Retail physicality and identity change as innovation strategies: the case of Better Life

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Better Life - Retail Physicality and Identity Change as Innovation Strategies

INTRODUCTION

Today’s retail store faces a tough challenge: standing out amongst the competition. In a market full of imitators and followers, differentiation is a means to ensure competitive advantage and sustainability. Particularly given the continuously changing market demands, sophistication of the customers and multi-channel retail models, innovation has become imperative to retail growth and profitability. In the present retailing scenario, retail physicality and retail identity have become major sources of retail innovation. Despite these market trends and developments, a common phenomenon that can be observed in the retail industry is that new entrants prefer to copy existing models rather than innovating with a unique differentiation and one that has not already been experienced by the end users.

Differentiation needs to look past the traditional concepts of branding and different models that have been developed to try and define different retail formats, innovations and strategies. A concept that has recently attracted attention is the customer centred approach in retailing. While the focus in retailing has long been on the tangible product and the supply chain relationships, the customer experience and the related emotional link is becoming a key consideration for retailers to start differentiating their products and ultimately their store.

Above all in the current economic climate, those businesses who don’t adapt to suit consumers will find themselves out of the market very quickly. Consequently, if you don’t innovate, you perish. This work is a description of how retail physicality and identity change were used as sources of innovation by a retail house in the UAE, Better Life, for reviving and succeeding in their retail operations.
Role of Retail Innovation

“While few would deny the dynamism of the retailing industry, history reveals that retailers are decidedly reluctant revolutionaries” (Brown, S. 1990). However, those retailers who don’t innovate risk being stuck between niche specialty players and larger format retailers (Gagnon, J. & Chu, J. 2005) or companies that don’t adapt to market conditions will not be able to sustain themselves (Ahlert, D. et al, 2006). There are three theories on retail evolution brought out in the existing studies: the wheel of retailing, the retail accordion and the retail lifecycle (Brown, S 1990). The wheel of retailing suggests that retail stores develop from low cost, low margin operations to new retail forms. The retail accordion describes evolution as a shift from specialist stores to more and more diversified product offerings. According to the retail lifecycle concept, retailers pass through four stages namely – birth, growth, maturity and decline. The role of retail innovation would initially positively impact market share and sales and then throughout the next stages decline and eventually lead to new retail forms emerging. Even as retailing formats can be cut short without a continuous cycle of innovation (Reynolds, J. et al, 2007), retailing innovation has still been given little attention by researchers (Reynolds, J. et al, 2007). The more recent literature suggests that innovation by retailers in terms of formats can emerge in three ways, either from changing demands of consumers, adapting to take advantage of core competencies or through influences further up the supply chain (Ahlert, D et al, 2006). In addition, this innovation can open doors for not only new formats but also the promise of increased sales and market dominance (Ahlert, D. et al, 2006) and ‘as markets become more fragmented, stores continually adjust their positioning strategies, altering their image, in order to remain competitive’ (Grewal, D., & Levy, M. 2007). According to the IBM Institute of Business Value, there are two ways of competitive differentiation defined by ‘bell curves’ and ‘well curves’. Bell curves define retailers who don’t seek out any particular target market and therefore don’t specifically suit the exact requirements of any one group, and then there are well curves which split retailers into those who specialise in high ‘personal value’ goods, and those mass retail low ‘personal value’ goods. This theory suggests that as the retail market moves to the ‘well curve’, those in the middle will eventually lose out as they don’t completely serve one particular market (IBM Institute of Business
Value, 2004). Hence the need for differentiation becomes an important prerequisite for retail sustenance and growth.

**Retail Physicality**

Physicality/servicescape is one aspect that represents the brand of a retailer. Retail physicality represents more than a location of the operations of a retailer. In fact, physicality or servicescape represents an essential part of a retail brand (Kent, T. 2007). Physicality need not be limited to the external and internal appearance, but can also consist of displayed merchandise, promotions run within the store, the store location and surrounding environment, as well as the internal atmosphere that the store generates (Doyle, S. & Broadbridge, A. 1999). This store experience is a good differentiation opportunity for retailers to set themselves apart from the competition (IBM Institute for Business Value, 2005). Creativity in generating a holistic in-store experience is becoming “a required organisational resource and a desirable core competence” (Kent, T. 2007) especially as far as physicality is concerned. This may in part create a more individualised experience as retailers seek to add value for their customers (Kent, T. 2007). Consequently, this move towards the consumer experience has augmented the traditional shop floor from a basic showroom of products to one of interaction, exchange and socialisation (Kent, T. 2007) which can ultimately affect customer behaviour (Puccinelli N. et al, 2009). As a result, actual experience may be just as or even more important than the product the retailer is trying to sell.

