safeguarding extant competitive advantage, but has performed less well with respect to assisting in the understanding of how and why certain firms build competitive advantages in regimes of rapid change. They advocate a 'dynamic capabilities' approach in order to stress exploiting existing internal and external firm specific competences to address changing environments. The term 'dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment, and the term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, reconfiguring internal and external organizational skills, resources and functional competences to match the requirements of a changing environment.

We have doubts, however, that anything is sustainable in retail environments today. For some years we have therefore been working with several retail centres in Norway, both town centres and shopping centres as part of town centres, to initiate processes of restructuring and revitalization in order to achieve a more competitive advantage for the centre in question. During this time, we have experimented with and come to realise that an important, if not the most important capability, is that which is associated with an appropriate communicative competence. Using the socio-cybernetic theory (Luhmann, 1995) we define communicative competence as the competence to communicate effectively and process the necessary amount of information to achieve congruence between a changing environment and a reconfigured business or resource structure for a retail centre.

TOWARDS A FRAMEWORK FOR DEVELOPING COMMUNICATIVE COMPETENCE

On the Communicative Nature of Strategic Processes

Let us start with our central thesis: Competitive advantage for a town or retail centre is undoubtedly created by strategic processes which in turn is shaped by the centres resource structure, and can be seen as responses to environmental changes. Resource structure contains the complementary assets and form the basis of its capabilities. So far we are in agreement with the main strategic approaches mentioned previously, but these approaches fail to represent the true communicative nature of the strategic processes. Thus for some reason or other, strategic theorizing has not been very concerned with communicative processes and structuring, probably because it has been a field mainly dominated by American writers and consequently by mainly behavioural and economic approaches. Much of the theorizing is concerned with phenomena like forces, resources, chains and dynamic capabilities, and imply a somewhat mechanistic way of thinking.

An exception to this kind of thinking is represented by Kanter (1983). Change, reconfiguration and transformation in her view are basically processes of communication because change involves the crystallization of new action possibilities based on reconceptualized patterns in the organization. The architecture of change involves the design and construction of new patterns. Furthermore, organizational change is stimulated not by pressures (forces) from the environment—resulting in a build-up of problems triggering an automatic response—but by the perceptions of that environment and those pressures held by key actors. Organizations may not respond to environments as much as 'enact' them—create them by the choice to selectively define certain things as important (Kanter, 1983; Weick, 1979). Innovation and change are bound up with the meanings attached to events and the possible actions that flow from those meanings. That very recognition—of the symbolic, conceptual, cultural side of change—makes it even more difficult to see change as a mechanical process and extract the 'formula' for producing it.

A Socio-Cybernetic Approach to Strategic Thinking

Viewing strategic processes as basically processes of communication makes it possible, in our opinion, to apply some rather powerful principles of analysis and communication, or types of communicative competence, the main ones being:

- Principles of self-referentiality and strategic rationality
- Gap analysis as a basis for legitimation and vertical integration
- Managing horizontal interrelationships through thematic integration

Such principles make it possible to treat strategic processes like environmental analysis, competitive analysis, analysis of consumer behaviour, strategic planning and

reconfiguration, as processes of communication yielding informational value. Figure 1 illustrates our main points.

Next, we will use the case of a Norwegian town to illustrate and explain our approach.

