

CORPORATE DECISION-MAKING DURING RECESSION

Product franchisors in the Australian agricultural machinery
industry 1967-72

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Except where otherwise acknowledged in references, this thesis represents the original research of the author.

David Wadley

Metal Plate



FRONTISPIECE: Tractors on the road in Northern New South Wales.

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ABSTRACT

This study analyses the impact of scale, establishment mobility and policy substitution in the corporation's geographical behaviour. To maximise opportunities for observing change, the effects of recession on firms using a particular marketing system -- product franchising -- are examined. It is argued that competitive powers, represented by company structural attributes and expressed through relative network control capacities, should assist larger organisations to undertake spatial tactics which maintain their market and economic standing. Nineteen agricultural machinery franchisors are classified on a number of key variables into large and small groups. Their manufacturing, wholesaling and retailing activity between 1967 and 1972 is compared on criteria relating to the entry and exit of outlets. Certain locational strategies adopted by major competitors are seen to stabilise or improve distribution control, thus demonstrating a relationship of structural factors, channel management and representation courses. However, a broader association of these measures and market and general financial performance cannot be shown because of data limitations. Subsidiary findings point out the greater stability of large corporations in a setback, the lower probability of continuation suffered by small franchisors' dealers and the attack on small towns enforced by the economic contraction. Through the use of an operational model within an intensive, longitudinal analysis, the enquiry concludes that scale effects pervade locational decision-making, not only among enterprises but across the whole business sector. For the largest firms, spatial policy is clearly an interchangeable means to goals and, thus, establishment mobility can be pronounced. The divergence of such findings from previous work contributes to the ongoing review of traditional thinking in industrial geography and economics and prompts further research into the interface of the corporation and the entrepreneur.

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CONVENTIONS

1. All measures are in metric units.
2. Currencies are related specifically to the country of origin. One billion is taken to mean 'one thousand million' throughout the work.
3. Company names are written in abbreviated form. A list of participants and other selected organisations is presented in Appendix One.
4. The sources of direct statements from industry executives have been referenced in a standardised format to preserve confidentiality. On similar grounds, individual firm data have been concealed in the presentation of many tables and figures.
5. During the course of the study, the Commonwealth Bureau of Census and Statistics changed its name to the Australian Bureau of Statistics. Both titles are used and should be regarded as synonymous. The former Tariff Board also became known as the Industries Assistance Commission in 1973. Again, both terms are used in references and commentary.
6. The Australian 'header' is essentially the same machine as the American 'combine harvester'.
7. Unless stated to the contrary, any emphases in quotations are those of the *original* writer.
8. Round parentheses in quotations indicate the primary text. Square brackets represent additions by the present author.

PREFACE

The corporation has become a major business force in advanced countries since the Second World War, having expanded its activities both internationally and across a wide range of goods and services. Despite the growing importance of large concerns, geographical work attempting to analyse the distribution of industries or individual manufacturing facilities has been generally pitched at the level of the entrepreneur. After a spirited call for research into the firm in 1958, interest waned until the late 1960s. Today in Australia, public attention is increasingly directed towards the role of enterprises; their broad impact on host nations' economies and environments adds new urgency into investigations of their spatial behaviour.

A serious difficulty in this respect is the limited assistance which classical location theory can provide. Not only have its assumptions of economic rationality and certainty been criticised, but a more significant weakness from the present viewpoint is that its focus -- the single-plant undertaking -- is a vastly different proposition to the multi-nodal conglomerate. To improve the applicability of existing formulations, the immediate need is for empirical studies of processes and interrelationships within corporate decision-making. Areas of special concern, distinguished because of their apparent divergence from the situation of the small businessman, are scale effects, outlet mobility, and the substitutability of locational with other operating strategies. To observe these contingencies, a topic offering extensive geographical change is required. The study therefore centres on marketing, the *raison d'etre* of the majority of a sizeable merchant's establishments. Possibilities of movement are enhanced by concentrating on recession, whose negative,

contractive and expulsive forces accentuate the need for adjustment. This fresh outlook proposes results which, apart from their practical bearing, could be used later to highlight regularities in large producers' conduct under more favourable conditions.

Problem and objective

Like the major company, vertical marketing has enjoyed unprecedented progress since the Second World War. A contributing factor has been the spectacular growth of franchising. Through its success, this particular technique has attracted an ebullient literature but prospects for user firms during a setback have been almost wholly neglected. The issue raises an important applied problem with direct relevance to the questions above. Thus, the objective of the thesis is to determine the economic and spatial response to depressed demand of corporations engaging this mode of distribution.

Hypothesis and methodology

Given current constraints, the enquiry must be narrowed to a single alternative within the franchise system -- product franchising -- a method providing producers with outstanding advantages of centralised marketing administration without undertaking costly forward integration. In a business downswing, when competitive pressures in the channel and market threaten survival, a network's fortunes relate strongly to the control applied by the franchisor through managerial and financial means. Since capacities for authority are derived from structural attributes signifying economic and positional power, the larger supplier could be expected to enjoy more embracing channel leadership than his small opposition in both distribution policy and practice. Two applications ensue from this 'structural' hypothesis. First, a *spatial*

postulate advances that principal producers should exhibit locational representation in the productive, administrative, wholesale and retail sectors which is intended to maintain or augment their existing distribution management. However, such courses may not be always open to minor competitors. Second, in a *financial* framework, it is anticipated that these geographical tactics, together with a purposeful marketing code, should assist bigger undertakings to better overall market and economic performance. In sum, structural features, proxied in relative franchise strength, should emerge as decisive influences on corporate strategy-formation during a commercial contraction.

These contentions are tested with evidence from the Australian agricultural machinery industry during the rural crisis of 1967-72. Nineteen leading undertakings are grouped into 'large' and 'small' divisions on the basis of structural attributes. Relative authority is then distilled from their dealer contracts, distribution, and accounting results, thus affording an evaluation of the economic postulate. Similarly, detailed analyses of subject firms' locational adjustments allow assessment of the spatial argument and conclusions to the specific problems about corporate policy-formation.

Overview

Part One covers the rise of the enterprise, outlines its divergence from the entrepreneur and considers the shortcomings of formal location theory. Attention is focussed initially on the marketing function in recession (Chapter One). Chapter Two is devoted to franchising, the derivation of the applied problem and the formulation of hypotheses.

Part Two reviews the extraordinary malaise which recently beset product franchising organisations in the farm equipment industry

(Chapter Three). Leading sellers are identified and then classified with a computer-based technique into structural divisions for the subsequent analysis (Chapter Four).

Part Three incorporates the empirical enquiry into the distribution policy and practices of sampled companies (Chapters Five to Eight). Relative levels of network control are examined within the terms of the main argument (Chapters Six and Seven). The discussion encompasses both spatial and economic performance and proposes a solution to the applied problem (Chapter Eight).

Part Four uses these results to develop conclusions about specific processes and relationships of corporate decision-making queried at the outset of the thesis (Chapter Nine). The overall design is shown in Figure P.1.

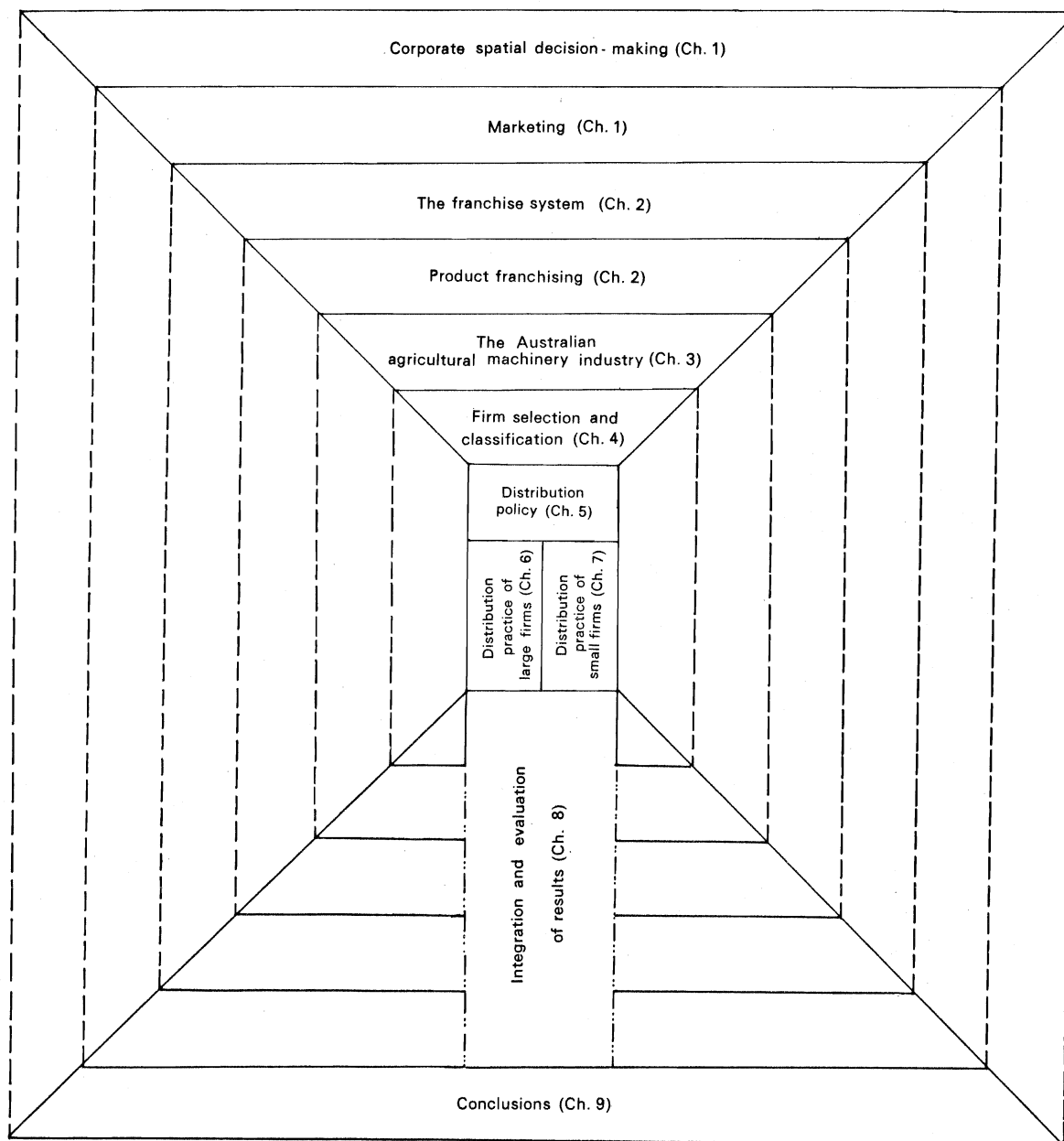


FIGURE P.1: Design of the thesis and subject-interests of the various chapters.

Source: Adapted from an idea of P.J. Rimmer.

PART ONE

PROBLEM SETTING AND STATEMENT

Until the late 1960s, the rise of the corporation received little attention in geography because of researchers' preoccupation with the small firm of classical location theory. Present evidence, however, suggests that the enterprise's locational dynamics vary greatly from those of the entrepreneur, thus questioning the applicability of many previous findings to new problems. The disparity can be evaluated through study of scale effects, establishment turnover and substitutability of spatial policy. To maximise opportunities for observation of facility movement, a focus is proposed on marketing in recession. More specifically, as outlined in Chapter Two, distribution under product franchising offers a suitable applied issue through which certain processes and relationships of the large company's strategy selection may be assessed.

CHAPTER ONETHE CORPORATION: A NEW FORCE IN BUSINESS
SPATIAL DECISION-MAKING

Researchers became acutely conscious in the late 1960s that commercial trends warranted a reappraisal of traditional perspectives in industrial geography and economics. Their uneasiness crystallised into a concern with the rise of the modern corporation, in which a number of subsidiary firms assume a parent/holding company structure to achieve certain group objectives (cf. Parsons, 1972: 99). Throughout the advanced countries, the post-1945 era has seen an increase in the size of both individual manufacturing establishments and legal business enterprises. Large undertakings now dominate the most important sectors¹ and, by the year 2000, could easily account for more than half the world's gross product (Bergman, 1973: 255). They have played a pre-eminent role in the development and exploitation of Australian resources and now exercise a prominent influence on the total economy (Logan, 1965: 12; Mason, 1974: 1).

Though these giant operations are associated principally with fields of mass output -- automobiles, iron and steel, chemicals, petroleum and aluminium -- they are also well-represented in such activities as the production of foodstuffs, trucks and agricultural machinery. They can be observed in various stages of maturity (Steed, 1971c: 55). Initially, they accumulate capital and rationalise its use. Next, they integrate horizontally and vertically to allow the continuing absorption of overheads and attainment of scale economies. Finally, new frameworks are constructed within which assets can be mobilised rapidly to meet short and long-term market movements. Many corporations are, therefore, adopting a conglomerate, multi-plant disposition through merger and acquisition or by diversification into unrelated forms of

endeavour (Mautz, 1968: 10). Meanwhile, others are winning multi-national status through direct foreign investment² -- a phenomenon of interest to geographers because of its implications for host nations in both the developed and third worlds (see Blackburn, 1972; Venu, 1974). Recently, the interregional ramifications of expansion have occupied Krumme (1970) and Parsons (1972), while the aggregate effects of corporate growth have been reviewed by Browaeys (1974) and Lindgren *et al.* (1974). As the pervasive impact of the large company commands increasing public attention through vociferous media coverage, research into its locational dynamics must assume a high priority among academics.

THE NEED FOR A NEW OUTLOOK

For the explanation of complex spatial behaviour of modern industrial firms, traditional locational concepts still represent an essential but insufficient basis (Krumme, 1970: 318).

Geography and micro-economics have long been absorbed with the individual entrepreneur, the superstar of classical location theory³. Yet, the parameters of his small operation are somewhat remote from those of the corporation (Krumme, 1969a: 34). A large organisation is a coalition of sub-groups, each with specific tasks, authorities and responsibilities, as illustrated in Figure 1.1. Its objectives, derived by internal negotiation rather than personal edict, become stabilised through bureaucratic measures such as the budget and administration manual. Unlike the circumstances of the proprietor or partnership, the control and possession of the enterprise are separated; for this reason, peculiar types of perceptual and motivational disparity inevitably emerge (Mueller, 1972: 202-06). Functional heterogeneity compounds the variety of issues affecting decision-making. Such complexity has occasioned a revision of the conventional theoretical standpoint on 'the firm' as a spatial strategist.

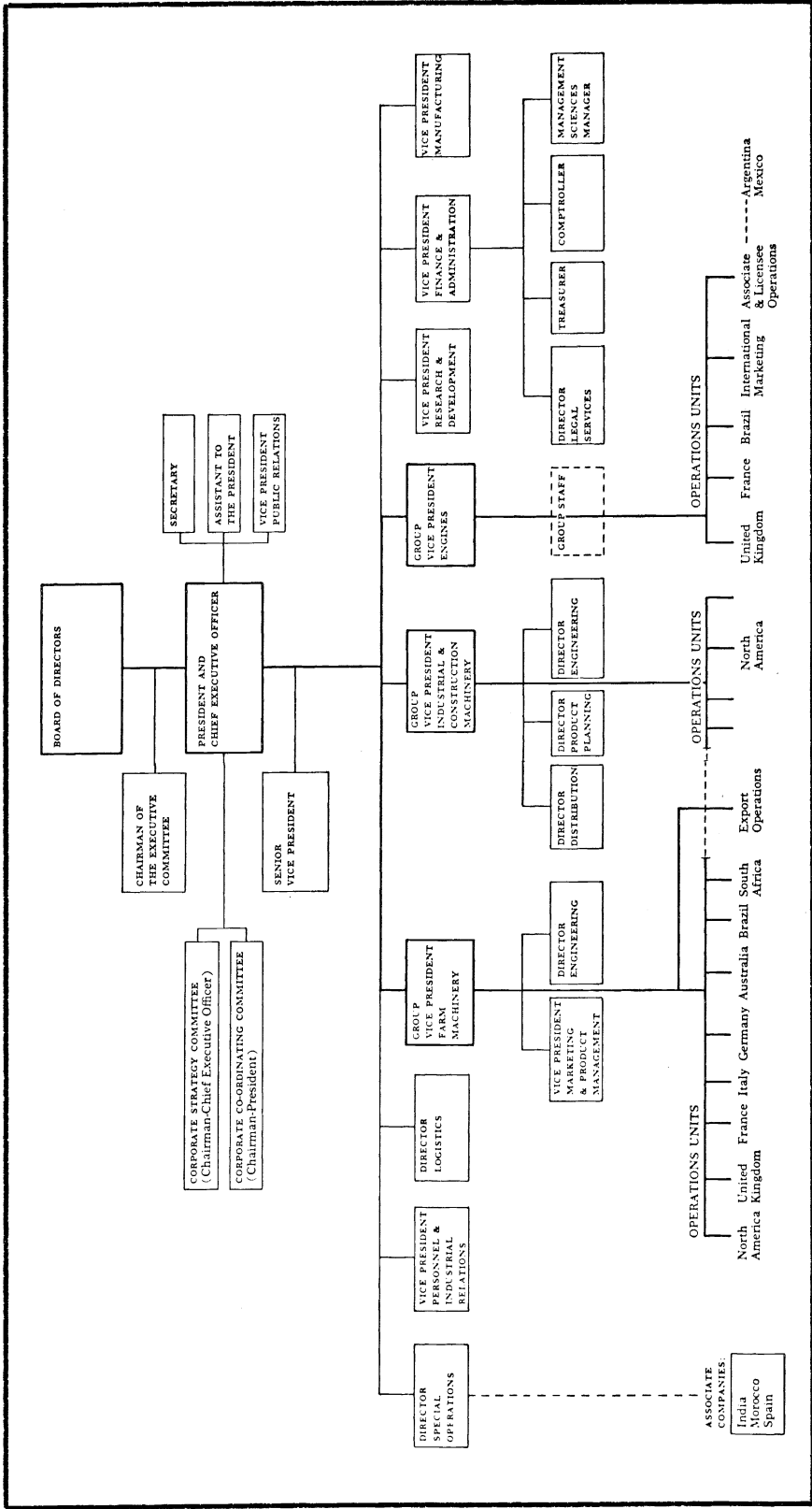


FIGURE 1.1: The functional structure of an international corporation.
 (World-wide organisation chart of Massey Ferguson Ltd, November 1966).

Source: Neufeld (1969: 234-35).

'The firm' under pressure

While accountants grapple with issues of diversified reporting (Rappaport *et al.*, 1968), social scientists are questioning purely deterministic ideas about 'the firm' and the 'location process' in an awareness that policy-formation is an explicitly behavioural procedure or, at least, one which occurs with incomplete information⁴. Although economic theory might still be valid for a wide class of events (cf. Alchian, 1965: 31), a number of writers since 1950 have tried to modify or supplant the monistic doctrine that entrepreneurs optimise location to secure the highest possible profits⁵. Their argument advances that in uncertain surroundings there is no objective means of knowing when these maximising situations occur. One school, organisation theory, sees the company as a network of human relationships governed by a 'bounded rationality' and operating in a socio-economic homeostasis with the ultimate goal of survival (McGuire, 1964: 30-31); the well-known proposition of 'satisficing' behaviour advanced by Simon (1959: 262-64) has, however, drawn some criticism (Marris, 1964: 266-77). Alternative prescriptions have concentrated on either the role of inter-firm association or the managerial utility function in an attempt to generalise the standard micro-economic approach (see Phillips, 1962: 22; Gordon, 1974: 125-28). More recently, Webber and Daly (1971: 16) have re-directed attention to the concept of a *minimum* acceptable level of returns. If a rate of profitability compatible with the immediate aims of management and shareholders is reached, a producer may possibly turn to other goals such as increases in sales⁶, net assets or even all-round growth as an end in itself (Baumol, 1964: 325). In sum, the challenge to marginalist theory, while at present unconsummated, has created far greater acknowledgement of the processes of commercial decision-making and has emphasized the central part played by the tacticians themselves⁷.

These considerations have prompted a fresh outlook in geography; complementing explanations of industries' metropolitan and national patterns or the Weberian course of delimiting the optimal placement for a particular activity, some authors are taking location as given and dwelling on the methods by which companies and their environments interact. Their stance recognises the need to discuss the economics of a site in terms of a continuous, chronological time-dimension, thus obliging additional dynamic studies of the internal machinery of the firm (Dziewonski, 1966: 18). Already, enterprises in fields as disparate as shipbuilding (Steed, 1968), linen (Steed, 1971b), pulp production (Barr and Fairbairn, 1974) and the beet sugar industry (Watts, 1974) have been investigated. In a more general frame, Daly and Webber (1973) have considered company growth in the context of the Australian city. All these papers are contributing to a new thrust pioneered by McNee (1958, 1959, 1960) and Keuning (1960) in analysing the spatial dynamics of the corporation.

The corporation and the entrepreneur

Despite insights flowing from organisational and behavioural viewpoints, the methods of major suppliers' adjustment are generally uncharted. The immediate need is for empirical studies which analyse the means, interrelationships, and ramifications of their geographical policy-making. Potentially, such enquiries should also assist in evaluating the applicability of existing location theories by relating results to established frameworks centred on the small businessman. Thus, areas in which the response of the enterprise and entrepreneur is assumed to diverge must be addressed from the outset.

Three issues deserve closer examination. The first is the general influence of *scale effects* in business location, both at the corporate

level and along the whole company size spectrum. The meagre evidence to hand indicates that industry leaders' operations are unrelated to those of the small businessman. For example, their market spans a nation or continent rather than a metropolis and complete coverage might require several manufacturing and numerous distribution outlets. Since strategy selection is seldom pervaded by lifestyle factors, the incidence of relocation in response to demand shifts can be pronounced:

major corporations have a surprisingly high turnover of...facilities and...their plants are by no means tied to particular products (Steed, 1971a: 207).

Hence, *mobility* within the networks of enterprises constitutes a second concern in this investigation.

Traditionally, the geographic initiatives of the single-plant firm have been regarded as infrequent events which presume heavy capital investment. Among more sizeable undertakings, much spatially-oriented strategy is probably accomplished without a full-scale commitment of funds (see Rees, 1972: 204). Such policy is usually a minor component of a total set of choices made by corporations in their efforts to survive and grow in a constantly-changing environment. But, even in a non-investment framework, any form of locational alteration is a costly and risky proposition and, often, companies may be able to entertain a less disruptive course. In the past, the limited perspectives of conventional analysis and predisposition to find the reasons behind the entrepreneurial 'location decision' may well have missed instances in which alternative financial or structural measures were used to avoid the expense and upheaval involved in the movement of personnel and fixed assets (cf. Rudd, 1954: 72-79). Therefore, this study's third thrust is directed towards the pre-conditions of policy-formation among major suppliers and, in particular, the potential

substitutability of spatial tactics with alternative solutions to problems.

Objective of the study

To amplify these three specific interests, the project's purpose is to analyse the:

- (a) processes of corporate decision-making with special reference to scale effects, mobility and strategy substitution;
- (b) interrelationships among endogenous and exogenous issues which govern geographical choice procedures.

Clearly, a situation affording strong possibilities of plant movement is demanded. It can be found during a recession within the business cycle -- a contingency rather neglected in Australian literature because postwar prosperity has restrained interest in economic contraction. Under such circumstances, it becomes tenuous to hold the activities of many organisations, especially the financially-weaker, as progressing towards long-run profit maximisation. Quite apart from the conceptual difficulties accompanying the notion of negative profits (losses), the assumption of an extended perspective is tantamount to a somewhat Goethean view of the world in which success ultimately prevails over failure. Statistics on the life expectancy of companies⁸ show beyond doubt that so benign an attitude would be misplaced. If disadvantaged concerns are not actually climaxing long-term returns, they could be undertaking a variety of more immediate objectives. Courses which provide security and ensure survival by curtailing losses are obvious contenders but would be regarded in decision theory as divergent from the maximax criterion proposed in the standard account of the firm⁹. They are probably also more serious aberrations than temporary deviations in a search process which the marginalist counter might prescribe (cf. Alchian, 1965: 30).

Thus, in a depression, business could react in ways other than those directed in the strict, micro-economic approach. This apparent anomaly suggests that conditions of extreme uncertainty -- anathema to determinism -- can give an unusual and cogent view of corporate decision-making. Recession might force spatial action which would not have otherwise eventuated, accentuate short as opposed to long-term motivations in ensuing policy, and stress the often-overlooked role of demand factors in location (cf. Greenhut, 1964). Since competition should appear highly disarrayed, the conclusions could also serve to point up 'normal' patterns in a more favourable era.

In order to interpret the interaction of an industry with its environment and to see implications in plant movement, the study must be operationalised with an applied problem. From the outset, concentration within *one* of a company's functional sectors affords the analysis manageable proportions and a practical setting (cf. Figure 1.1). At this (divisional) level, operating as well as investment strategy options may be ascertained, so granting an equitable test of the substitutability theme mentioned above. From the current viewpoint, an emphasis on marketing (at the expense of the enterprise's other activities) provides the most suitable focus.

MARKETING: A PROBLEM FIELD

The examination is drawn around marketing for several reasons. Because of Australia's limited demand but vast areal extent, most corporations require many more distribution than manufacturing facilities. In contrast to the asset fixity and inertia typical of the latter, sales outlets are usually relatively footloose, with lower entry thresholds and greater sensitivity to turnover, income and consumer shifts. As a direct variable cost component, they bear the brunt of initial

management cut-backs in a financial setback. Marketing, perhaps the most widespread and volatile of commercial operations, thus maximises the opportunities for empirical observation of change and creates better prospects for evaluating the mobility of company installations.

In view of post-1945 progress in distribution practices, it is appropriate to acknowledge the growing importance to corporate success of the 'marketing concept' (Hise, 1966: 9-12; Barraclough, 1970: 246). Executives' long-standing concern with output has instigated a remarkable by-passing of selling expenses which, when taken to include simply advertising, transport, and wholesale and retail margins, can comprise half or even more of the final price of a good¹⁰. Geographers and economists have paralleled practitioners in their preoccupation with production. Seemingly little is known of Australia's marketing organisation, since none appear to have followed the pioneer attempt of Lengyel and Beecroft (1947, 1949) to establish methods or costs by industry. Censuses have avoided the questions and available statistics are crude and sparse. Yet, the function's importance is illustrated in the fact that, in June 1971, twenty-two per cent of the non-agricultural workforce in government, secondary or tertiary employment were engaged in occupations relating to wholesaling, retailing, storage or transportation¹¹. Such activities have not been extensively investigated¹² -- partly due to the *laissez-faire* atmosphere which has prevailed in this area since the time of Adam Smith (Adelman, 1962: 266, Stacey and Wilson, 1965: 100).

One manifestation of the insouciance is that recent advances in distribution technology have lagged behind those in manufacturing (Cox *et al.*, 1965: 196-97). Since sales channels are still dominated by small, conservative merchandisers, it is questionable whether research advances, especially in retail management, would be readily accepted

(McClelland, 1964: 165)¹³. Even in general metropolitan commerce, the fundamentals of control may be lacking. Among Sydney and Melbourne firms, Winter (1966: 206) found that, although nearly all maintained continuous production cost accounts, only sixty per cent kept distribution records; Neuschel (1967: 125) provides corroborating evidence from the United States. Such inadequacies combined with extensive specialisation have precluded much rationalisation or moves towards scale economies in distribution. It took powerful analytical techniques and the advent of computing in the 1950s to show that performance could improve. In future, as manufacturing reaches asymptotic efficiency, attention to wholesaling and retailing will offer the most effective means of curbing expense and enhancing overall productivity (Parker, 1962: 16; Stolle, 1967: 100). Thus in its own right marketing constitutes worthwhile research topic.

Marketing: definition and theoretical status

Though the term 'marketing' has various interpretations¹⁴, the following definition of the American Marketing Association is stipulated in most publications:

marketing -- the performance of business activities that direct the flow of goods and services from the producer to the consumer (Alexander *et al.*, 1963: 15).

In the United States, recognition of the subject began in about 1900 in response to lengthening supply channels, loss of contact with the ultimate consumer, attitudes of *caveat emptor*, and the growing complexity of retailing (Bartels, 1962: 12-27). According to Converse *et al.*, 1965: 125-26), the main approaches have included:

- (a) the investigation of institutions, an account of the various agencies involved in distributing a product;
- (b) commodity analysis, reviewing the processes required to wholesale and retail specific classes of goods (see Mount, 1969);

- (c) the functional school, which examines operational aspects of marketing such as sales administration, invoicing, materials handling, and so forth.

Yet, as a consequence of the insufficient research noted before marketing theory is not well developed and has long drawn criticism, even from within the discipline (e.g. Alderson and Cox, 1948: 138; Grether, 1950: 113). In an area of enquiry which has grown 'rather like Topsy' (Kernan and Sommers, 1968: vii), there is no deductive formulation which can be used to explain the location or relocation of distribution facilities. Such theory as exists has been incorporated from the methodological sciences (operations research, Bayesian statistics, game and decision theory, simulation), business studies, economics, and social and behavioural disciplines (sociology, psychology, linguistics, anthropology). The important early contributions of marketing geography (e.g. Reilly, 1931), have not been maintained.

Marketing geography: the problems

Despite its wide scope, the 'delimitation and measurement of markets and...[investigation] of channels of distribution' (Applebaum, 1954: 246), marketing geography has had a blighted career:

since 1961...there have been many fewer publications in marketing geography than in other fields...with practical applications...the major publications refer only to business conditions in the United States...there has been especially little sign of...acceptance...in [Australian] professional journals (Doddridge and Mackenzie, 1971: 2).

The 1971 Research in Progress, published by the Institute of Australian Geographers¹⁵, substantiates Doddridge and Mackenzie's lamentations.

The limited interest accorded the specialisation -- twenty-two of some thousand tertiary-level projects -- has been pitched primarily at the consumer. Household surveys, shopping centres and retailing have been key topics. The cost ratio of marketing in business could alone

demonstrate the seriousness of the neglect; more particularly, only two entries considered the virtually-forgotten angle of the producer.

This viewpoint is now adopted because of its pertinence to studies of enterprises. By use of a restricted sample and intensive interview and data collection procedures, the present analysis deals with the core facts of companies -- the accounting and economic statistics which, despite their omission in the past, form the crux of decision-making in an aggressive, competitive milieu. The relationship of this information with other variables which shape corporate behaviour cannot be assessed satisfactorily without some appreciation of the conduct of marketing. The following discussion raises the possibility of alternative distribution systems and, in the next Chapter, one is selected as a suitable focus for investigation of the problems outlined above.

MARKETING PROCESSES

Marketing has many facets. For one author, it should maximise consumer satisfaction, provide the opportunity for optimum-scale manufacturing, deploy effort to the greatest social advantage and realise entrepreneurial profits (Lockley, 1951: 61-62). Clearly, a holistic and integrative activity is involved. The structural schema portrayed in Figure 1.2 encompasses the interaction of the main elements in any marketing initiative (Mallen, 1967: 102). The direct components -- pricing, product determination, product mix and distribution, promotion and market research -- can be seen influencing and, in turn, reflecting strategies formulated elsewhere in the company and the outside world. Given such complexity, a producer-based study must engage a sub-model of the locational decision-making process in order to pursue any meaningful empirical analysis.

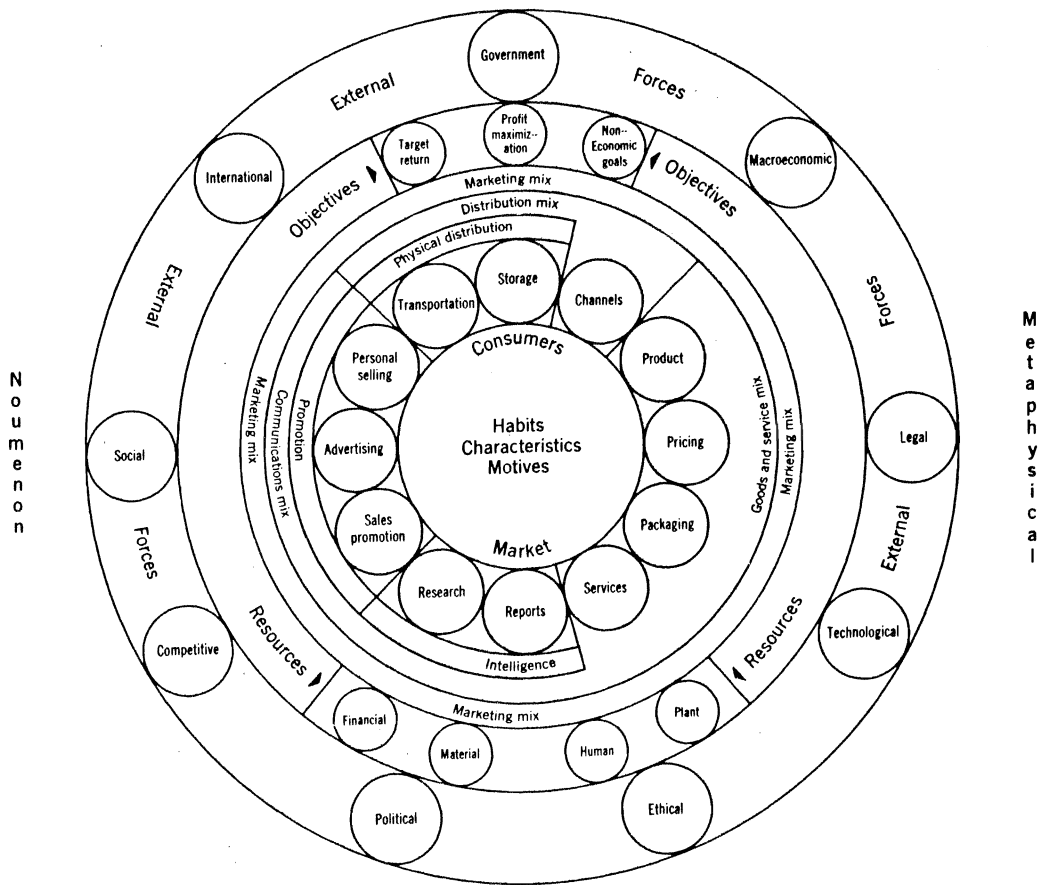


FIGURE 1.2: The elements of marketing.