**Retail Identity**

The retail identity or brand is a unique aspect such as a name or trademark which is exclusively linked to a seller, delivers a message about the store’s products and services and can be used as a point of comparison (Aaker, D. 1991). Retail identity (or branding) can communicate a lot about a store’s products and services. Brand identity communication can also come through other elements such as customer service staff, and service levels (Grewal, D., Krishnan, R., Baker, J. & Borin, N. 1998). As a brand should communicate and associate itself with positive attributes about the store (Betts, P. 1994), a different and strong brand can not only set itself apart from the competition but also provide protection against potential competitors (Betts, P. 1994). Survival requires that brands stay relevant within their market
environment and focus on modernising attributes such as user imagery, usage imagery, brand personality, the relationship it seeks to build, and feelings that the brand invokes (Keller, K. 2000). This feeling, or emotional value, attached to a brand can also be more important than any store functional benefit (Ghodeswar, B. 2008). Therefore, a brand and the attributes surrounding it can potentially be a store’s most important asset (Porter, S. & Claycomb, C. 1997) positively affecting purchase intentions (Grewal, D. & Levy, M. 2007). This signifies that stores who focus on branding attributes in addition to the products have a much better chance at surviving in the market.

THE CASE OF ‘BETTER LIFE’

History and Evolution of the Retailer

The Easa Saleh al Gurg Group, was established in the UAE in 1962. It is made up of a diverse portfolio of 23 companies, each dealing in distinct areas of business, and operating as independent profit centres. Today the group represents a number of world class companies including Unilever, British American Tobacco, ICI Dulux, Dunlop, Danfoss, Broyhill, ID Design and Armitage Shanks.

When the company started its operations in the early 1960s, one of the first brands that it began to represent was the well-known German electronics brand GRUNDIG. It set up a company – Al Gurg Electronics - to represent the brand. Over the years, as the brand grew to high levels, Al Gurg Electronics established a good reputation as the agent for the brand. The company operated out of its own premises, with all facilities, warehousing, and team, and was managed by a business manager, who reported to the Group General Manager, in the head office.

Al Gurg Electronics set up a flagship store in one of the Group’s buildings in Dubai, and another store in Abu Dhabi, both located in prominent locations. The shop in Dubai particularly gave the brand constant and high visibility. A distribution network was set up with 50 dealers throughout the UAE, including power retailers and hypermarkets.
The Group also tied up with Siemens in the early 70’s. To handle the business of this large German conglomerate, it established another company called Scientechnic. Scientechnic soon became one of the largest companies within the Group, and gained a prominent reputation for itself as the agent for Siemens electrical products, including electrical switchgear – with a manufacturing unit - automation, street signals and lighting. Scientechnic supported Siemens AG in its sales in the UAE of large electrical projects such as power stations and transformers.

Scientechnic also took up the distribution and sales of Siemens branded consumer products – namely, Siemens branded home appliances on behalf of BSH Bosch Siemens Hausegrate, AG, a Siemens joint venture with Bosch, and Siemens branded mobile phones and cordless phones on behalf of Siemens AG. In addition to the Siemens products, it also entered distribution arrangements for three other home appliance brands, namely Admiral (a Maytag brand), Terim (an Italian maker of free-standing cookers) and Skandinova (a product of the Vestfrost Group from Denmark).

Scientechnic established a large showroom in Dubai, which was shared by the company’s technical and industrial products, all of which were sold through the same shop. It had 5 branches in other parts of the UAE and one branch in the neighbouring country of Oman. In each of these branches, it set up common facilities and showrooms for appliances along with industrial and electrical products.

It also established a network of 60 dealers throughout the UAE, including power retailers and hypermarkets, and sold its products through this network.

**The Problem:**

By the beginning of the year 2000, Grundig in Germany, was having serious difficulties keeping pace with its Japanese and Korean competitors in the field of entertainment electronics. Grundig could not respond with adequate innovations to match the aggressive pace that these newer companies were setting. On the other hand, it continued to follow inflexible systems in terms of its business attitude and marketing.

This created a real problem for Al Gurg Electronics, which had been set up specifically to represent this brand. It tried to expand its operation by introducing its
own range of home appliances under the name of Wolf, getting products manufactured in China and using the same distribution network to sell them. This, however, was not an easy task. Home appliances were not necessarily sold by the same dealers as consumer electronics. The majority of the products were being sold either through the re-export channel, or through hypermarkets.

