# McNAIR'S WHEEL OF RETAILING THEORY; IMPLICATION FOR NIGERIAN SMALL SCALE BUSINESSES

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**Abstract**

*It was an exploratory research in search of factors that propels the wheel to roll from one stage to another as propounded in McNair's wheel of retailing theory. Several authorities in and outside marketing positions' with regard to wheel of retailing theory has been exploited, much of their submissions agreed with McNair's positions who propounded the wheel of retailing theory and others did not, and this forms part of its criticisms. From their submissions, conclusions were drawn and recommendations made that; the trading up stage of the wheel is the ideal place for businesses to remain as long as possible; as such those drivers that sustains the wheel at trading up stage should be encouraged. In addition, those that caused the wheel to roll away from this stage such as higher wage bill from fixed assets acquired, retail management, excessive increase in customer service, rise in advertising cost and the cost of improving the interior must be checked for it to remain for as long as possible at the trading up stage.*

**Key words:** Wheel of retailing, Marketing, Accordion theory, retail evolution, retail management.

## Introduction

The "Wheel of Retailing" is considered to be one of the few original concepts that marketing as a discipline has originated and has not been borrowed from other disciplines. Hence, the value of the wheel for marketers goes back to the beginning of its existence as an independent academic field. D'Amico (1983) in Savitt (1989) is of the opinion that, the wheel is "the most popular topic area in the entire marketing literature". Moreso, Brown (1988) believes that, with exception to central place theory and the gravity model very few concepts come close to the wheel in terms of the volume of citations, published papers and associated commentary.

In explaining the wheel of retail theory, retailing and theory needs to be defined. Retailing according Kotler and Keller 2013 includes all the activities involved in selling goods and services directly to final consumers for personal, non-business use. Kerin et al 2006 sees retailing to include all activities involved in selling, renting, and providing goods and services to ultimate customers for personal, family or household use.. Any organization selling to final consumers-whether it is a manufacturer, wholesaler or retailer is undertaking a retailing business and it doesn't matter how the goods or services are sold (in person, by mails, telephone, vending machine, or on the internet).

On the other hand, theories are propositions, or accepted facts that attempts to provide a plausible or rational explanation of cause-and-effect (causal) relationships among a group of observed phenomenon, it stresses the fact that all theories are mental models of the perceived reality, business dictionary (2014). Again, Webster dictionary sees theory as a supposition or a system of ideas intended to explain phenomenon, especially one based on general principles independent of the thing to be explained. It is a coherent group of tested general propositions, commonly regarded as correct, that can be used as principles of explanation and prediction for a class of phenomena like Einstein's theory of relativity or Darwin's theory of evolution. It is not enough for theory to describe and analyse, it must itself be an event in the universe it describes. Like products, the wheel suggest that retail-store types passes through stages of growth and decline as existing stores adds more services to remain competitive, costs and prices goes up, which opens the door to new retail forms that has a mix of merchandize and services at lower prices.