Source: Mallen (1967: 102)

Corporate spatial strategy in marketing

Among the interrelationships outlined in Mallen's diagram, most spatially-oriented policy occurs within the ambit of distribution. Its development is detailed in a planning schema adapted from Stern (1966: 13) and shown in Figure 1.3. Before a plan is commenced, the company directorate must recognise its overall *aims* -- the higher-level, long-range manifestations of its economic philosophy. Although these goals have attracted much academic debate (see Machlup, 1967), they can be assumed multi-dimensional, varying with the nature of the firm, the market, and environmental and perceptual influences (Townroe, 1969: 17; Mueller, 1972: 200). After they have been shown to be feasible in the light of contemporary conditions, the corporation's marketing division can generate its own short to medium-term *objectives*. Those with spatial application may range from concrete proposals -- the enforcement of national coverage or an upgrading of retail outlets -- to less tangible schemes typified in an intensification of sales promotion. These strategies are evaluated first in relation to overall goals and then to three elements which affect the firm's general operations.

- (i) The business environment covers a gamut of macro-economic, social, technological, ethical, governmental, historical, legal and competitive considerations.
- (ii) The market applies a filter to spatial propositions. For example, methods adopted in one regional or product market might be quite inappropriate in another. Market size, intensity and distance all affect the geographical dynamics of the distribution structure necessary to provide adequate coverage.
- (iii) The company situation provides the means to implement policies. Firm size, measured in asset or turnover terms, is perhaps the most important single variable affecting distribution. It largely determines the nature of any existing system and the extent of its throughput. A company's financial position similarly constrains or enhances its spatial actions, especially when extraordinary adjustments are under review. The organisation of representation, level of management experience and perception all influence policy-formation (cf. Udell, 1968; Aylmer, 1970). Attitudes to risk are also important.

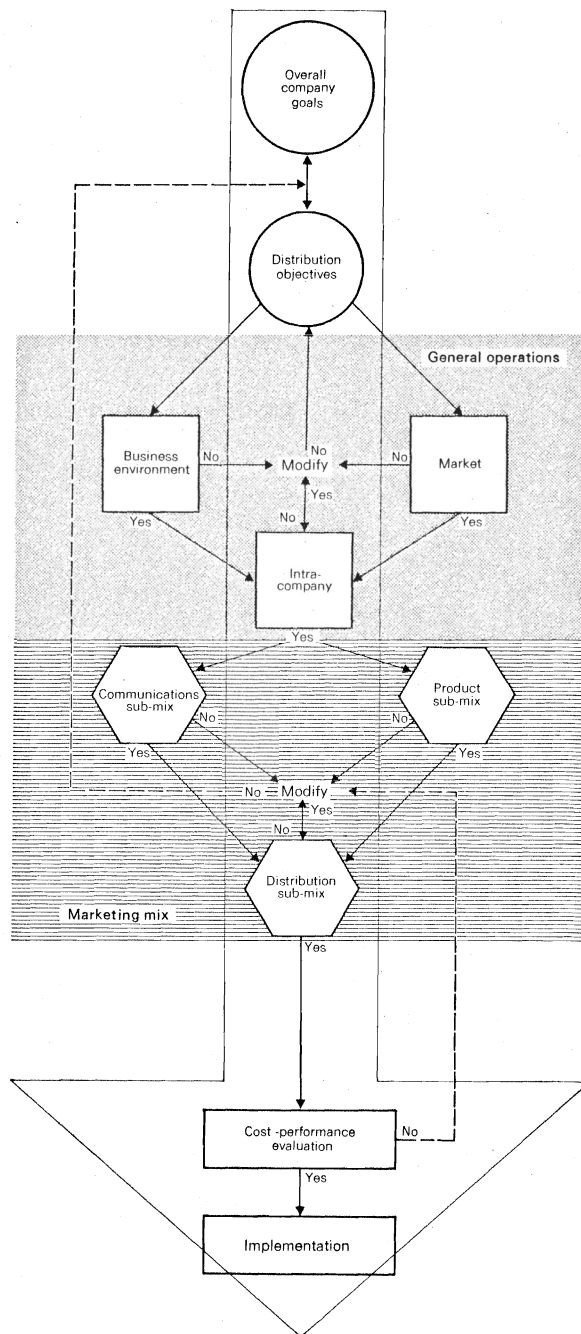


FIGURE 1.3: A schema for spatial decision-making within distribution.

Source: Adapted from Stern (1966: 13).

If a spatial plan is acceptable within the current state of these inter-dependent constraints and anticipated competitor counter-strategies, it undergoes a more specialised assessment among the elements of the 'marketing mix'. This framework of variables has been characterised as

a battery of devices or types of marketing activities that are coordinated into a single effort to reach a particular target. The... attack advances on several fronts simultaneously. [Its] coordination is a critical element in the development of marketing strategy (Bell, 1966: 351).

An equilibrium of forces in the marketing function must be achieved before a company can perform satisfactorily and accomplish its aspirations. Thus, a strategy must be compatible with ongoing activity in three main sub-mixes (Lazer, 1962: 13).

- (i) The product sub-mix covers such interests as product line analysis, innovation, planning, service, quality, warranty, pricing and so forth.
- (ii) The communications sub-mix includes personal selling activities -- the allocation of sales effort, integration of sales and service, lines of administration and feedback from the field to headquarters, marketing responsibilities and territory coverage by representatives. Non-personal aspects of merchandising incorporate advertising, sales promotions, public relations, research and reporting.
- (iii) The distribution sub-mix involves decision-making in physical distribution and channel analysis. The former is concerned with transportation, shipping, storage and inventory control. The latter requires a continuous appraisal of the present and future adequacy of the company's distribution system to fulfil the tasks demanded by the marketing objectives.

A spatial proposal which is still satisfactory after this extensive testing is subject to cost/benefit analysis before final implementation. The development of policy is well attended by feedback loops which allow for substantial modification, and major internal and external interrelationships exist within and among marketing operations. Thus, in the product sub-mix, service provisions depend on product quality and warranty conditions. Yet, they are also affected by the manufacturer's

brand image, the importance of replacement demand, type of user, and size of unit sales -- questions determined primarily in the communications area. Substitutions can enhance or inhibit the chances of spatial action. For example, a firm unwilling or unable to undertake communications responsibilities in a region could call on an independent distributor for assistance -- thus varying its distribution sub-mix. Product requirements infiltrate all aspects of marketing (Miracle, 1965: 20-23). High-value goods are unlikely to be supplied through middlemen because they are able to stand the costs of direct supply. Similarly, technical goods are sold without intermediaries so that their performance can be demonstrated adequately. In contrast, bulky or heavy products are usually sent to brokers who can achieve economies of scale through specialisation and superior materials handling. Perishable or fashion articles typically have short channels while, with durables, the reverse applies. The extent of a firm's range is also important for it governs the type and quality of agencies for whom business will be attractive.

Stern's model advances a crisp but comprehensive statement which clearly recognises the role of endogenous and exogenous influences and inter-divisional conflict in a company's conduct under uncertainty. Closer inspection of the marketing function in terms of a particular distribution method favoured by large, capital-goods producers -- the franchise system -- permits further insights into corporate spatial behaviour. Indeed, franchising, a means of selling through a small number of relatively-permanent wholesale and retail establishments on the basis of written agreements, is ideally suited for current purposes since it exhibits a degree of formalisation, definition and operational 'compactness' unmatched by other alternatives.

RÉSUMÉ

Enterprises have acquired a dominant place in the commercial world and are attracting increasing academic interest. Their spatial impact, assumed to be different to that of the entrepreneur, can be probed most efficiently in their product distribution, although marketing geography is not sufficiently developed to allow a highly theoretical approach. Yet, the relevant procedures of locational decision-making are interpretable through an adaptation of Stern's (1966: 13) planning model. Recognition of different distribution modes enables franchising to be chosen as a focus for study of scale effects, establishment mobility and policy substitution in corporate behaviour.

CHAPTER ONE FOOTNOTES

1. Steed (1971a: 207, 1971c: 54); Eliot Hurst (1972: 145).
2. Vernon (1967); Barber (1971: 265); Steed (1971d: 90).
3. See, for example, Katona and Morgan (1952), Mueller and Morgan (1962).
4. Townroe (1969: 16); Dicken (1971: 426); Gordon (1974: 123-24).
5. Alchian (1950); Tiebout (1957); Alexis (1962); Cyert and March (1963); Wolpert (1964); Webber (1969, 1972).
6. Baumol (1958: 187-98, 1959: 46-53) predicted that, assuming satisfactory profits are achieved, a firm's objectives could turn to the maximisation of sales revenue. Debate on the topic has continued ever since. For two recent contributions, see Hawkins (1970); Mueller (1972).
7. For general accounts of the controversy see McGuire (1964); Machlup (1967).
8. Lebow (1948: 13); Churchill (1955); Ozanne and Hunt (1971: 96-97); Steed (1971a: 207); United States of America [Department of Commerce] (1972: 485).
9. Discussion of aspects of decision theory appears in McGuire (1964: 124-27).
10. Distribution costs to the economy are covered in an historical vein in: Borsodi (1927); Twentieth Century Fund (1939); Malenbaum (1941); The University of Melbourne (1946); Barger (1955). The immediate statement is referenced in Phillips (1951: 11); Cox *et al.* (1965: 287-89); Converse *et al.* (1965: 621); Wentz and Eyrich (1970: 22). Cost factors of the physical distribution function alone are treated in Snyder (1963); Bowersox (1969).
11. Australia, Commonwealth Bureau of Census and Statistics, Official Year Book of the Commonwealth of Australia, 57 (1971), p. 706. A similar percentage obtains in the United States. See United States of America [Department of Commerce] (1972: 225-29).
12. According to Bowersox (1969: 65), the first book on physical distribution management was not produced until 1961. It is: E.W. Smykay *et al.*, Physical Distribution Management, Macmillan, New York, 1961. Other comments on the lack of research in physical distribution are found in Stewart (1965: 65); Sussams (1967: 36).
13. As one illustration, a survey by Maguire and Kench (1971: 11) revealed that of all business enquiries to the Public Library of New South Wales between February 1968 and March 1970 only one and a half per cent directly concerned the marketing function.
14. See Bursk (1964: 5); Rodger (1965: 21); Bell (1966: 3-5).

15. Institute of Australian Geographers, Research in Progress, Adelaide, 1971, 97pp. The content of studies from bachelors degrees with honours to professional research for the years 1969-71 were analysed.

CHAPTER TWO

THE FRANCHISE SYSTEM: ALL THAT GLITTERS...

Since the Second World War, vertical distribution structures have gained prominence in advanced economies¹. Their growth has been assisted by the rise of three forms of franchising which, together, constitute one of several contractual styles of marketing (Table 2.1). Franchising's unique characteristics distinguish it not only from major alternative distribution methods² but also from minor variations which rely on employees, licensees and concessionaires³. A historical review of the system's headlong rush into the commercial limelight of the 1960s exposes the inherent over-enthusiasm of some attendant literature and the need to examine the efficacy of franchising in recession. Later, large and small firms from a selected industry are studied in order to elucidate the aspects of corporate decision-making highlighted previously.

THE FRANCHISE SYSTEM

Few definitions of franchising⁴ are as pointed as that of Ingraham (1963: 13) who sees the technique as incorporating

an organisation composed of distributive units established and administered by a supplier through the device of a contract called a 'Franchise Agreement' as a medium for expanding and controlling the marketing of his products.

The insinuation of supplier manipulation in these arrangements is not inappropriate, since many American franchisors have been prosecuted for infringement of fair trade and anti-trust legislation this century⁵. However, the difficulties of describing so broad a concept succinctly are such that Ingraham does not explain the differentiation

TABLE 2.1: ALTERNATIVE DISTRIBUTION SYSTEMS
IN ADVANCED ECONOMIES

Orientation or Class	Variants (and Sub-types)	Commentary
Horizontal (<i>laissez-faire</i>)	Numerous hybrid forms	'fragmented networks in which loosely aligned manufacturers, wholesalers and retailers have customarily bargained aggressively with each other, established trade relationships on an individual transaction basis, severed business relationships with impunity, and otherwise, behaved independently'.
Vertical	Corporate (chain stores) Contractual (franchising) (co-operatives) (voluntary chains) Administered	'[systems which aim to allow] establishments at each level [of distribution] to operate at an optimum scale so that the marketing functions within the system are performed at the most advantageous level or position'.

Source: Adapted from Davidson (1970: 7-10).

from other types of marketing implied in the 'agreement'. The main features of conventional franchising are that⁶:

- (a) a contractual relationship proposing numerous responsibilities, contributions and benefits is voluntarily adopted by two parties for a specified time;
- (b) this association affords to the franchisee the right to offer, sell or distribute the goods, services or concepts of the franchisor in a prescribed manner;
- (c) the franchise typically employs selective distribution and requires the full activity of the franchisee as a legally independent businessman;
- (d) both participants share a common public identity through trade marks, advertising and goodwill;
- (e) the franchisee normally takes full title to any products obtained from his supplier.

In essence, this system achieves vertical integration in two or more successive stages of distribution and thereby offers its founder a certain degree of network control (Malacki, 1973: 7-10). It relies on a normal licence, coupled with ongoing provisos to ensure uniformity and acceptable standards of service. Depending on the type of franchising, retailers may use their own or their producer's business name; generally, however, they have little flexibility to alter product features or their overall marketing mix. Franchising is initiated when a merchant installs a limited number of outlets to intensify and promote his links with the market. The retailers sign contracts outlining the basis of the association. In return for their distribution activities, they receive discounts ranging in most trades from ten to twenty-five per cent of a product's selling price as determined by the manufacturer. Dealers of large firms generally finance stock from their own funds or from floor-plan sources; small franchisors, on the other hand, might be required to provide retail credit assistance, since their sales organisations are usually less established. Goods may be supplied direct from the production works but, in many cases, company-owned or independent distributors are used.

While the impact of franchising is becoming increasingly apparent in Australia⁷, the system has already contributed significantly to the economy of the United States. Principally, it has:

- (a) encouraged higher standards in retailing by its enforcement of proven techniques which are generally more consonant with the market than those of unaligned businessmen;
- (b) improved retail management by affording entrepreneurs the training, experience and logistics support of the franchisor, together with economies of scale in supply usually associated with large corporations (Curry *et al.*, 1966: 92);
- (c) helped to stabilise small business by spreading retail risk, stimulating local employment and dispersing modern marketing techniques in areas which otherwise might not have been serviced (Ingraham, 1963: 219; Fine, 1968: 19);
- (d) broadened the economic base of the nation by allowing distributive organisations to expand despite limited capital and by giving many former employees the opportunity to conduct their own business (Ozanne and Hunt, 1971: 114; Hunt, 1972: 35-38).

Franchised outlets appear attractive and well-run because they offer merchandise of standard quality and dependability from conveniently-situated premises (Lewis and Hancock, 1963: 85-92). Along with the provision of a wider range of goods and services to the consumer, this type of distribution has fostered marketing innovation (Ingraham, 1963: 219). Its pluralistic features are highly regarded in the land of free enterprise. As Judge Dawson commented during *Susser versus Carvel* (1962)⁸:

the...system has the advantage, from the standpoint of our American...competitive economy, of enabling numerous groups with small capital to become entrepreneurs. [It] provides the public with... a uniform product...from small...contractors, rather than the employees of a vast chain. The franchise system is therefore *good for the economy* (*italics added*).

Development of the franchise system

Modern franchise practice arose from the fusion of two separate forces which originated in medieval Europe⁹.

- (i) In a constitutional strain, franchises were feudal laws which permitted freedom from restraint or servitude and later came to represent an immunity or privilege conferred by a sovereign.
- (ii) From a commercial standpoint, licensing arrangements first developed in the Middle Ages and were prevalent among British and American merchants by the Colonial Period. Thereafter, the rise of oligopoly in various industries during the Industrial Revolution made possible the standardised marketing agreements now characteristic of franchising. Stronger producers soon attained sufficient power to ensure that these contracts were upheld.

Despite this background, the exact emergence of the system, as presently conceived, is uncertain. A number of authors refer to its use by sewing machine companies in the American economy of the 1860s. Probably it was taken up by agricultural machinery suppliers at the same time. Yet the chief impetus came after 1900 with the upsurge of the United States automobile industry¹⁰, in which technological progress was rapid, products often unreliable and consumers uneducated. An exclusive dealer force could cushion many inadequacies of production-oriented manufacturers by offering a high level of service over a dispersed market (Davisson, 1954: 92).

Before 1920, the new measures were concurrently being incorporated in other fields. Drug producers became involved after 1902 followed by soft-drink bottlers who recognised a medium for attaining standardisation and quality control over wide areas. The final boost to manufacturer (or wholesaler) inspired *product franchising* came with the induction of the oil magnates after 1930, partly as a result of institutional issues (see McLean and Haigh, 1954). Despite some hybridisation¹¹, the basic formula is now conspicuously strong as a means of petroleum distribution (Hall, 1964: 62; Townsend, 1965).

Though product franchising is still the dominant form of the general system, most postwar growth has occurred in the *business or trade name* variants¹² (Table 2.2). Both date back to the 1920s, when foods, variety and hardware merchants formed 'voluntary chains' as a strategy

TABLE 2.2: TYPES OF FRANCHISING

Type of Franchising	Typical Distribution Channels	Principal Industries Involved
Product	Manufacturer-(wholesaler) - retailer	Automobiles, trucks, petroleum, hearing aids, agricultural machinery, construction equipment, water conditioners, swimming pools
	Wholesaler-retailer	Foods, drugs, hardware, home and automobile accessories, variety stores
Business	Manufacturer-wholesaler	Soft drinks, beer
	Manufacturer-wholesaler	Fast foods, beverages, soft ice cream
Trade name or service	Service sponsor-manufacturer	Fabricated textiles
	Service sponsor-(wholesaler) - retailer	Carpet cleaning, soft ice cream, fast foods, removals, car rentals, beverages, hotels/motels, tools/equipment rentals, coin-op laundries and dry cleaners
	Franchisor-franchisee both on all levels of distribution	Bread, milk, mattresses

Source: Adapted from Thompson (1968: 41) and McGuire (1971: 11-12).

against burgeoning corporate distribution (Ingraham, 1963: 64; Hall, 1964: 63). After the Second World War, the United States experienced massive socio-economic change, exemplified in suburban sprawl, increased leisure time, greater personal mobility, and the marketing revolution. Huff (1961: 9) suggests that these factors, combined with pent-up demand and affluence, a pool of available entrepreneurship provided by ex-servicemen, progress in small-scale electronic data processing equipment, and consumer requirements for increased levels of retailer accessibility all favoured the rapid expansion of franchise activity. Also, the ongoing attack on small business by discount houses, shopping centres and chain stores was a formidable catalyst. Retailers were looking for protection through affiliation with national marketing organisations. Franchise offers of comprehensive sales programmes and management expertise were a winning incentive with many new operators.

The 'franchise boom' of the 1960s

Franchising's heyday during the 1960s has been so poorly attended with accurate statistics that a comprehensive, integrated time series cannot be presented¹³. Initial computations of the International Franchise Association suggested that 339,000 outlets turned over \$US59 billion in 1963 (Buckley, 1964: 37). Four years afterwards, the Association claimed that \$US89 billion (a plausible volume) passed through 513,000 sales establishments (a seemingly high estimate¹⁴). The *turnover* levels were corroborated in a later survey which highlighted considerable growth in the triennium to 1971 (Table 2.3). In the latter year, the reported 407,000 franchised stores in the United States (about fifteen per cent of all wholesale and retail facilities) achieved sales of \$US131 billion -- over ten per cent of the country's gross national product of \$US1,047 billion¹⁵.

TABLE 2.3: FRANCHISING IN THE ECONOMY,
UNITED STATES OF AMERICA, 1969-71

Principal Type of Retailing	Total Franchisor/ Franchisee Establishments (thousand)			Total Franchisor/ Franchisee Sales (\$US billion)		
	1969	1970	1971	1969	1970	1971
Automobile/trucks ^a	37.80	37.20	37.00	66.40	53.10	69.00
Automotive products and services ^a	18.90	20.40	20.60	1.80	1.90	2.00
Fast foods	28.70	32.60	35.60	3.80	4.60	5.30
Gasoline stations ^a	222.20	222.00	220.00	25.10	26.50	27.30
General retailing	27.60	29.30	31.00	12.10	13.10	14.40
All other industries	48.70	54.80	60.80	10.30	12.00	13.60
Total franchising	383.90	396.30	407.00	119.50	111.20	131.60

a Indicates industries mainly engaged in product franchising.

Source: United States of America [Department of Commerce] (1971: 2-4).

An enormous variety of functions now subscribes to this type of distribution. In the United Kingdom, Mendelsohn (1970: 25-33) lists some sixty-five which range from accounting services to weight control courses, but many more could be enumerated. Some of the best-known companies such as Kentucky Fried Chicken, McDonalds, and Burger Chef dominate the fast-foods industry and have expanded into Australia within the last decade. Other widely-patronised participants are automotive supply stores (e.g. B.F. Goodrich), hotels/motels (e.g. Holiday Inns of America) and car-hiring services (Avis, Hertz, Budget). Slater's (1964: 20) assertion that 'just about everything is, and can be, franchised' apparently has been recognised by some of America's most sizeable non-franchising conglomerates which are now perpetrating a trend of acquisitions (Sherwood, 1968: 27). Typical examples are the takeovers of the Automation Institute by Control Data Corporation and of Jack-in-the-Box by Ralston Purina (Bernstein, 1968: 36; Ozanne and Hunt, 1971: 351-53). From many accounts, the franchise system appears as a conspicuously successful phenomenon of modern marketing.

THE APPLIED PROBLEM

The name of the system is *franchising*. Franchising is as American as Mom, apple pie, and lately Bob Dylan...franchising is America's answer to monopoly capitalism, the newest and by far the most secure niche carved out for that typical American who refuses to fade from the scene, the small businessman (Rosenberg and Bedell, 1969: 6).

In a number of publications and the statements of many franchisors, the spectacular boom of the 1960s encouraged an unreflective bullishness, lack of objectivity and preoccupation with the specific to the detriment of the general. By no means has the system been free of problems. One of its chief advocates, Slater (1964: 20), laments that it is 'woefully misunderstood' -- at best, a euphemistic evaluation. Franchising's expansion attracted a significant share of illegal

business practices which rather tarnished its reputation¹⁶. Lengthy litigation and federal anti-trust action have beset several user industries. Moreover, for various reasons, a percentage of outlets have failed and their owners have sometimes complained to the press about conditions under which they had to operate (Lyons, 1966; Levy, 1969).

The iconoclasts

In recent literature, such excesses have culminated in a timely undercurrent of iconoclasm, originally infused by Hewitt (1956). This movement, composed mainly of business lawyers¹⁷, questions not only the equitability and legal rectitude of the franchise relationship but also whether the system achieves all the benefits which its proponents claim. Yet even these searching examinations seem to obfuscate an important point. Difficulties which the more radical writers and legislators seek to overcome have arisen in a so-called 'boom' period for franchise development. There has been little thought as to the possible ramifications of less favourable economic circumstances:

the problem of adjustment of franchise systems to changing market conditions is not necessarily of universal concern. [It] has direct meaning to [long-founded] franchisors...who...have undergone little or no adjustment in the products, the locations, the operating practices, and the physical style of their businesses. It has indirect meaning to the more-recently-established-franchise systems insofar as they may fail to adjust to future...conditions (Lewis and Hancock, 1963: 76).

These comments skirt an issue which, as shown by the Ford Motor Company's experience in the 1930s, is crucially significant to all franchisors (Palamountain, 1955: 118-19; Brown, 1970: 107). There are few business handbooks which outline either 'appropriate' strategies for survival or the effects of past setbacks on organisations involved. A study of economic contraction would spotlight aspects of corporate

decision-making (as suggested in Chapter One), and fill an urgent applied need in our knowledge of product distribution. The present operational problem, to determine the economic and spatial response to depressed demand of enterprises operating within a franchise system, thrusts into both fields with a completely fresh approach. Yet before any progress can be made, one of three forms of franchising must be selected as the focus; it is beyond the scope of this project to investigate them all. Although exuberant claims have not been directed specifically at product franchising, it is the logical emphasis for the current study.

THE CASE FOR PRODUCT FRANCHISING

In terms of either number of outlets or sales volume, product franchising is easily the most important variant of the general system. Thus, results obtained should be highly representative of franchise practice as a whole (see Table 2.3). Unlike their youthful counterparts in the 'business' and 'trade name' applications, the older product franchisors are precisely those who have undergone 'little or no adjustment' -- to re-quote Lewis and Hancock (1963: 76). The problem is 'directly' relevant in this sector. Moreover, participant industries are clearly distinguishable and long-established and their cyclical behaviour is better recorded than that of suppliers in the other two areas.

Rationale of product franchising

To the major user organisations -- those involved in automobiles, petroleum, electrical goods and agricultural and construction equipment -- the rationale of product franchising rests on three interrelated factors (Ingraham, 1963: 56-85).

- (i) The demands of the product. Product franchising is usually employed in marketing strongly-differentiated capital durables which exact high degrees of retailer and brand loyalty. Selective or exclusive distribution can be used to create attractive sales opportunities but these goods demand a concentrated pitch, technical expertise and a commitment towards spare parts, service and warranty. The manufacturer cannot economically overcome such retail entry barriers without independent local assistance and, often, substantial investment from prospective dealers (Lewis and Hancock, 1963: 7).
- (ii) Managerial considerations. Capital durables engender high risks for all channel participants¹⁸. Through product franchising, suppliers can ameliorate market forces by dealing with only a select group of retailers. Stock investment and bad debt exposure is reduced, local display facilitated and the company's marketing arm extended by motivated and well-trained entrepreneurs.
- (iii) Financial and network control needs. Firms in developing markets must increase their sales or lose penetration and court failure. Yet, capital is often unavailable for this purpose. The franchise system offers rapid growth prospects without the asset fixity of corporate distribution or the intangibles of horizontal marketing. A producer can regulate his entry through variable cost distribution. His risk is spread throughout the channel, from which he gains access to sales, working finance, service, publicity, storage and credit collection facilities.

The prospective user must weigh these three considerations in terms of his company situation. In general, however, product franchising decreases uncertainty for the manufacturer and provides cheap distribution with substantial levels of network control. As such, it would appear reasonably adaptable to the stringencies of recession.

Application of product franchising

Use of product franchising as an aggressive marketing device has been most fully exploited in the American automobile industry. According to Hewitt (1956: 55-57), the more successful vehicle manufacturers found that:

- (a) selling expenses were contained by restricting the number of outlets, and pricing was more easily policed;
- (b) exclusive franchise territories attracted financially-stronger dealers and allowed better production planning;

- (c) the intra-brand sales protection offered by product franchising could be used to enforce exclusive representation, through which dealers acquired a specialised investment and became subject to high levels of control;
- (d) similarly, service and spare parts operations could be oriented to exclude competition.

In most present applications, at least in the United States, legislation has rectified excesses concerning exclusive territories and representation, tying agreements and resale price maintenance which, before, blatantly favoured the franchisor (Stephenson and House, 1971: 39). Yet, in many respects, product franchising still affords a means by which a supplier can enjoy the outstanding advantages accruing from centralised marketing administration without undertaking costly forward integration -- an attractive situation since,

entrepreneurs *do* seek to gain control over the activities of others and they realise it in varying degrees. They do so because their operations are affected, often quite significantly, by the activities of others in the channel (Little, 1970: 32).

The practical impact of Little's argument is clear. Though the generally-held purpose of franchising is to allow both vendor and vendee to exploit the potentially-greater gains which arise from concerted distribution action, their channel aims can vary. Factory profits for the former often require increased sales, whereas this course may not be the most lucrative for the franchisee operating under a different cost structure (see Woll, 1968). In recognition of the frequent resolution to this apparent impasse, Ingraham (1963: 27) and Hewitt (1967: 1075) contend that the primary objective of any franchise system is to govern and expand the marketing of the producer's goods on a profitable basis. This goal of network authority can be fulfilled by employing two main techniques. The supplier's first interest is in managerial dominion over the operations of his dealer force without monetary commitment. Indeed, in many less-important aspects of

administration, his aim is achieved solely through the marketing contract. Yet, financial measures are invariably involved as a second form of control. They may include direct ownership or investment in the fixed assets of the reseller, funding equipment, stock or working capital¹⁹, the co-signing of notes or acquisition of master-leases on sales premises (Ingraham, 1963: 18). Since such provisions constitute direct forward integration and entail extra uncertainty, they are avoided if the managerial alternative is possible.

Applied strictly, the principles of channel leadership allot retailers a position of low autonomy but offer the whole system peak efficiency from a solely technical viewpoint (Stephenson and House, 1971: 36). However, since the vendee has too great a legal, financial and moral stake to permit all issues to turn to the other party's advantage, disputes will emerge in the absence of provision for an equitable allocation of income based on economic exposure and risk (cf. Rosenberg and Stern, 1970: 45; Stephenson and House, 1971: 41).

FORMATION OF HYPOTHESES

The importance of management is underscored in times of recession, when the producer's existence is threatened by pressures in both his distribution organisation and in the market at large. Mallen (1967: 105) lists four possible areas of contention:

- (a) among channel members (manufacturer-wholesaler-retailer);
- (b) between competitors for use of agencies (manufacturer-manufacturer for a wholesaler);
- (c) between channel competitors (manufacturer-manufacturer, wholesaler-wholesaler, retailer-retailer);
- (d) between distribution systems (franchising *versus* corporate marketing in a single industry; manufacturer-retailer *versus* manufacturer-wholesaler-retailer).

In an integrated sales organisation, the fortunes of manufacturer and dealer are inextricably bound. Yet, the former bears major responsibility for the prosperity of all participants because

the degree and quality of control...exercised by the franchisor usually is a decisive factor in determining the...success that the system achieves (Hewitt, 1967: 1076).

The preconditions to network authority are derived from a franchising company's structural attributes signifying two forms of power:

- (i) Economic force accrues from concentration of capital²⁰. For example, larger producers often engage corporate distribution systems featuring considerable vertical integration, whereas smaller or weaker sellers may have to seek wholesalers or retailers to accommodate their entire output, thus abrogating most of their flexibility.
- (ii) Positional strength, derived from accessibility to consumers, is a negotiable commodity. A strong enterprise can offset the effects of a marginal location by recruiting independent agencies -- such as dealers -- better placed in relation to its clientele.

Therefore, depending on the positioning of his strategic facilities, the large franchisor should be capable of asserting greater control than smaller competitors. His power would be reflected in a more embracing franchise code, and market tactics which maintain or improve existing channel relationships in his favour and dispel any threat of undesired contraction in the sales force. In this respect, considering the operating costs of the establishments involved, representation policies in the central administrative and production, wholesale and retail sectors must play a significant role. Therefore, in a franchise system experiencing recession, an association may be hypothesized of company structural factors (expressed through the exercise of network management) and the direction of corporate spatial decision-making.

Related to this geographic prediction is a purely financial postulate. If, as Hewitt (1967: 1076) has contended, a franchise system's fortunes depend on the degree of authority with which it is conducted, larger firms' operations should adapt better to market

contraction than those of small competitors. The differences necessary to test this second hypothesis will be evinced in distribution policy (as proxied in franchise agreements) and practice (viewed here principally in terms of locational representation strategies). Yet, *ceteris paribus*, more inclusive channel management should contribute to superior market and economic results among large franchisors. Hence, these variables must also be considered in assessing the relative 'success' of various organisations.

Based on this structural hypothesis with its spatial and financial applications, the enquiry integrates the themes of corporate policy-formation, marketing and product franchising. Yet, so broad a problem must be narrowed to one subject industry. Part Two, comprising Chapters Three and Four, centres on a select group of recession-bound enterprises which is differentiated into 'large' and 'small' segments. Part Three (Chapters Five to Eight) analyses each group's relative network capacities and their bearing on tactics undertaken. Conclusions about processes and relationships in major firms' policy formation are derived in Part Four (Chapter Nine).

RÉSUMÉ

Following their segregation from all possible distribution media, the three forms of franchising were defined in terms of a general system. A review of its development pointed up serious oversights which pervaded the literature during the boom period of the 1960s. Most noticeably, the repercussions of business downturns on the performance of user corporations have been neglected. The specific interest of the project was then directed to product franchising, in which channel control -- represented in a business' financial size and strength and market accessibility -- was assumed a significant influence on its

decision-making and ultimate success. To develop these ideas, a search for a suitable test industry was initiated.

