Abstract
In a recent article, Broniarczyk et al. (1998) report an interesting finding that the availability of consumers’ most preferred alternative in an assortment positively influences their perceptions of assortment size. This finding points to the impact of a hitherto unexplored retail strategic dimension, what we call, commitment to assortment consistency. So far, researchers have been examining retail strategies that pertain to assortment width and depth. The consistency factor featuring in the assortments offered by some retailers has largely gone unnoticed or ignored in the extant literature. We seek to address this dimension in our research.

By consistency in assortment we mean the tacit promise made by a retailer to carry a given set of brands, sizes, flavors, colors, etc. from one period to next, so that a consumer who looks for his preferred brand (or size, flavor, etc.) will be able to find that brand for sure at that retail store. Of course, not all retailers commit themselves to carrying a consistent assortment. For example, if someone walks into a warehouse club such as Sam’s Choice, he may be able to buy a branded product at a lower price but not the brand or the size (or color, flavor, etc.) he looks for. One reason for this inconsistency is that these stores make a bulk of their purchases during trade deals that are offered by the branded manufacturers and hence have less say on what they can carry in a given period. In the apparel market, an example of a store that does not carry a consistent assortment is Ross Dress for Less. If we draw a continuum from a point of no commitment (to assortment contents) to a point of full commitment, it is rather obvious that one can locate retailers such as Sam’s Choice at its low end and retailers such as Macy’s at its top end.

While it is obvious that the mere existence of the consumer segment that looks for consistent assortments will drive some retailers to adopt such commitments to consistent assortments (C2C for short), what is less obvious is that this strategy is affected (negatively) by supply side factors such as the availability of trade deals. This is because while opportunistic buying helps a retailer to reduce his acquisition costs, it introduces inconsistency in the assortment. It is also important to note that although consumers may seek particular brands, their final choice of a retailer is affected also by price and location of the retailers. Thus, it is not clear how a retailer would react in a competitive environment even if a sizable segment of the market seeks consistent assortment. Apart from adopting C2C strategy, offering a service oriented shopping environment (such as having more knowledgeable store personnel and a well-lit parking lot) is another way by which a retailer can increase the store traffic.

Our research question is: In a market served by two retailers, what supply and demand conditions would enable one or both retailers to adopt C2C and/or offer service?

Out of the various retail market structures possible, one particular structure is of importance to us. This is the market where only one retailer adopts C2C and offers service as well. Our focus on this market structure is motivated by two factors: prevalence of this retail structure in many markets, and availability of enough data from one such market, the Dutch flower market, which we use to validate our theoretical predictions. By using a three-stage game theoretic formulation, we show that in equilibrium only one retailer would adopt C2C and offer service as well if the other retailer does not have a high acquisition cost advantage in the supplier market, and if the cost of offering service is neither too high nor too low. Another interesting result we get is that even when a large section of the market seeks a consistent assortment, it will not be profitable for both the retailers to adopt C2C. This is because a retailer not adopting C2C can still attract customers by passing on his supply side savings to them through low prices and engaging in less price-based competition with the C2C retailer, while adopting C2C in retaliation would bring down the profits of both the retailers. We actually measure the model parameters in the Dutch flower retail market and show that with these values the model predicts the equilibrium outcome (i.e., one retailer alone offering both C2C and service) that characterizes the structure of this market. We carry out sensitivity analysis to demonstrate the robustness of the model prediction.

(Assortment Consistency; Competition; Service; Retail Strategy; Dutch Flower Market)