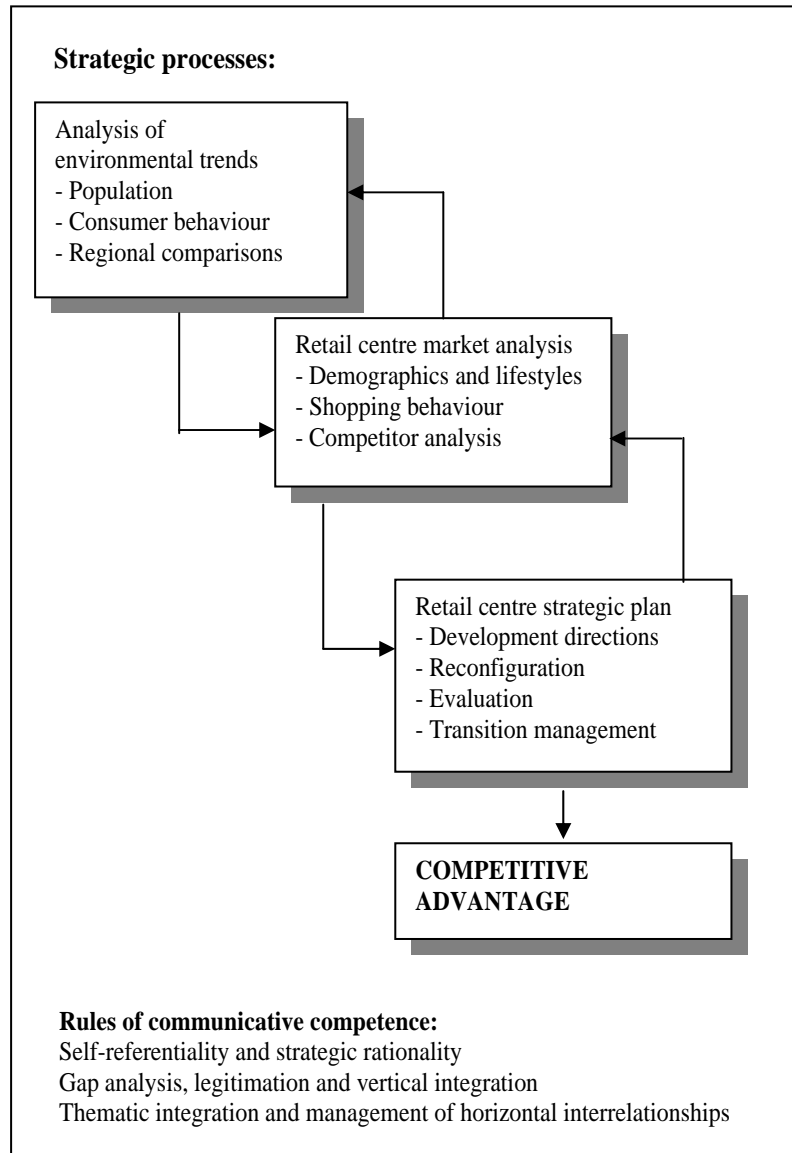


Figure 1. Creating informational value: processes and competences

CASE ILLUSTRATION: STRATEGIC RECONFIGURATION OF A TOWN CENTRE AND IN-TOWN SHOPPING CENTRE

An effective strategic retail plan is an essential element of a retail centre's ability to provide differentiation. It must arise from an understanding of the main factors influencing regional development, the development of competing centres, an understanding of the ways shoppers behave, the nature of the existing provision, an analysis of future trends and a knowledge of the possible ways ahead.

We have used our approach to initiate processes of strategic analysis and communications in a Norwegian town called *Kristiansund*, providing a basis for the development of competitive advantage. The analysis proceeded as shown in Figure 1. There is nothing revolutionary about such scheme or way of ordering a planning process. The novelty from our point of view is treating these processes as mainly processes of communication and interpretation in a socio-cybernetic framework.

Analysis of Environmental Trends

A strategic analysis of regional environmental trends was performed based on data for several environmental factors, including:

- Population trends
- Demographic composition of households
- Consumer spending
- Income distribution and spending power

As depicted in Figure 2, these environmental factors were related to retail sales as a dependent variable, and in a self-referential way, where we looked at the town *Kristiansund* as a regional centre and compared the sales performance of this centre with the performance of other regional centres in Western Norway.

Self-referencing in this way produced a gap or relative distance in performance for *Kristiansund*, which could be systematically related to the environmental factors and tested for significance. In this case we found that while *Kristiansund* previously had a very strong position as a regional centre, both within its region and compared to the other regional centres, it had in the course of the last five years slipped badly, having lost approximately 22% of its previous trade surplus in comparable goods. It still had a dominant position within its region, but it was declining. If the present rate of decline continues, it will cease to be a regional centre within ten years.