CHAPTER TWO FOOTNOTES

1. Alternative forms of distribution have arisen in response to the needs of many different kinds of products (cf. Miracle, 1965). The rise of vertical structures is noted in Bucklin (1970a: 21) and Davidson (1970: 7-10). For further details, see Bucklin (1970b) and Blois (1972).
 2. Among other contractual systems, co-operatives do not profess the individual profit motive while voluntary chains (usually non-integrated retail alliances) lack many of the administrative and management controls of franchising (see Konopa, 1963). Corporate distribution relies on the use of company retail outlets in contrast to independent entrepreneurs (see Ridgeway, 1957: 468-70). Finally, administered marketing operates through lessees who rent space in large stores and provide their *own* sales personnel (see Davidson, 1970: 8).
 3. Franchisees can be differentiated from three other types of marketing functionary:
 - (a) employees, who undertake a task in the manner specified by the employer to achieve a stated necessary outcome;
 - (b) licensees, who work under arrangements offering less vertical integration, fewer provisos and little of the continuing relationship characteristic of the franchise contract (see Ingraham, 1963: 21);
 - (c) concessionaires, whose relationship with a host organisation seldom amounts to more than a lessor-lessee arrangement and certainly does not incorporate the usual legal vendor-vendee status of the franchise contract.
- General information is provided by Glickman (1972: 2/1-2/27). More specialised papers include Keck (1968); Rahl (1968); Baker (1969).
4. For example, Curry *et al.* (1966: 17); Mendelsohn (1970: 5); Rosenfield (1970: 9-18); Izraeli (1972: 3-8).
 5. See Hewitt (1956, 1958); Whitney (1958); Zeidman (1967); Thompson (1968); Clabault (1970).
 6. Based on the United States' 'Fairness in Franchising Act', the Hart Bill -- SR No. 2507 [A Bill Relating to Dealings between Parties to Franchise Agreements] and SR No. 2321 [A Bill to Supplement the Anti-trust Laws of the United States in order to Prevent Anti-Competitive Practices etc.]. See Rosenfield (1970: 9-18; Izraeli (1972: 3-4). For operational descriptions, see Schwartz (1959); Curry *et al.* (1966); Cameron (1970).
 7. Bellin (1970: 756-57). A complete lack of reference material about Australian franchising restricts the present commentary to the situation in the United States. Information in Table 2.3 is not available for Australia.
 8. *Bernard Susser et al. versus Carvel Corporation et al.*, Commerce Clearing House Inc., Trade Regulation Reporter No. 5, Current Comment -- Trade Cases 1962, quoted in Lewis and Hancock (1963: 92).

9. Much detail exists on the origins of the franchise system. This account has been based on Hewitt (1956); Kursh (1962); Lewis and Hancock (1963); Slater (1964); Rothenberg (1967); Konopa (1970); Rosenfield (1970); Izraeli (1972).
10. For further treatment of various aspects of franchising in the automobile industry, see Hewitt (1956); Koo (1959); Pashigian (1960); Brown *et al.* (1962: 103-26); Kessler (1962); Sloan (1964); Freed (1964); Phelps (1965); Brownlee (1966); Curry *et al.* (1966).
11. Ridgeway (1957: 477). More information about gasoline marketing is found in Cross (1962); Dixon (1964); Winer (1967).
12. See Oxenfeldt and Thompson (1968: 4).
13. The inadequacies were first pointed out by Lewis and Hancock (1963: 85) and Ingraham (1963: 5). Yet, some years later, they remained still apparently unrectified (Best, 1968: 46); Bond (1969: 44); Levy (1969: 37); United States of America [Senate] (1970: 17-18).
14. Estimates recorded in Konopa (1970: 19/41) and McGuire (1971: 2).
15. U.S.A. Statistics in Brief 1972, [Supplement to The Statistical Abstract of the United States, 93 (1972)], Bureau of Census, Department of Commerce, United States Government Printing Office, Washington, D.C., 1972.
16. See Wilson (1966); Mockler and Easop (1968: 28-29); Levy (1969); van Cise (1969); Augustine and Hrusoff (1970: 1349-51).
17. Brown (1970); Rosenfield (1968, 1970).
18. Alexander *et al.* (1963: 10) define a channel of distribution as 'the...intra-company organisation units and extra-company agents and dealers, wholesale and retail, through which a commodity, product, or service is marketed'. Apart from the stipulation of independent retailers, franchising does not presume any particular distribution channel structure. If involved at all, wholesalers could be either corporate or non-corporate agencies. They might employ sub-distributors who could, in turn, sell to their own retailers. Dealers might rely on spotter or commission agents. For further general information on channels of distribution, see Beckman (1932); Elder (1935); Clewett (1954); Diamond (1963); Bucklin (1966).
19. Supplementary financing is the most common form of franchisor participation at retail in capital-durable product franchising industries. Oil producers and those engaged in business or trade name applications tend to use the other alternatives.
20. As pointed out later, 'concentration of capital' or asset strength can be interpreted through other financial parameters in certain circumstances.

PART TWO

SAMPLE SELECTION AND STRATIFICATION

In order to evaluate this project's hypotheses, study of a product franchising industry under recession is required. A suitable focus obtains in the experience of agricultural machinery firms between 1967 and 1972. The development of excess capacity in world equipment manufacturing during the 1960s and consequent saturation of the Australian market are examined together with the onset of the rural crisis as long and short-term environmental stimuli contributing to the demise of suppliers. Similarly, the decline in the domestic demand is reviewed. For practical reasons, the enquiry then narrows to nineteen leading companies responsible for the bulk of the nation's tractor and implement output; in preparation for the subsequent analysis, they are classified into 'large' and 'small' divisions on the basis of structural attributes.

CHAPTER THREE

THE TEST CASE: THE AUSTRALIAN AGRICULTURAL
MACHINERY INDUSTRY

Despite its research opportunities, the widespread Australian rural malaise of the late 1960s has attracted little more than press coverage¹. Centred in the wheat industry², it was born of a cost/price squeeze³, uncertainty exacerbated by unfavourable media, inadequate credit⁴ and, most importantly, years of neglect of the need for consolidation and restructuring (Campbell, 1971: 68). The officially-counternanced over-capacity and lack of adjustment in productive resources relative to world requirements became chronic after the boom of 1963-64. The years until 1968 brought economic turbulence, rapidly-expanding acreages⁵, variable seasons, rising expenses and falling prices, and an increasing dependence on temperamental export opportunities. During the financial year 1970-71, farm income plummeted to a postwar low of \$A0.89 billion, while gross rural debt spiralled to \$A2.10 billion (Table 3.1). Small operators and sharefarmers -- a significant proportion of all landholders -- were jeopardised; even big producers lacked the liquidity to effect plant alterations necessary in combating cost pressures⁶. As cut-backs applied by the farm community ricocheted among their suppliers, the demand function for producer durables left manufacturers of agricultural machinery among the worst affected such that, eventually, their plight became public knowledge:

the primary producer [has] never been in a better position to buy top quality machinery at the keenest possible price...this [is] a direct result of the present recession [in which] used equipment inventories [have] risen to an alarming level, sales of new products [have] dropped drastically, and discounting by all major organisations...[has] ...created a buyers' market (*paraphrase of a speech*)

TABLE 3.1: THE RECESSION IN CAMERA -- SELECTED FINANCIAL STATISTICS AND INDEXES,
RURAL INDUSTRIES, AUSTRALIA, 1961-72

Year Ending June	Financial Statistics (\$A billion)			Indexes (1960/61 to 1962/63 = 100)				
	Actual ^a gross value of rural ^b production	Actual ^a total farm income	Actual ^a gross farm debt	Quantum of rural production	Domestic prices received	Export prices received	Prices paid ^c	
1961	2.75	1.01	0.96	96	103	96	99	
1962	2.73	0.93	1.04	98	97	96	101	
1963	2.99	1.09	1.08	105	101	105	101	
1964	3.40	1.40	1.14	110	109	118	101	
1965	3.42	1.33	1.29	115	106	105	105	
1966	3.32	1.02	1.40	105	111	108	109	
1967	3.83	1.40	1.59	126	110	106	114	
1968	3.34	0.83	1.86	111	107	100	118	
1969	3.95	1.28	1.96	137	106	102	120	
1970	3.79	1.07	2.08	131	101	97	123	
1971	3.63	0.89	2.10	128	97	88	128	
1972	3.99	1.13	2.10	135	104	95	136	

a Non-deflated series.

b The gains in the value of rural production after 1967 were borne by increases in volume output, not prices received.

c Note the relationship of prices paid to prices received.

Source: Australia [Bureau of Agricultural Economics] (1973a: D16-D22).

by Mr R.M. Cherry, President, Tractor and Machinery Association of Australia, quoted in The Land [Sydney], 29 April 1971).

Farm equipment is as essential to urbanised, twentieth-century life as agriculture itself. Hence, the study probes the experience of these merchants in the 1967-72 recession to illustrate aspects of corporate decision-making. Knowledge of the general and international economics of the industry not only addresses its diversity and complexity but also assists forthcoming analysis of the behaviour of selected member firms. After outlining the suitability of the chosen field, this chapter shows the contribution of demand and other elements to the current global arrangement of production. It then demonstrates the bearing of worldwide excess capacity on Australia during the 1960s and details the decline after 1969. This discussion acts as a springboard to the sampling in Chapter Four of individual companies for further analysis.

CHOOSING THE TEST CASE

Although the agricultural machinery industry was adopted for the investigation from limited alternatives, it offers several distinct advantages.

- (i) Availability of material. As the recession lifted in 1972, marketing documents were still to hand in firms and the issues fresh in the minds of policy-makers. Secondary sources were also well-covered by a substantial body of published data.
- (ii) Easily-segregated products. As farm equipment is functionally distinct, the complexities of substitutes and cross-elasticities could be avoided. As a corollary, assuming reasonable degrees of firm specialisation, the corporate repercussions of economic contraction should be undiluted because the nominated product has no application outside the rural sector.
- (iii) Practicality. There is definite applied value in examining this industry for, despite its small size, it is of crucial importance to a significant part of the national economy.

However, a criterion more telling than any of the above is that *product franchising* is central to the market conduct of equipment producers.

Product franchising in the agricultural machinery industry

The word 'FRANCHISE'...means that the Dealer and [the Company] have joined together in a working partnership with the farmer, and...under this mutual understanding...all dealers can profit, grow and prosper...and serve agriculture, the community and this wonderful country of ours, Australia (*dealer prospectus of a Melbourne agricultural machinery producer, early to mid-1960s*).

Product franchising was apparently imported into Australia by North American companies towards the end of the nineteenth century. At the 1906 Royal Commission on Customs and Excise Tariffs, it was denounced as an exogenous 'curse' which prevented the farmer from

obtaining his goods at a reasonable price, [taking] hundreds of thousands of pounds out of [his] pocket (Australia [Parliament], 1906: 92).

Despite these accusations, the direct distribution advocated by local manufacturers was superseded by the prevalent use of commission agents (Homs, 1918: 76). These forerunners of the modern dealer held consigned stock for sale or hire in a rigidly-defined territory. They were expressly forbidden, at the risk of their own trading margin which ranged from five to fifteen per cent, to ask other than fixed prices. Though advised to demand cash or notes on delivery, the agents also made collections and repossessions. Any interest in competing lines was prohibited as was latitude to pledge the manufacturer's word, incur expenses on his behalf, or promise delivery dates.

Real change from this principal/agent relationship was delayed by the Second World War and the sellers' market which followed. By the

early 1960s, in accordance with the growing intricacy and cost of equipment, most major companies had modified their contracts and retreated to a completely wholesale role⁸. Discount margins were raised commensurately with enlarged performance obligations, formal exclusivity clauses of all types gradually disappeared, consignment was virtually abolished, and provision was made for passing title. Invoicing was thenceforth directed to the retailer rather than the consumer, thus enforcing substantial savings to the supplier. The agent became a dealer under what could be construed as a legal vendor/vendee association (Hewitt, 1956: 189).

Notwithstanding such modifications, the agreements still offered ample scope for franchisor control. Considering the environment in which agricultural machinery is sold, strong centralised administration is probably more necessary than in most other areas of distribution. Indeed, its use has been allied closely with a highly-variable demand schedule and the development of competitive oligopoly. Such factors, in turn, are paramount influences on world and local markets, as indicated by succeeding sections.

THE DEMAND FUNCTION

Farm mechanisation has led a trend of increased capital substitution in advanced agriculture since 1945. Greatly intensified research and development has produced dramatic technological improvement, best demonstrated in the application of power take-off, assisted steering, sophisticated hydraulics, sensing devices, and an ubiquitous upgrading of capacity and motive power (Vicas, 1970: 38-44). A Bureau of Agricultural Economics (1969: 45-53) study of Australian wheat farms reveals the financial import of agricultural equipment; for the triennium ending 1966-67, plant and equipment represented nine per cent

of the assets and fifty-two per cent of the annual gross value of capital increments. Yet, while the quality and size of machinery has risen, its price relative to labour and land has fallen (Heady and Tweeten, 1963: 265-67). Thus, the adoption of more efficient products is being paralleled by emigration of rural workers and substantial amalgamation of properties. In Australian primary industries, change was initiated by the reconstruction of dairying in 1960 and has been since accelerating (Campbell, 1971: 68).

The demand for agricultural machinery

Both the growing lumpiness of equipment inputs and the need to achieve efficiency and scale economies have made farmers more aware of the relative abilities of different goods and their support facilities. Users are reacting to a more complicated factor market by assuming characteristics of the industrial buyer, requiring specialised economic and technical data from salesmen and assurances of readily-available after-sales and spare parts service⁹. A survey in the Canadian broadacre belt suggests that the chief precursors of machinery buying are discussions among the farming community, magazine articles and demonstrations on neighbours' properties (Segall, 1969: 7-9). Yet, the impact of such publicity can remain latent, because purchases of capital durables can be frequently postponed until a decline in the utility of existing stock or the flow of its services prompts replacement action. Alternatively, the desire to improve performance and work capacity through a new model might stimulate sales. Given the price of equipment relative to other factor inputs, crop returns, the discount rate and current level of technology, economic theory contends that there exists at any time a stock position which the farmer considers optimum. Shifts in any independent variable will necessitate an inventory movement to re-institute equilibrium.

Therefore, annual purchases are determined by sensitivity to changed conditions.

Econometricians¹⁰ have used both stock-adjustment and investment-flow regression models to identify correlates of demand. A number of common features have emerged. An emphasis on the price of machinery in relation to a perceived operating criterion (such as labour rates or crop prices) reflects the role of expanded educational and extension services in broadening the economic foundation of farm decisions. In isolation, however, the price elasticity of demand is low to moderate and, in all but times of crucial recession, competition on this measure is not encouraged by the oligopolists controlling supply. Rather, product characteristics and after-sales service are emphasized and engender brand conservatism as a serious barrier to entry in selling (Conant, 1953: 22; Wadley, 1970: 144).

The high income elasticity of demand, first postulated by Shearer (1951: 412) and Phillips (1956: 93-97), has been pronounced in the analyses. In a setback, the relative decrease in equipment turnover exceeds any fall in farm revenue. Net earnings are applied initially to consumer-goods requirements to maintain living standards. Thereafter, loan repayments are met and the more divisible operating inputs such as fertilisers bought but, unless a complete breakdown of services ensues, machinery buying simply ceases until prospects brighten. Much also depends on the association of farm equity to the general interest rate and the availability of loans. In the past, funding has been derived mainly from accumulated assets but, now, commercialisation of agriculture has brought strong participation in liquid capital markets (Heady and Tweeten, 1963: 268-69). Since credit renders the product less sensitive to price and income changes, some major equipment merchandisers have set up finance subsidiaries as another form of non-price competition (see Diesslin, 1955: 22-28).

Several other factors affecting demand may be noted briefly. At least two analyses consider farm size a significant influence on demand, reflecting the ongoing thrust for rural rationalisation and the role of critical thresholds in investment. Stock levels have a bearing, not only in the replacement function, but also in precipitating the need for new components for integrated machine-systems. Governmental subsidy programmes or investment allowances can also stimulate sales, as can technological innovation (Allen, 1952: 351).

In sum, demand is highly susceptible to a number of institutional parameters, foremost of which is farm income. Its volatility is aggravated by structural elements. The effects of seasonality -- a perennial problem for manufacturers -- are compounded in Australia because farmers invariably delay purchasing until the crop and price outlook is known. To spread production and contain inventory, prior-season discounts on sales and definite orders are required. Despite these incentives, specialised small companies can suffer troughs which pose problems in maintaining workloads for staff and dealers (Figure 3.1). Throughout the industry, a marketing programme can collapse at short notice because of adverse climatic influences, leaving retailers with substantial stock carry-over. If extra floor-planning is not forthcoming from commercial sources, a competitor's only option might be a costly intercession to save key dealerships. Predicated upon many other fluctuations are long-term cyclical swings, to which agricultural industries are especially prone. Apart from the usual shifts in the mood of the nation, primary producers and their suppliers have to face the hardship caused by fire, flood, drought, and commodity surpluses. All these vagaries, seen in relation to the complexity and expense of equipment, make the industry one of the riskier fields of business endeavour. Two main counters -- franchising

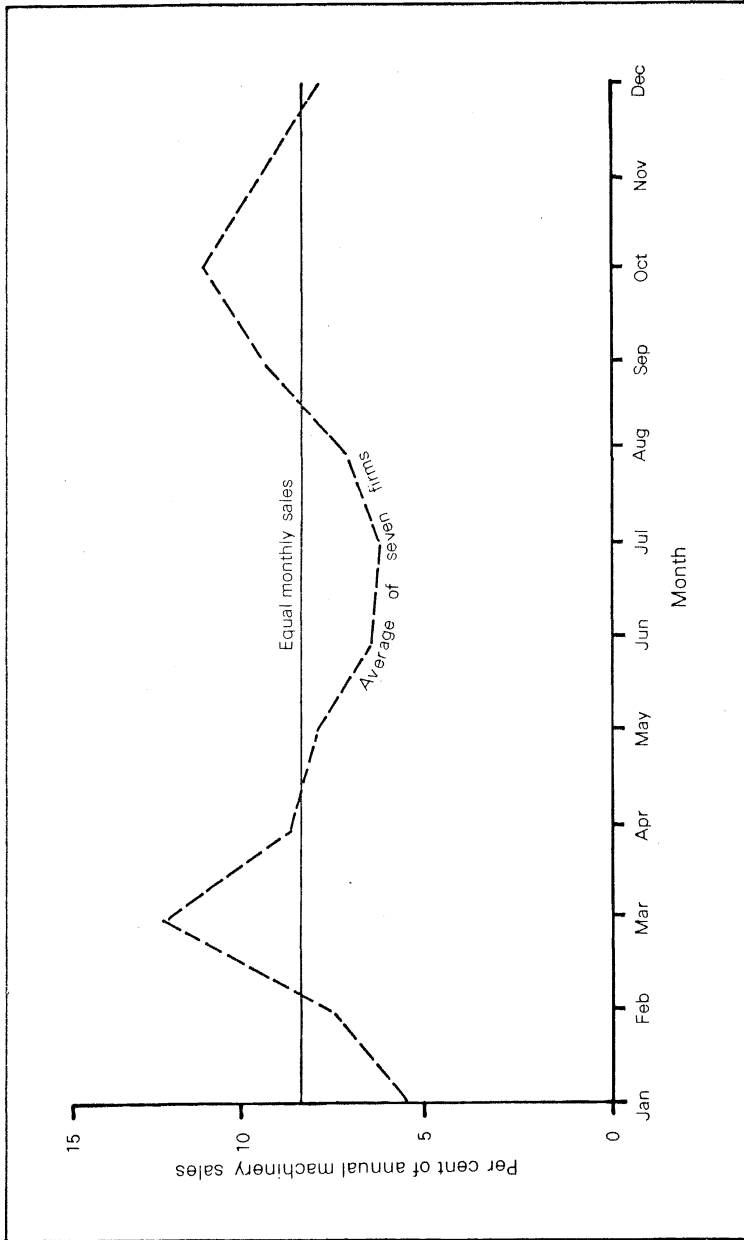


FIGURE 3.1: Seasonality in wholesale sales, seven selected firms^a, agricultural machinery industry, Australia, various annual observations over period 1967-72.

^a Selected on grounds of data-availability from participant companies in Appendix One.

Source: Fieldwork.

in the marketing sector, and product and functional diversification in manufacturing -- have contributed much to the size and structural differentiation critical to the performance of machinery companies in recession.

GLOBAL MARKET STRUCTURE: THE BACKGROUND TO
CORPORATE OLIGOPOLY

Technological innovation, in addition to demand inconsistency, has been significant in shaping the current form of worldwide production. Major development in agricultural equipment began in North America in the 1830s with McCormick's reaper and Deere's steel plough¹¹. In the ensuing expansion, patent acquisition was emphasized as a means of broadening output ranges; early 'patent pools' gave way to formal merger which, by the 1890s, was happening on a massive scale. This strategy, which accomplished diversification to cope with the whims of the market and realised economies of scale, was seen most spectacularly in the emergence of Massey Harris in Canada in 1891 and International Harvester in the United States in 1902¹².

After 1900, the advent of the internal combustion engine raised entry thresholds in the production and distribution of all major machinery groups. By the 1930s, when Ford had pioneered the lightweight farm tractor (Conant, 1953: 35) and the combine harvester had been developed, only companies with superior reserves were in a position to exploit all the benefits of market leadership. Thus, before the Second World War, the evolution of the North American industry was virtually complete with Massey Harris, International Harvester, Case, John Deere, Allis Chalmers, Cockshutt, Oliver, and Minneapolis-Moline pre-eminent in the field. Since 1945, despite the strides of long-line firms such as Ford and New Holland in the United States and Leyland, David Brown, Fiat and Claas in Europe, no other company has

joined the full-line set. Therefore, postwar free-world trade has been ruled by a small clique of oligopolists. For two major lines, tractors and harvesting equipment, exactly forty-seven per cent of 1966 output emanated from the three largest firms; four-fifths came from about a dozen enterprises (Table 3.2). Tight concentration reduced opportunities to expand penetration or production; combined with wavering aggregate demand, it encouraged a multi-national and conglomerate disposition among the principal undertakings.

The recoiling world market

The aggregate value of world exports of farm equipment -- comprised mainly of higher-priced items -- rose by only three per cent per annum from 1967 to reach \$US2.16 billion in 1971 (Table 3.3). The rather desultory progress is reiterated in United Nations production statistics. Only one category -- seeding and planting implements -- exhibited any appreciable uplift during the 1960s (Table 3.4). Technological issues and agricultural rationalisation in advanced lands (the major consumers) now point to slow growth in the dollar volume of total sales but an absolute decrease in the number of goods required (Barber, 1971: 76). In many countries including Australia, static or declining stocks of machinery on rural holdings augur poorly for long-term replacement demand. Similarly, contractors who can operate equipment at near-maximum efficiency are playing a greater role in the developed lands so that, unless vast new acreages are opened up, prospects for the industry in traditional markets are limited. Although hopes are held for the emerging nations, their relative purchasing power is presently low. In 1966, for example, they received only one quarter of the world's equipment exports (Barber, 1971: 259). The depressed state of global demand throughout the last decade

TABLE 3.2: MARKET CONCENTRATIONS, MAJOR AGRICULTURAL MACHINERY LINES,
UNIT PRODUCTION ACTUAL AND ESTIMATED, NON-COMMUNIST COUNTRIES, 1966

Firm	Country of Origin	Unit Production			
		Wheeled tractors		Combine harvesters	
		Number (thousands)	Percentage	Number (thousands)	Percentage
Allis Chalmers	U.S.A.	15.50	1.91	9.00	7.31
Bolinder-Munktell	Sweden	-	-	4.90	4.00
Brand	n.a.	-	-	3.30	2.68
David Brown	Britain	18.00	2.22	-	-
Case	U.S.A.	17.50	2.16	4.80	3.90
Claas	Germany	-	-	22.00	17.87
Clayson (New Holland)	U.S.A.	-	-	10.00	8.12
John Deere	U.S.A.	78.00	9.64	15.00	12.18
Deutz	Germany	17.00	2.11	-	-
Fiat	Italy	41.50	5.13	-	-
Ford	U.S.A.	118.40 ^a	14.63	-	-
International Harvester	U.S.A.	108.00	13.34	11.00	8.94
Leyland	Britain	15.00	1.85	-	-
Massey Ferguson	Canada	153.80 ^a	19.00	21.40 ^a	17.38
Minneapolis Moline	U.S.A.	7.00	0.86	-	-
Oliver (Cockshutt)	U.S.A.	15.00 ^a	1.85	4.00 ^a	3.25
Renault/Porsche	France	19.00	2.35	-	-
Valonet	Finland	4.00	0.49	-	-
Versatile	U.S.A.	-	-	0.50	0.40
Volvo	Sweden	14.70 ^a	1.82	-	-
Other (known companies)	n.a.	9.40 ^a	1.16	-	-
Other (unidentified)	n.a.	157.20	19.50	17.20	13.97
Total non-communist countries		809.50	100.00	123.10	100.00

a Actual figures, remainder estimates.

Source: Barber (1971: 132, 144).

TABLE 3.3: EXPORTS OF AGRICULTURAL MACHINERY AND TRACTORS, MAJOR TRADING NATIONS, 1967-71
(\$US billion)

Year Ending December	Canada	United States	Japan	E.E.C. ^a	Britain	Other E.F.T.A. ^b	Other Europe O.E.C.D. ^c	Total O.E.C.D. Nations	Australia and Others ^d	Estimated World Total Exports ^e
1967	0.17	0.61	0.05	0.53	0.34	0.11	0.02	1.83	0.01	1.84
1968	0.15	0.63	0.05	0.63	0.33	0.12	0.02	1.93	0.01	1.94
1969	0.16	0.64	0.05	0.69	0.38	0.14	0.02	2.08	0.01	2.09
1970	0.16	0.63	0.07	0.76	0.38	0.15	-	2.15	0.01	2.16
1971	0.18	0.60	0.09	0.69	0.43	0.16	-	2.15	0.01	2.16

a EEC: Belgium, Luxembourg, Germany, France, Italy.

b Other EFTA: Norway, Sweden, Denmark, Finland (after 1969), Austria, Switzerland, Portugal, Iceland, Ireland, Spain, Greece, Turkey.

c Other Europe OECD: Yugoslavia.

d Rounded estimate.

e Including countries as defined.

Sources: (i) Trade by Commodities, Market Summaries, Series C, Volume 3, Organisation for Economic Co-operation and Development, Paris (years 1967-71).

(ii) World Trade Annual, Volume 5, [Statistical Office of the United Nations], Walker & Co., New York (years 1967-70).

TABLE 3.4: PRODUCTION OF AGRICULTURAL MACHINERY BY TYPE, NON-COMMUNIST
COUNTRIES, 1961-70
(Million units)

Year	Ploughs	Other Tillage Equipment	Seeders Planters	Combine Harvesters	Threshers	Milking Machines	Tractors over 10 hp.
1961	0.85	1.39	0.20	0.10	0.35	0.17	0.60
1962	0.91	1.21	0.20	0.11	0.34	0.15	0.61
1963	0.78	1.23	0.25	0.12	0.35	0.13	0.63
1964	0.77	1.28	0.32	0.14	0.36	0.14	0.66
1965	0.85	1.25	0.40	0.15	0.40	0.14	0.67
1966	0.91	1.35	0.40	0.17	0.42	0.12	0.73
1967	0.90	1.39	0.44	0.15	0.44	0.12	0.67
1968	0.66	1.22	0.51	0.13	0.44	0.11	0.69
1969	0.67	1.35	0.66	0.12	0.35	0.10	0.72
1970	0.65	1.25	0.70	0.15	0.26	0.09	0.73

Source: The Growth of World Industry 1970 Edition [Volume 2, Commodity
Production Data 1961-70], Department of Economic and Social Affairs,
United Nations, New York, 1972, pp. 375-82.

resulted in a drive for operating efficiencies which impinged on Australia even before the immediate rural crisis.

The struggle for economies of scale

Significant economies of scale attend the manufacture of most classes of agricultural machinery and form an distinct barrier to entry¹³. A recent Canadian Royal Commission¹⁴ revealed that, as volume in a specialised plant climbs from twenty to ninety thousand tractors per year, unit production costs fall by nineteen per cent; header supply offers comparable savings as a factory's output rises from five to twenty thousand deliveries. In both cases, return on investment is greater in the more sizeable operation (Barber, 1971: 85-107). Thus, from the Canadian evidence, larger installations appear to maximise efficiency. In theory, only nine establishments would have been necessary to make the 809,500 tractors required by the non-communist regions in 1966 assuming that all the available scale economies were utilised (Table 3.2). However, not even the largest concern (Massey Ferguson) had a works of the supposedly-optimal ninety thousand unit annual throughput. Only five *firms* achieved the twenty thousand level which the Commission held to be the lower limit for a *plant* of 'efficient' size. Header manufacturing afforded even more scope for rationalisation. In 1966, the German Claas enterprise alone reached the twenty thousand annual unit output determined as the minimum for 'efficiency' (Schwartzman; 1970: 83). Hence, in both these major product areas, substantial worldwide economies were realisable, but were precluded by excess capacity, prevailing competition and lack of expansion in demand¹⁵.

In this dilemma, three courses were open to participating corporations, depending upon their structure, needs and age (cf. Steed, 1971c: 55).

- (i) Functional diversification. As an example of the many organisations which adopted a conglomerate disposition, Massey Ferguson increased its participation in industrial and construction lines from ten to fourteen per cent of aggregate sales turnover in the ten years after 1957 (Martinusen and Barry, 1970: 9; see also Mautz, 1968).
- (ii) Manufacturing and administrative rationalisation. During the 1960s, centralisation of production was required as much by a proliferation of models and options as by the move for economies of scale -- it simply became infeasible to duplicate all product varieties at every plant. Control in the industry was also focused by a series of takeovers such as that of Oliver (1960), Cockshutt (1962), and Minneapolis-Moline (1963) by the White Motor Corporation (Barber, 1971: 46). In addition, co-operative distribution arrangements were established by non-competing firms in certain countries.
- (iii) Geographical expansion. Through this policy, enterprises acquired a multi-national role (cf. Steed, 1971d: 90). Local operations-units thus became responsible for domestic production and marketing but were subject to head-office co-ordination in other matters. The search for new outlets made Massey Ferguson and its peers the foremost influences in machinery supply in both North America and Europe and also in most other non-communist areas.

All these strategies reflected the weight of scale factors in an over-subscribed market. Yet, postwar Australian supply was most affected by the third (geographical expansion), since an influx of overseas corporations between 1955 and 1965 changed the nature of competition and paved the way for some of the more drastic repercussions of the rural setback. These impacts are examined after consideration of pertinent features of the domestic situation prior to 1967.

THE AUSTRALIAN AGRICULTURAL MACHINERY INDUSTRY: A TALE OF DIVERSITY

Wide variations in the corporate and geographical characteristics of equipment suppliers at the beginning of the recession can be ultimately traced to the industry's antecedents among the blacksmiths and wheelwrights of a pioneer economy (cf. Wheelhouse, 1966). Three main chronological phases distinguish the foundation and spatial decision-making of the major manufacturers of farm machinery -- one of the

country's oldest forms of secondary production (Bernasek and Kubinski, 1963: 463).

The *first* stage was one of initial expansion and lasted until about 1900. Through innovative adaptation to large scale and, often, rugged conditions, Victorian and South Australian entrepreneurs engineered the rise of several prominent factories. In response to a location offering ready access to the expanding Mallee cereal-growing areas, the industry gravitated towards Victoria. By 1910, the State was delivering nearly half the nation's value of machinery output.

The interwar period, constituting the *second* era, was marked by consolidation and expansion within the existing framework (Table 3.5). Despite the economic turbulence of the time, significant policies which virtually determined postwar patterns of heavy manufacturing were made. Tariff variations prompted the merger of Massey Harris with H.V. McKay of Melbourne in 1930, thus linking a Canadian giant with Australia's largest seller (Neufeld, 1969: 148). Further, the completion of the International Harvester works at Geelong (Victoria) in 1939 allowed the first integrated production of tractors in Australia.

Following the Second World War, excess demand for machinery stimulated the entry of small manufacturers and repairers whose sporadic location and subsequent growth compounded such diversity as already existed. Together with the spate of distributorships negotiated by international concerns, they caused a proliferation of establishments which became the hallmark of the industry's *third* phase of development (Table 3.5)¹⁶. In the mid-1950s and early 1960s, the lull in the world market, Australia's benign political climate and favourable long-term sales prospects encouraged foreign corporations to convert these outlets into branches. Most new entrants took up light industrial operations and assumed administrative control from former

TABLE 3.5: GROWTH ON SELECTED PARAMETERS, AGRICULTURAL MACHINERY INDUSTRY,
AUSTRALIA, 1910-68

Year Ending June	Factories ^a	Employees	Value of Output	Value of Production [Value Added]	Commentary
	(number)		(\$A million, non- deflated series)		
1910	150	4868	3.12	1.64	
1915	153	3606	2.60	1.27	
1920	141	3116	2.56	1.39	
1925	153	5535	6.57	3.28	
1930	140	4463	4.79	2.82	General depression
1935	139	4202	3.94	2.07	
1940	108	6379	5.67	2.52	Wartime production
1945	146	9149	13.18	7.17	
1950	208	10454	28.37	13.97	Postwar sales boom
1955	308	12182	57.65	29.11	
1960	404	11359	70.35	33.69	
1961	450	11307	69.86	33.74	
1962	497	11317	74.34	36.32	
1963	533	11785	80.18	39.63	
1964	566	13786	102.93	49.62	} Short-term boom } in rural } industry
1965	615	15582	117.37	59.17	
1966	671	15069	105.08	56.02	
1967	725	15280	126.93	69.66	
1968	764	15759	131.81	69.41	

a See Footnote Sixteen.

