

Retail Innovation - The never-ending road to success?

A critical analysis of pitfalls and opportunities

Doris Berger¹ and Jeffery Bray²

Abstract

This paper outlines the current and continuous changes occurring in the retail and social environment that necessitate the constant evolution of retail formats. Over recent years experiential retail formats have appeared in recognition of the increasing need to 'entertain' shoppers and satisfy their 'leisure' needs. A number of 'best practice' examples of such retail innovation have been presented.

While such experiential innovations appear to be the 'holy grail' of modern retailing, they often require considerable investments of both capital and management time. This paper has used an autoethnographic approach to reflect upon the constraints and costs involved in the design, construction and operation of such a retail enterprise to provide a unique and holistic assessment of the benefits and challenges experiential innovation holds in developing new retail formats and initiatives. The findings from this research highlight a number of previously unreported pitfalls that are likely to be encountered, financially, operationally and symbolically. It is recommended that retailers continue to explore experiential innovations, but that they proceed with caution!

Key words

Retailing; innovation; experience.

Introduction

The dynamics of retailing continue to evolve rapidly. Global developments and lifestyle changes continue to affect the retail sector and force retailers to adapt their business models and strategies. By adapting to changes in the retail environment

¹ IMC University of Applied Science Krems
Professor for the Degree Programme Corporate Governance & E-Business Mgt
IMC FH Krems

Email: doris.berger@fh-krems.ac.at

² Senior Lecturer in Marketing and Consumer Behaviour
Bournemouth University
Email: jbray@bournemouth.ac.uk

retailers try to apply new perspectives to established ways of doing business. These evolutionary pressures are nothing new, with each retail format being described as having a 'life-cycle' through which they grow in appropriateness and importance before eventually being overtaken by the changing retail environment to become obsolete (Davidson *et al.*, 1976).

Considering the multiplicity of consumers' needs, desires and preferences, which typify the contemporary retail environment, numerous new forms of retailing are emerging. Many contemporary retailers have developed their retail formats to deliver enhanced opportunities to add-value to the shopping experience beyond the mere acquisition of sought goods (Reynolds *et al.*, 2007; Moisio and Arnould, 2005). As a potential tool of differentiation, retailers are encouraged to take account of consumer experiences in the shopping environment (Arnold *et al.*, 2005; Grove and Fisk, 1992). As such, retailing strategies nowadays are often directly focused on creating a pleasant and almost theatrical environment for shopping, using the enhanced customer experience as a means to attract consumers to their fascia (Frasquet *et al.*, 2002; Arnould and Price, 1993). This development serves in response to the increasing leisure role that shopping now performs in many developed markets; a recent study surveying over 2000 people in the UK found shopping to be the fourth biggest leisure activity in the UK (Mintel, 2007).

Fast-changing customer expectations and shortened product and retail life cycles (Levitt, 1965; Davidson *et al.* 1976) force retailers to change their operating strategies, adapting to the multioptional consumer's needs, desires and preferences.

This article seeks to enhance understanding why marketers should add experiential aspects to their market offerings, and how they can differentiate themselves from their competitors. A best practice study is presented, analysing such retail innovators worldwide and identifying their sustainable competitive advantages. This will lead to a more practical and applied section which, based on the autoethnographic views of a retail practitioner with experience in the management of such experiential store environments, will outline the practical costs and challenges inherent in such store designs.

Building on neo-behaviouristic consumer theory, with a focus on the Stimulus-Organism-Response (SOR) framework (Jacoby, 2002), the authors tried to find out how a total marketing experience can be created within the retail industry. In recent literature the term "retail theatre" is used to describe the creating of exciting experiences for consumers (Baron *et al.*, 2001; Grove *et al.*, 1998). Experience orientation can be seen as a claim of consumers to products or services, it is a fundamental differentiation possibility for shopping outlets from their competitors. Moreover it is considered to be an effective marketing strategy, as it can have a very positive effect on customer's purchase behaviour, leading to increased sales volumes, basket sizes and footfall.

Starting points for the concretisation of experiences in shopping sites can be varied. Müller-Hagedorn (1985) divides them into four areas:

- item-related: e.g. by the possession of the goods purchased
- related to the stages of the purchase process: e.g. decision support, information on the offer and advice, favourable buying conditions
- related to the human senses
- referred to mental constructs: feelings, emotions, satisfaction

Heinemann (1989) has tried to identify major differentiation factors for retailers by conducting an empirical analysis. It was based on key performance factors such as assortment, service, price, communications policy, layout and design. One performance factor has emerged as the most important and effective one, the design of a shopping outlet.