## The Wheel of Retailing Theory

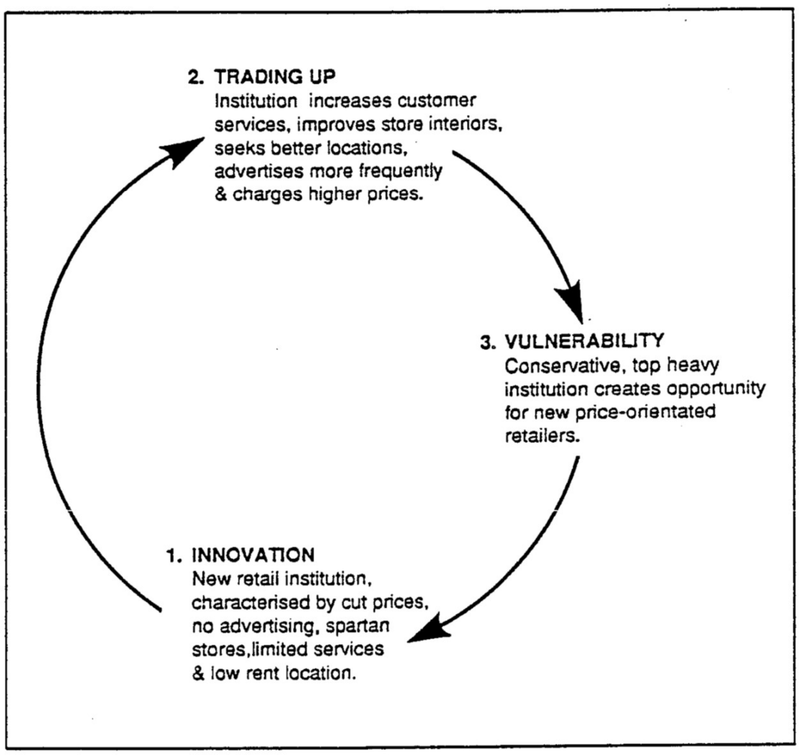
McNair (1931) and (1958) propounded the theory of the wheel of retailing though in one of the premier marketing journal, Hollander succeeded in bringing the concept to the attention of a very wide audience and properly coined the wheel concept; stimulating academic interest in the evolution of retail institutions and effectively set of the agenda for future research, Nevett and Fullerton (1988). This theory explains a cyclic retail evolution pattern, which he had observed with European and United States organized retail organizations. It states that the evolution process comprises of three stages; the entry stage, the trade-up stage and vulnerable stage.

The entry stage of wheel of retailing starts with offering limited merchandize with low prices, limited or no services at all, no advertising at all, but the low margins will help in increasing penetration of the market.

The second stage is the trade–up stage where the organization offers full services and a range of merchandise in full prices without any discount.

The third stage, the wheel turns as the store matures in its growth and faces more competition too. As a retailer reaches this stage, he will reduce prices and scale down services too in order to reduce operating cost. McNair calls this the vulnerable phase as competition may make easy inroads and the wheel turns back to stage one as shown in figure 1.

**Figure 1**
**THE WHEEL OF RETAILING**



## Figure 2
## THE DEVELOPMENT OF THE WHEEL THEORY

| | | PRODUCT | |
|---|---|---|---|
| MARKET | SAME | RELATED | NEW |
| SAME | WHEEL OF RETAILING<br>Different retailing institutions in USA<br>Causes of pattern<br>Individual retail firms<br>Non-retailing applications | CYCLICAL MODELS<br>Retail accordion<br>Retail life cycle<br>Simplex - omniplex model | NON-CYCLICAL MODELS<br>Environmental analogy<br>Ecological analogy<br>Dialectical theory<br>Crisis - response theory |
| RELATED | WHEEL OF RETAILING<br>Applications in Europe and developed world<br>Diffusion of innovations at intra-national/regional scale | CYCLICAL MODELS<br>Polarisation principle<br>"Three Wheels" theory<br>Organisational "spiral"<br>"Waves" of retail decentralisation | NON-CYCLICAL MODELS<br>Catastrophe theory<br>Principle of minimum differentiation<br>Adjustment theory |
| NEW | WHEEL OF RETAILING<br>Applications in developing world<br>Retailing technology transfer | CYCLICAL MODELS<br>Trickle down hypothesis<br>Stage theory | NON-CYCLICAL MODELS<br>"Refined" wheel of retailing theory |

Adapted from ANSOFF (1957)

Much of subsequent discussion will be on the wheel's applicability to various retail institutions, its utility within different cultural context, different economics, criticism to the wheel theory, and other retail theories as it relates to the wheel theory, and the examples of retail firms within and outside Nigeria that has passed through the wheel process.

**Comparism with other Retail Theories**

Early studies of retail change are mainly from the perspective of retail institutional change. Retail institution refers to the basic retail format and its distribution in a market. Among institution based theories the wheel of retailing is the most famous and was once described as the dominant concept for those who practice or studying retailing, Greyer 1976.