Sources: (i) Australia, Commonwealth Bureau of Census and Statistics,
Official Year Book of the Commonwealth of Australia, various
issues, 1910-68.

(ii) Unpublished data for 1962-68 supplied by the Manufacturing
Industries Division, Commonwealth Bureau of Census and Statistics,
Canberra.

assembler/distributors. Leyland (formerly Nuffield), Case, Allis Chalmers, David Brown and Fiat selected head-office sites in Sydney. By contrast, John Deere and New Holland chose Melbourne -- the latter acquiring a substantial fabricating plant at Dandenong.

Aftermath of the influx

Australian machinery demand is deceptively small by world standards, despite this country's vast areal expanse. Although overseas products had been on sale since the end of the Second World War, the insurgence of actively-competing organisations caused a substantial degree of market fragmentation¹⁷. In the late 1950s, three contestants -- Ferguson, Ford and International Harvester -- were dominant. By 1966, companies less than fifteen years old accounted for well over one quarter of tractor turnover and enjoyed appreciable success in haymaking and harvesting deliveries.

In all sectors of the industry, returns were generally low over the 1960s apart from the peak year of 1963-64 (Table 3.6). Given their poor profit record, the tenacity of fledgling subsidiaries could be explained in three ways.

- (i) To large corporations, marginal results were insignificant and could be offset against anticipated long-term profitability and the advantages of entry into a politically-safe market in the face of declining world demand (cf. Hunter, 1963: 15).
- (ii) Import prices were so adjusted as to create factory profits in areas with more favourable taxation. (Several other intra-organisational reasons could have contributed to a decision to limit returns to Australian operations.)
- (iii) Many new businesses perform badly until the overheads of establishment are taken up in sales volume.

Whatever the reason -- and, probably, the first had strong relevance in a majority of cases -- the addition of two more distributorships and absence of any notable amalgamations between 1963 and 1968¹⁸

TABLE 3.6: SELECTED INDICATORS OF FINANCIAL PERFORMANCE
 AGRICULTURAL MACHINERY AND AGGREGATE MANUFACTURING
 INDUSTRY, AUSTRALIA, 1964-65 TO 1966-67^a

Measure	Median of Seventeen Large Agricultural Machinery Manufacturers			Aggregate Manufacturing Industry		
	1964-65	1965-66	1966-67	1964-65	1965-66	1966-67
Operating profit/ funds employed (per cent)	10.10	9.10	12.10	11.50	10.20	10.60
Sales/funds employed (ratio)	1.25	1.09	1.30	1.50	1.45	1.35

a The only period during the 1960s for which this type of data is available.

- Sources:
- (i) Agricultural machinery industry:
Australia [Tariff Board] (1970: 80-81).
 - (ii) Aggregate manufacturing industry:
Australia [Tariff Board] (1972: 14).

pushed the number of available international tractor brands to fifteen. Twelve header lines were actively promoted. As sales of each product in 1967 were 17,871 and 4,424 units respectively¹⁹, it is obvious that the supply/demand equation was precariously balanced even before the recession. Thus, through a combination of short and long-term causes, global excess capacity began to pressure inventory into the constrained Australian market and created an explosive situation in which certain companies were finally overwhelmed.

The broad impact of market recession

The agricultural equipment industry is going through the biggest discounting period in its history, as manufacturers and distributors seek to maintain their share of a shrinking market ...there are no signs of an early resumption to more normal production levels (The Australian Financial Review, 17 September 1970)

Before analysing the corporate behaviour of selected organisations, the overall effects of the farm crisis on the agricultural equipment industry should be summarised.

- (i) Tractor and machinery imports (f.o.b. port of shipment) into Australia peaked at \$A72.43 million in 1968, suggesting a high level of inventory formation before the recession. Over the next three years, the value of overseas receipts tumbled sixty-one per cent to \$A28.02 million²⁰. Only a marginal recovery occurred as conditions improved in 1972.
- (ii) Wholesale machinery deliveries, on a unit count, fell by an average of forty-five per cent in every major class between 1967 and 1972 (Table 3.7). Sectoral effects assumed great importance²¹. In accordance with the income elasticity hypothesis, higher-value items such as seeding and grain-harvesting machines were the hardest hit. Tillage needs declined in concert with the total fall but haymaking lines, in response to diversification into livestock, performed relatively well.
- (iii) Machinery stocks, though perhaps a less reliable indicator of change than deliveries, show a decisive pattern over the study period (Table 3.8). Maximum inventory was attained before 1970; minimum holdings were recorded in 1972. The lag in movements in 1969-70 shows that a certain amount of hedging as to the outcome of the downturn took place -- as

TABLE 3.7: DELIVERIES OF NEW AGRICULTURAL MACHINERY, UNITS BY YEAR,
AUSTRALIA, 1967-72

Type of Equipment	Product	Year Ending June						Simple Percentage Change 1967-72
		1967	1968	1969	1970	1971	1972	
Tillage	Disc ploughs	4878	5279	4798	2169	1773	1867	-63.66 ^b
	Rippers	a	1810	1505	1431	1091	1123	-39.73 ^b
	Chisel ploughs	1123	a	823	676	498	490	-55.56
	Mouldboard ploughs	827	957	771	694	650	416	-21.41
	Tine harrows (sections)	63322	62645	50115	22541	20598	30805	-67.47
	Disc and other harrows	a	5532	4269	4610	3872	3992	-30.01 ^b
	Tine cultivators	8060	7886	7355	4054	3677	4597	-54.38
	Rotary cultivators	4181	4094	4038	3578	3435	4351	-17.85
	Average tillage							-43.77
Seeding	Drills (all types)	5341	6223	5091	2197	1353	1877	-74.67 ^b
	Fertilizer spreaders	a	4514	3834	3507	2695	3306	-40.30 ^b
Average seeding							-57.49	
Haymaking	Pick-up balers	2907	2075	2354	1828	1080	1088	-62.85
	Forage harvesters	742	620	382	490	316	188	-57.41
	Mowers (rotary)	4855	4532	3666	4912	4621	5190	-4.82
	Mowers (other)	a	3279	3425	2363	1766	1269	-46.44
	Hay rakes	3689	2336	2744	2201	1817	a	-50.75 ^b
	Windrowers	a	80	a	a	59	25	-26.25 ^b
	Bale loaders	a	1369	a	1448	1155	922	-15.63 ^b
	Bale elevators	a	918	1388	922	797	541	-13.18 ^b
Average haymaking							-34.67	
Harvesting	Headers (auto)	1873	2156	2028	812	461	531	-75.39
	Headers (drawn)	2552	a	1964	675	382	538	-85.03
Average harvesting							-80.21	
Other	Cane harvesters	a	248	242	315	218	216	-12.10 ^b
	Grain augers	a	4630	4920	5459	1585	2069	-65.77 ^b
	Posthole diggers	2773	2481	2173	1924	1180	1180	-57.48
	Hammer mills	1410	1240	1010	1066	910	970	-35.46
Average other							-42.69	
All machinery							-44.73	

a Not available in original data.

b 1968-72 change.

Source: Australia, Commonwealth Bureau of Census and Statistics, New Agricultural Machinery Statistics, [Ref. 12.1], various issues, 1967-72.

TABLE 3.8: STOCKS OF NEW AGRICULTURAL MACHINERY, UNITS BY YEAR,
AUSTRALIA, 1967-72

Type of Equipment	Product	Year Ending June						Simple Percentage Change 1967-72
		1967	1968	1969	1970	1971	1972	
Tillage	Disc ploughs	2516	2583	1921	1841	1504	630	-40.23 ^b
	Rippers	a	403	236	415	326	218	-19.11 ^b
	Chisel ploughs	a	a	a	a	a	a	n.a.
	Mouldboard ploughs	651	708	533	450	314	151	-51.77
	Tine harrows (sections)	6157	7965	8695	20299	9768	1839	-36.97
	Disc and other harrows	a	a	a	a	a	a	n.a.
	Tine cultivators	4724	4201	3661	3777	2613	1577	-44.69
	Rotary cultivators	1606	2086	2173	1611	1139	1371	-29.08
	Average tillage							-36.98
Seeding	Drills (all types)	475	a	a	a	a	a	n.a.
	Fertilizer spreaders	a	1733	1484	1049	646	a	n.a.
Average seeding							n.a.	
Haymaking	Pick-up balers	713	812	680	760	478	244	-32.96
	Forage harvesters	161	264	159	134	69	41	-57.14
	Mowers (rotary)	541	1908	2901	1601	1271	1008	+134.93 ^b
	Mowers (other)	a	2412	1995	1344	1264	671	-47.60 ^b
	Hay rakes	885	1683	1378	1112	724	a	-18.19 ^b
	Windrowers	a	61	66	88	64	50	+0.05 ^b
	Bale loaders	a	367	151	273	138	a	-62.40 ^b
	Bale elevators	a	272	214	374	138	94	-49.26 ^b
	Average haymaking							-16.57
Harvesting	Headers (auto)	400	744	549	905	655	322	+63.75
	Headers (drawn)	261	415	593	636	421	174	+61.99
Average harvesting							+62.87	
Other	Cane harvesters	a	a	31	13	a	a	n.a.
	Grain augers	a	1230	1400	626	580	303	-52.85 ^b
	Posthole diggers	385	545	338	430	397	147	+0.03
	Hammer mills	393	342	369	179	103	112	-73.80
Average other							-42.20	

a Not available in original data.

b 1968-72 change.

Source: Australia, Commonwealth Bureau of Census and Statistics, New Agricultural Machinery Statistics, [Ref. 12.1], various issues, 1967-72.

distinct from the normal long cycle of production scheduling²². Nevertheless, stock run-down by 1972 was considerable.

While the above measures point out difficulties in the machinery sector, they say little of the tractor market. Here, optimism appears to have been the keynote. Just after the 1964 boom, W.F. Baillie, writing in The Australian Financial Review (12 February 1965), had predicted agricultural requirements of twenty thousand units per annum in a total market of twenty-four thousand with a three per cent growth rate. Simultaneously, International Harvester had estimated that, subject to 'normal' economic circumstances, demand would climb from twenty to twenty-six thousand units by 1969-70²³. Such hopes were dashed as sales failed to recover from the 1967-68 drought and, over the following two years, crashed thirty-one per cent to their lowest since 1956 (Figure 3.2). The severity of the situation warranted a doubling of the 1966 bounty rate on domestic farm tractor production by the Commonwealth Government as an 'urgent short-term measure in the face of overseas competition'²⁴. A full-scale hearing on this segment of industry was conducted in May 1971, in which grim forecasts of the future of local suppliers were made²⁵. Ford's predictions indicate the general gloom of the period (Figure 3.2). The halcyon days of 1963-64 were long past as some companies came into dire financial straits, with forced closure of wholesale facilities and atrophy in dealer networks commonplace. In this manner, the incipient crisis began to impinge on spatial decision-making, as shown in the later analysis of the recession's ramifications on sample firms selected in Chapter Four.

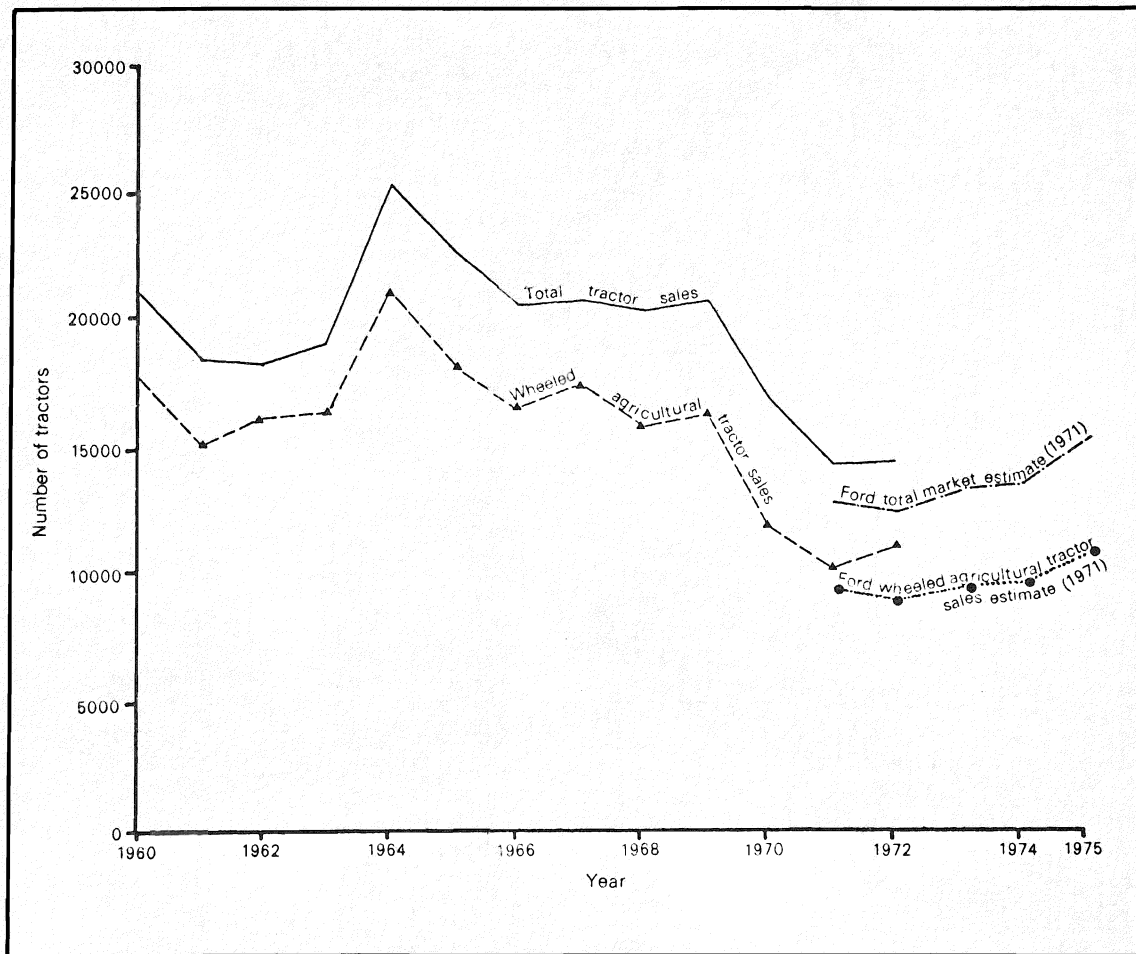


FIGURE 3.2: Tractor market, actual and estimated, Australia, 1960-75.

- Sources:
- (i) Australia, Commonwealth Bureau of Census and Statistics, Receipts, Sales and Stocks of New Tractors, [Ref: 12.18], various issues, 1960-73.
 - (ii) Ford data from The Australian Financial Review, 21 May 1971.

RÉSUMÉ

A rural market contraction in the late 1960s prompted this study of the Australian agricultural machinery industry. Product franchising is well ensconced as a shield against the vagaries of the demand function. In manufacturing, producers have diversified their ranges to smooth seasonal and cyclical influences. This long-held strategy has been largely responsible for the conglomerate, oligopolistic nature of world supply, within which a number of major corporations dominate the trade of most countries. By the mid-1960s, the global market for farm equipment had been static or declining for some time. Many new enterprises saw good sales possibilities in Australia and established branches throughout the period 1955-65. Within the local industry, demand was over-estimated and the resulting excess capacity, fragmentation, and stock accumulation left an open flank for the economic attack. An account of the effects on company distribution policy and practice must await the necessary grouping of chosen combatants in Chapter Four.

CHAPTER THREE FOOTNOTES

1. Newspaper articles are drawn upon heavily in this Chapter. Often, they are the only reference source available. They also influenced much producer and consumer decision-making during the recession era. See also Campbell (1969, 1971); Committee for the Economic Development of Australia (1971); Davidson (1971); Australia [Bureau of Agricultural Economics] (1973a, 1973b).
2. For more information on the wheat industry, see Campbell (1969). There is also a prophetic series of fortnightly articles by E.J. Donath in The Australian Financial Review, commencing 2 October 1964. Annual reports of the Australian Wheat Board advance further information.
3. Campbell (1971: 72); Irwin (1971: 31).
4. In 1971, the rural gross debt/liquid asset ratio reached 2.51 (Table 3.1). Trading banks, pastoral houses and other financiers became concerned at the number of farmers who could not service their debts, let alone repay the principal. They reacted by applying stringent conditions on loan applications. See The Australian Financial Review, 22 July 1970; also Australia [Bureau of Agricultural Economics] (1972).
5. As shown in various issues of Australia, Commonwealth Bureau of Census and Statistics, Official Year Book of the Commonwealth of Australia, the area under wheat in Australia had climbed from 4.93 million hectares in 1959-60 to 8.43 million in 1966-67. Following further moves into climatically-marginal regions and intensification of landuse on existing farms, it rocketed to 10.85 million hectares in 1968-69, only to be cut to 6.48 million by the rural crisis of 1970-71. Pushed by the wheat expansion, aggregate areas under crop exhibited a similar movement -- from 10.57 million hectares in 1959-60, to 16.02 and 18.99 million in 1966-67 and 1968-69 respectively, and then back to 15.96 million in 1970-71.
6. The concern of farmers culminated in a ten thousand strong protest march in Melbourne. See The Sun [Melbourne], 24 March 1970; The Sydney Morning Herald, 24 March 1970.
7. About a dozen major studies of the recent Canadian *Royal Commission on Farm Machinery* are referenced in Barber (1971). Several theses are available -- Shearer (1951); Eckles (1953); Schwartz (1966); Wadley (1970). Published works include those of Phillips (1956), Wheelhouse (1966) and Neufeld (1969). Significant articles have been prepared by Zimmermann (1951: 156-75); Conant (1953); Phillips (1958); Whitney (1958: 227-56); Slater (1960); Bernasek and Kubinski (1963); Phillips (1966); Staiger (1970). A report by Potheary (1970) offers an interesting outside view on the Australian market during the recession. Finally, papers by Lier (1971) and McLean (1973) reflect a growing concern with agricultural mechanisation.
8. A search was conducted nationally through the rural press for old franchise agreements. It was unsuccessful and most material in this section was compiled from documents in company archives. Assistance in historical research proffered by Mr C. Crennan of John Crennan and Co. of Henty, New South Wales, and by Mr O.M. Gainger of International Harvester is particularly appreciated.

9. See Industrial Marketing Committee Review Board (1954); Wilson (1965, 1968: 12-14).
10. Cromarty (1959); Griliches (1960); Heady and Tweeten (1963); Rayner and Cowling (1967, 1968). See also a résumé in Wadley (1970: 18-27).
11. See Shearer (1951); Eckles (1953); Schwartz (1966).
12. For the merger of Massey Harris, see Neufeld (1969: 19); that of International Harvester is described in United States of America [Department of Commerce and Labor] (1913: 39-93); Eckles (1952: 97-109); Barber (1971: 38).
13. Bain (1954, 1956); Whitney (1958: 238-39).
14. See the reference in Footnote Seven.
15. Australia's domestic production of tractors and headers is highly fragmented. Tractor manufacturing, with an output of less than five thousand units per year, is a high-cost operation despite its horizontal integration with other lines. Its viability depends on a government bounty which approximates five to fifteen per cent of the retail value of the average product. Concerning headers, an enquiry in 1970 noted:

manufacture of [self-propelled] headers involves considerable investment in plant and large expenditure on research and development. The level of output...achieved by local producers... is small in relation to that...of most overseas manufacturers...The limited scale of local production constitutes the greatest basic disability facing local manufacturers (Australia [Tariff Board], 1970: 11).
16. The 'factory' statistics portrayed in Table 3.5 include both manufacturers *and* repairers of agricultural machinery (including tractors). It could be assumed that about two-thirds of these entries were of minor production importance. In 1968-69, statistical collection was undertaken with the new *Census of Economic Activity* for the first time. A.S.I.C. category 3331 -- 'establishments mainly engaged in *manufacturing* agricultural machinery or equipment including tractors for agricultural purposes (except crawler tractors)' -- covered only 267 facilities at 30 June 1969. This break in the statistical series is unfortunate but unavoidable. See Australia, Commonwealth Bureau of Census and Statistics, Classification and Classified List of Industries, Canberra, 1966; Australian Standard Industrial Classification (Preliminary Edition), Canberra, 1969; also, Manufacturing Establishments: Details of Operations by Industry Class, Australia, Economic Censuses 1968-69, [Ref. 12.29], Canberra, 1973.
17. See The Australian Financial Review, 21 November 1968.
18. In 1968, Thiess Equipment Distributors took over the Oliver and Minneapolis-Moline lines from another firm and imported SAME tractors and Arbos headers from Italy; in the same year, Australian Motor Industries began distribution of the Czechoslovakian Zetor and British Muir-Hill tractor ranges.

19. See Figure 3.2; Table 3.7.
20. Australia, Commonwealth Bureau of Census and Statistics, Overseas Trade, Major Groups of Countries, [Ref. 8.14], Canberra, (various years, 1967-72).
21. See The Australian Financial Review, 11 December 1969.
22. See The Australian Financial Review, 12 May 1970.
23. See The Australian, 30 June 1965.
24. See The Australian Financial Review, 17 September 1970. Subject to certain qualifying conditions, the manufacturer of a locally-sourced agricultural tractor over twenty horsepower could claim between \$A1,040 and \$A1,600, (or about twenty per cent of the retail value of the product) as bounty reimbursement under the Agricultural Tractors Bounty Act 1970 [No. 86, 1970]. More information about the bounty and its recipients is detailed in Chapter Five.
25. Australia [Tariff Board] (1972).

CHAPTER FOURSELECTION AND CLASSIFICATION OF FIRMS IN
A HETEROGENEOUS INDUSTRY

In 1967, the 725 listed farm equipment establishments in Australia¹ engaged over fifteen thousand workers (Table 4.1). Though still more labour-intensive than the secondary sector as a whole, the industry had seen its ratio of employees per factory fall from sixty-three in 1945 to twenty-one at the beginning of the study period (cf. Table 3.5). To compensate, capitalisation had risen sharply and the average plant was able to deliver goods to the value of \$A0.18 million. Nonetheless, an aggregate output of \$A126.93 million left machinery merchants a distinctly small segment of national manufacturing -- their contribution on this measure represented only about 0.08 per cent of the total.

This broad picture, however, conceals the high degree of heterogeneity which characterised the major suppliers. Indeed, any attempt to consider the part of company structural attributes expressed through channel management capacities in affecting the spatial representation and market and financial performance of franchising corporations in recession must first overcome this obstacle. The course adopted here restricts the enquiry to a sample of nineteen firms, which are allocated into 'large' and 'small' sets using computer-based techniques. Then, in a commentary on the classifications' results, a brief background to each group is given in preparation for the forthcoming analyses of their behaviour between 1967 and 1972.

TABLE 4.1: INTERSTATE DIFFERENTIALS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1966-67

Measure	Unit	State or Territory								Total Australia
		New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory	
Number of factories	Number	236	205	127	84	61	11	n.a.	-	725
Number of employees	Number	2728	6879	2778	2146	759	n.a.	n.a.	-	15360
Value of production	\$A thousand	13630	32240	10510	9800	3270	n.a.	n.a.	-	69660
Value of output	\$A thousand	22950	59170	21620	16190	6600	n.a.	n.a.	-	126930
Value of plant and machinery	\$A thousand	2160	10190	2790	2320	610	n.a.	n.a.	-	18120
Value of land and buildings	\$A thousand	8110	12740	4900	2860	1710	n.a.	n.a.	-	30530

Source: Unpublished data from the Annual Factory Census 1966-67; computer tabulations held at Manufacturing Industries Division, Australian Bureau of Statistics, Canberra.

A COUNTER TO THE HETEROGENEITY PROBLEM

On the eve of the rural crisis, machinery production in Australia displayed an unusual degree of concentration and dispersion. In one sense, it was manifested in the inter and intra-regional distribution of factories. On a count of fixed assets, Victoria was the premier State with an investment double that of its nearest rival, New South Wales (Table 4.1). But a few large metropolitan organisations were pre-eminent in both regions. Queensland, whose sizeable concerns served lucrative opportunities in the sugar fields, ranked third while South Australia, in which three leading brand-names predominated, was in fourth place (see Kelly, 1962: 124-29). Further localisation was prescribed in Western Australia, where one supplier -- Chamberlain -- accounted for more than half the output.

A parallel to these physical differentials lay in the oligopolistic structure of manufacturing. As a consequence of initial advantage and the stimulus of foreign capital, three per cent of establishments engaged fifty-six per cent of the industry's workforce and delivered almost fifty-nine per cent of the value of both production and output (Table 4.2). Such concentration, slightly more exaggerated than in the rest of Australian secondary production, was itself a prime cause of heterogeneity; yet, it was abetted by the widespread horizontal integration through which major companies accommodated unreliable demand schedules. Although no formal statistics on the multi-faceted interests of the 725 member firms are available, interview discussions and empirical observation revealed that many large sellers, like their counterparts overseas, had assumed conglomerate status. Thus, at first sight, the marketing of farm equipment in 1967 affords a somewhat bewildering situation.

TABLE 4.2: STRUCTURAL MEASURES OF CONCENTRATION BY FACTORY SIZE, AGRICULTURAL MACHINERY AND AGGREGATE MANUFACTURING INDUSTRY, AUSTRALIA, 1966-67

Industry	Measure	Factory Size (Employees per Establishment)					Total
		Less than twenty	Twenty-one to fifty	Fifty-one to one hundred	Over one hundred		
Agricultural machinery	Percentage of establishments	86.07	8.55	2.62	2.76	100.00	
	Percentage of employees	22.61	12.95	8.73	55.71	100.00	
	Percentage of value of production	20.59	12.40	8.34	58.67	100.00	
	Percentage of value of output	19.66	13.16	9.87	57.31	100.00	
Aggregate manufacturing industry	Percentage of establishments	83.71	9.30	3.57	3.42	100.00	
	Percentage of employees	21.57	13.92	11.87	52.64	100.00	
	Percentage of value of production	17.46	12.84	11.50	58.20	100.00	
	Percentage of value of output	15.39	12.06	11.42	61.13	100.00	

Source: Australia, Commonwealth Bureau of Census and Statistics, Manufacturing Industry, [Bulletin No. 4, 1966-67], Canberra, 1969, various pages.

Since the bulk of an oligopoly's deliveries is handled by a few principal marketers, the core of its experience in an economic contraction can be distilled among a small sample of its high-echelon members. The procedure's inherent bias can be overlooked in this instance because the concern here is not with representing the agricultural machinery industry *per se*; the topic constitutes a test case set within a framework of product franchising in order to spotlight processes and relationships of business spatial decision-making. Selectivity is not only a pragmatic course given present constraints; it also tackles heterogeneity from the outset by reducing the chances of variance among companies under review.

Operational sampling

Conventional sampling procedures could not be employed in this study because it is impossible to *identify*, let alone obtain individual information on the producers which the Commonwealth Bureau of Census and Statistics claimed to constitute the equipment sector. Moreover, published data would not indicate which employed franchising as their main form of marketing. The circumstances called for a more practical approach -- the recognition of nineteen firms which, according to industry intelligence, collectively sold the majority of output² (Table 4.3). The threshold for inclusion of any organisation into the sample was that it:

- (a) acted within a recognisable corporate structure;
- (b) purported to be a franchisor or adhered to a definable product franchising system;
- (c) was represented in at least New South Wales, Victoria and South Australia (the intensive retail study area);
- (d) had average annual machinery sales of \$A0.50 million or more;

TABLE 4.3: SELECTED ATTRIBUTES OF SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Operating Firm	Head Office Location	Origin	Longevity in 1967 ^a (years)	Style of Production	Farm Equipment Product Range
Alfarm Distributors Pty Ltd	Albury, N.S.W.	Australia	12	Importer	Claas harvesting machinery
Allis Chalmers Australia Pty Ltd	Sydney	United States	21	Importer	Tractors, tillage and harvesting equipment
Australian Motor Industries Ltd	Melbourne	Australia	1	Importer	Zetor, Muir-Hill tractors
J.I. Case (Australia) Pty Ltd	Sydney	United States	67	Importer/manufacturer	Tractors
Chamberlain Industries Pty Ltd ^b	Perth	Australia	20	Importer/manufacturer	Tractors, all major machinery
Connor Shea & Co. Pty Ltd	Melbourne	Australia	15	Manufacturer	Tillage, seeding equipment
Fiat of Australia Pty Ltd	Sydney	Italy	22	Importer	Tractors
Ford Motor Company of Australia Ltd	Melbourne	United States	42	Importer	Tractors, selected equipment
Horwood Bagshaw Ltd	Adelaide	Australia	130	Manufacturer	Fiat tractors (S.A. only), major equipment
Howard Rotovator Pty Ltd	Sydney	Britain	17	Importer/manufacturer	Tillage, seeding and haymaking equipment
International Harvester Co. of Australia Pty Ltd	Melbourne	United States	65	Importer/manufacturer	Tractors and all lines of machinery
Leyland of Australia Ltd	Sydney	Britain	17	Importer	Tractors
Ralph McKay Ltd	Melbourne	Australia	35	Manufacturer	Tillage, seeding, specialised machinery, components
Massey Ferguson (Australia) Ltd	Melbourne	Canada	82	Importer/manufacturer	Tractors and all lines of machinery
Mobilco Ltd	Melbourne	Australia	22	Importer/manufacturer	Tractors, general, and hay-making lines
New Holland Division of Sperry Rand Australia Ltd	Melbourne	United States	22	Importer/manufacturer	Haymaking, harvesting machinery
David Shearer Ltd	Mannum, S.A.	Australia	90	Manufacturer	Tillage, harvesting equipment
John Shearer Ltd	Adelaide	Australia	90	Manufacturer	Tillage, seeding equipment
Thiess Equipment Distributors Pty Ltd ^c	Sydney	Australia	1	Importer	Tractors, harvesting equipment

^a Longevity of agricultural machinery distribution in Australia.

^b Chamberlain Industries and John Deere Ltd merged October 1970.

^c Dissolved in 1972 within Thiess Holdings Ltd.

Source: Fieldwork.

- (e) ran the risk of being affected in some way by the market recession.

Yet, the nineteen chosen enterprises epitomised the prevailing complexity. Though all were market leaders, their product specialisations and ranges varied considerably; many had undertaken such extensive functional expansion that agricultural equipment formed only a small part of their ambit. Aggregate turnover from Australian operations varied from \$A2 million to over \$A200 million; the international sales of some members ran into billions of dollars. More specific attributes such as longevity, head-office location, country of ownership and level of manufacturing integration could only be described as fissiparous. In this dilemma, classification helped overcome the impediment of diversity and provided a means for testing the structural hypothesis outlined in Chapter Two. Discussion of firms *en masse* breeds circularity of argument; in contrast, an alignment of the field on various criteria at the start of the recession offers a useful baseline against which subsequent economic and spatial changes in policy can be gauged.

A STRUCTURAL CLASSIFICATION

The importance of geographical aspects in the current problem precludes the use of earlier qualitative, uni-dimensional, economic classifications of the machinery industry³. In terms of the main argument, a grouping of firms should ideally consider structural, operational, and a range of financial elements. But scale factors in measurement complicate the issue. Since conglomerates rarely provide much detail of single products, their interests cannot be related easily to those of more specialised suppliers; the application of *aggregate* balance sheet and profit and loss data merely obfuscates the picture of competition in a specific industry⁴. Obviously, as a first

step, a bridge must be found between a corporation's total size (which can influence the behaviour of individual divisions) and that of its farm equipment trading.

Input

Such a link is provided by sales turnover, often the only parameter computed in similar ways in both sectoral and consolidated accounts. It is probably a quite satisfactory indicator of business stature since, according to Samuels and Smyth (1966: 3) and Sheridan (1974: 81), most company size attributes are inter-correlated. Sales are not only highly apposite in a marketing project, but their selection avoids many known dangers in industrial analysis promoted by the exclusive use of employment statistics (Townroe, 1972: 265). Moreover, the reliability of revenue figures is naturally improved by including other variables in a multi-dimensional matrix. As Fisher *et al.* (1967: 576) point out, the intrinsic subjectivity of grouping procedures for particular purposes can be offset by the infusion of qualitative and multi-state data. Much information of this type is interrelated and so broadens the basis of classification. Selection for this study sought parameters which, while emphasizing participation in the agricultural machinery industry, also reflected a company's overall pattern of activities.

The input for the present grouping can be seen in terms of the two types of statistics involved (Table 4.4).

- (i) Quantitative. The first data employed were 1967 consolidated and farm machinery sales which, in concert, indicate the place of equipment in a firm's repertoire and its relative corporate standing *vis-a-vis* that of other competitors. Equipment volume broken down by product lines exemplifies size, structural, and functional criteria by showing areas of specialisation. The attack was augmented by figures on companies' estimated workforce in agricultural operations and the longevity of any form of machinery distribution in Australia. Employment is primarily a size measure, whereas

TABLE 4.4: PARAMETERS INCLUDED IN CLASSIFICATION OF SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Variable	Variable number	Type	Measure	Possible States	Criterion
Sales aggregate corporate	1				Size, structure
.. total agricultural machinery	2				
.. agricultural tractor	3				
.. tillage equipment	4				
.. seeding equipment	5				
.. haymaking equipment	6				
.. harvesting machinery	7		Actual (or estimated) \$A value		
.. general equipment	8	Quantitative		Absolute numerical	
.. specialised equipment	9				
.. components	10				
.. spare parts	11				
Longevity of company's machinery distribution in Australia	12		Years to 1967		Size
(Proportional) employment in agricultural machinery operation	13		From the 30 June 1967 headcount statistics		
Degree of manufacturing integration	14			Fully integrated/fabricator/assembler	Size, structure
Head-office location	15		Ordered multistate	Sydney/Melbourne/Adelaide/Perth/Other	Structure
Country of ownership	16	Qualitative		Australia/Britain/United States/Italy/Other	
Total corporate product line (functional diversification)	17		Disordered multistate	Agricultural machinery (wholesaling)/ industrial equipment/construction machinery/trucks/automobiles/engines/engineering/agricultural machinery (retailing)	Function, size, structure

Source: Fieldwork.

the length of market representation probably subsumes a wide range of correlates (see Mueller, 1972).