Every retailer must examine for which special area he can gain competence and which experience area has the largest profiling potential (Weinberg, 1992; Kroeber-Riel, 1984), but it has been verified that the appraisal of both internal "atmospheric" elements, such as design, lighting and temperature, and external elements, such as parking facilities, accessibility, can affect consumers attraction to a shopping facility, influences a consumer's desire to remain longer in an outlet (Babin and Attaway, 2000; Bitner, 1992; Wakefield and Baker, 1998) and a consumer's in-store shopping behaviour (Tai Fung, 1997). Additionally this experience value of the shopping outlet contributes to the subjective quality of life of consumers (see Weinberg, 1992).

For the purpose of this paper, we suggest that a retail innovation is a retail business model which combines elements of several retail formats with the aim to create added value for consumers and to differentiate themselves from their competitors

In summary it shows that, by following an experience-oriented business strategy, companies can create positive feelings and increase a customer's resting time in an outlet. As a result, this may lead to customer loyalty and sales increase. In this regard, from both the managerial perspective and the academic perspective, there is a perceived need to study the current developments in the international retailing arena. The nature of innovation in retailing is currently vastly under-researched (Tether, 2005; Miles, 2000).

This exploratory paper contributes to the literature in two respects. First, it presents and analyses selected best-practice examples of current innovations in retailing. Secondly, the paper provides a reflective section highlighting some of the pitfalls within retail innovation and identifying practical managerial implications and future recommendations. The findings of this study should provide academics and practitioners alike with a better understanding of the importance of a retail innovation from the consumer's perspective as well as from a managerial perspective.

Antecedent changes in the retail environment

Several theories try to explain the present structure of the retail industry, analyse the current developments and try to predict future developments of retail institutions. A key explanation for the dynamics within the retailing sector was given by McNair (1931; 1958) with his wheel of retailing concept. Under his hypothesis, new types of retailers enter a market as low-margin, low-priced, and low-esteemed merchants serving price-conscious consumers. Over a period of time, when customer traffic is increasing, these retailers upgrade their stores and offerings, as there is an increasing demand for services, thereby losing their cost advantage. The result is a group of high-priced, high-margin retailers catering to higher income consumers. This upgrading process results in the fact that these retailers are exposed to new low-priced, low-esteemed innovators, which begin to turn the wheel of retailing again.

While there can be found several examples within the retail industry which support the wheel of retailing concept, there exist numerous counter examples.

Hunt (1991, 113) comments in relation to McNairs wheel theory that „a simple empirical regularity does not describe a „lawlike generalization“, similarly Hirschmann/Stampfl (1980, 72) suggest that the wheel lacks validation and is failing to meet the criteria for a formal theory. Brown (1989, 146) subscribes to this view when explaining that McNairs framework does have a heuristic significance and has generated voluminous literature but the concept still remains unproven.

Köhler (1990, 64) has tried to enhance the wheel of retailing concept, adding three patterns of evolution for retail institutions:

- *high-level-trading-strategy*: other marketing instruments than pricing policy are dominating a retailing format;
- *trading-down-strategy*: beside high-priced, high-margin retailers there also exist institutions following a low-price policy
- *low-level-trading-strategy*: retail institutions are retaining a low-price policy.

Summarising the numerous evolution theories, which try to explain the developments within the retail sector, it can be said that using a single isolated marketing instrument, the pricing policy, is not sufficient for providing a comprehensive explanation. An innovative retailer can enter the market by using other elements of the retail marketing mix, product assortment, service offerings, store location, layout and design and/or communication strategy for example. In a dynamic environment retailers constantly have to adapt to the changing conditions in the marketplace and adjust their retailing concept. They have to meet customers' needs by offering improved retailing formats which might render existing formats obsolete. By applying new perspectives to established ways of doing business, a retailer can strengthen its competitive and financial position, improve the customer experience and create a new life cycle of sustainable profitable growth.

At this point it has to be said that retail innovation of all kinds tend to have short cycles, being easy to imitate, and therefore making speed to market essential. Reynolds *et al.* (2007) conclude that winning retail formats emerge from an opportunistic and incremental process, based more on intuition than rational analysis.

In addition they state that there is a need to recognise the creative tension between market-led and finance-led approaches to format innovation.

Especially when it comes to long-term strategic innovation, which can be seen as high-cost/high impact investments (Hristov and Reynolds, 2005), it should be noted that there exist numerous unreported pitfalls. Therefore retailers should proceed with caution when exploring and implementing innovative retail models or changing existing business strategies.