With the decline in the fortunes of Grundig in Germany, the company’s results were also declining, and by the end of the year 2002, the company had really sunk low and the team of 24 people who were manning the various activities of the company were beginning to wonder what the future held for them.

In the second quarter of 2003, the inevitable happened. Grundig Germany declared bankruptcy.

At the same time, Scientechnic was having its own share of difficulties. While the company was growing rapidly every year in its core engineering and electrical businesses, its sales of home appliances were facing tough competition in a market dominated by Far East brands.

While the sales were substantial, they were not enough to sustain the costs of the operation, much less allow for any power to support marketing efforts. The up country sales force was common for industrial and home appliance sales, as a result of which there was no focus on the appliance sales. Since business was slow and unprofitable with little growth, it resulted in intense pressures being built up on the company by impatient principals. At the same time, reflecting the problems its Principal Siemens was facing globally, the company was unable to compete on mobile phones in the UAE market, and eventually, this business was discontinued. However, the company continued to sell cordless phones, and was able to make a small profit on this business in the year 2003.

**The Challenge:**

In November 2002, the Group appointed a new general manager to look after the retail and trading businesses, and one of the tasks assigned, was to try and revive Al Gurg Electronics. He was also asked to help the Scientechnic management, to rebuild the home appliance and telephone businesses, and make them profitable. When the closure of Grundig was declared, this created a completely new situation.
Suddenly, the group had a company – Al Gurg Electronics – with all its infrastructure, people and facilities, but with no product to sell. At the same time, the Group had a division in Scientechnic selling consumer home appliances, and cordless telephones, with an unprofitable operation.

The question before the new general manager was what should he do?

**The Thought Process:**

The first thought, was to try and find an electronic brand to replace Grundig in Al Gurg Electronics. Some enquiries were made with established brands, as well as with some suppliers in the Far East. It was felt that a tie up with these suppliers could enable the introduction of a new range of products either in the manufacturer’s brand, or under the Wolf banner.

It soon became clear though, that establishing a new electronics brand in a market which was completely dominated by well established brands and products from all around the world, would be an extremely long drawn out and expensive process.

A Strengths and Weakness Analysis showed that the greatest strength that the Group had at the time, was the set of four European brands currently being sold by Scientechnic.

The opportunity that seemed to be most obvious, was to find a way to use the resources of Al Gurg Electronics to promote the appliances and telephone brands Scientechnic had.

The threat was that Al Gurg Electronics had, through all the years, essentially sold consumer electronics, and it did not have a reputation or the experience of selling high end home appliances. Furthermore, its team was not large enough to handle the business on its own. It was therefore proposed to the owners, that the appliance and telephones division of Scientechnic be merged with Al Gurg Electronics.

**Market Structure Analysis:**

The market was moving rapidly towards structured retailing of electronics and home appliances. For a group the size of the Al Gurg Group, it made sense to consider
moving into this area of business, as a part of its expansion. The changed circumstances gave it an opportunity to do so. Analysing the market however, it was soon realised that there were some major difficulties that needed to be addressed:

1) Traditional Electronic and Appliance Stores

In the existing retail structure of electronics and home appliances, both these categories of products were being sold through the same shops.

Traditional electronic shops in the Souk, offered a whole mix of products from watches, to calculators, cameras, small consumer electronics, televisions, plasmas screens, to small and big appliances - in small, crowded high street locations. Sales were done primarily on the basis of the price and the reputation of the store, and showing very limited actual products to the customer.

2) Hypermarkets and Large Format Retailers

A new type of retailing was happening through large format stores, particularly hypermarkets with big electronic and appliance departments. These shops sold a very large range of consumer electronics and appliances, along with digital products, cameras, telephones, computers etc. The typical selling process was high pressure, discount driven, with very little in the form of customer service available in the store.

Two other large format electronic store chains had been set up in the country, with a number of branches, but these companies essentially competed with the hypermarkets, selling their products in a slightly more sophisticated way. Large format stores, carried a wide range of products in each category and cherry picked from each brand to get only the best, fast moving models. Furthermore, they were seldom interested in demonstrating new products or concepts which required time to build up (unless the suppliers were willing to pay large amounts of money for promotional areas within the store).

This kind of business was constantly pushing down the prices and, consequently, the margins of consumer electronics and appliances. Furthermore, the cost of this business was increasing constantly. Stores refused to maintain back stocks. Instead, once an appliance was sold, an order would be forwarded to the distributor who was expected, at no extra charge, to deliver the product to the customer’s home, install it,
demonstrate it, and thereafter, to provide after sales service according to the terms of the warranty.