- (ii) Qualitative. The first two items, head-office location and country of ownership, are structural characteristics oriented to the spatial postulate of the central hypothesis. Two other multi-state variables, degree of manufacturing integration and extent of corporate product line, concern both functional and size-based facets of behaviour. To represent the latter, it was considered unnecessary to engage more than presence/absence recording.

Classification techniques

A simultaneous evaluation of all the above elements with equal weighting requires a computer technique which can give useful solutions in a reasonable time. Because the available methods create general-purpose classifications, no unique grouping should be assumed; rather, the value of any sorting strategy lies in its applicability to immediate ends. A number of pilot runs were therefore conducted with varying forms and combinations of data until one emerged which was judged suitable for the needs of the investigation.

The programmes used are derived from a battery of grouping and diagnostic routines first designed by ecologists⁵. The same or related approaches have since been engaged in general geographic situations⁶ and, more specifically, in urban/industrial research⁷. The particular set involved are as follows⁸.

- (i) MULTBET, through a centroid strategy, produces a polythetic, agglomerative, hierarchical classification. Similarity measures are advanced in the form of non-factorial information statistics.
- (ii) GROUPER, dissects the relationships between the groups generated by MULTBET and states for each comparison the variable means and contributions to the similarity measure employed.
- (iii) GOWER, an ordination sub-routine, undertakes a principal components analysis on data from the similarity matrix advanced by MULTBET and offers latent roots and vectors.

Yet, in the development of a computer taxonomy, three basic decisions are presumed to determine a suitable methodology.

- (i) The type of programmes. The package selected was considered most appropriate given the variety of data. MULTBET proposes a discrete grouping of hierarchical sets and GROUPER (which, in essence, puts forward a continuous classification) indicates the grounds for the allocation of sample members. Opportunities for both classification and ordination are provided.
- (ii) Use of classification or ordination. The former procedures assume that the material submitted is discontinuous and are geared to find the most informative arrangement of groups. Ordination, in contrast, presupposes a discontinuous series and attempts to plot the configuration efficiently in Euclidean space. This enquiry, having a small number of observations, followed accepted practice and worked through both avenues to explore the structure of the data fully. Each returned useful results.
- (iii) Intensity of clustering in classification. A specification of *four* groups in the MULTBET computation was aligned to the restricted sample and intuitive suppositions about the nature of the data.

Ordination

In order to research rigorously for patterns and relationships between sets of companies and attributes, the principal components analysis (GOWER) was applied to compress the seventeen original variables into a few primary factors which, it was hoped, would account for a high degree of the noted variance. In fact, only 21.99 per cent was explained by the first eigenvalue and 60.15 per cent by the first five, thus suggesting substantial disaggregation among the selected producers. This expected, though disappointing, outcome allowed identification of only two components on loading plots obtained from GOWER (Figures 4.1 and 4.2).

- (i) The first vector, differentiating large and small machinery interests, segregated firms with a full product line from more specialised ones which deliver only a limited range. The diversified concerns had adopted more vertical integration in their manufacturing. Massey Ferguson and International Harvester were clearly in front with respect to machinery sales size and other issues covered by the first component. Examples of 'small' organisations appearing on the opposite pole are Thiess Equipment Distributors and Australian Motor Industries.

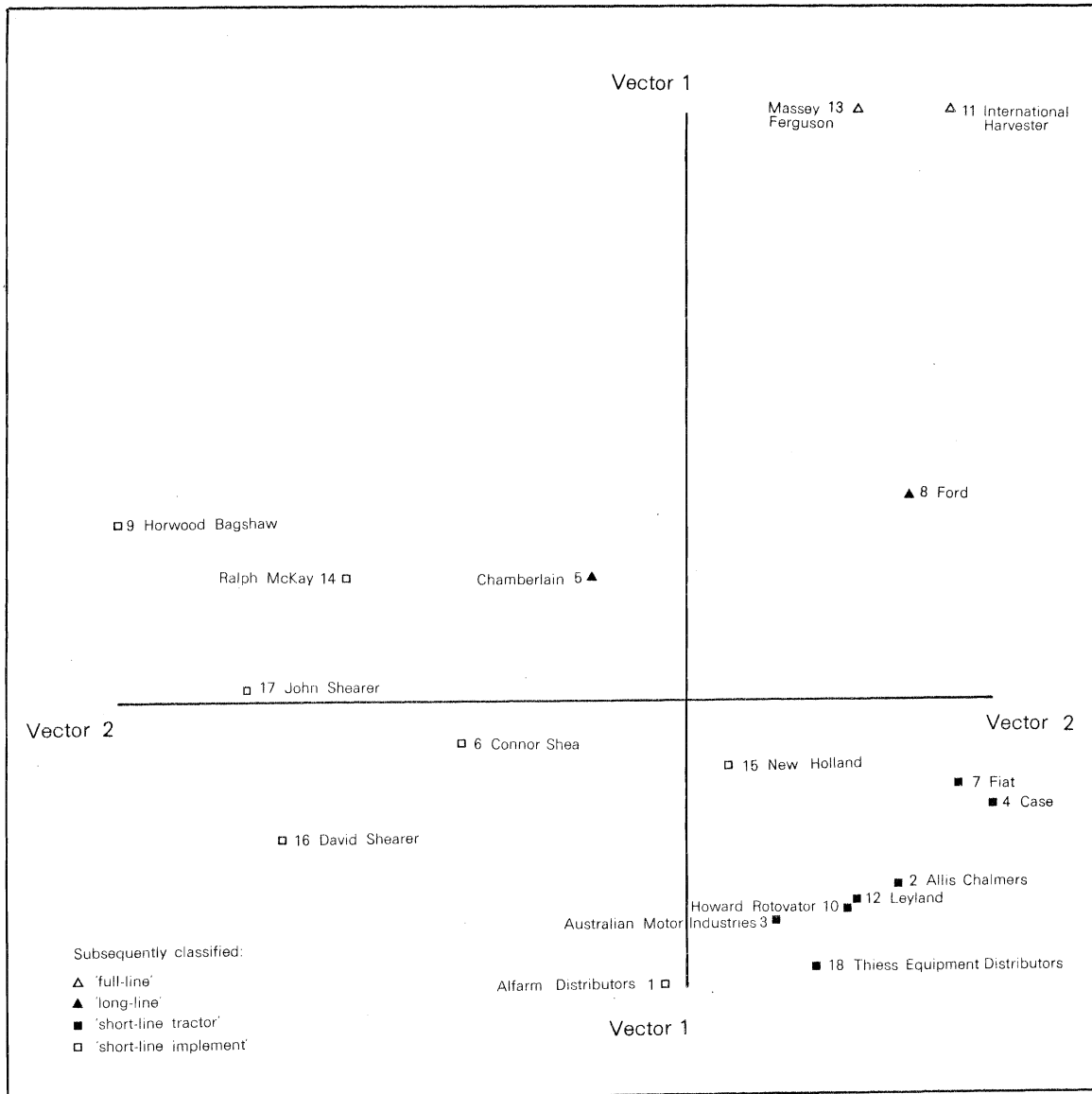


FIGURE 4.1: Principal components analysis (GOWER):
Vectors One and Two.

Source: Author's computations.

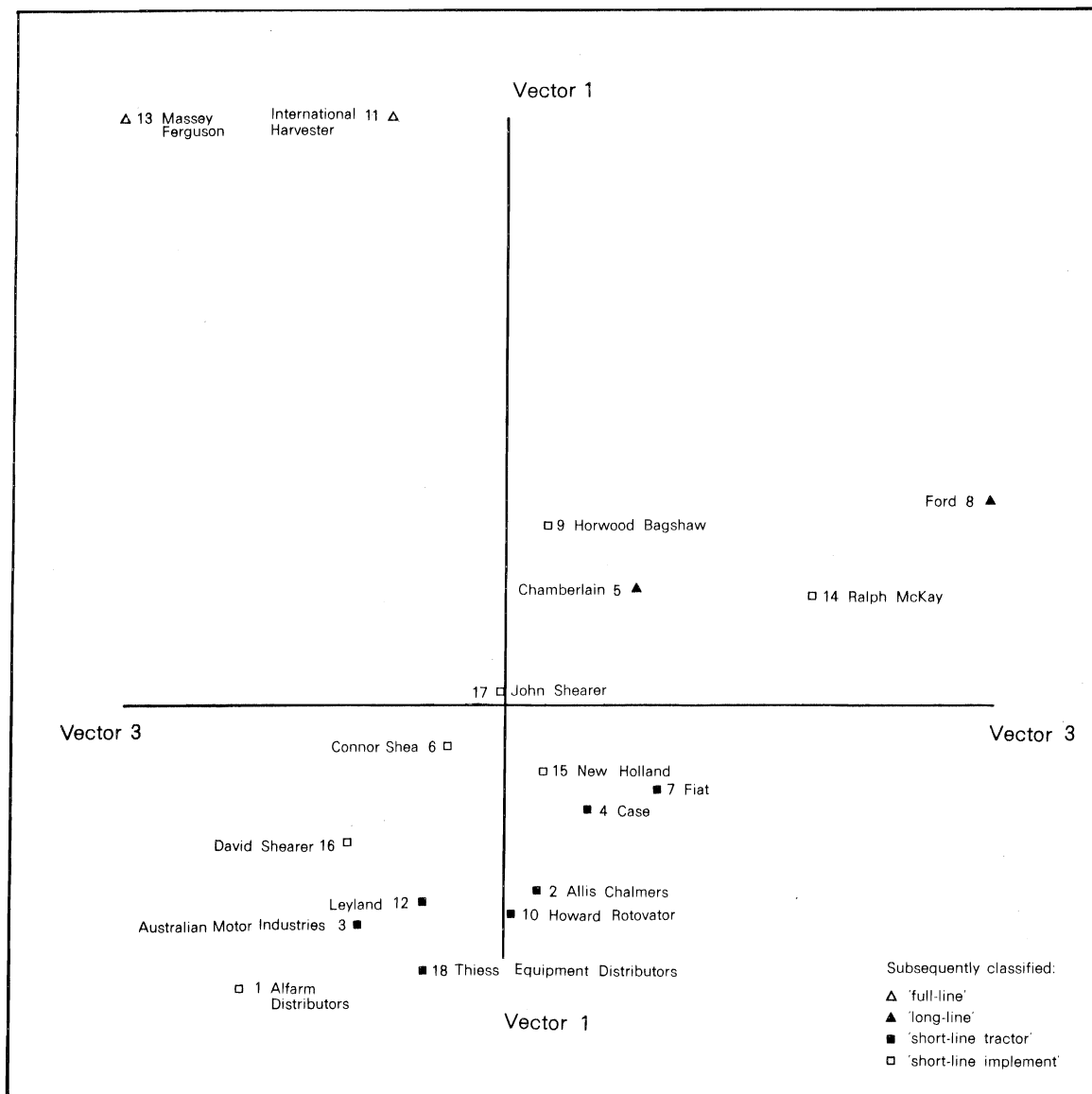


FIGURE 4.2: Principal components analysis (GOWER):
Vectors One and Three.

Source: Author's computations.

- (ii) The second component, concentrating on corporate product mix, distinguished uni-functional and conglomerate businesses. The former, which specialised in the production and distribution of implements and machinery, included predominantly Australian-owned undertakings such as Horwood Bagshaw, John Shearer and Connor Shea. In comparison, those in the multi-functional area were strongly represented in the tractor market and were mostly foreign-controlled. Since they included the largest and smallest merchants, the second component does not suggest any size scaling of either corporate or agricultural machinery revenue.

The analysis was terminated at this point because the remaining three eigenvalues contributed only 23.64 per cent of the variance among the observations and were not susceptible to meaningful interpretation. The plot around the third principal component permits no definition of the dimension involved (Figure 4.2). Rather than obtain rotated solutions, hierarchical grouping techniques were called upon to bring some order into this most unstandardised sample.

The discrete classification

Scaling by the information statistic, MULTBET allocated the agricultural machinery enterprises among four classes (A,B,C,D) which, at a higher level of aggregation, were fused into pairs (AB,CD). The two divisions thus represented consisted of four large and fourteen small firms respectively (Table 4.5). With the aid of the diagnostic programme GROUPER, the basis of the various categories became clear and they were named after reference to the terminology of previous classifications.

- (i) Class A consisted of *full-line* companies engaging in all forms of agricultural machinery production.
- (ii) Class B, with two members, offered a more restricted range which straddled the tractor and equipment markets. Hence, they were called *long-line* firms.
- (iii) Class C, the first 'small' group, was comprised of *short-line tractor* suppliers engaged in the importation and assembly of tractors within a highly diversified corporate functional structure.
- (iv) Class D denoted *short-line implement* manufacturers, specialising in the tillage, seeding, haymaking and harvesting fields.

TABLE 4.5: A HIERARCHICAL CLASSIFICATION OF EIGHTEEN^a SELECTED FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Value of Information Statistic	Division	Class Letter	Class	Number of Firms	Firm	Firm Number	Sample Firm
100							
50							
0							
84	..... Large firms	A	Full-line	2	International Harvester Massey Ferguson	11 13	Massey Ferguson
		B	Long-line	2	Chamberlain Ford	5 8	Chamberlain
50	..... Small firms	C	Short-line tractor	7	Allis Chalmers Australian Motor Industries Case Fiat Howard Rotovator Leyland Thiess Equipment Distributors	2	
						3	
						4	
						7	Fiat
						10	
						12	
						18	Fiat
	.....	D	Short-line implement	7	Alfarm Distributors Connor Shea Horwood Bagshaw Ralph McKay New Holland David Shearer John Shearer	1	
						6	
						9	
						14	John Shearer
						15	
						16	
						17	

^a Mobilco excluded for lack of information.
Source: Author's computations.

DIFFERENTIATION AMONG SAMPLE FIRMS

Fuller description of the various classes -- a necessary background to the coming account of structural factors in corporate behaviour -- ensues from a comparison of firm characteristics within and between the major divisions (A-B, AB-CD, C-D). In the evaluation, relevant points of differentiation are extracted from GROUPER's ranking of the seventeen company attributes according to their contribution to inter-group fusion (i.e. by descending order in the value of the information statistic).

Full versus long-line firms (A-B)

Class A companies were termed 'full-line' in acknowledgement of their response to all areas of farm machinery demand. They diverged from the long-line firms on the basis of their comparative tractor sales, amplified by performance in the seeding, haymaking, harvesting, and general agricultural equipment markets (Table 4.6). Although disparity in the tractor turnover of both groups was not pronounced, they varied widely on other indicators. For example, whereas the former sold substantial volumes of harvesting, general, and specialised products, the latter distributed virtually none at all. Further discrepancies become apparent by considering in more detail the situation of individual members in 1967.

The two *full-line* suppliers were Melbourne-based, North American corporations established an average of seventy-three years in Australia. Both maintained complete manufacturing facilities but preferred to receive certain items from overseas. International Harvester was already active in industrial and construction equipment, while Massey Ferguson had a minor but growing penetration. The first recorded farm machinery sales of \$A21.84 million in a total budget of \$A83.77

TABLE 4.6: RANKING OF FIRST TEN ATTRIBUTES ON WHICH GROUPEE DISTINGUISHED FULL-LINE (A) FROM LONG-LINE (B) SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Ranked Attributes	Ratio of the Average Value of Full-line Firms (A)/Average Value of Long-line Firms (B) ^a on Ranked Attribute
Agricultural tractor sales	1.28
Seeding equipment sales	4.11
Haymaking equipment sales	5.40
Harvesting machinery sales	b
General equipment sales	15.62
Specialised equipment sales	b
Components sales	7.07
Spare parts sales	4.94
Total agricultural machinery sales	2.54
Aggregate corporate sales	0.56

a This format used to maintain confidentiality.

b Long-line firms did not participate in this market.

Source: Author's computations.

million composed mainly of trucks, vehicles and engines¹⁰; by comparison, Massey Ferguson's smaller total revenue (\$A42.65 million)¹¹ was far more specialised, making it the leader in the subject industry.

For the *long-line* firms, an emphasis on tractors, backed by limited supplementary goods, produced turnovers of \$A10-20 million, well above that of the most prominent small participants¹². Chamberlain, an Australian-owned, fully-integrated Perth maker of tractors and tillage ranges, was founded in 1947 and thereafter received significant government assistance (Hutton, 1966: 252). Ford, the largest corporation in the equipment industry, entered the Australian market in 1925 and became the principal assembler/importer. Its coverage included tractors and sub-contracted machines and implements. In contrast to all other major concerns, the company was purely a marketing force and required relatively few employees in its Melbourne-focused operations. Its uniqueness accentuated the many differences which existed among large sellers. Yet, as a group, they stood out quite clearly from the short-line sample.

Large versus small firms (AB-CD)

At the start of the recession, relative sales of tractors, the most important single product category in the Australian market (Bernasek and Kubinski, 1963: 460), were the chief point of distinction of large and small suppliers (Table 4.7). The former, as the key tractor distributors, enjoyed a premier role throughout the industry. Their dominance in several fields -- spare parts, seeding, general, tillage and harvesting -- coincided not only with longevity but also with a headcount in farm machinery production nearly six times that of smaller organisations. Whereas they averaged equipment sales of \$A22.21 million in a corporate account of \$A87.75 million, their counterparts achieved only \$A3.89 million within \$A8.49 million

TABLE 4.7: RANKING OF FIRST TEN ATTRIBUTES ON WHICH GROUPEE DISTINGUISHED LARGE (AB) FROM SMALL (CD) SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Attributes Ranked	Measure	Possible States or Average for Large Firms (AB)	Possible States or Average for Small Firms (CD)
Agricultural tractor sales	\$A thousand	10846	842
Spare parts sales	\$A thousand	2675	372
Total agricultural machinery sales	\$A thousand	22213	3889
Seeding equipment sales	\$A thousand	1001	259
General equipment sales	\$A thousand	532	61
Employment in agricultural machinery operations	number	1714	303
Tillage equipment sales	\$A thousand	1591	669
Head office location	n.a.	Melbourne/Perth	Sydney/Melbourne/ Adelaide/Other
Harvesting machinery sales	\$A thousand	3500	661
Longevity	years	53	40

Source: Author's computations.

respectively. There were few sub-markets in which any large contestant was topped by small competitors. Yet, the latter, offering one machine or a restricted range, performed a valuable economic task by attaining levels of specialisation barred to their opposition and by mitigating against oligopolistic collusion and cartel practices. Beside these positive contributions must be weighed their disadvantages in research and development, product distribution, and a higher level of establishment change¹³, all potential sources of instability. For this reason, short-line suppliers warrant specific attention in an enquiry into the impact of recession.

Small tractor versus implement firms (C-D)

The categorisation of small firms devolves upon whether the corporate product line is uni-functional or diversified (Table 4.8). This primary, GROUPER-inspired distinction can then be expanded to separate tractor organisations, on one hand, from implement and machinery makers on the other. The former had integrated horizontally to such an extent that only \$A2.64 million of their average \$A13.68 million output accrued from agricultural machinery. Their volume consisted mainly of tractor sales (\$A1.60 million) -- a strange case of product specialisation within a conglomerate structure. In contrast, the implement producers' mean corporate turnover of \$A5.53 million was composed almost entirely of equipment revenue (ninety-three per cent) and a far wider range of goods was offered. This situation can be explored more adequately in independent examinations of group characteristics.

In 1967, the average *tractor* distributor had been established twenty-four years in either a Sydney or Melbourne location. Since it acted essentially as an importer, assembler and wholesaler, it required only a restricted workforce of one hundred employees. Machinery

TABLE 4.8: RANKING OF FIRST TEN ATTRIBUTES ON WHICH GROUPEE DISTINGUISHED SHORT-LINE TRACTOR (C) FROM SHORT-LINE IMPLEMENT (D) SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Attributes Ranked	Measure	Possible States or Average for Short-line Tractor Firms (C)	Possible States or Average for Short-line Implement Firms (D)
Corporate product line	n.a.	7 possible states ^a	5 possible states ^b
Head-office location	n.a.	Sydney/Melbourne	Melbourne/Adelaide/Other
Employment in agricultural machinery operations	number	100	448
Tillage equipment sales	\$A thousand	248	1092
Seeding equipment sales	\$A thousand	-	518
Degree of manufacturing integration	n.a.	Fabrication/assembly	All degrees
Country of ownership	n.a.	Australia/U.S.A./U.K./Italy	Australia/U.S.A.
Longevity	years	24	56
Harvesting equipment sales	\$A thousand	501	822
Agricultural tractor sales	\$A thousand	1597	87

a Farm machinery wholesaling, industrial equipment, construction machinery, trucks, automobiles, engines, engineering.

b Farm machinery wholesaling, industrial equipment, engines, engineering, farm machinery dealing.

Source: Author's computations.

operations in the range of \$A1-8 million were generally an adjunct to high corporate sales of up to \$A100 million in the automotive (Australian Motor Industries, Fiat, Leyland) or construction and equipment industries (Allis Chalmers, Case, Thiess Equipment Distributors). Most of the tractor firms were overseas-owned.

By comparison, the typical *implement* company was either an old, Australian specialist producer situated in Melbourne or Adelaide or a more recent importer of haymaking and harvesting aids. Since few had outside interests, total and agricultural machinery turnover were fairly synonymous within the range \$A2-10 million. Though these organisations were the smallest in the sample, they showed extensive vertical integration and required over four times the labour force of the small tractor group. As a result, they were somewhat more exposed during the rural setback.

RÉSUMÉ

A variety of techniques was employed to broach the intrinsic heterogeneity of the agricultural machinery industry. The investigation was narrowed to nineteen major corporations, from which seventeen key functional, size, and structural attributes were elicited. The attempt to stratify the sample first employed ordination procedures; finally, a more successful discrete classification was performed. The resulting fourfold grouping and, in particular, the dichotomy of large and small machinery companies, provides the necessary tools for Part Three's examination of the role of structural factors in the economic and spatial repercussions of market recession on franchising enterprises.

CHAPTER FOUR FOOTNOTES

1. See Australia, Commonwealth Bureau of Census and Statistics, Manufacturing Industry [Bulletin No. 4, 1966-67], Canberra, 1969, for details of the various statistics quoted here. It must be noted that they suffer the same disabilities as those referred to in Chapter Three. Principally, they include sundry machinery repairers. For comparative purposes, the 1968-69 *Census of Economic Activity* shows the 267 farm equipment establishments in Australia as employing 13,858 workers and achieving a total *turnover* of \$A161.48 million. See Australia, Commonwealth Bureau of Census and Statistics, Manufacturing Establishments: Details of Operations by Industry Class, Australia, [Economic Censuses, 1968-69], Canberra, 1973.
2. Combined equipment sales of the nineteen sellers in 1967 approximated \$A145 million. Although this figure cannot be related satisfactorily to any data collected by the Commonwealth Bureau of Census and Statistics, it is estimated that the subject firms accounted for between sixty and eighty per cent of the industry's total turnover. Their amalgamated corporate revenue appeared in the range \$A550-600 million or about two and a half per cent of Australia's gross national product of \$A22.76 billion (Australia, Commonwealth Bureau of Census and Statistics, Official Year Book of the Commonwealth of Australia, 58 (1972), p. 473).
3. Bernasek and Kubinski (1963: 479); Barber (1971: 43-55).
4. It is not entirely satisfactory to make inter-company asset comparisons; holdings might not be valued properly, the bases of valuations can vary and some firms are more capital intensive than others.
5. See, for example, Lance and Williams (1966); Williams *et al.* (1966); Webb *et al.* (1967). There is also a discussion by Rimmer (1969: 162-70).
6. Scott and Austin (1971).
7. Rimmer (1969, 1972); Townroe (1972).
8. More details on the Canberra taxonomic programmes can be obtained from the Division of Computing Research, Commonwealth Scientific and Industrial Research Organisation, Canberra. Present runs were conducted on their CDC 3600 computer.
9. Principal components analysis is used to determine the minimum number of independent dimensions needed to account for most of the variance in a set of variables. Its basic task is to establish, first, an axis in m-dimensional space along which the variance is at a maximum; then a second axis, orthogonal to the first which covers as much of the remaining variance as possible; next, a third axis orthogonal to the first two, and so on. Each new axis handles a smaller proportion of the original variance. Further details of the technique and mathematics involved can be found in Cooley and Lohnes (1962: 151-85).
10. Annual Report 1967, International Harvester Company of Australia Pty Ltd, Melbourne, 1967, p. 2.

11. Annual Report and Notice of Meeting 1967, Massey Ferguson Holdings (Australia) Ltd, Melbourne, 1967, p. 1.
12. For supplementary information, see Annual Report and Financial Statements 1968, [Review of the Chairman of Directors], Chamberlain Holdings Ltd, Perth, 1968; Ford Motor Company of Australia Ltd, [Company Review F69], Research and Statistical Bureau, The Sydney Stock Exchange Ltd, Sydney, 1971, p. 3.
13. Bernasek and Kubinski (1963: 479); Barber (1971: 49).

PART THREE

RESULTS AND ANALYSIS

As a means of highlighting divergences in spatial decision-making between the enterprise and entrepreneur, this project centred on the role of scale effects, establishment mobility and policy substitution in the processes and relationships of corporate behaviour. A focus on marketing in conditions of recession maximised opportunities for observation of geographical change and yielded an applied problem: to determine the economic and locational response of leading businesses to depressed demand within a product franchise system. It was then argued that, under such circumstances, company structural attributes representing competitive powers should assist larger and stronger franchisors to more comprehensive network authority. This advantage would allow the selection of market representation courses which would maintain or enhance their relative market position and thus permit more satisfactory financial adaptation to adversity. In order to test these contentions, nineteen selected farm machinery producers were classified into 'large' and 'small' divisions.

Part Three seeks evidence of channel control differentials in the distribution policy and practice of these firms. Chapter Five examines the constitution and implementation of franchise contracts -- the marketing code of producers. Next, Chapters Six and Seven distil relative network capacities of major and minor suppliers respectively through an emphasis on tactical alterations among administrative, production, wholesale and retail facilities. The results of their varying strategies are integrated in Chapter Eight's assessment of the spatial and financial postulates of the main argument. Interpretation of the situation of the equipment industry and performance of the franchise system in a depression enables Part Four to forge conclusions on the queried aspects of business policy-formation.

CHAPTER FIVENETWORK CONTROL THROUGH DISTRIBUTION POLICY: FRANCHISE
AGREEMENTS OF LARGE AND SMALL FIRMS

This study's first analysis deals with variations in large and small machinery franchisors' network control as exhibited in their marketing policies over the recession. The topic is tackled after reviewing the trading situation of each group in 1967. As a preliminary, however, it is necessary to give a critique of the source material used in this and later discussion.

FINANCIAL ACCOUNTS IN SPATIAL APPLICATIONS

Geographical surveys of single-plant firms seldom need probe the intricacies of their internal documents. In contrast, corporate decision-making, relying on pecuniary factors and codified procedures, demands a distinct orientation to company ledgers, agreements, statistical returns and the administration manual. The approach is facilitated by consideration of accounting statements which, while revealing much about the goals and strategies of selected businesses in the light of their ensuing economic performance, also entail difficulties of accuracy, standardisation, disclosure and diversified reporting.

Despite eclectic successes, financial appraisal is frequently criticised on grounds of accuracy. Of principal concern is the lack of adjustment in annual reports for price level changes, the influence of extraordinary items or holding losses and gains in distorting net income over a period, and inconsistencies attending estimates of future provisions (Beaver, 1970: 5/10). Many commentators have argued further that fixed asset and depreciation charges should reflect

current replacement rather than historical cost.

Insufficient standardisation in compilation techniques compounds these problems and complicates inter-firm comparison of issues such as inventory valuation (e.g. FIFO *versus* LIFO), or the correct assessment of net worth (cf. Graham *et al.*, 1962: 234). For example, on the question of income determination, Standish (1972: 148) comments that

in practice, given the many asset and liability valuation methods used, measurement of profit or loss is the result of a set of procedures probably individual to each company.

Computation debates devolve on the concept of 'true' economic returns (i.e. changes in wealth position). Yet, empirically, even on an *ex-post* basis, it is impossible to specify the 'real' unearned increment -- or the error in its estimation. Therefore, the establishment of accuracy criteria now centres on the predictive ability of indicators employed. Monetary statistics substitute for parameters of decision models and measurement verisimilitude refers to the precision with which such information depicts elements in the policy-making process.

Since corporate structuring can vary, with divisional status being resolved on a product or organisational basis, it is often infeasible to interrelate figures on large firms' component interests. While Mautz (1968: 150-51) has found some executives unwilling to disclose disaggregated data because certain factors cannot be reliably allocated within the conglomerate, some non-American enterprises have been observed to prefer secrecy by apparently capitalising on haphazard international disclosure codes (Arpan, 1971: 67-70). A third criticism of this type of analysis is therefore that total company measures conceal a concern's participation in different industries and the contributions of its various segments to aggregate activity (cf. Cramer and Iwand, 1968: 49-50).

Given the divergences in modern accounting opinion, a particular methodology can scarcely expect to accommodate all viewpoints. The

present avenue was first to allot all income and balance sheet details from the nineteen selected organisations' 1967-71 annual reports to standardised categories in a computer-based, time-series matrix. Published amounts were altered as little as possible. Among the profit and loss declarations, biases arising from appropriations, extraordinary adjustments and capital movements were identified and substantially overcome. Notably, fixed asset sales were excluded from trading results; stock writedowns, assumed a direct effect of the recession, were treated not as an abnormal (below the line) fluctuation as would usually obtain, but as part of a company's operating performance. A complicated situation arose with regard to income from institutional sources. Under the Agricultural Tractors Bounty Act 1966-72, substantial governmental assistance was afforded manufacturers of farm tractors which exceeded fifty-five per cent local content. The principal beneficiaries among the chosen sample were two large members (Table 5.1). As observed before, the bounty rate was doubled in 1970 and, despite reduced output, payments spiralled in 1971. Although reimbursements were neither universally-received nor constant over the recession, they were available to any entrepreneur prepared to contemplate tractor fabrication in Australia. On these grounds, they were included in subsequent calculations and bear quite noticeably on profitability comparisons between the two machinery groups.

Although many of the nineteen firms' balance sheet entries could be equated with relative ease, it was beyond the scope of this project to draw fixed asset valuations to a single base year or to estimate current worth¹. Evaluation of financial and trading condition through asset accounts is therefore avoided. Alternative measures centred on sales not only improve precision in inter-company comparisons but assist once again in the problem of diversified reporting by allowing an integration of corporate and sectoral results. Their main application is in the following ratio computations.

TABLE 5.1: RETURNS UNDER THE AGRICULTURAL TRACTORS BOUNTY ACT 1966-72,
 CORPORATE NET SALES AND PROFIT (LOSS) AFTER TAX, SAMPLE FIRMS,
 AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-72
 (\$A thousand)

Year Ending June	Firm					
	Chamberlain		International Harvester			
	Returns under bounty act	Corporate net sales	Corporate net profit after tax	Returns under bounty act	Corporate net sales	Corporate net profit after tax
1967	1198	15774	590	1023	83770	3882
1968	1662	18140	815	818	85167	3113
1969	1602	19301	587	648	88177	3257
1970	922	10939	(700)	764	90278	2061
1971	1631	15557	319	1119	84547	1201
1972	2181	24665	757	979	82387	(2736)

Sources: Published annual accounts of both firms and Australia, Parliament, Agricultural Tractors
 Bounty Act 1966-72, Returns to Parliament (years 1966-67 to 1971-72).

Accounting ratio analysis

Since their inception in the 1890s, ratios have become indispensable in profitability and solvency determination (Horrigan, 1968: 285). Here, as a means of examining the economic position over time of merchants with widely-differing strengths, interests and sizes, the most appropriate quotients are those tapping liquidity within the balance sheets and the comparative levels of net returns in the profit and loss accounts (cf. van Horne, 1968: 507-26). *Liquidity*, the degree to which assets represent or can be converted to ready money without appreciable loss of value, represents the extent of agricultural machinery franchsors' short-term solvency over the recession. As a gross indicator, the current ratio (current assets/current liabilities) shows the ability of a business to meet its immediate commitments. Though a quotient of 2:1 has been classically regarded as safe, a healthier position is now favoured in many businesses (Graham *et al.*, 1962: 218). Yet, this ratio has recently drawn criticism for its failure to acknowledge the relative convertability of holdings. A finer tool, the 'quick' ratio (current assets less stock/current liabilities), compares direct monetary equivalents against existing obligations (Graham *et al.*, 1962: 219, fn. 11). Ordinarily, a firm's current assets less inventory should equal or exceed its imminent debts. However, since agricultural equipment is rather slow-moving and heavily-financed with the cost being carried among current liabilities, ratios of less than unity are not uncommon.

Among many potential *income* ratios (return on net worth, total tangible assets and so forth), net profit after tax over consolidated net sales is used most extensively in later inter-firm comparisons. This quotient relates directly to the elements of machinery trading and is applicable to analyses over short periods (Sheridan, 1974: 83).