Current role of shopping in consumer lifestyles

A detailed literature review on consumer behaviour, in particular current developments of consumer lifestyles, have shown that the so-called "multioptional" consumer (Sinkovics, 1999; Schüppenhauer, 1998) takes on greater significance. This type of customer demonstrates a multidimensional, divergent behaviour, which means that he acts simultaneously, being experience-, convenience- and brand-oriented, also being price-, environmental and health conscious. Social and consumer researcher (e.g. Opaschowski, 2002; Schulze, 2000; Weinberg, 1992) state that "experience³ orientation" is one of the fundamental changes in values in our society. This development involves a preference for experience-oriented formats alongside a growing interest in convenience and low-price formats ("discounters").

This value orientation can be used as an indicator for an overall trend, to achieve an independent lifestyle (see Kroeber-Riel and Esch, 2000, 27). This trend characterises the individuality with which demands of life, like tangible goods and services, are formulated and subjectively perceived. This emotionally experienced individuality, a so-called "individualisation", is reflected in all areas of life, including the consumption of products and services (see Kroeber-Riel and Weinberg, 2003, 114). The emergence of specific subcultures and lifestyles as an expression of common forms of everyday life and organisation of daily life is directly linked (see Hennings, 2000, 56).

These developments imply consequences for a retailer's marketing mix.

³ In this paper the term "experience" stands for a consumer's perceived contribution to the quality of life which is generated by a product, service, sales talk or the shopping outlet.

The creation of product and brand experiences has become an important marketing objective, especially in saturated markets it can be used as an effective tool for differentiation from competitors. The communication of experiences can help to strengthen a consumer's emotional relationship with a supplier and the creation of a preference for him.

On the other hand functional product features become less important. Kroeber-Riel (2007) estimates that a "dematerialization of consumption" might occur, because consumers no longer buy products and services due to their functional benefits but more because of their intangible benefits. Latter imply emotional consumer experiences, which contribute to a consumer's quality of life.

It has to be noted that the discussion is still ongoing, as researchers are constantly searching for a more precise definition of "experience" or "experience orientation" and its consequences.

When it comes to the retail sector Mueller-Hagedorn (2003, 48) provides a suitable explanation where starting points for a concretisation of a retail experience can be found. An experience can be related either to the purchased goods or services, but it can be also related to the phases of the buying process itself. In both cases human senses, pleasant impressions and/or mental constructs, like emotions, feelings and satisfaction, have to be taken into account.

Review of current good practice within retail innovation

In accordance with an extensive literature review, identifying fundamental developments within the retail sector, a best practice study was conducted, analysing retail innovators worldwide and finding out their sustainable competitive advantages.

In general, there are two kinds of innovations. Firstly, there are innovations that create discontinuities, the so-called category migration (Bessant *et al.*, 2004). Secondly, there are innovations that are one step ahead of the competition by offering continual change and improvement (Miller and Morris, 1999). Most innovations fall into this category, they are more than simply a product or service, and they incorporate channels, customers and the company's capabilities.

A successful example of how a retailer created discontinuities and satisfied consumers needs is provided by Wal Mart. The world's leading retailer, in attempts to increase sales volumes, created a new business model, the so-called "Walk in Clinic", where shoppers can visit nurse practitioners in independently operated clinics set up within the stores (MacReady, 2007). They offer basic services ranging from vaccinations to diagnostic screenings to prescriptions and treatment for minor problems like sore throats, skin infections and sprained ankles. Everyday low prices is the basic idea behind this retail approach which aims to routinise medical care, reduce waiting times and offer longer opening hours (Barrat, 2006).

What we can learn from this business model is that retailers should concentrate primarily on new store formats and distribution models, product and service offers, marketing and customer communications. This consumer centric corporate governance helped them to differentiate their retail outlets. They developed something unique which is valuable and useful for a customer, an innovation within the retail sector.

In addition to this, retailers can differentiate themselves by using experiences to sell a dream, as well as the product and above all, bring the brand to life. They try to create memorable brand interactions that resonate with their target consumer by making stores immersive and combine branding with entertainment, i.e. construct their own world of experience.

A best practice example provides The Pleasant Company, founder of the American Girl Place⁴, a combination between retail and entertainment site designed especially for girls. Each store features boutiques, a cafe, and a professional theatre. The stores have won numerous awards, recognised as premier models for experiential retail. They moved from a traditional toy shop to direct selling through their own retail outlets and finally to a branded retail experience. They bring the children to the brand, so that they get emotional involved with the brand, they create a long-term customer relationship while increasing the demand for the products, from push- to pull-marketing, and reducing traditional media spending.