In addition, these power retailers levied a variety of other charges such as listing fees, for every brand and every product that they sold; gondola fees or promotional fees for any kind of promotion done and a year-end target based incentive. Often, distributors were expected to provide promoters, to sell their products.

As a result, sales through these outlets were at significantly lower margins than the rest of the trade. To their credit, the power retailers were able to generate large volumes, providing the brands with much desired market share. On their own, the hypermarkets controlled between 25-30% of the total market share of electronics and home appliances in the UAE so it was really not possible for any serious brand to stay out of this network and still maintain its share in the market.

3) Brand Showrooms

Alongside the traditional shops and the hypermarkets there was one additional route for sales of these products, and that was specific brand stores set up by each distributor. These shops were not large format, but they had the advantage of showing a full or wider range of models for a specific brand. They were generally higher priced than the rest of the market.

Their biggest drawback was that these were essentially ‘showrooms’, often not oriented towards selling, and usually their off-street locations meant that customers had to make an effort to go from one area to the next, often at some distance, in order to do comparison shopping of the different brands.

The idea of going into a hybrid sales model, including a retail network, in addition to the traditional wholesale mode of selling was therefore to be seriously considered. The question that had to be answered however, was what kind of retail? Which format should the company adopt? Should it have a chain of brand showrooms? Should it start multibrand shops? What size? The trend was to have large format stores, selling a wide range of products. Was that the format to choose? If so, where will it get the products to sell? From other local distributors? Would that not lead to
restricted margins? If however, the decision was to have smaller shops with a restricted range of electronics and appliances, why would customers come to the stores?

**Redefining the Business:**

A lot of time was spent going through the above analysis. After thoroughly understanding how the market was structured, the Strengths and Weaknesses of the Company’s businesses were revisited. It was quite evident that the primary strength was the presence of four European brands of home appliances it had. There were no consumer electronics in the portfolio. It therefore made sense, to restrict the business to home appliances and forgo electronics.

When looking closely at the home appliance business, and studying how the purchase process worked, the following observations were made.

1) The decision for purchase of home appliances was traditionally made by women and not men, though often accompanied by their partners. Even where the partners visited the shops to get information, it was usually the lady of the house, who made the final decision on the kitchen or washing appliances.

2) When analysing how women shopped, it was observed, that the present structure of the market was clearly not designed with them in mind. The whole selling process in the existing shops, was designed for consumer electronics and not home appliances.

Both of these categories of products have very different selling concepts. The sale of consumer electronics was based purely on want and desire, with the motivating factors being, novelty, enjoyment, prestige, entertainment, style and fun. The purchase of home appliances on the other hand, was much more a grudge purchase, primarily driven by need. Unlike the whim or impulse decision of entertainment electronics, in the case of appliances, the decision was much more rational, considered, and deliberate.

3) It was also observed, that when buying appliances, women were often turned off by, or were extremely uncomfortable in traditional shops or large format stores. It
was clear, that they wanted a different kind of shopping experience and ambience, in
which to make their decisions - an experience that was much more relaxed, with
greater availability of information, and a much higher level of service. And no such
stores existed.

4) Furthermore, an analysis of the Dubai and UAE markets made it very clear,
that there was going to be a major revolution in the consumption pattern.
Traditionally, this had been a market, where people were looking at short term
residence, and hence, unless in the very highest market segments, in most cases,
the decision to purchase brown and white goods was driven by price, with people
trying to get short term solutions to their needs. However, Dubai had embarked on a
major development plan in which it was evident, that thousands of new houses and
apartments would be coming on stream in the next few years.

And for the first time, the government had indicated that they would permit
expatriates to also buy property. This was going to change the complete mindset of
purchasers in the market, as people would now be thinking of buying ‘for themselves’
and long term. It stood to reason, that established brands and higher quality products
would soon be very much in demand.

Putting all these factors together, the solution began to take shape. If the Group was
to go for a retail model, using the strengths of the brands that it possessed, it should
opt for a home appliance retail model, designed to cater to the needs of ladies.

Since the range of products it represented, were higher end European products, it
stood to reason that the stores had to be positioned to sell exclusive high-end
products. It was important to be ready when the new houses started coming onto the
market, and the requirement for quality products came on line.

There were however, three problems:

1) No such retail concept existed. Not just in the UAE, but also in other parts of
the world. So there was no readily available model that could be immediately copied.