McNair (1931) and (1958) argues that retailers always enter a market as low price, low service, low margin operators, who gradually, trade up when they mature. This makes them vulnerable to new and innovating retailers, who will in turn go through the same pattern.

**Retail Accordion Theory**

Hollander (1960) propounded the accordion theory which is also cyclical in nature, the theory says that; at the beginning of retail operation, a retail organization carries a broad assortment of merchandise, but does not carry a deep assortment. At this early stage, the retail organization is a general store. As time passes, the retail organization becomes specialized by carrying a limited line of merchandise with a deep assortment and will eventually return to the broad assortment of many lines of merchandize-Kim, Sook-Hyun (2003). Hollander (1960) develops this Accordion theory based on McNair's theory of the wheel. Concluding that retail change follows a "general-specific cycle" general shop to specific shop and back to the general type of retail establishment.

**Dialatic Theory of Retail Evolution**

The dialectic theory is based on Karl Marx's theory of evolution, propounded by Blake 1939 it states that "the progress of change means that everything must decline to make way for new things, that nothing in nature or society is fixed or sacred since it must share the process of transformation. Dialectic there according to him means, specifically that each step in the retail process is a negation of the previous step, and the next step must be a negation of that negation Blake (1939).

The critical criterion for evaluating any scientific endeavor is performance, its success or otherwise. In this respect even the sternest critics of the wheel of retailing theory would be prepared to admit that the concept has performed well in the area of academic life. The change Blake mentioned corresponds with that of McNair (1958) that says that, though the wheel may at times turns slowly, or remains in one place for a longer time, but it must surely turns.

**Example of Firms that has Rolled with the Wheel**

Japanese automobile called Datsun that was later changed to Nissan in 1970, has grown from the stage one to a world class company with its presence in almost all countries of the world.

Another good example of a successfully application of this process is the Korean automobile manufacturer, The Hyundai. It was founded in its Native South Korea in 1947 as a construction company before eventually expanding and branching out to become its country's largest automobile manufacturer with its massive retail outlet across the globe, e-notes (2013).

Still on firms that has rolled with the wheel examples in automobile industry are Toyota, Honda and Nissan. As the energy crisis dissipated and consumers tastes returned to larger cars, the Japanese companies kept space with their own larger and more expensive names in 1980s, they introduced their own lines of luxury automobiles under different names, for example Honda introduce Acura line while Nissan introduced its infinity brand and Toyota kept space with its Lexus line of luxury cars.

In Nigeria, a good example of a company that has passed through this wheel is the Dangote group. Established in May 1981 as a trading business with an initial focus on cement, the Group diversified over time into a conglomerate, trading on cement, sugar, flour, salt, clothes, noodles and fish. By the early 1990s the Group had grown into one of the largest trading conglomerates operating in the country, now one of the largest manufacturing and retailing conglomerates in sub-Saharan Africa, Dangote official website (2014) It is of importance to note that the wheel theory has succeeded greatly in the Nigerian context.

**What Causes the Wheel to Roll?**

It may be argued that retail change could be caused by both the internal and the external forces; Economic system, consumer demand, competition, suppliers and technology all work together to cause the wheel to roll, and the power of each force varies among markets and in different developing stage of the market. It is of importance for management personnel to note that it is not retail management alone that causes a retail change; other factors, though of varying weight can also cause the wheel to roll. Consumer demand may not carry the same weight with the emergence of an e-teller, automated machine for instance is mainly resulted from the innovation and the development of information technology and customers' demand of convenience rather than retail management, and they all contribute to the rolling of the wheel.