Returns of about five per cent have characterised many Australian industries during the 1960s and 1970s, depending on their value of sales, capital employed, inventory and receivables turnover (see Sanzo, 1970: 11-12; Australia [Tariff Board], 1972: 14).

To foster valid inter-group comparisons, the ratio investigations must focus on specialists. Only suppliers *averaging* over seventy-five per cent of their aggregate annual sales volume in tractors and implements during the years 1967-71 were taken for this purpose (Table 5.2). Massey Ferguson and Chamberlain represent each class of Division AB, while nine competitors in Division CD combine to form a synthetic 'small' company². The approach facilitates an enquiry into the role of structural influences in moderating the downturn's impact, concentrating first on the competitive situation in 1967.

THE ONSET OF THE RECESSION, 1967-68

The Australian agricultural equipment market of the late 1960s deteriorated rapidly in relation to extenuated lead times attending the manufacture and procurement of major product lines³. Though movements in sales usually postdate those of rural income by several months⁴, the lag was absent on this occasion. Indeed, Massey Ferguson's annual report of 1969⁵ recorded that

it was not possible to predict the extent and dramatic suddenness of the market contraction.

The setback therefore highlighted the importance of a producer's initial economic standing in governing his attainment of network control through franchise and spatial policy and, hence, in partly determining his viability after 1967.

TABLE 5.2: SAMPLE FIRMS USED IN CALCULATION OF FINANCIAL RATIOS
 (THE SPECIALIST RATIO SAMPLES)
 AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-71

Division	Class	Firms
Large	A	Massey Ferguson
	B	Chamberlain
Small	C	Howard Rotovator
	D	Alfarm Distributors Connor Shea Horwood Bagshaw Ralph McKay Mobilco New Holland David Shearer John Shearer

Source: Corporate and agricultural machinery dollar sales of sample firms, 1967-71.

The large and small firm in 1967-68

A cross-sectional, inter-firm analysis of key ratios reveals that in 1967-68 the typical large machinery distributor was in a somewhat better situation than its small counterpart (Table 5.3). Liquidity (averaged between the current and quick ratios) was higher, trade receivables were being turned over more quickly and inventory was proportionately lower in relation to net working capital. Record corporate turnover enjoyed by Massey Ferguson, Chamberlain and International Harvester⁶ assisted an upturn in income; on all ratios but net return on sales, major organisations eclipsed their opposition. Despite localised operating difficulties, their directors' reports optimistically mirrored the health of their accounts.

In contrast to this fairly homogeneous, above-average status, small suppliers spanned a wide range of financial contingency. At least three⁷ exhibited such exemplary soundness that, in terms of the structural hypothesis, their management policies would have been expected to approximate those of bigger concerns (Table 5.4). Apart from this trio, most others displayed only a poor-to-average position because of the endemic droughts of 1965-67 and malaise in horizontally-related industries. Many entered the recession in unfavourable straits which generally persisted for the next six years and, in some instances, led to withdrawal. This early background polarised the nature of corporate goals -- primary forces in economic and spatial action (cf. Stern, 1966) -- between large and small manufacturers.

Corporate goal-formation under uncertainty

The aims of small enterprises varied both among firms and over time. At first, new entrants sought expansion to build up product populations, spare parts and service demand. Several stressed, diversified members were more concerned to maintain the viability of

TABLE 5.3: FINANCIAL AND TRADING CONDITION DURING THE ONSET OF THE RECESSION, SPECIALIST RATIO
 SAMPLES, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-68
 (Average 1967-68 measures)

Division	Financial Condition				Trading Condition			
	Current ratio ^a	Quick ^b ratio	Receivables turnover ^c	Inventory to net working capital ^d	Sales/total tangible assets	(Net) return on assets	(Net) return on net worth ^e	(Net) return on sales
Large firms (AB)	2.50	0.67	12.12	1.22	1.34	0.07	0.14	0.05
Small firms (CD)	2.02	0.71	6.26	2.20	1.14	0.05	0.11	0.05

a Current ratio: current assets/current liabilities.

b Quick ratio: current assets less inventory/current liabilities.

c Receivables turnover: trade debtors/consolidated net sales.

d Inventory to net working capital: inventory/current assets less current liabilities.

e Return on net worth: net profit after tax/shareholders' funds and reserves.

Source: Published annual accounts and internal financial documents, specialist ratio sample firms.

TABLE 5.4: FINANCIAL AND TRADING CONDITION DURING THE ONSET OF THE RECESSION, RANKING ON SELECTED INDICATORS,
ALL SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-68
(Average 1967-68 measures)

Division	Class	Firm	Financial Condition			Trading Condition		
			Current ratio ^a	Intra-sample rank ^a	Quick ratio	Intra-sample rank ^a	Net return on net worth	Intra-sample rank ^a
Large (AB)	Full-line (A)	International Harvester	2.72	3	1.06	4	0.08	12
		Massey Ferguson	2.29	7	0.78	5	0.13	7
	Long-line (B)	Chamberlain	2.71	4	0.55	8	0.15	4
		Ford	1.96	8	0.39	13	0.15	4
Small (CD)	Short-line tractor (C)	Allis Chalmers	1.91	9	0.76	6	-0.34	17
		Australian Motor Industries	2.34	6	0.37	15	0.18	2
		Case	2.58	5	1.28	1	0.16	3
		Fiat	0.96	17	0.17	17	0.08	12
		Howard Rotovator	1.88	10	0.47	11	0.10	9
		Leyland	1.63	13	0.49	9	0.04	15
	Short-line implement (D)	Thiess Equipment Distributors	b	b	b	b	b	b
		Alfarm Distributors	1.07	16	0.48	10	0.29	1
		Connor Shea	1.81	12	0.58	7	0.15	4
		Horwood Bagshaw	1.87	11	0.30	16	0.00	16
		Ralph McKay	3.19	2	1.28	1	0.11	8
		Mobilco	1.46	14	0.39	13	0.09	10
		New Holland	c	c	c	c	c	c
		David Shearer	1.45	15	0.45	12	0.06	14
		John Shearer	3.21	1	1.17	3	0.09	10

a Seventeen possible total.

b Fledgling company, initial imbalance in accounts would create distortions.

c Divisional accounts withheld for confidentiality.

Source: Published annual accounts, returns to State Registrars of Companies, reports of the Sydney Stock Exchange Investment Service and unpublished internal financial documents, sample firms, 1967-68.

their machinery trading by stabilisation or reduction of operations. Certain specialised equipment marketers were attempting to recover from setbacks of previous years. Finally, the more robust suppliers could overlook immediate financial considerations to some extent and concentrate on their trading performance. Yet, as circumstances worsened in 1969-70, initial disadvantage and lack of resources forced many of the minor competitors⁸ to preserve their liquidity by all available means, a necessity underscored by several failures.

The leading organisations, on the other hand, apparently recognised their ability to remain in the machinery market throughout the rural crisis⁹. Shielded by their overall size and contemporary prosperity from its immediate exigencies, their problem was rather to anticipate its duration and severity and adjust accordingly. The task was confounded by long-term planning needs and the inflexibilities of heavy overhead commitments:

[Prior to January 1969], there were men...recommending caution, but they weren't heard. One of the things we must take into account in any management decision ...is that...it's very easy to criticise and project [action] on the possibility of a falling market. But a manager also has to estimate the opportunity cost of not meeting a potentially-higher market. This can be very expensive on a long-term marketing budget for a company like this (*large Melbourne supplier, 8 May 1972*).

The risks of not 'meeting the market' seemingly exceeded the dislocation of short-term losses. The main organisations had always attached great significance to any attrition of penetration, appreciating that

market share can be dropped almost overnight. The road to recovery is a long and arduous one (The Australian, 2 January 1971).

A slip in competitive position would not only prejudice turnover of spare parts and service during the projected life of all 'lost' machinery sales, but also destroy future brand loyalty and replacement demand. Further, the few outstanding retailers available would only

accept and operate franchises on the strength of local volume potentials derived from the overall share of the franchisor¹⁰. Unwilling to handicap themselves in a subsequent upturn, large corporations predicated -- or perpetuated -- their strategy mainly on the issue of penetration. Their stance encouraged, first, a forceful attitude to franchise policy and locational behaviour and, as will be seen later, a stock accumulation which deflated their financial condition.

NETWORK CONTROL IN THE CONSTITUTION OF FRANCHISE POLICY

Although farm equipment franchisors' printed contracts spell out a formal *modus operandi*, practical procedures may vary, particularly under the duress of recession. Thus, even though dealer cancellation rates between 1967 and 1972 were pronounced, many more outlets would have been eliminated had manufacturers chosen to assert their rights. Both the constitution and implementation of policy must be investigated to portray the relative distribution control of various companies.

Analysis of the 1967 agreements of three large and thirteen small producers¹¹ derived four main topics from thirty-nine distinguishable subject areas¹² (see Table 5.5 and Appendix Two).

- (i) Introductory clauses, apart from non-assignability of contract, were rarely more than legal formalities.
- (ii) General provisions offered the franchisor opportunities for a high degree of vertical integration -- especially those relating to design changes, sales restrictions, exclusivity and definition of territory (cf. Milinowski, 1965).
- (iii) Operating requirements also had significant ramifications. If stated at all, the vendor's obligations concerned the supply of technical and sales assistance and provision of retail margins; in comparison, those of the vendee usually appeared voluminous. Though they might have created efficiencies, they again afforded the manufacturer a substantial voice in aspects of retailers' housekeeping and marketing.
- (iv) Termination clauses allowed the franchisor to cancel the franchisee for a variety of reasons. Frequent grounds included the latter's death or disability, his insolvency or

TABLE 5.5: COMPARATIVE ANALYSIS^a OF FRANCHISE PROVISIONS, SIXTEEN SAMPLE FIRMS^b,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967.

Provision				Percentage of Firms Exhibiting Provision		
Number	Type	Content	Network control potential	Large firms	Small firms	Total firms
1	Introductory	Purpose of agreement		66	38	44
2		Previous agreements cancelled		33	62	56
3		Interpretations		66	38	44
4		Jurisdiction stated		33	46	44
5		Products covered		66	54	56
6		Contract non-assignable		100	69	75
7		Franchise granted		66	46	50
8	General	Design changes, product exclusions	*	100	46	56
9		Passing of title to goods		0	38	31
10		Non-agency franchise		100	77	81
11		Use of trade marks		66	23	31
12		Definition of territory		100	100	100
13		Exclusivity of territory	*	66	100	94
14		Types of prohibited sales	*	33	85	75
15		Policy on sub-dealers		0	23	19
16		Instructions to dealers		33	38	38
17		Service of notices		66	38	44
18		Variations of contract	*	100	62	69
19		Policy on competing products	*	66	46	50
20		Powers of waiver		100	46	56
21	Operating	Policy on acceptance of orders		33	31	31
22		Terms of payment		33	62	56
23		Used equipment dealing		33	31	31
24		Delivery and financial procedure		66	69	69
25		Non-fulfilment of orders	*	100	69	75
26		Consignment conditions		66	23	31
27		Retail pricing policy	*	100	85	88
28		Policy on written orders		100	62	69
29		Spare parts policy		100	69	75
30		Product insurance		66	31	38
31		Product alterations		66	23	31
32		Warranty		66	85	81
33		Collateral and set-off		33	38	38
34		Tenure of franchise	*	0	15	13
35		Dealer obligations	*	100	100	100
36		Company obligations		66	77	75
37	Termination	Termination by notice	*	100	85	88
38		Termination by event	*	100	69	75
39		Obligations on termination		100	85	88

a See also Appendix Two.

b Three large, thirteen small firms.

* High network control potential, see text.

Source: 1967 franchise agreements, sample firms.

bankruptcy, assignment or hypothecation of contract, unnotified changes in the legal structure of the dealership, and inadequate sales performance. Some suppliers threatened annulment for any breach; for most, however, payment, the supply of collateral and securing of goods were the sensitive areas. All large and several small firms withheld the privilege of waiver, thus potentially introducing a measure of arbitrariness into their administration.

Surprisingly, the network authority implicit in the sixteen franchise agreements cannot be satisfactorily compared. Many feature exactly the same wording¹³ because of an oligopolistic exchange scheme and thus confound any presumptions of the structural hypothesis about the composition of written policy in companies of different sizes. Even though later atrophy in retail forces indicated otherwise, all competitors apparently *aspired* to roughly the same quality of co-ordination over the recession.

Coverage of the contracts offered more scope -- those of large organisations averaged twenty-six of the thirty-nine topical areas, whereas the mean for small producers was twenty-one. Nine of the twelve key issues of channel management (marked with asterisks in Table 5.5) were specified more frequently by the former. Beyond these observations, a structural differential in the constitution of franchise documents cannot be pursued. Their degree of enforcement therefore assumes great importance: corporate and machinery trading size, economic power and managerial philosophies exercised a marked effect.

NETWORK CONTROL IN THE APPLICATION OF FRANCHISE POLICY

Declining retail volumes forced many dealers into what, under normal circumstances, would have been seen as infringements of marketing policy¹⁴. In particular, stockholding and sales performance clauses were broken¹⁵. Most enterprises reacted in low-key, recognising that undue pressure would have merely exacerbated problems, eroded

co-operation and led to unwarranted closure; the industry entertained a fairly universal exercise of waiver. Although over the 1960s minor suppliers had never enjoyed as penetrating control as their counterparts, some were now required to retreat further from printed procedures into an administration of expediency. The extent to which franchise practice was liberalised (or network administration weakened) can be gauged best with respect to two issues, dealer assistance and maintenance of competitive exclusivity.

Dealer assistance

A manufacturer's field services normally aim to augment his distribution authority and sales, while simultaneously avoiding exposure (cf. Chapter Two). Yet, the recession sometimes necessitated extraordinary measures. Large companies maintained their wholesale role and shepherded retailers to the limits of pre-recession criteria, using managerial as opposed to monetary techniques. Credit extension was prolific at all levels of supply as were raised or floating wholesale discount margins, but these firms seldom offered direct aid in consignment stock, customer invoicing or used equipment marketing. Their seemingly conservative stand, reflecting an unwillingness to dissipate the benefits of franchising or to compound existing uncertainties with those of the retail sector, relied upon a close association with well-established, high-volume and, mostly, viable dealerships and also the ability of principal brands to attract scarce new appointees if necessary.

Smaller and newer companies frequently fell into a circle of network and policy decay. When their resellers -- mainly low-turnover operations -- decreased their service and performance, they were obliged to accept greater financial involvement or lose authority. The application of internal liquidity to formal, ailing systems created risky investments with inequitable short-term returns. On the other

hand, *laissez-faire* marketing was equally unattractive. Some competitors reacted by relegating dealers to spotter agents, paying concomitantly lower discounts and undertaking limited corporate distribution. Over the study period, several agreements served only to cloak fairly unstructured arrangements, as reflected in the following discussion of non-exclusive forms of franchising.

Competing and supplementary franchises

The average Australian country town supports only a few businesses capable of handling any of the dozen or so makes of automobiles, trucks, agricultural machinery and fuel available. Ideally, every equipment producer would prefer exclusive representation (cf. Whitney, 1958: 241-42). In practice, fragmented markets determine that the majority of retailers accept a number of non-competing brands in each product field. Moreover, functional diversification is used to spread risk and create sufficient total revenue to cover overheads from these often minor interests. A fine balance therefore exists between monopolistic advantage and the cost of sales and inventory; agents must choose carefully to avoid over-commitment or the displeasure of prejudiced franchisors. This critical arena of distribution administration again differentiated the attitudes of machinery corporations, of which the largest and strongest could alone exercise any firm jurisdiction over cross-franchising. The whole industry's bargaining power in relation to complementary lines reached a low ebb during 1967-72.

Though large concerns universally opposed external influence in their dealerships (cf. Barber, 1971: 251), full-line companies probably demonstrated the greatest network control. Both were backed by leading market shares and, additionally, International Harvester agencies had viable options in trucks and industrial equipment. In 1967, few

retailers handled competing products and, hence, the issue of cross-franchising was contained by a want of both precedent and rationale. Supplementary merchandising was less equivocal since, in many depressed areas, a sole machinery range was an inadequate trading base. With apparent reluctance¹⁶, full-line corporations permitted the adoption of approved outside stock by their resellers as a cheaper and safer means of preserving sales forces than horizontal manufacturing integration. The strategy was also timely, given prolonged trends in the rural service economy¹⁷.

The inability of long-line organisations to offer a complete array of equipment or immediate avenues of diversification exposed their sellers to overtures from small manufacturers seeking new replacement outlets¹⁸. The assumed capacity of competing or overlapping products to offset risk and spread overheads created attractive incentives. Further, long-line dealers feared trade-in battles and erosion of penetration and trading margins if producers unable to find local representation introduced corporate stores¹⁹. With surprising success, their suppliers spoke against extra franchising on the grounds that the return from added lines did not justify the investment in goods, parts and service; the purpose of a dealership was to promote one trademark actively rather than adopting an air of impartiality between competing models. They also pointed out that the annexation of 'unstable' short-line ranges would not only increase their franchise turnover but also curtail competition to a level unacceptable to the consumer²⁰.

Large and small firms negotiated from positions of different economic power. In the absence of comparable 1967 and 1972 franchise mix data²¹, interview evidence suggests that the former accepted restricted supplementary merchandising and resisted any proposed cross-franchising with threats of termination. Such control eluded

the majority of small enterprises which, in most retail establishments, could not claim the main brand let alone an exclusive operation. Complementary franchises were the norm in this sector and only the more significant producers could oppose competing products, especially in the bigger outlets (cf. Whitney, 1958: 244). Several manufacturers, troubled with high dealer loss rates²² and the restrained appeal of their franchise, clearly stated a preference for shared facilities as distinct from a complete lack of coverage. Their low market share precluded much selectivity.

The erosion in small firms' limited authority gave retailers greater economic and positional muscle in the sales relationship. A number serving marginal participants apparently refused to be bound by allegedly-onerous contracts. In a more extreme case involving an unsuccessful attempt to clinch a new agent, a branch manager lamented to head office:

he had torn [our agreement] to pieces, had his solicitors dissect it and has stated...he does not like the compilation of it. He refuses point blank in having pressure applied to his business in the manner of...[a large automobile franchisor] ...and will sign only when he is positive he will be treated in a fair manner (*records of a small Sydney supplier, letter dated late 1969*).

To avoid such hostility and the frequent inequalities of conventional bonds, one successful small franchisor from 1969 dispensed with the usual lengthy list of provisions and instead substituted a succinct, annually-updated, two-page joint agreement. Other less fortunate or progressive companies were simply forced to market through unaligned agencies and thereby relinquished many securities of franchising²³. Much of their recording and forecasting fell away, while their own bulk or direct selling advanced hybridisation of distribution practice and the dissolution of standard franchise policy with its low-cost market control.

Maintenance of franchise policy: summary

Apart from credit extension and the revision of trading margins, principal firms were generally able to avoid extraordinary forms of assistance in the maintenance of their original marketing codes during the recession; they achieved satisfactory co-ordination mainly through *managerial* techniques. In comparison, some minor businesses were forced into (or continued) a more embracing *financial* commitment to preserve their wholesale role and the viability of dealer forces. Ones unable or unwilling to meet these demands often had to turn to other expensive selling methods, sometimes involving forward integration. Such results support the predictions of the structural hypothesis.

RÉSUMÉ

A critical appraisal of issues in accounting prefaced an assessment of the financial situation of the selected franchisors in 1967. Early advantages and extensive corporate resources enabled large firms to pursue more authoritative goals and marketing policy than short-line competitors during the recession. Chapter Six now examines the interaction of spatial strategy with the large corporation's network control; contrasts are provided in a similar review of small concerns in Chapter Seven. The analyses of both groups are fused in Chapter Eight by an evaluation of the combined contributions of franchise and geographical tactics to relative economic performance.

CHAPTER FIVE FOOTNOTES

1. Some of the difficulties are attributable to the need to conduct an *ex-post* analysis. Long-term *ex-ante* programmes (notably those of the Australian Industries Assistance Commission or the sophisticated inter-firm comparisons of the Department of Secondary Industry) can set up standardised reporting systems over a number of years and thus derive such advantages as collecting asset figures on a non-published, current valuation basis. It was considered more appropriate in this work to adhere closely to published data which, in spite of their inaccuracies are presumably important in any corporate decision-making. Moreover, they are readily available and maintain the criterion of reproducibility.
2. The numerical bias of these comparisons, a function of classification procedures, cannot be avoided.
3. 'Shaping the Future', transcripts of a long-term projection conference held by Massey Ferguson on 30 May 1966, suggests that up to seven years might be required for the research and development, production and amortisation of investment in major new product lines. Normal manufacturing is scheduled up to a year in advance because of domestic supply restrictions in certain sections of steel. Depending on the source and the goods involved, even importers must accommodate three to twelve month indent cycles.
4. Phillips (1956: 93-97, 200); Bernasek and Kubinski (1963: 469).
5. Annual Report and Notice of Meeting 1969, Massey Ferguson Holdings (Australia) Ltd, Melbourne, [December] 1969, p. 2. Other firms such as Ford and Connor Shea also stated that, after the introduction of wheat quotas on 30 April 1969, sales dropped dramatically.
6. See the 1967 and 1968 annual reports of all three firms.
7. Ralph McKay, New Holland and John Shearer. Also, Howard Rotovator demonstrated strong finances throughout the recession.
8. Certainly, all suppliers with an *aggregate* annual turnover of less than \$A10.00 million could be construed in this class.
9. As explained in interviews.
10. Evidence on this point is derived from franchise advertisements during the upswing of 1973. See, for example, Chamberlain-John Deere in The Sun Herald [Sydney], 18 November 1973.
11. The other three agreements were unavailable.
12. Contracts analysis based on van Cise (1968: 325-46); Rosenfield (1970: 67-130); Ozanne and Hunt, (1971: 199-256).
13. Thus, the attraction of an agreement is derived not from its content, or even the attached discount schedules which are fairly similar throughout the industry but, rather, from a cost-based translation of the market share of the franchisor into a local volume potential.

14. Since many manufacturers enjoyed fairly informal relationships with dealers, it would be erroneous to imply that a major crisis in franchise policy overtook the equipment industry during the recession. The more significant changes described here should be regarded as a response not only to the immediate pressures of the economic situation but also to longer-term forces in machinery marketing over the 1960s.

15. With respect to some agreements, this infringement was not surprising. Two of the most 'unilateral' statements were:

- (i) Stockholding. [The Dealer will] maintain a stock of the said products as considered adequate by the Company for the sales requirements of his territory (*franchise agreement of a large Melbourne supplier*).
- (ii) Sales performance. The Dealer shall be held responsible... for the selling of a reasonable percentage of the product market in his territory. What constitutes a 'reasonable percentage' shall be decided from time to time by the Company (*franchise agreement of a small Sydney supplier*).

16. This reluctance was put in the comment of one executive:

A lot of our dealers have put on car franchises. We don't like this...because, basically, we then have to share his...time. Except, you've got to be realistic; sometimes they've needed this extra volume to carry them and...the car really isn't in conflict with our own equipment (*large Melbourne supplier, 12 July 1972*).

17. One franchisor, recognising the complementary pressures of numerical contraction among farm machinery outlets and the drive for economies of scale throughout all retailing, saw in supplementary franchising a pathway to the principal role in anticipated one-stop farm supply supermarkets:

As a company, if we want to stay with this dealer vertical franchising system as against the retail vertical business [i.e. corporate distribution]... it's going to be essential for us to tie up with other franchising organisations...chemicals...fertilisers...stock type companies (*large Melbourne supplier, 8 May 1972*).

18. With a range and, quite possibly, volume below that of a full-line dealership, the undiversified long-line outlet would have had greater incentive to expand its product fields over the recession. Such pressures can occur at any level. For example, Massey Ferguson's concern in 1963-64 at the attack on its franchise strength caused by the lack of a large tractor was strong motivation for the company to enter the high-horsepower sub-market.

19. Paraphrased from correspondence.

20. Paraphrased from interviews.

21. Within the industry, such complex and exhaustive information became a victim of recession cut-backs. However, many small companies had never collected franchise mix data at all.

22. See Chapter Seven.

23. By the end of the setback, at least a quarter of the small firms had reverted to informal (unsigned order basis) dealers or *laissez-faire* methods of marketing (sales to any casual bidders). A study in the United States some years ago noticed the greater reliance on such channels of minor franchisors *vis-a-vis* larger competitors (Jessen *et al.*, 1951: 53-54). However, use of unaligned retailers by national equipment suppliers has been less common in Australia, where more extensive network control has been the norm.

CHAPTER SIXNETWORK CONTROL THROUGH DISTRIBUTION PRACTICE:
SPATIAL REPRESENTATION OF LARGE FRANCHISORS

I think a distribution policy is usually developed by a need more so than a want. If we feel, and we have done this in the past, that there's a certain problem developing, well, we just have to change. But we're fairly loath to change (*large Melbourne supplier, 12 July 1972*).

The interaction of network control and corporate spatial decision-making suggested by the structural hypothesis can be examined in the distribution practice of recession-bound machinery enterprises. The project's second main analytical thrust is undertaken by Chapters Six and Seven which consider the incidence of locational change in the selling networks of large and small franchisors respectively. At the earliest channel levels -- central administration, production, and wholesaling -- the emphasis is nation-wide, but in retailing only the position in southeastern Australia is considered (Figure 6.1). This restricted region both reduces the number of dealers under observation to manageable proportions and also affords unique opportunities for ascertaining inter-metropolitan alternatives in supply and the influence of producers' positional power. Case histories are employed to overcome the difficulties of confidentiality and disclosure, and those posed by massive (but often incomplete) data banks. Inter-class comparisons highlight establishment mobility, scale effects, and the substitutability of geographical tactics. Integration of specific findings from major and minor firms facilitates Chapter Eight's overall evaluation of the structural viewpoint: company attributes representing competitive powers are expressed as management potentialities in franchise conduct and thus vary representation, and market and economic performance. The enquiry commences with a review of the sales facilities for farm equipment in 1967.

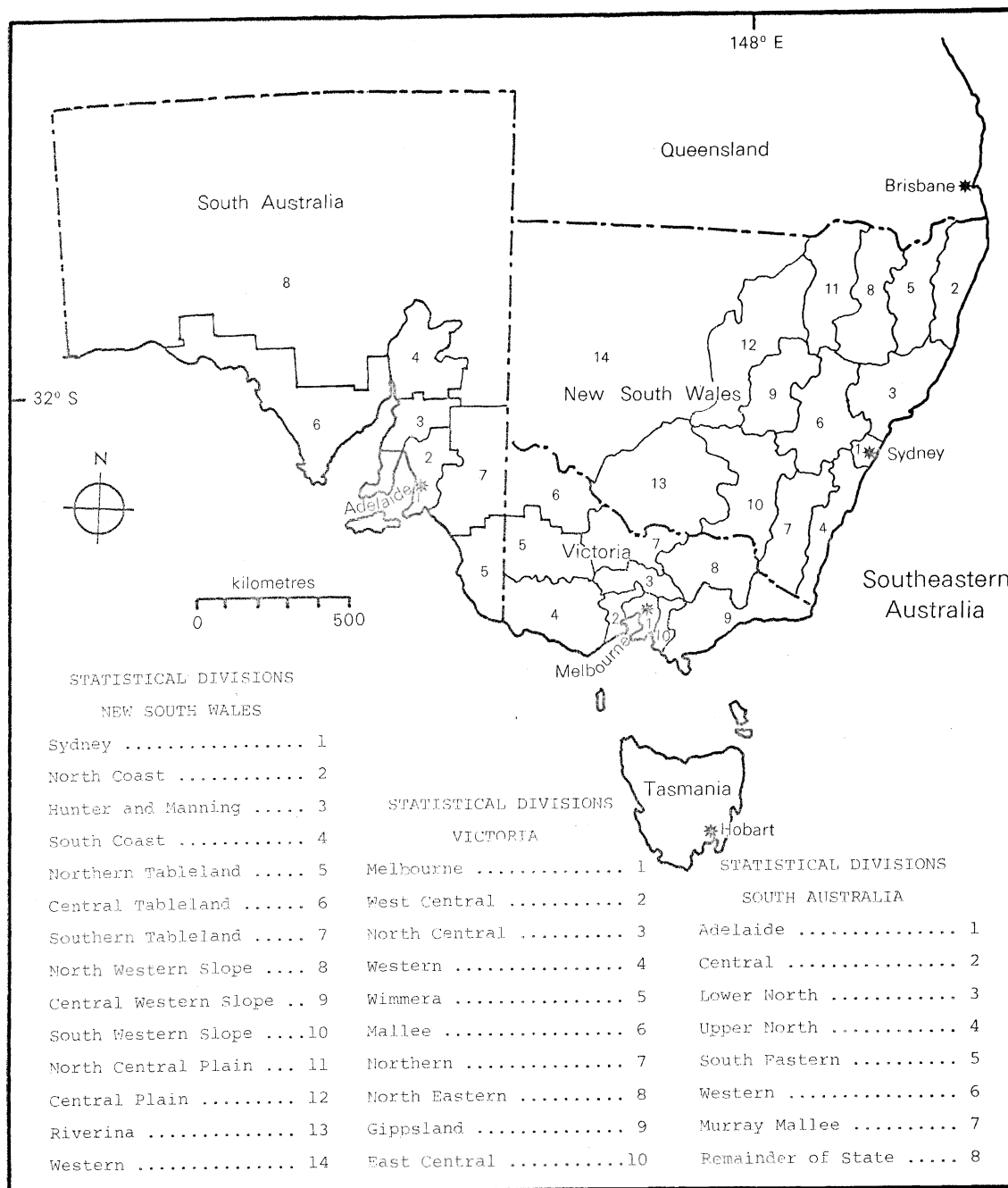


FIGURE 6.1: Location diagram, southeastern Australia^a.

^a The Commonwealth Bureau of Census and Statistics Divisions portrayed existed for most of the recession (i.e. 1967-70).

Source: Author.

GEOGRAPHY OF MACHINERY MARKETING IN 1967

In response to relatively small and highly-localised demand, the Australian agricultural machinery industry in 1967 exhibited a fairly simple marketing pattern. Older, North American-inspired regional wholesale depots had all but disappeared in favour of a more direct factory→branch or independent distributor→dealer arrangement (cf. Appendix Three). Factories and corporate *head-offices* were normally sited together so that processing, fabrication, assembly and initial despatch occurred alongside general management functions such as accounting, labor relations and research and development. *Branches* or non-aligned distributors undertook final assembly to save intra-company transport costs. Their responsibilities, confined mainly to selling, included the collection of economic material, observation of competition, logistics, local advertising and franchisee sales/profitability analysis (see Butt, 1969: 46-47). Finally, *dealers* handled the retail business of most firms although some relied as well on a few corporate stores.

By the start of the recession, all large competitors had adapted the above schema to individual States. Unlike some small counterparts, they had long experience in domestic conditions and frequently adjusted their behaviour to changing cycles. Extensive production and distribution networks established since the Second World War gave solid representation in all parts of Australia except Tasmania, where the requirements were limited and evoked little interest (Table 6.1). Of the leading makers, only Massey Ferguson fabricated at more than a single location. Its experience offered the sole instance of spatial change in the large sector's manufacturing and administration¹.

TABLE 6.1: CORPORATE REPRESENTATION, LARGE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Class	Firm	State	Location	Type of Facility	Years of Operation
Full-line ^a	International Harvester	N.S.W.	Sydney Gunnedah	Wholesale administration ^b Retail store	1953-67 1964-67
		Vic.	Melbourne Geelong	Head office, wholesaling Manufacturing, distribution	1939-67 1939-67
		Qld	Brisbane Cairns	Wholesaling Retail store	1966-67 1967
		S.A.	Adelaide Port Adelaide	Wholesaling Warehouse	1951-67 1958-67
		W.A.	Perth	Wholesaling	1956-67
		Tas.	Hobart	Independent wholesaler	1965-67
	Massey Ferguson	N.S.W.	Sydney Orange	Wholesaling Retail store	1937-67 1960-67
		Vic.	Melbourne Ballarat Bendigo	Head-office, manufacturing Retail store Manufacturing	1930-67 ^c 1958-67 1965-67
		S.A.	Port Adelaide	Wholesaling	1959-67
		W.A.	Perth (Maylands) Perth (Subiaco)	Wholesaling Retail store	1956-67 1964-67
		Tas.	Hobart	Wholesaling	1963-67
Long-line	Chamberlain	N.S.W.	Sydney	Wholesaling	1965-67
		Vic.	Melbourne	Wholesaling	1955-67
		Qld	Brisbane	Wholesaling	1959-67
		S.A.	Adelaide	Wholesaling	1960-67
		W.A.	Perth (Welshpool) Perth (Guildford)	Head-office, manufacturing Retail store	1947-67 1960-67
	Ford	N.S.W.	Sydney	Wholesaling	1963-67
		Vic.	Melbourne	Head-office, assembly	1967 ^d
		Qld	Brisbane	Wholesaling	1951-67
		S.A.	Adelaide	Independent wholesaler	1960-67
		W.A.	North Fremantle	Wholesaling	1951-67

a Note the more numerous facilities of full-line firms.

b Administration only since 1965.

c Inception taken as the merger of H.V. McKay Pty Ltd with Massey Harris Ltd, 1930.

d Ford relocated in 1967 from North Coburg.

Sources: (i) Interviews and internal documents, sample firms.

(ii) [Index to Illustrated Tractor Specifications], Technical Annual, Power Farming in Australia and New Zealand, various issues 1946-67.