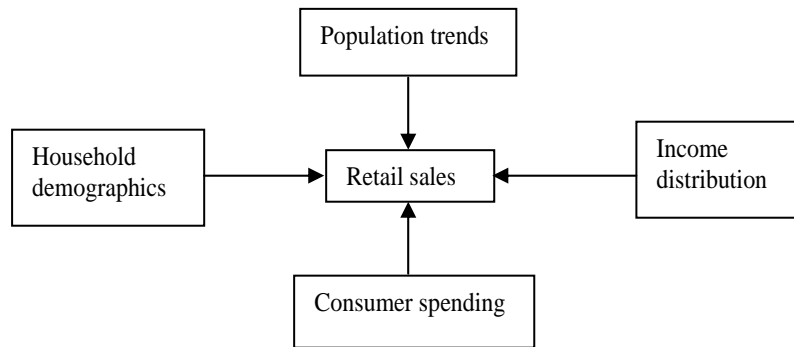


Figure 2. Analysis of retail sales performance of the regional centre

A closer look at the population dynamics showed an ageing and declining population, but the decline in retail sales could not be explained by this factor, as this was also a more affluent population with greater spending power. In sum, none of the environmental factors provided any significant explanation for the decline in retail sales at this stage. The changes in age and household structures expected for the next decades were great, however, and obviously had to be included in the following analyses.

Town Centre Gap Analysis and Development of Strategic Direction

Proceeding to an analysis of the town centre competitive position, the main questions obviously relate to a closer understanding of shopping behaviour and the competition: Who are the shoppers, where do they come from, what do they buy, where do they buy it, and why?

While on the surface the town centre had almost zero growth in the last five years, it was, as indicated previously, losing its market share. A closer analysis showed considerable changes in shopping behaviour:

1. The town centre had lost a great deal of the shopping trips from the rest of the region, mainly because of deteriorating accessibility (high travel and parking costs) and increased shopping opportunities closer to home.
2. The town centre had retained much of the trade from its primary market area, but had lost the clothing trade to an out-of-town shopping centre, while it had gained market share in convenience goods. Much of this development could be attributed to the lack of mobility of an ageing population, as the town centre was situated on an island.

A process of self-referential evaluation forms the basis of our conclusions at this stage: What are the strengths and the weaknesses of the town centre, and what are the

opportunities and threats facing it? What possible directions for development does this imply?

As strengths, we noted that although the primary market area contained an ageing population, obviously the lack of mobility and high spending power of this population, together with a concentrated town centre, constituted a strength and competitive advantage. The centre had several weaknesses, however, chief among them, a rather unattractive shopping area, outdated stores and lack of accessibility and no ease of parking. This especially accounted for the loss of shoppers from out-of-town.

The opportunities facing this town centre were mainly related to regaining shoppers from out-of-town, and creating more attractive shopping possibilities as well as leisure opportunities. The threats came from increased mobility of all groups and development of competing shopping centres in this and neighbouring regions.

Concluding this stage of the analysis we saw two main directions for development:

1. Consolidation and development of more attractive shopping opportunities and leisure activities targeting the primary market area.
2. Redevelopment of the town centre as a regional centre based on a thematic approach catering for a regional population with limited accessibility.

Analysis performed in a self-referential approach provides a basis for shared meaning, and facilitates the development of legitimation (consensus), commitment of resources and vertical integration of action (Habermas, 1987). Most of the local players can see that it is possible to develop a competitive advantage to which everyone can contribute. The key mechanism we apply in this process is a so-called 'dialogue conference' with representative participation from all the main players related to the centre, including local politicians.

Horizontal Strategy and Thematic Reconfiguration

Creating competitive advantage for a retail centre is to a large extent a question of developing complementary assets. Having segmented the business or retail outlets of the centre configuration, the critical problem to be resolved is the extent to which potential synergism across businesses can be identified and properly exploited in order to add value beyond the simple sum of independent tenants or functional contributions. This is the purpose of a horizontal strategy. Reconfiguration may consequently be formulated as a problem of developing an appropriate horizontal strategy, i.e. a set of coherent long-term objectives and action programmes aimed at identifying and exploiting interrelationships across distinct and related units (Porter, 1985; Hax and Majluf, 1996).