**Criticisms of the Wheel of Retailing**

Although considerable contributions have been made by this theory, it has not been without controversy. Hirschman and Stampfi (1980) argued that this theory is just a description of the past rather than serving as conceptual framework for the future, and that the theory is flowed in assuming that retail change is only driven by either internal forces or external forces, and grouped the internal forces to include; institutional theories which looks only from the perspective of retailers while ignoring the influences of suppliers, consumers and the whole supply chain, his external forces includes the historical perspectives. Furthermore, Hollander (1960) however questioned this view of retailing evolution, arguing firstly that, not every institution developed in this hypothesized manner. That the automatic vending machines, planned mega shopping centres, planned filling station like the North East mega station in parliamentary village and Odukpani roads in Calabar, all entered the market with high price, high margins, quality service and if anything happened subsequently, it is trading down rather than trading up as the wheel suggest. Depending on the capital base of the owner some retail outlet are born global from inception, like Oando Nigeria, which is made from day one capable of matching any petrol or gas outlet in Europe and United States.
Bucklin (1976) criticized the wheel for having relevance in high economies only, and that most certainly not the case in the developing world. That the emergence and popular of convenience stores are not because of its low price and low service but because of their convenience and some services offered there, retail change is always closely related with the level of economic development of the market that it exists. And so, wheel of retail is limited because its theory does not explain the changes effectively, particularly the retail changes in emerging markets and developing economies; since almost all retail theories were developed and concluded from free market and developed economies. It is obvious that in emerging economies, government often plays an important role in retail change and development. Brown 1988 opined that in light of the voluminous literature that surrounds the wheel theory it is clear that the wheel has some relevance to the evolution of retailing institutions in high economics, the same cannot be said of other retail theories. Finally, the most damning shortcoming of this wheel according to Findlays and Sparks (2002), is its assumption that history has a pattern or shape, which is the cyclical rise and decline of the wheel that is common to several other marketing theories like the product life-cycle, the fashion cycle and innovation diffusion theory which McNair may have borrowed from.

**Applicability of the Wheel in the Nigerian Marketing System**

In many types of retail businesses in the country, the wheel is rolling and contributing to the economic development of the country. But as pointed out by Teeple (1979), the wheel's unending debate over its applicability to innovative retailing institutions and with its partial applicability in some economies, he calls for a re-invention of the wheel to accommodate various changes in its applied environment even as the wheel is rolling. Marketing theories, after all, are just as prone to evolution, modification and development as the phenomena they purport to explain. Indeed it is arguable that, like business organizations, theories must grow and change if they are to remain relevant and avoid obsolescence. And given the wheel's acknowledged lack of comprehensiveness and its inability to explain the evolution of every retail institution especially in developing economies like Nigeria, it is not surprising that a variety of alternative conceptual construct has been championed. To this end, a comprehensive model as put together by Brown (1993) is recommended in the Nigerian setting to take care of realities as different market settings and competition type, that varies with the western world where the wheel was first proposed, and the formulation of a comprehensive model of retail institutional change is insufficient in itself, it must be tested empirically particularly in the developing world, Kacker (1988).

**Conclusion**

For over half a century since McNair's wheel of retailing theory was formulated, it still remains one of the few theories that Marketing as a discipline can claim to have originated with much impact. It should be nurtured and developed rather than abandoned for borrowed concepts from economics, psychology, sociology and anthropology, Sheith (1988). Moreso, several other theories of retailing has been developed; all to help marketers' understand and apply strategies that will be profitable to their organizations. The stages in the wheel if followed will help in mapping out 'straight to the hole' strategies especially in the stage II that will help the company remain there for a long time.

**Recommendation**

The wheel is a milestone theory in retailing, and one of the few theories that Marketing as a discipline can claim to have originated, it should be nurtured and developed rather than abandoned for borrowed concepts from economics, psychology, sociology and anthropology.

The trading up stage of the wheel is the ideal place for businesses to remain as long as possible, to this end the factors that propels the wheel to remain at that point should be encouraged. Those that caused the wheel to roll away from this stage such as higher wage bill from fixed assets acquired, retail management, excessive increase in customer service, rise in advertising cost and the cost of improving the interior must be checked for it to remain for as long as possible at the trading up stage

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