CENTRAL ADMINISTRATION AND PRODUCTION

Shifts in central facilities of subject franchisors signify the most striking repercussions of the rural contraction because of the asset fixity and heavy transference expenses involved. While several plant closures and one massive relocation characterised short-line merchants, action by the four major companies was light -- as supposed in the elaboration of the structural argument. Certainly, they were affected by the universal decline in the machinery trade. Workforce downturns² in response to excess inventory and high overheads were considerable, while curtailment of expansion plans³ was also significant in regard to the industry's longer-term development. However, the only *physical* alteration to existing patterns was the shut-down of Massey Ferguson's spare parts operation at Bendigo (Victoria). The decision to retrench most of the one hundred employees and retract to Melbourne was announced after consideration of stock and finance problems (The Australian, 3 December 1969). Later, the firm's 1970 annual report⁴ noted the disposal of the premises in order to improve liquidity and profitability prospects. In 1972, further sales were made of redundant land and buildings at the Melbourne factory site (The Australian Financial Review, 26 May 1972). Similar property realisation and centralisation also appeared in the next stage of the main equipment suppliers' channels.

WHOLESALE REPRESENTATION

At the wholesale level, large producers reacted to both long-term market forces of the 1960s and the more pressing demands of the rural downswing by undertaking two primary representation policies, rationalisation and stability. The backing provided by their firm franchise code and constancy in the production sector permitted these

courses to be pursued without significant loss of control. Yet, a smooth transition to new strategies presumed ancillary change in other areas of the distribution sub-mix which indicated the interrelationships and potential substitutability of geographical decisions in the corporate arena.

Market representation: rationalisation

Positional power, asserted through the location of company outlets and, especially, head-offices markedly varied the ability of machinery enterprises to adapt their marketing structures to dynamic conditions throughout Australia between 1967 and 1972. Its role among large organisations was pronounced since, initially, rationalisation was possible for only the three Melbourne-based concerns which enjoyed a high degree of network control from a centre offering superior accessibility (Table 6.2). As illustrated in Figure 6.2 for tractors -- the most important and representative individual product category⁵ -- no other Australian capital city afforded such concentrated demand within a relatively confined area well served by transport connections.

As early as 1965, International Harvester ceased Sydney-based distribution of spare parts and all equipment except direct imports. Components supply accrued to the South Melbourne warehouse and Brisbane branch, while whole machines were directed from the Geelong (Victoria) factory to most parts of New South Wales⁶. In 1967-68, the Adelaide branch and an old depot at Port Adelaide were closed for farm equipment wholesaling. A comparable course was undertaken by Ford which, after segregating its vehicle and tractor interests in 1965, removed the latter from Sydney and Adelaide in 1967-68. In contrast to these moves throughout the late 1960s, Massey Ferguson's cut-backs were inspired more by the short-term pressures of the rural crisis. Only in 1970 did it relinquish its Sydney assembly plant; the Adelaide office was

TABLE 6.2: WHOLESALEREPRESENTATION STRATEGIES, LARGE FIRMS,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1965-72

Wholesale Strategy	Participants	Locational Repercussions	Impact on Total Distribution Network	Year
Rationalisation	Ford	Closure of wholesale branches at: Adelaide Sydney	Major ^a Major ^a	1967 1968
	International Harvester	Cessation of wholesale operations ^b at: Sydney Adelaide	Major ^a Major ^a	1968 1968
		Closure of warehouse at: Adelaide	Minor	1970
	Massey Ferguson	Closure of wholesale branches at: Sydney Adelaide	Major ^a Major ^a	1970 1972
Stability	Chamberlain	Intrametropolitan re-location of Melbourne wholesale branch	Minor	1968

a Operative factor in classification.

b The branches continued to distribute trucks. See also Footnote Six.

Source: Unpublished internal documents and interviews, sample firms.

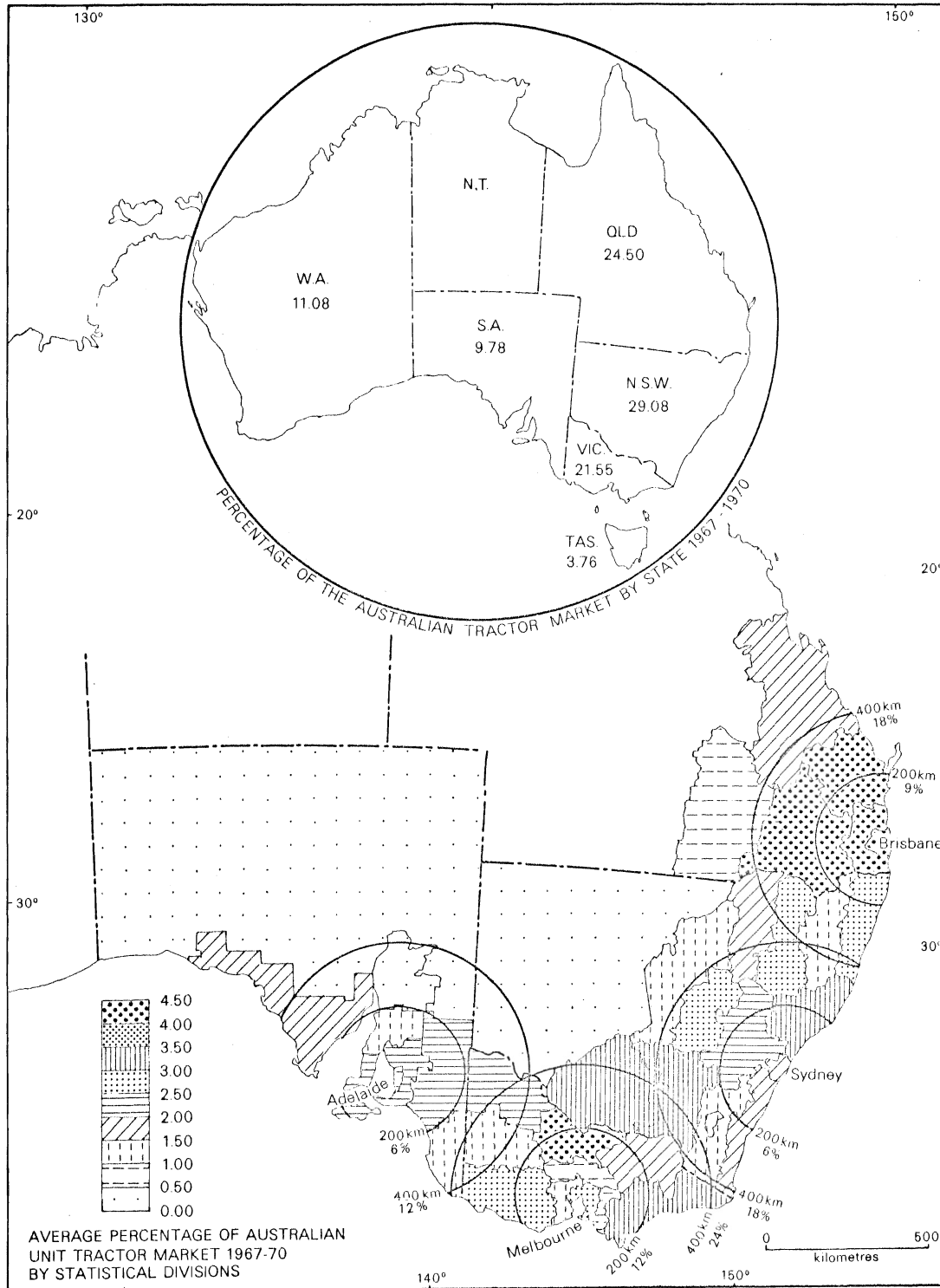


FIGURE 6.2: Distribution of agricultural tractor sales, southeastern States and total Australia, average for years 1967-70.

Source: Australia, Commonwealth Bureau of Census and Statistics, Receipts, Sales and Stocks of New Tractors, [Ref: 12.18], various issues, 1967-70.

run down to handle parts and was finally sold in 1972⁷. Gains in the firm's cost and asset accounts speak for the tangible economic benefits which rationalisation bestowed on its adherents (Table 6.3).

The strategy reversed wholesaling attitudes held by large (and many smaller) machinery manufacturers since the Second World War. The generally-accepted objective of corporate coverage in all mainland States had conferred considerable prestige, publicity, positional power and overall control in an era when transport linkages were less developed. Branches or independent State distributors were essential to the speedy delivery of components and equipment. Their inventory-holding enabled domestic manufacturers to use inexpensive coastal shipping, while importers could receive goods into immediate markets and thus avoid extra handling. However, since franchise agreements made no stipulation about the complement or deployment of a supplier's forwarding outlets (cf. Appendix Two), vendors were not legally hindered in completely reassessing the efficiency of their arrangement between 1965 and 1970. As evident in the temporal spread of closures, both long and short-term forces started to attack their traditional orientation.

As a result of the former, manifested in improvements in office procedures, communications and travel, branches and distributors began to duplicate administrative functions which could be handled more expeditiously at head-offices. Centralisation gave top executives access to a greater field of information and fostered economies in use of valuable installations such as computers. Other factors also began to challenge the depots' primary stockholding role. The increasing reliability of freight forwarding services and expanded applicability of overnight road and air cargo for emergency deliveries offered manufacturers a chance to focus and contain inventory. Concurrently, models of finished products were proliferating to such an extent that

TABLE 6.3: EFFECTS OF WHOLESALE RATIONALISATION AND ASSOCIATED
REDUCTIONS ON COST AND ASSET ACCOUNTS, MASSEY FERGUSON
HOLDINGS (AUSTRALIA) LTD, 1965-73^a

Year Ending October	Cost Ratios (per cent)		Asset Accounts (\$A million)	
	Marketing admini- strative and general costs ^b / total expenses	Marketing admini- strative and general costs ^b / consolidated net sales	Net book value of fixed asset disposals	Profit on sale of capital assets
1965	9.13	8.21	0.04	-0.01
1966	8.48	7.87	0.05	0.01
1967	8.61	7.76	0.04	0.00
1968	8.08	7.38	0.05	0.10
1969	10.51	10.36	0.05	0.00
1970 ^c	12.72	13.98	0.02	-0.08
1971 ^c	9.97	10.32	0.15	-0.01
1972	8.58	8.16	0.73	2.05 ^d
1973	8.65	7.84	0.03	4.89

- a Longer period taken to show extraordinary nature of asset realisations and to counteract lag effect.
- b Greater detail unavailable from published sources. However, this measure is sufficiently specialised for present purposes.
- c Note the changed relationship of cost ratios. 1970 and 1971 were years of corporate loss.
- d Effects of asset realisation which commenced in 1970 become apparent.

Source: Consolidated profit and loss account, Annual Report and Notice of Meeting, Massey Ferguson Holdings (Australia) Limited, Melbourne, 1965-73.

it became infeasible to maintain either parts or machine-options in every outlet (cf. Barber, 1971: 64-67). Concentration allowed better warehousing and handling techniques to be applied to a reduced amount of merchandise. Indeed, all three suppliers regarded their post-rationalisation patterns as more 'efficient' on a cost service basis.

The more acute incentives of the contraction added to these pressures. Branches -- at considerable expense -- were fulfilling a role rendered less relevant by falling sales volumes and altered environmental and technological conditions. By the mid-1960s many of the previous inducements of complete national representation had dissipated and rationalisation emerged as a means of curbing current expenditure and redeeming fixed assets to improve liquidity (Table 6.3). New advantages opened in supply from the factory or port of original receipt. Yet, as will be shown among small firms, the adoption of the policy was contingent upon market strength, positional power and corporate situation. Indeed, the latter influences prevented the fourth large concern, Chamberlain, from revising its network in southeastern Australia until late 1973⁸.

Market representation: stability

Interstate distribution by Perth-based Chamberlain has been reviewed at several Tariff Board hearings involving the Agricultural Tractors Bounty. The 1971 case, for example, posited that

the company does not appear to have any significant disadvantages accruing from its location in Western Australia...interstate delivery charges ...amount to only about two per cent of...[the] cost to make and sell (Australia [Tariff Board] 1973: 17).

However, in broader marketing terms, the site of the firm's head-office and works appeared to lessen its flexibility over the recession. In

eastern States, Chamberlain faced logistical difficulties comparable with those of Adelaide manufacturers whose prospects for rationalisation were limited until the forging of the Indian-Pacific rail link in 1970. This geographical impediment and the extra length of communication lines coalesced with three other elements in forwarding continuation of the company's pre-crisis coverage.

- (i) Functional diversification. Reduced activity at branches was offset by diversification into industrial lines (Australia [Tariff Board] 1973: 7). Yet, this re-orientation furthered existing distribution modes since most equipment was purchased in capital cities.
- (ii) Modern premises. Chamberlain operated up-to-date facilities suited to farm machinery marketing. The Sydney office, for example, had been acquired only in 1965, while an intra-metropolitan relocation took place in Melbourne in 1968 (Table 6.2). Depots were well located for transport and posed little cause for dissatisfaction.
- (iii) Amalgamation. Chamberlain's merger with John Deere in October 1970 raised some complex issues (The Australian Financial Review, 30 September 1970). By 1972, the newly-formed Chamberlain-John Deere Pty Ltd had closed all former Deere plants in preference for those of Chamberlain. Apart from the substantial decision-making involved, the role-change from a domestic manufacturer to an international importer/manufacturer limited new marketing initiatives.

Despite these considerations, Chamberlain's 'stability' was transient because, in a long-planned move, the Sydney branch shut down in late 1973. Rationalisation therefore appears to be the wholesale strategy characteristic of large businesses and accentuates the use of spatial action towards specific corporate economic aims. Significantly, its introduction was facilitated by further reassessment in parts of the distribution sub-mix covering product supply boundaries, price-basing structures and sales administration territories which helped forestall any contrary effects of depot closure.

Ancillary wholesale action

For major Melbourne companies, rationalisation homogenised the delivery of most product groups in southeastern Australia. Previously,

high-value, bulky or heavy articles such as headers and large tractors had been shipped direct from factory to dealer or client to avoid double-handling while cheaper, non-seasonal items had been held at branches for immediate despatch (Figure 6.3). Under the new arrangements, product-based differentiation disappeared -- the majority of all goods emanated from Melbourne with support being provided by Brisbane offices. Former lines of demarcation in New South Wales were replaced with a border which, depending on availability and the urgency of the order, could vary latitudinally by up to three hundred kilometres; South Australia and Victoria became continuous in a corporate region which transcended political boundaries (cf. Krumme, 1970: 319; Wadley, 1970: 156). Despite the limited sources of supply, control was still possible in the post-rationalisation phase through distribution flexibility and improved road and rail connections.

Spatial price-basing policy⁹ was also used to ease in the new arrangements. The general pre-1967 formula among large franchisors -- f.o.b. capital city -- represented a partial freight equalisation scheme designed to cover differentials of up to twenty per cent in the landed cost of various classes of equipment within Australia¹⁰. Strictly, the removal of branches and shifts in forwarding zones made the quotation of these rates anachronistic. Yet, the unequivocal application of Melbourne-based mill or ex-works pricing¹¹ would have prejudiced parts of South Australia and central-western New South Wales and so eroded sales authority and penetration. In spite of locational alterations, two large firms therefore did not change their price strategy and bore the transport costs to any dealers adversely affected by branch closure, arguing:

[It is] an industry pattern...manufacturing plants are...in different cities...so you [have] to keep your prices reasonably competitive in those areas. Otherwise, you would *tend to lose your share* in

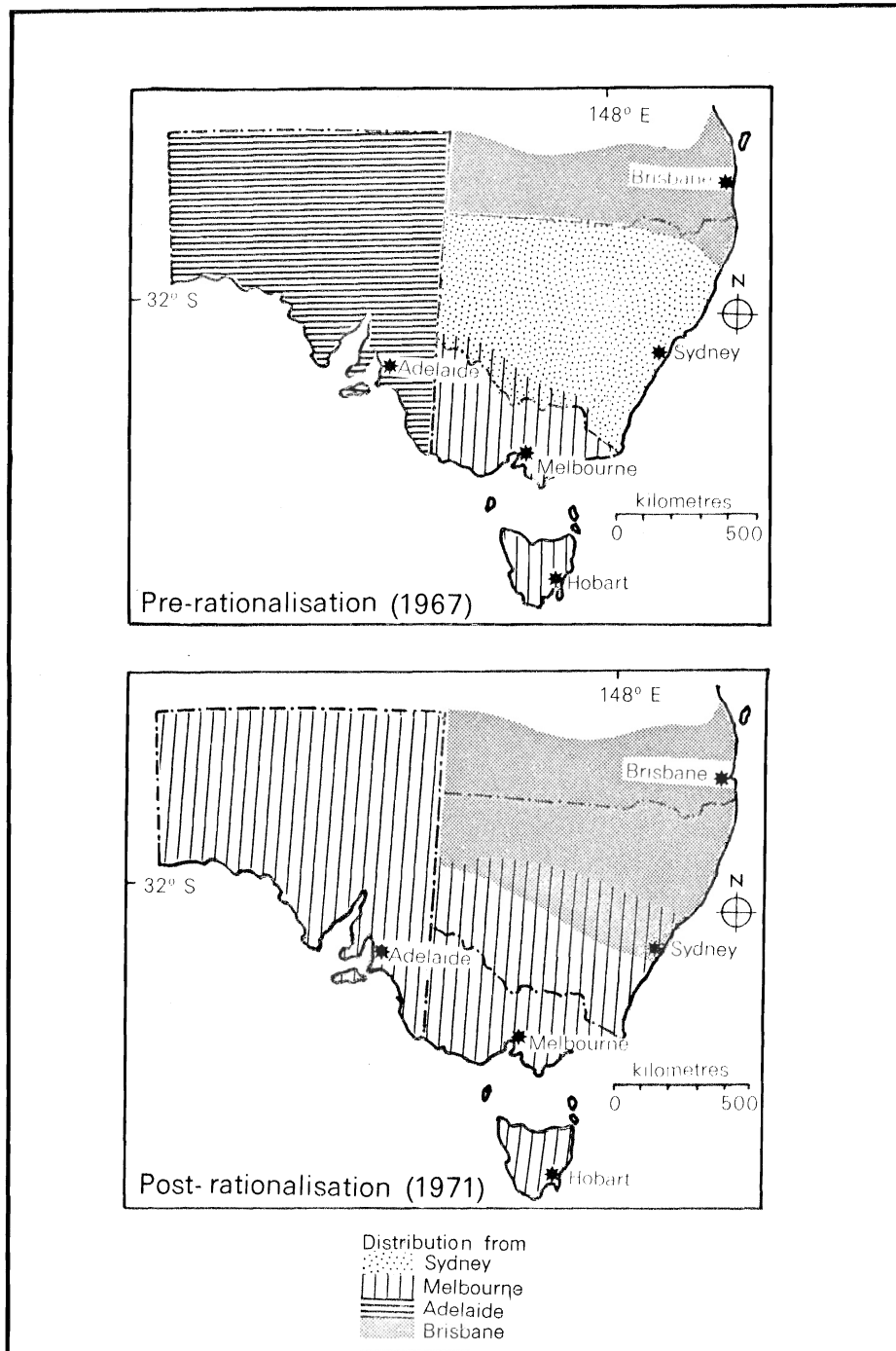


FIGURE 6.3: Pre and post-rationalisation product distribution boundaries, large Melbourne firms, agricultural machinery industry, southeastern Australia, 1967-72.

Source: Fieldwork.

areas you pulled out of [*italics added*], (*large Melbourne supplier, 20 April 1972*).

The dilemma of a third firm illuminated the role of inter-divisional negotiation in corporate spatial decision-making insofar as its desire to bring most products from an ex-capital city to ex-works specification generated conflict between finance and marketing personnel. The former recommended the new proposal for its simplicity and diminution of direct variable costs, while the latter favoured freight equalisation for the reasons outlined above. The upshot was that, although the printed ex-works statement was widely recognised by clients and those dealers who benefited from the change, freight subsidisation to disadvantaged retailers continued for many months after depots were shut down. The case indicates not only the heterogeneity of the actors in an enterprise's locational policy-formation and their modifying influence on tactics taken, but also the coercive impetus of industry practice in the pursuit of market control. Hence, by one means or another, all large firms adapted their price-basing to offset the negative points of rationalisation.

Similar moderation was apparent in factory-to-dealer field representation. The four companies were reluctant to retrench travellers because of the need for ongoing high-level network administration and the difficulty of recruiting reliable and experienced territory staff. A typical instance in which coverage zones were simply re-defined to compensate for market declines in cereal-growing areas suggests that the principal enterprises were prepared to sacrifice little of this most direct form of co-ordination during the recession (Figure 6.4). Each in fact retained ten to fifteen zone managers throughout southeastern Australia.

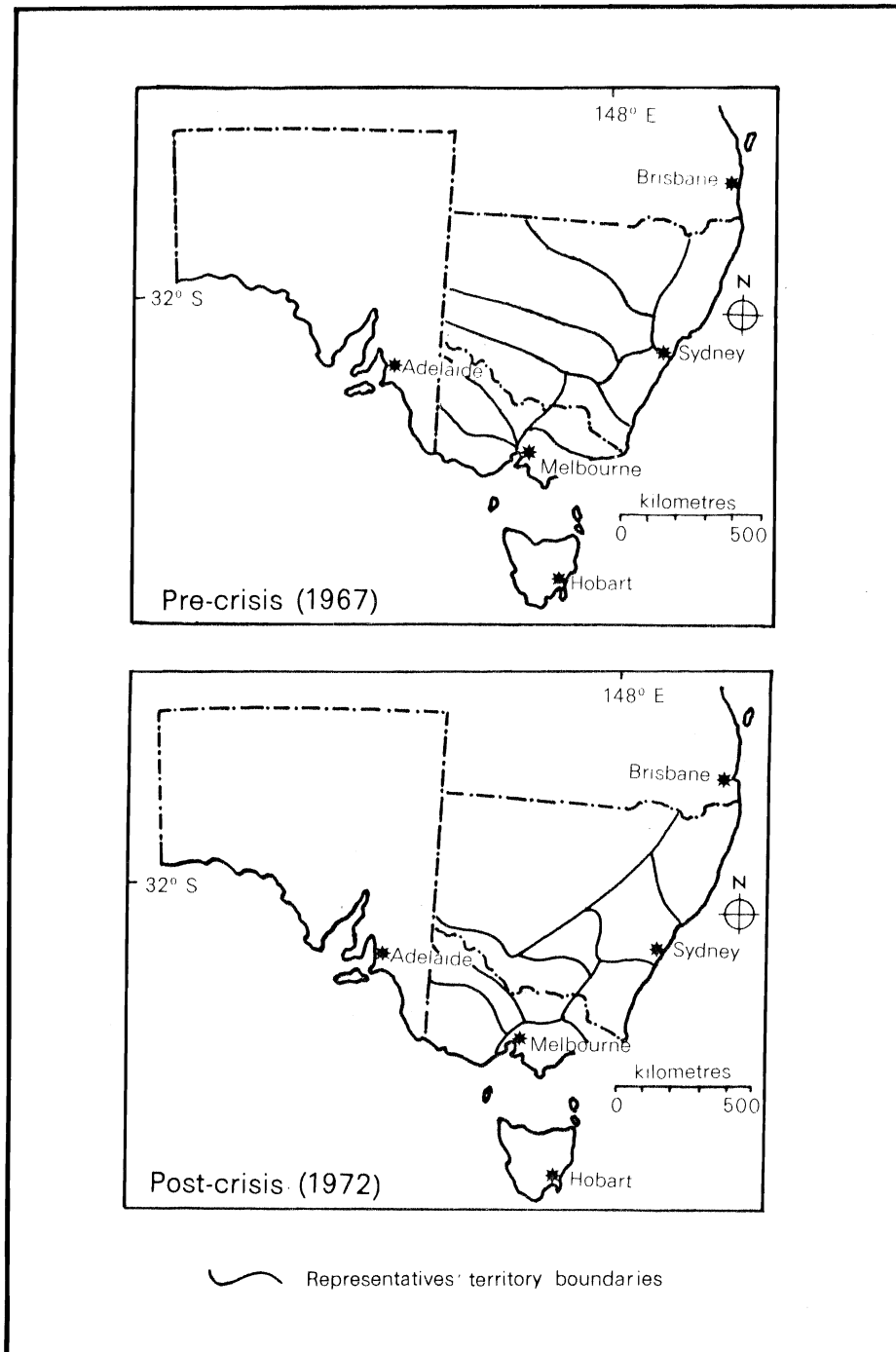


FIGURE 6.4: Pre and post-crisis arrangement of sales representatives' territories, sample large firm, agricultural machinery industry, southeastern Australia^a, 1967-72.

a Data for South Australia unavailable.

Source: Fieldwork.

Evaluation of wholesale representation

Principal agricultural machinery merchants drew on initial economic resources, substantial equipment and corporate turnover, franchise integrity, established dealer forces and positional power to attempt wholesale rationalisation between 1967 and 1972. Borne of ongoing changes in supply relationships and, in one case, the strictures of the rural blight, the course uplifted internal finances and was considered to augment all-round efficiency. Unlike some other forms of contraction, it was pursued without serious dislocation. Related actions in wholesaling and decisive retail policies, discussed in the next section, enabled participants to attain the cost advantages of reduced coverage without suffering excessively from losses of channel authority. To this extent, rationalisation appears to be a highly adaptive course in the face of a market downturn.

RETAIL REPRESENTATION

Decreasing sales and the overhead burden forced most equipment suppliers to review their retail representation between 1967 and 1972. From the outset, management problems arose in the range of market conditions over space and also from year to year. The extent of these spatial and temporal uncertainties must be appreciated to facilitate analysis of the strategies and dealer change of large *versus* small franchisors as reflections of their relative control. *Spatial sporadicity* can be demonstrated in a simple measure of throughput movements at retail outlets -- the ratio of mean annual equipment volume in the 1969-71 crisis, divided by average revenue in the two previous years 1967-68 (subtracted from one hundred per cent and expressed as a sales increase or decrease¹²). *Temporal oscillations*, a function of delay over wheat quotas and gloomy rural forecasts, can be ascertained in the coefficient of variation¹³ of 1967-71 turnover by dealer point.

The statistic, a fairly common tool of marketing analysis (cf. Greene, 1968: 50), is applied as the standard deviation over the mean of sales at each outlet over the five-year period (see Freund, 1967: 69-70).

When mapped, these two quotients encapsulate the contraction from the suppliers' viewpoint by affording a total perspective on revenue disparities and fluctuations over the intensive retail study area of New South Wales, Victoria, and South Australia. The analysis was operationalised with information from two large firms (A and B)¹⁴ whose product range and market coverage spanned most possible contingencies within the industry. Data from 359 dealers were included in the computations¹⁵.

The recession's impact on retail sales

Spatial contrasts in retail activity for the two subject franchisors are portrayed in Figures 6.5 and 6.6.

- (i) Machinery sales growth, achieved by an average of only thirteen per cent of dealers in each firm, enhanced parts of the Adelaide and southern Central and Murray-Mallee zones of South Australia and the West Central Division of Victoria. While Company A performed well around Melbourne and in the southeast of New South Wales, Company B stood out in Victoria's Wimmera, Mallee and North Eastern Divisions and along the New South Wales North Coast¹⁶.
- (ii) Machinery sales losses of up to sixty per cent predominated across southeastern Australia. Areas lightly touched by the setback included the Adelaide-Renmark strip in South Australia, Victoria's eastern Wimmera and sections of the New South Wales tablelands and coast.
- (iii) Machinery sales losses of sixty to one hundred per cent were frequently associated with low-volume outlets, but also debilitated other well-constituted businesses in scattered districts of South Australia and Victoria and, in particular, central and northern New South Wales.

Apart from these widespread revenue losses and the prevaricating influences of local market conditions and individual dealer motivation, the formulation of consistent representation policy among vendors was also hampered by turnover fluctuations during the period under review. The experience of Companies A and B is displayed in terms of

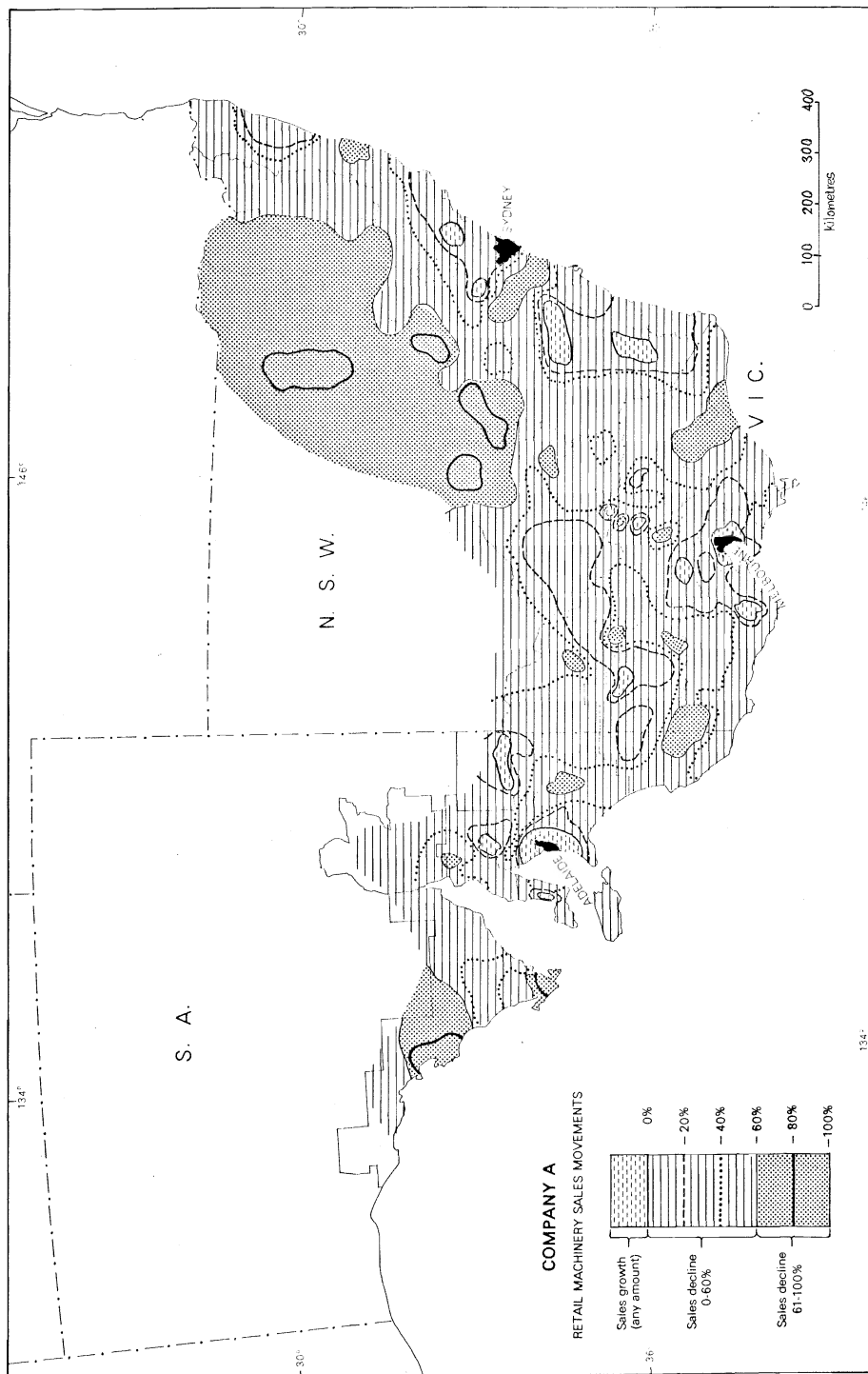


FIGURE 6.5: Retail machinery sales movements, large firm A, agricultural machinery industry, southeastern Australia^a, 1967-71.

^a Shading based on estimated dealer trade areas to the approximate margins of agricultural activity.

Source: Unpublished sales accounts, sample firm, 1967-71.