⁴ For more details <http://www.americangirlplace.com>

Numerous “big brands” are currently including experiential marketing elements into their business strategies to attract their customers, getting them emotionally involved, creating long lasting experiences and lifetime relationships. The German car manufacturer Volkswagen created its own theme park „Autostadt“⁵ in Wolfsburg (Germany), offering a combination between a museum, a contemporary art exhibition, a presentation platform for their car brands, a cinema and various other leisure experiences.

The beer producer Heineken tries to get its customers emotionally involved by offering them the so-called “Heineken Experience”. Within a historical building of a brewery in Amsterdam the visitor himself turns to be a beer bottle and experiences all steps of the production process. This “Heineken Experience” appeals to all senses by offering the chance to taste and smell beer, getting information and providing the opportunity to buy unique articles in a merchandising shop.⁶

Another example provides Swarovski, the world-famous producer of precision-cut crystal components. With the creation of the Swarovski Crystal Worlds⁷ they have built a creatively designed place where customers take pleasure in their astonishment of various crystal chambers of wonder which animates visitors to purchase products in the spacious shop.

Such worlds of experiences can help to create a positive corporate image, getting customers emotionally involved with the brand and psychologically differentiate a brand from its competitors.

The current literature examining experiential retail innovations appears to exclusively examine the positive impacts of such initiatives. While the positive aspects of such innovation are not questioned - indeed the authors encourage retailers to continually evolve and innovate in order to sustain and grow in their markets - it is clear that in many cases such innovations cannot be delivered without incurring substantial cost to the business.

The remainder of this paper will critically appraise the examples of retail innovation provided previously, and provide an in-depth analysis of a case-study example. The

⁵ More information under <http://www.autostadt.de>

⁶ <http://www.heineken.com>

⁷ <http://kristallwelten.swarovski.com>

case-study company is Halfords, a large chain retailer based in the UK, who have recently trialed a highly experiential store concept. The methodological approach adopted in the analysis of this store operation is that of autoethnography. One of the paper's authors was heavily involved in the design, launch and subsequent management of this trial concept, and the paper will rely greatly on the personal reflection of these processes. Where necessary, informal interviews with other key personnel from Halfords have been conducted to inform the paper.

Critique of Experiential Innovation

Very often these new innovations can exude brand building benefits beyond their obvious direct contributions. As such they might not need to be directly profit contributing in their own right to be more widely justified and beneficial. In periods of strong economic growth and buoyant retail sales such vicariously beneficial initiatives are likely to be embraced, however as we enter a more harsh economic climate this view is less likely to be sustained.

In each of the cases of retail experiential innovation identified earlier, there are significant costs and challenges that have largely gone unreported. The case of Wal Mart's walk-in clinics, may be the exception to this, receiving much media coverage lately, outlining at least a partial failure of the concept due to higher than expected costs challenging the financial viability of the concessions (Maestri and Berkrot, 2008; Freudenheim, 2008). Similarly, while other 'best practice' examples have won critical acclaim, the concepts have been slow to be exploited more widely, with still only three 'Girl Place' centres in operation for example. This clearly shows that while the innovation may be attractive and represents a step change in the consumers' involvement in the shopping process; many have limited potential to be more widely commercial applied, due to overly stretching cost structures, or other previously unrecognized challenges.

Through the examination of Halfords as a case-study concept, it is hoped that the full range of operational, financial and symbolic challenges involved in realising experiential ideas can be identified and exposed.

Halfords Experiential Trial Concept Stores

Halfords is the UK's largest retailer of car maintenance, car enhancement, and leisure products (including cycles). Currently the brand trades from 433 stores, most of which are large out-of-town units each providing around a 400m² sales floor area. Due to its dominant market position, Halfords has explored both international expansion (to Ireland and the Czech Republic), and store format enhancement as possible growth strategies.

Key to this strategy was the launch of a new concept store format which was heavily experiential, strongly incorporating "retail theatre" throughout the store. The most notable way in which this was achieved was through the alignment of the stores' gondola displays, which rather than sitting in a standard grid pattern, were arranged radially from a central display area. This central area was used to display exhibits likely to be of interest to the target customer; examples included a championship winning go-cart or a leading motor cross motorcycle. The exhibits displayed in this area were changed frequently to maintain interest in the store and attempt to increase the frequency of store visit by customers.