For many retail organizations, the appropriate pursuit of horizontal strategy becomes one of the most critical ways to establish a superior competitive position. With increased competition from neighbouring and out-of-town centres, increased consumer mobility, and a more diverse population with regard to household structures and lifestyles, sharing a particular location may not be enough for a group of outlets or centres to sustain a competitive advantage.

Most retail centres have traditionally been managed and coordinated as a portfolio of tenants and outlets through some kind of vertical organization; town centre management structure, planning department, shopping centre organization, etc. These kinds of organizational structures have little capacity, however, for managing horizontal relationships between complementary assets. Even if schemes for identifying sources of interrelationships can be found in standard textbooks on strategy, it seldom amounts to more than listing general interrelationships on an operational level, and gives little advice with regard to identifying and treating strategic interrelationships, or relationships on a strategic level.

In our approach we have again turned to theories of communication to effectively manage these kinds of processes.

The segmentalist approach to retail centre management is based on the idea of the retail centre as a nexus of contracts based in turn on a series of bilateral contracts orchestrated by a coordinator (shopping centre organizer, town centre planning department, etc.). Our view is that a dynamic reconfiguration will have to take place and be coordinated in a more multilateral fashion without having to resort to excessive communication and information processing capacity to achieve a transformative reconfiguration. To many, this may seem like an unsolvable dilemma.

The question now is how communication can form the basis for an effective management process supplying the necessary transformative capacity. The answer is to realise that differentiation requires processing communication with access to new kinds of self-reference. Here, it is important to note a distinct, functionally specific difference, namely the difference between themes and contributions (Luhmann, 1995), which appears to act as a condition of possibility. Communicative nexes must be ordered by themes to which contributions can relate. Themes regulate who can contribute what, and have a factual as well as a temporal and social aspect.

Communication, therefore, is typically, although not necessarily, a process steered by themes. At the same time, themes reduce the complexity opened up by language. The theme gives sufficient orientation for one to choose one's contribution quickly and check the appropriateness of other's contributions.

Elemental communicative events shape themselves into processes with ordered, differentiated selectivity. Strategic communication must therefore progress by producing and reproducing themes that recruit their contributions autonomously so to speak. Therefore, an intervening requirement mediates between language and reconfiguration actions—a supply of possible themes that is available for guide and readily understandable reception in concrete communicative processes. Following Luhmann (1995), we would like to call this supply of themes *retail centre semantics* when it is reserved specifically for the purposes of communication.

As an example of a thematically-based reconfiguration of a shopping centre portfolio of outlets or tenants, let us consider some of the environmental problems and challenges facing our town centre and the shopping centre development project; an ageing population, an increasing number of single-person households, and loss of shoppers from out-of-town. What are the main concerns of people aged 45–65?

Looking at spending patterns for this age group we fairly soon discovered that health care and health related products and services had a prominent place in their spending pattern. Using the theme *health and health related products and services* a long list of possible contributions turned up through various communications: Medicines and health care products, physician services, massage and physiotherapy, recreational equipment, sports equipment, product and services related to the care of pets, personal care products, hairdressing and beauty treatment, health studios, cosmetic articles, accident insurance, food and dietary solutions, organic food, fitness centres, etc.

Then each of these contributions was screened with regard to potential horizontal interrelationships: source of interrelationship, possible form of sharing, potential competitive advantage and compromise costs (Hax and Majluf, 1996).

Various types of configurations were then considered and evaluated in relation to market potential and economic performance, and a development plan agreed upon.

In a similar fashion, the rest of the available space in the proposed shopping centre project was subjected to a thematically oriented planning and reconfiguration approach, considering, among other themes, leisure and recreational themes, and solution oriented shopping for food and groceries, to complement the local supermarket formats.

CONCLUSION

We have discussed the recent changes in the retail industry, as exemplified by the arrival of foreign multiples in many countries, including the Asian countries. Local development is often interpreted as an inevitable adaptation to new retail formats introduced by foreign multiples. However, if strategic management, based on a dynamic capability framework, is

to have any meaning, strategic managers must be more than just locally-based imitators. We have tried to show that an approach based on a socio-cybernetic framework and the development of several types of communicative competences, may function as an effective approach for the development of a competitive advantage for a retail centre.

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