2) If the company was to embark on setting up a chain of exclusive home
appliance shops, this would only work, if it was able to offer a wide enough range of
choice in terms of brands and models, to satisfy a customer’s needs, and to break
their already well established shopping habits. For that, the range of four brands existing with the Group was not a strong enough offering. And no new brands were readily available.

For the concept of an exclusive home appliance store to work, it had to generate sufficient returns, to be able to meet its overheads. This therefore had to be a margin, and not a volume based business, unlike traditional electronic and appliance retails. This meant that any new product lines to be selected must be in the middle to high end, and preferably, not with a Far East image. Furthermore, it also meant, that the business model would have to be based much more on quality of service.

3) If such a concept was to be created, it had to be something completely new and exciting. It definitely could not carry with it the baggage of the old Al Gurg Electronics or Scientechnic, both of which names did not convey positive images as far as home appliance sales were concerned.

**Retail Physicality and Identity Change as Solutions:**

A decision was taken by the Group for revitalising the retail physicality by:

1) Delinking the appliance and telephone division of Scientechnic, and merge it with Al Gurg Electronics. This was however, to be made into a new company, with a completely new set up.

2) The new company would be operating out of new premises, and would take the best of the staff from the two existing divisions. A fresh team would be added to bring in a new, more aggressive approach to the business.

3) The positioning of the new company was dictated by the brands that were existing in the portfolio. All these brands were in the middle-upper segment, and they were primarily European or American brands. It was therefore decided to stay within this segment, rather than try and be everything to everybody. It was decided to aggressively search for new brands within the same segment, to add to the offering.

4) Showcasing a portfolio of high end brands in an environment and ambience that established their positioning both in terms of image and price. The new company
therefore had to be driven by retail sales, supported by the trade and projected sales.

**The new Company-Identity Change:**

The first task for the new company, was to find a name that expressed its products and its spirit, a name that was fresh, crisp and easy to remember, one which could act as an umbrella, under which a range of products and brands could be housed. And most important, one that would appeal more to women.

After an extensive search, the name was chosen – BETTER LIFE. To define without ambiguity its product offering, the line ‘Appliances and Accessories’ was added to create the name BetterLife- Appliances and Accessories.

The new retail company was to be positioned towards the female market, and hence it was important to create a store image, which was in keeping with this. A lady architect was given the brief to design the new store concept, and an advertising company the task of creating a logo and other identity support documents, letter heads, cards etc.

The new concept that was created for the shops, was revolutionary in design. Its utilisation of space, colour and light, was completely unlike what existed in the trade. The colours of violet and pink and white, were immediately picked up by women who entered the store. A new display system was designed, to ensure that the stores always looked spacious, bright, cheerful, and not crowded. Soon a network of 8 shops were established in the UAE and Oman, with plans for more in new areas.

**New Brands**

At the same time, a worldwide search for brands was initiated. The company spotted a high end niche player that was very strong in Australasia called Fisher and Paykel. The brand was approached, and soon a distribution arrangement for the Middle East was obtained.

Similarly, two Electrolux brands – Zanussi and Electrolux were added to the portfolio.
The company also started distributing and installing a range of Forbes Water Purifiers, which was a completely new product concept in the region but which fitted in perfectly with the home oriented products direction.

**New Areas of Business**

Within two years of starting Better Life, one of the strongest line-ups of appliances in the market had been collected. But what made this unique, was the strength of many of these brands in both built-in appliances, as well as free standing appliances. This enabled the company to soon become a very strong supplier of built-ins and free standing appliances in the many projects that were being developed in the country.

In addition to this, the company realised that there was a growing demand for high quality built in modular kitchens. It therefore found the largest German supplier, Alno, and took the exclusive rights to retail their kitchens in the region.

As a result of all this development, Better Life was soon established as the leading specialist appliance retailer in the region, and it won various awards, including awards for marketing, and retail innovation. It was recognised for three years in a row, 2004, 2005 and 2006, as the No.1 distributor for Siemens appliances in the region of North Africa, the Middle East and South Asia, and publications and reviewers began to refer to it as a ‘lifestyle store’ rather than as an appliance store.

The sales of the new company increased dramatically year on year from 2003, and from the first year of operation, it started making a profit.

**Conclusion**

Innovation in retailing is no more an option, but a necessity in retail success. Retailers are supposed to be more proactive rather than reactive in using market analysis and competitive intelligence as sources of innovation. Consumer behaviour analysis and retail strategy formulation need to have integration and synergy. Success of retail innovation depends on the extent to which the conditions in the market welcome an innovation. The format and structure of retail innovation proved to be successful in one market need not be the same in another market and hence the need for innovation.
References


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