In addition to this significant change, a plethora of smaller displays were introduced throughout the store that enabled the consumer to interact with the product to a far greater extent than would previously have been possible. The display of foot pumps used to inflate car tyres was changed for example; traditionally these products would simply be stacked, in boxes, but in this new concept store format, each different type of foot pump was connected to a long tube containing small balls and consumers could experience and see the differing effectiveness of each product by attempting to pump the balls up the tube. Similarly the sale of car light bulbs was enhanced by a mock up of a dark night road where customers could trial each of the different types of bulbs and see which provided the better lighting, rather than having to rely upon bold packaging claims of improved performance. These examples serve to demonstrate that even rather mundane products can be displayed in innovative ways to stimulate greater customer involvement and enjoyment in the store experience.

Initially, trading within the new store concept was encouraging, with overall store sales increasing by around 10%. Within this trend, some more dramatic sales uplifts

were experienced in particular product areas, for example in the sales of premium car light bulbs as discussed above. While this was encouraging, the raw financial data obscures the issues that were inherent in the operation of such an innovative store, issues that together resulted in the success of the store being rather short lived.

It was apparent that due to the changing displays and interactive elements, potential customers were visiting the store more frequently. Interestingly, however, while the footfall increased, average transaction value fell suggesting that the greater frequency of visit, might not have been from customers who had money to spend in the store.

Of course the additional displays, fixtures and fittings required in such a store format were expensive to design and manufacture, and whilst they provided great opportunity for consumers to interact with the products, many were broken within a few weeks of the concept being launched either due to poor manufacture or customer miss-use. Considerable management time was necessary to organize remedial repairs and liaise with suppliers. In nearly every case when additional or replacement fixtures and fittings were required long lead times to delivery were experienced due to the bespoke nature of the requirements. This led to the store being presented in a sub-optimum state for much of the time, creating inevitable symbolic costs, and damaging the retail brand; if the foot pump display is broken what can the consumer deduce about the quality of the foot pumps themselves?

In one incident, the store suffered an overnight break in. The store was well protected against the threat of break in, however because of the high value of car audio equipment and satellite navigation products stocked, the store remained vulnerable, and entry was made through a concrete wall. During the robbery the audio display cabinets sustained extensive damage, and, once again, due to the bespoke nature of these displays, remedial work was not fully completed for some three months, having a severe adverse effect on sales in this substantial product area.

After eighteen months of operation, many aspects of this new concept store were disbanded. Experiential fixtures were not replaced when broken, and in their place

stock was displayed and merchandised in a more traditional way, and the central display area was used to display, not inspirational exhibits from the racing world, but rather bulk stacks of promotional items, or special purchase lines. In effecting these changes the merchandising of the store became more efficient, and the central display area, for the first time, directly contributed to sales of the store.

Discussion and Conclusions

This paper has identified the necessity for retailers to continually evolve their retail formats in light of incessant changes in the retail and social environment. In recognition of the significant leisure role that shopping now performs for many consumers, experiential innovation is thought to be of particular relevance, with the introduction of more engaging and enjoyable store formats providing strong potential for differentiation.

A number of 'best practice' cases have been identified and discussed to outline the nature of innovation that is currently being explored in the sector. It is clear however from the study of Halfords trial concept store that such experiential concepts come with their challenges, and a balanced pragmatic assessment should be made prior to roll out. The key challenges that have been identified can be broadly classified into three key areas, financial, operational and symbolic.

The financial costs include any 'down trading' during the process of conversion to any new format, the cost of the newly introduced fixtures and fittings, and the unexpected costs of replacement fixtures as necessary. The operational costs may be significant through the additional management time required through the planning, research, implementation, and additional tasks required in the operation of such a format. Further operational costs might include the lack of a direct return from display areas that do not contribute incremental sales. In the case of Halfords it is thought that significant local damage to the brand may have occurred through the presence of faulty or damaged displays in the store representing a symbolic cost. Additionally it is thought that the experiential elements may attract less profitable consumers into the

store, those with time to spend in the store might not have money to spend! This could additionally have a negative impact on the experience of other shoppers.

Despite this taxonomy, each element holds a financial cost, and combined, are likely to have a significant impact on the viability of the format. It is clear that such innovation is desirable and, to some degree, essential in contemporary retailing. However, store groups should carefully plan their initiatives and fully consider the constraints and challenges which are currently under reported but identified here for the first time.

Further research in this area is encouraged, and should engage with a wider range of case study examples to help develop true 'best practice' innovation which really delivers not only customer value, but financial value.

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