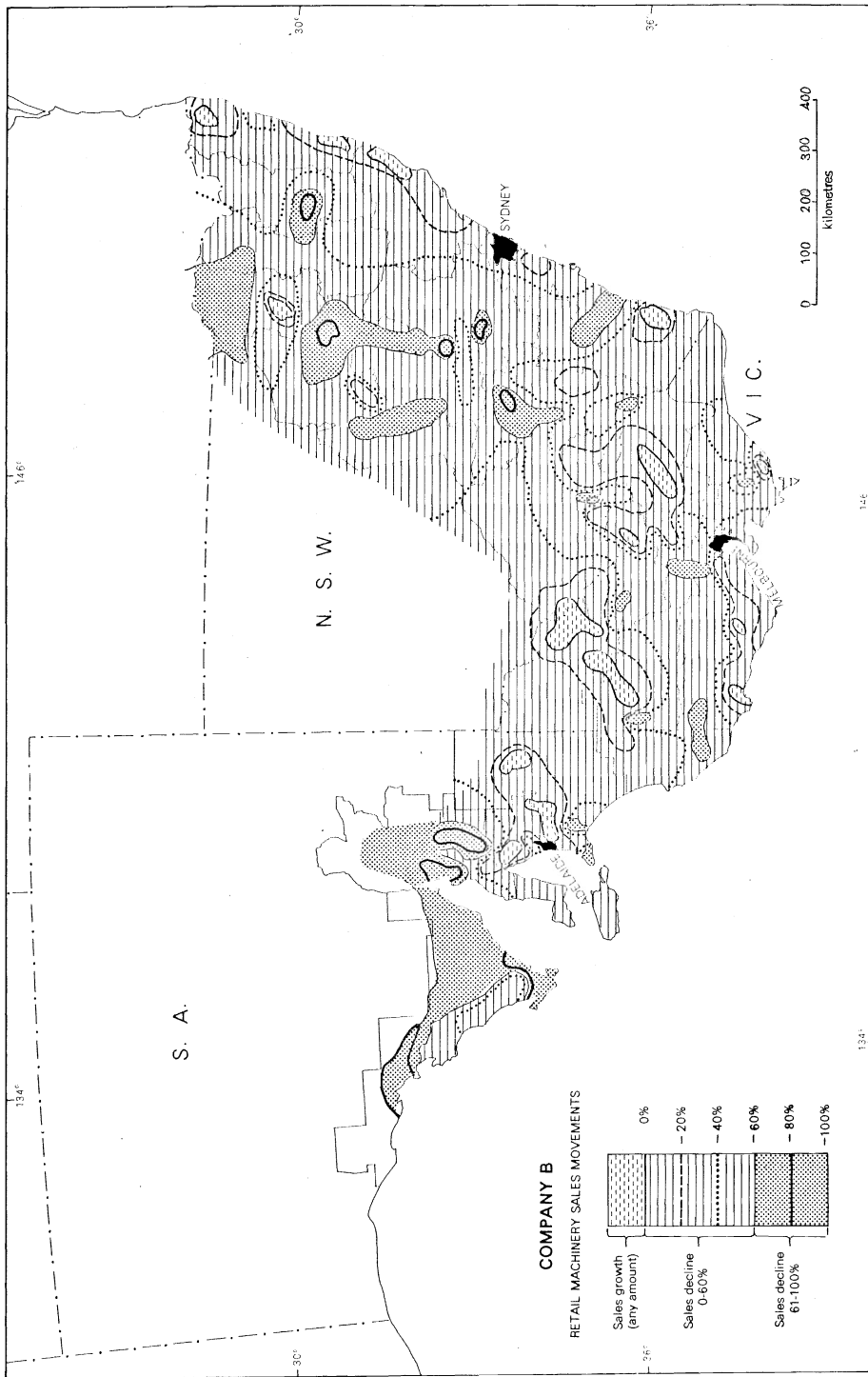


FIGURE 6.6: Retail machinery sales movements, large firm B, agricultural machinery industry, southeastern Australia^a, 1967-71.

a Shading based on estimated dealer trade areas to the approximate margins of agricultural activity.

Source: Unpublished sales accounts, sample firm, 1967-71.

the coefficient of variability in Figures 6.7 and 6.8.

- (i) Extreme variability (coefficients of over eighty per cent) beset the Eyre and Northern Divisions of South Australia, Victoria's Wimmera and central/northern New South Wales. Although these high quotients were often related to low equipment turnover, many sizeable dealers were also gravely affected.
- (ii) Moderate to high variability (coefficients of forty to eighty per cent) was characteristic of both organisations throughout most of southeastern Australia.
- (iii) Low to moderate variability (coefficients of up to forty per cent) favoured only limited areas in the Mount Lofty and Murray Divisions of South Australia, the Western, Melbourne, East Central and North Central Divisions of Victoria and the New South Wales coastline.

Spearman rank correlation was applied to test the relationship of sales movements and oscillations for the 359 dealer points¹⁷ (Siegel, 1956: 202-13). High positive results of 0.68 and 0.61 for Companies A and B probably reflect some autocorrelation but, given the total context, could also imply that overall declines were teamed with annual variability in revenue at the average dealership. Agents' consequent management problems invariably became those of the franchisor -- the uncertainty in trading returns was frequently sufficient to elicit franchise movement within selling forces.

The concept of franchise movement

Ozanne and Hunt (1971: 34-36; 92-98) enter a strong *cri de coeur* for refinement of the concept of franchise movement. The possible ways in which change may appear in the retail sector are presented in Figure 6.9. Over a certain period, a system can incorporate three possible conditions producing:

- (a) a maintenance rate based on stability of outlets;
- (b) a cancellation rate, involving the termination of franchises;
- (c) an addition rate, derived from the placement of new dealerships in towns not previously represented.

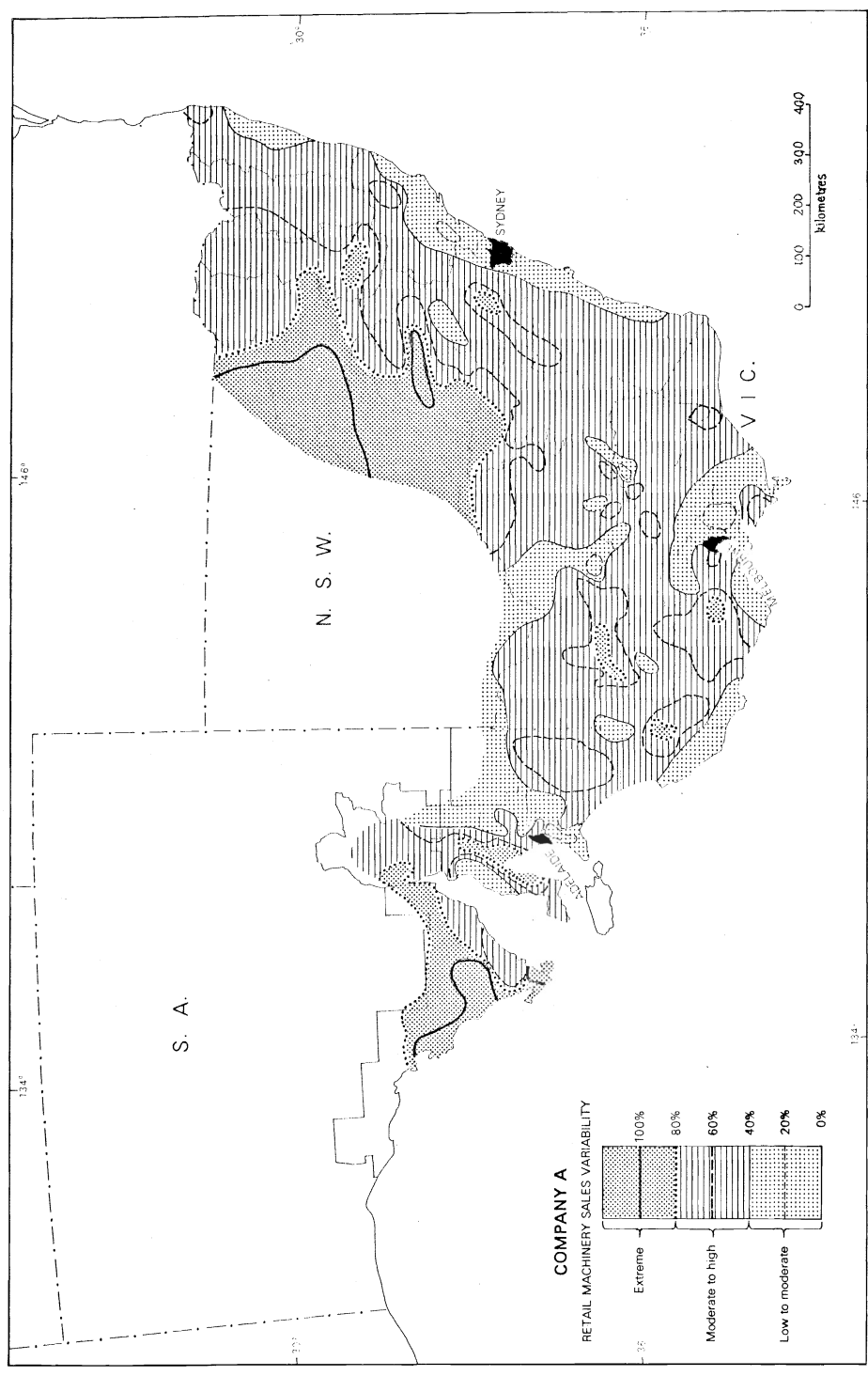


FIGURE 6.7: Temporal variability of retail machinery sales, large firm A, agricultural machinery industry, southeastern Australia, 1967-71.

a Shading based on estimated dealer trade areas to the approximate margins of agricultural activity.

Source: Unpublished sales accounts, sample firm, 1967-71.

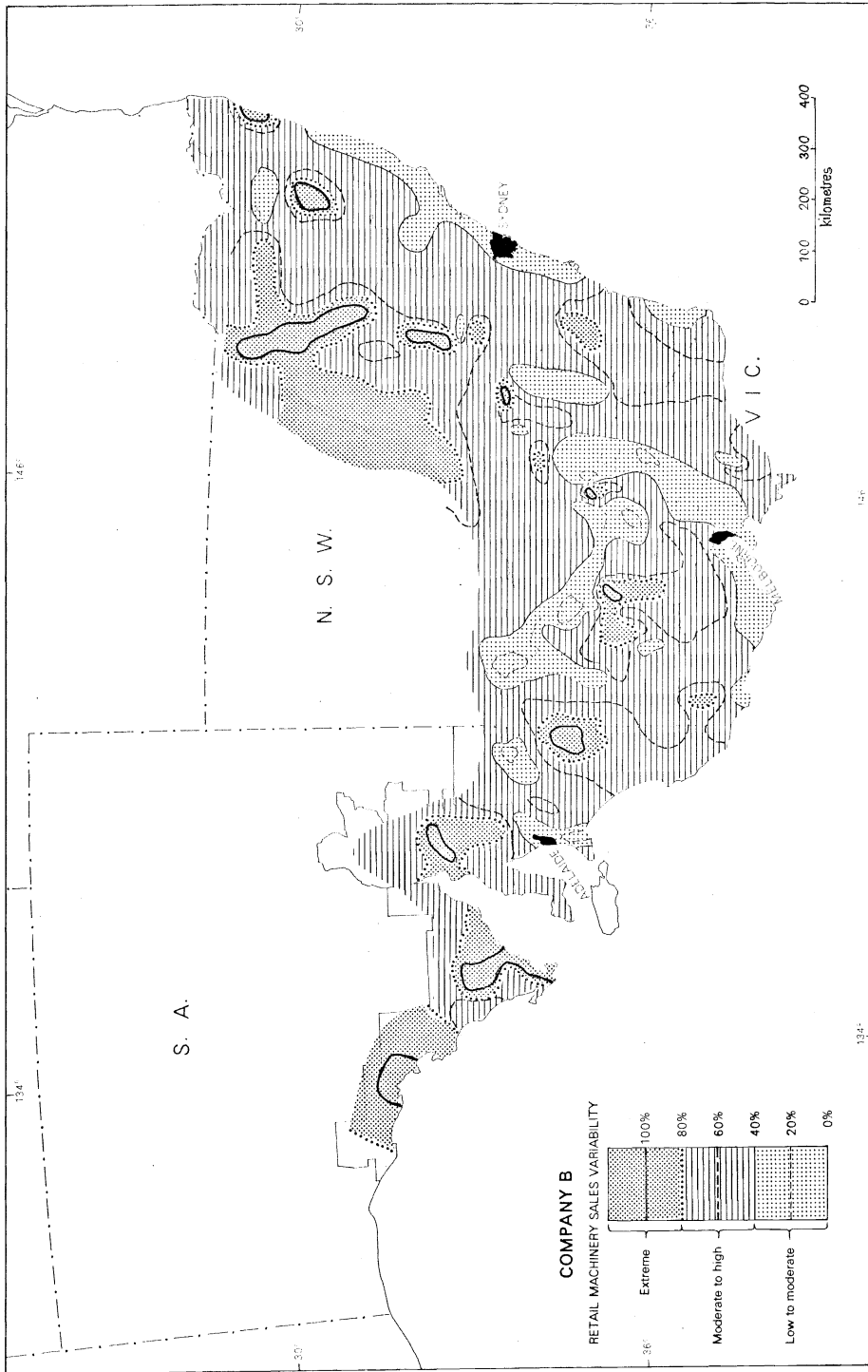


FIGURE 6.8: Temporal variability of retail machinery sales, large firm B, agricultural machinery industry, southeastern Australia, 1967-71.

a Shading based on estimated dealer trade areas to the approximate margins of agricultural activity.

Source: Unpublished sales accounts, sample firm, 1967-71.

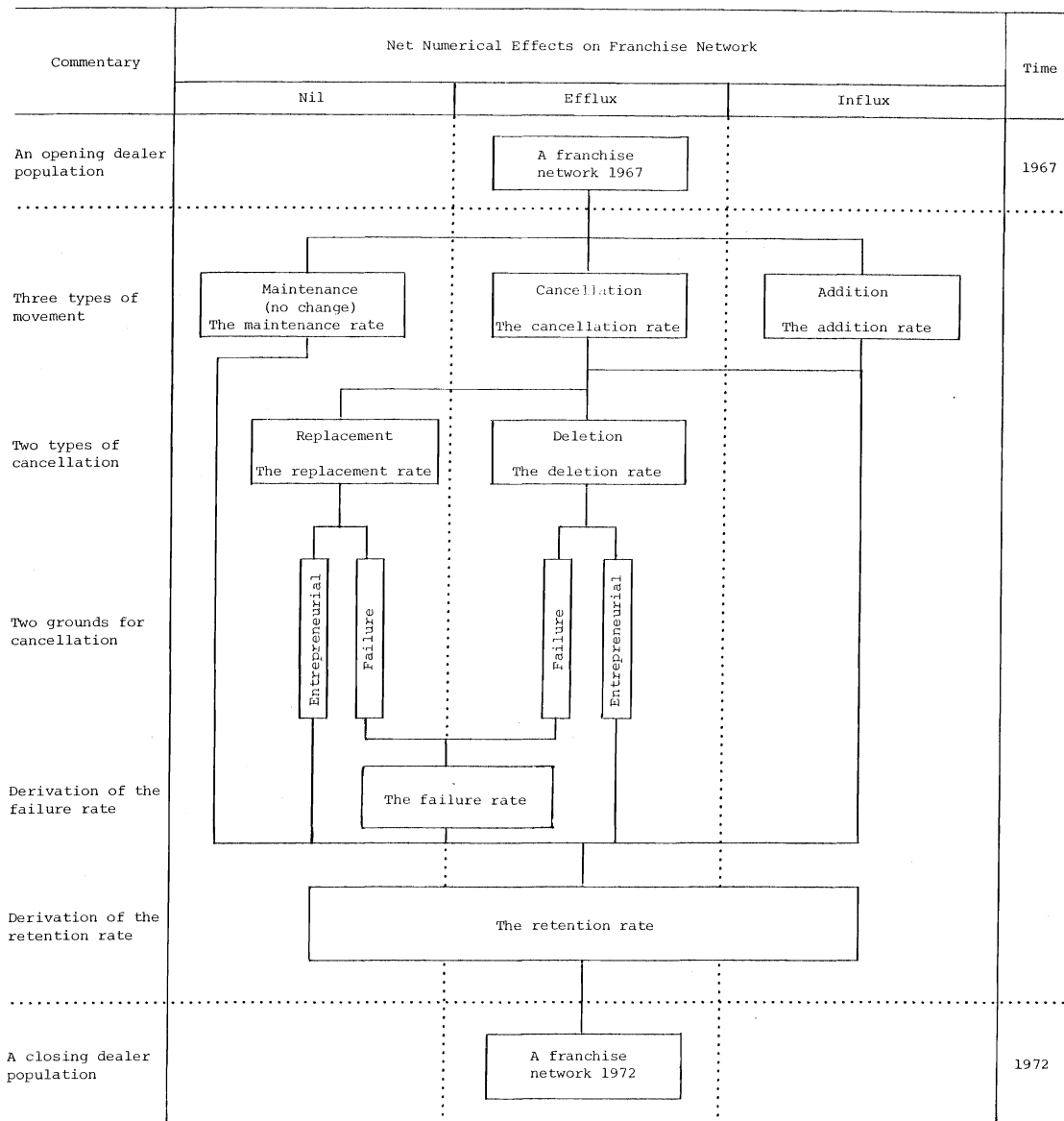


FIGURE 6.9: The concept of franchise movement and derivation of terminology for rates of performance.

Source: Author.

In recession, cancellation assumes critical importance and can occur in either of two guises:

- (a) the replacement rate results from alterations in representation within the same town;
- (b) the deletion rate refers to the termination and non-replacement of franchisees.

Next, as part of network performance, the rationale of cancellation must be considered. It can occur for entrepreneurial reasons, such as the dealer's ill-health, death, voluntary sale of business, or dissolution of partnership. On the other hand, it is also instigated by market-based causes -- lack of local sales potential or achievement, failure to pay accounts, liquidation, insolvency, or breaches of marketing code. For the franchisor, the prevalence of the latter form of cancellation (whether or not replacement subsequently ensues) can be termed a *failure rate*¹⁸ since it negates the acquisition of local market authority and sales volume increases -- his original aims in appointing the franchisee. Finally, the net effect over time of maintenance, cancellation and addition produces a closing-period *retention rate*.

This schema is applied best with reference to the initial retail disposition, objectives and financial condition of subject companies since coverage policies of one might be quite inappropriate for another member of the same class. Relative levels of channel control can be inferred only after detailed consideration of strategies and the magnitude of the various dealer change ratios listed above within a given span of time. Two, however, provide especially cogent indicators. Because all suppliers should disdain the inherent loss of revenue and profits and extra risk involved in financially-inspired cancellation, the degree of failure becomes a primary benchmark in evaluating the retail performance of machinery concerns. Second, the maintenance rate is a significant reflector of the expense and

inconvenience incurred by a producer in pursuing distribution; it also portrays a vendee's chances of continuation under franchise¹⁹ during the study period. The structural hypothesis would argue that greater economic power should aid large franchisors to lower failure and to attain higher maintenance than small competitors during a business contraction.

Retail strategies of large firms

Many differences pervaded the market presence of the main organisations in 1967 (Table 6.4). Though full-line companies had reduced their outlet numbers over the 1960s, both still retained most comprehensive networks. Although Massey Ferguson dealers usually handled a greater equipment turnover, those of International Harvester, with their diversified interests, were the larger business ventures. Agencies of long-line enterprises were somewhat less prolific. Ford's representation was spread throughout the mixed-farming regions but Chamberlain, with more specialised, large-capacity machinery, confined itself to the cereal-growing areas in a localisation unique among the leading firms.

Two overriding strategies, rationalisation and stability, characterised those large competitors for which requisite material was accessible (Table 6.5). *The former*, signified by moderate cancellation and failure, relatively high deletion, low addition and middling retention rates, was undertaken in a fairly passive manner by two producers. By 1972, their forces had fallen by an average of eighteen per cent -- a rather mild outcome compared to the definitive actions of smaller corporations adopting this course (cf. Appendix Three). The spatial impact of rationalisation is detailed by a case study in Figure 6.10. Over the recession, the dealer force of the subject competitor fell by twenty-two and sixteen per cent in New South Wales and Victoria

TABLE 6.4: NUMBER OF RETAIL OUTLETS, LARGE FIRMS, AGRICULTURAL
MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA, 1962-72

Class	Firm	State	Year		
			1962-63	1966-67	1971-72
Full-line	C	N.S.W.	95	95	87
		Vic.	90	74	64
		S.A.	63	50	44
		Total	248	219	195
	D	N.S.W.	74	92	72
		Vic.	86	75	63
		S.A.	54	49 ^a	50
		Total	214	216	185
Long-line	E	N.S.W.	n.a.	33	29
		Vic.	n.a.	25	16
		S.A.	n.a.	31	23
		Total	150 ^a	89	68
	F	N.S.W.	n.a.	65 ^a	58
		Vic.	n.a.	35 ^a	26
		S.A.	n.a.	35 ^a	29
		Total	200 ^a	135 ^a	113

a Estimate.

Sources: (i) Unpublished internal documents and interviews, sample firms.
(ii) Tractor and Implement Guides, Australian Country Magazine, various issues, 1968-71.

TABLE 6.5: RETAIL STRATEGIES, LARGE FIRMS^a, AGRICULTURAL MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA^b, 1967-72

Retail Strategy	Firm	Effects on 1967 Dealer Network (percentage rate of)						Commentary	
		Maintenance	Cancellation	Replacement	Deletion	'Failure'	Addition		Retention
Rationalisation	G ^c	60	40	17	23	29 ^d	4	81	Fairly passive rationalisation, low deletion rate
	H	69	31	12	20	17 ^d	3	84	Borders on stability
Stability	I	79	21	9	12	8 ^d	1	89	Note high maintenance low addition rate

a Data for fourth firm inaccessible.

b New South Wales, Victoria and South Australian operations only.

c New South Wales and Victorian dealers only.

d Estimate.

Sources: (i) Dealer lists 1967-72, and personal interviews in sample firms.

(ii) Australian Country Magazine, Tractor and Implement Guides, 1968-71.

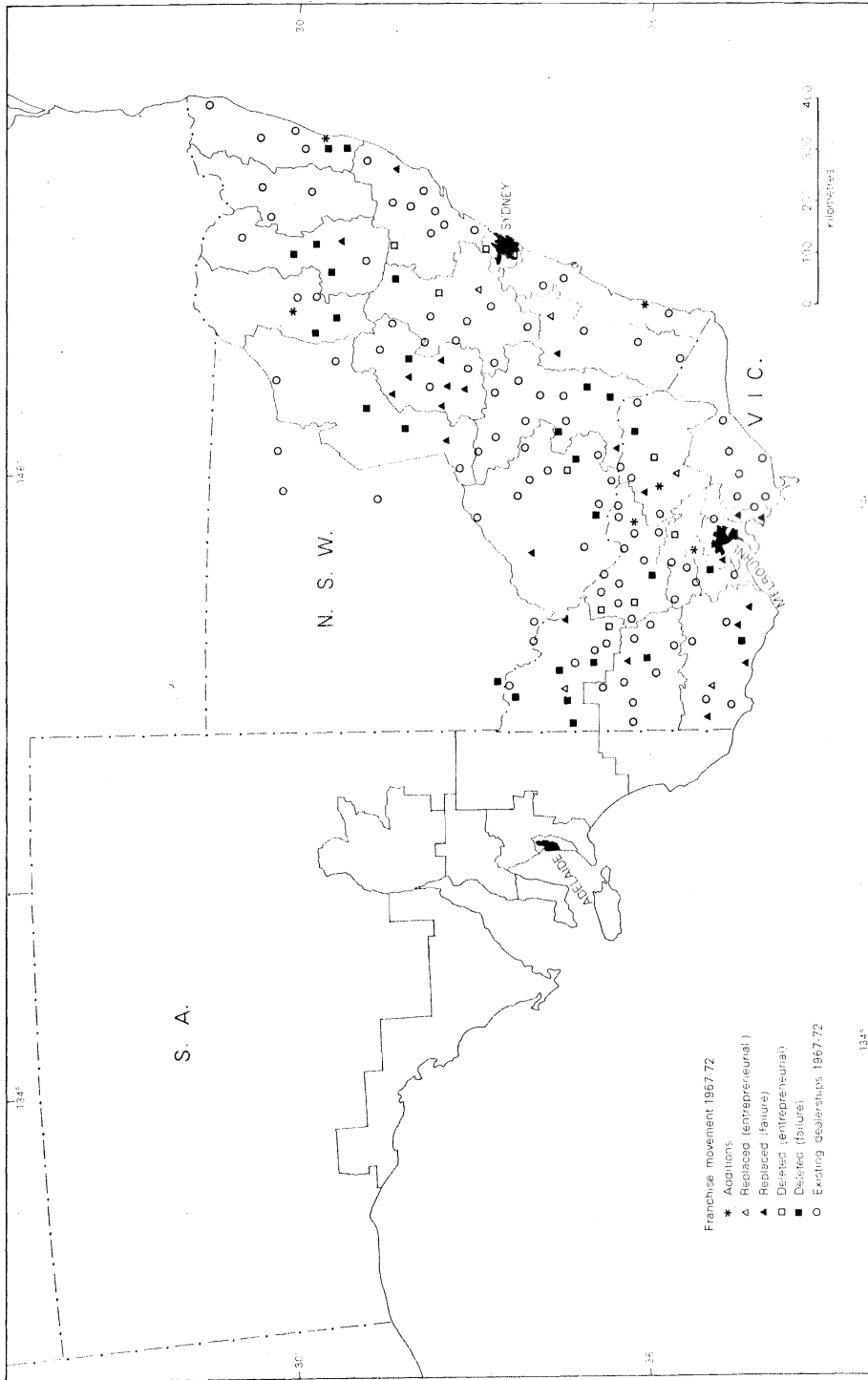


FIGURE 6.10: Franchise movement in retail rationalisation, sample large firm, agricultural machinery industry, southeastern Australia, 1967-72.

a Data for South Australia unavailable.

Source: Dealer lists 1967-72, sample firm.

respectively. Terminations, generally centred in cereal-growing areas, arose mainly from sales declines and variability in central and north-western New South Wales and Victoria; in other districts, entrepreneurial causes were more pronounced. In the most depressed regions, dissolution prevailed over replacement, the north of New South Wales in fact experiencing serious gaps in representation as a result of financial difficulties in five chains. By contrast, deletion in the South Western Slopes and Riverina Divisions and Victoria's Mallee was caused by retirement among the proprietors of several old, marginal outlets. An alternative to such passive rationalisation occurred in Victoria's highly-competitive Western Division where swift moves were made to replace unsatisfactory operators. In comparison, the Gippsland, and Southern Tablelands and South Coast of New South Wales were places of relative quiescence. In sum, the patterns of franchise change strongly resembled those of sales movements and oscillations.

Stability, indicated by high maintenance, low cancellation, deletion, failure and addition rates, was displayed among vendees of the third and, probably, fourth firms. A maintenance rate of seventy-nine per cent, combined with a remarkably low number of additions, produced a net decrease in numbers of eleven per cent by 1972. Geographical manifestations of the policy are shown in Figure 6.11. The subject concern's resellers in broadacre areas -- particularly the turbulent north-west of New South Wales -- showed surprisingly little movement. Most market closure took place in central/northern Victoria and foreshadowed a trend of dissolution. Several managers also retired in these districts. In general, the majority of alterations were seen in areas featuring turnover losses of more than fifty per cent and, elsewhere, dealers struggled through the crisis.

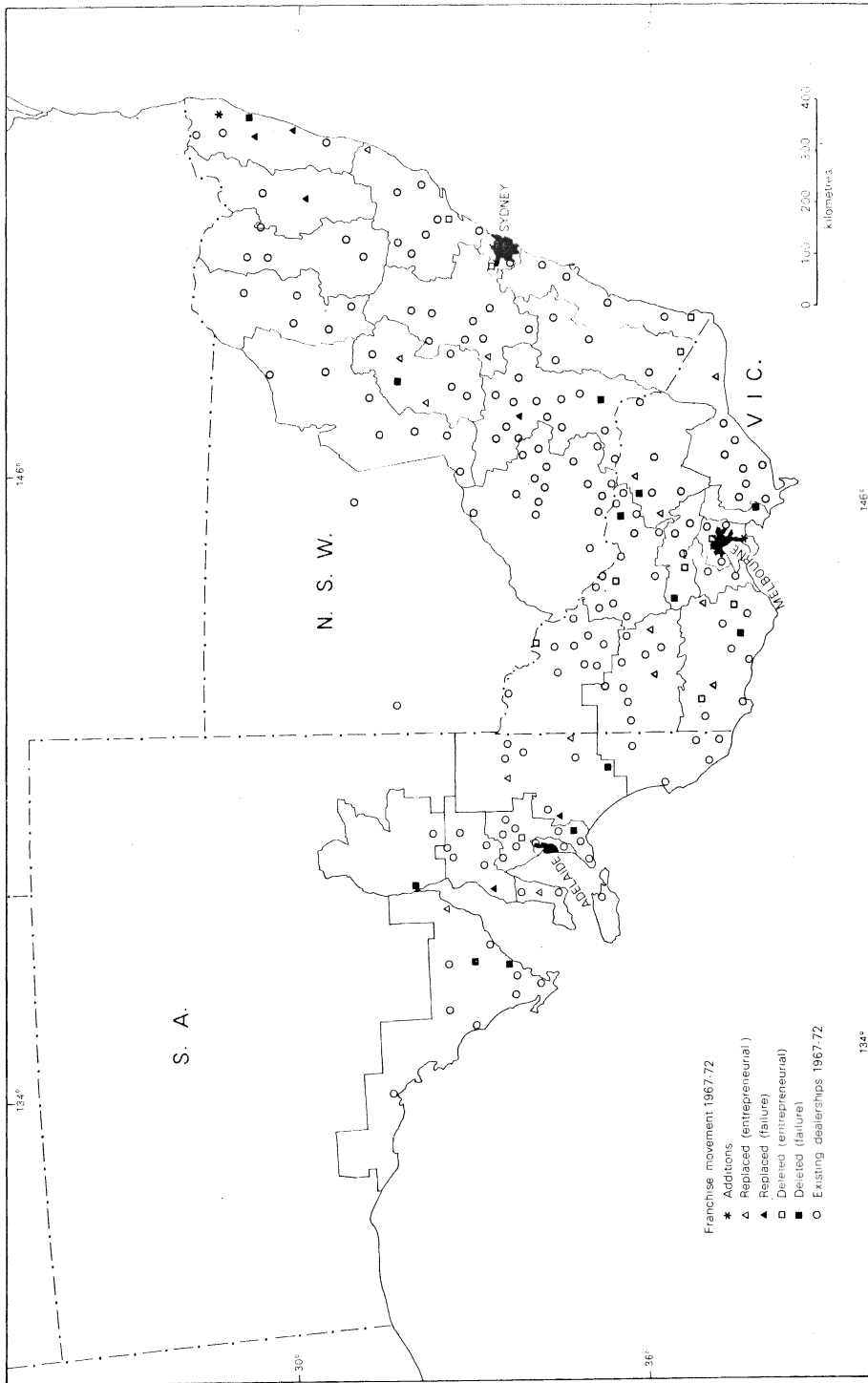


FIGURE 6.11: Franchise movement in retail stability, sample large firm, agricultural machinery industry, southeastern Australia, 1967-72.

Source: Dealer lists 1967-72, sample firm.

Consonant with wider trends in the rural service economy, the relationship of franchise change to town size was similar in each of the retail representation strategies undertaken by large producers (Table 6.6). Replacement was generally necessitated in bigger centres, whereas deletion characterised the less significant agglomerations. Though new additions among the major firms were few in number, they were usually situated in somewhat more populous foci than those in which deletion occurred. The recession typically favoured economies of scale and, in this respect, hastened the by-passing of villages in the growing push towards higher-order settlements in country regions. The results also suggest that economic forces were trimming excess capacity and marginality by raising thresholds in machinery distribution.

Despite such pressures, the solidarity of large franchisors' channel authority was underlined by their avoidance of greater involvement in corporate marketing between 1967 and 1972 (Table 6.7). As heralded in Chapter Five, they were reluctant to risk exposure to the vagaries of retailing. While existing stores were sometimes used to force markets and shift inventory, new outlets were not established solely for this reason (as may have been the case among several smaller firms). Rather, the facilities positioned during the study period usually pointed up an inability to find adequate replacement dealers in important localities or dissatisfaction with the performance of current franchisees. Overall, the infrequency of new activity mirrored the economic power of the principal organisation and the resilience of franchise systems operating with high output levels; thus, it accords with both the spatial and financial postulates of the structural argument.

TABLE 6.6: POPULATION OF RURAL TOWNS EXPERIENCING DEALER CHANGE,
LARGE FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
SOUTHEASTERN AUSTRALIA, 1967-72

Retail Strategy	Firm	State	Average (1971) Town Population by Type of Dealer Change		
			Replacement	Deletion	Addition
Rationalisation	G	N.S.W.	10257	1653	2069
		Vic.	6982	4491	6681
		S.A.	n.a.	n.a.	n.a.
	H	N.S.W.	4235	9739	971
		Vic.	7080	3156	560
		S.A.	3692	1113	1122
Stability	I	N.S.W.	8574	1827	20901
		Vic.	14722	2499	16827
		S.A.	7544	2462	-

Sources: (i) Unpublished dealer lists, sample firms.

(ii) Australia, Commonwealth Bureau of Census and Statistics, Census of Population and Housing, 30 June 1971, Field Count Statements Nos 3, 4, 6; Canberra, 1971. Also, unpublished data on unbounded localities and bounded localities under two hundred population supplied by the Australian Bureau of Statistics, Canberra, January 1974.

TABLE 6.7: ESTABLISHMENT OF CORPORATE RETAIL OUTLETS,
LARGE FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
AUSTRALIA, 1967-72

Division	Firm	Location	Date
Full-line	International Harvester	Horsham (Vic.)	1968
		Dubbo (N.S.W.)	1969
	Massey Ferguson	Northam (W.A.)	1968
		Shepparton (Vic.)	1968
Long-line	Chamberlain	Innisfail (Qld)	1971
		Mackay (Qld)	1971
	Ford	-	-

Source: Unpublished internal documents and interviews, sample firms.

Evaluation of retail representation

Among the three large corporations for which data were available, 325 of the original complement of 475 retailers emerged from the recession, indicating a 68:32 probability of continuation during the phase under discussion (Table 6.8). An estimated eighty-five of the 150 cancellations were market-induced, such that the failure rate over the full six years ran at eighteen per cent. Fifty-seven terminated outlets were replaced and, since new additions were scarce, the strength of the three forces had decreased by sixteen per cent by 1972. The major equipment houses' movement statistics reflect their ability to maintain distribution control. Indeed, the downturn scarcely accelerated the adjustive long-term contraction which they had experienced during the 1960s (Table 6.4). As the farming malaise lifted, executives were unanimous in their support of product franchising as a means of marketing because, with intensive throughput, it had shown its capacity to spread risk and handle sudden declines in sales volume.

RÉSUMÉ

Channel authority advantages inherent in decisive franchise policy were compounded by those attending the spatial representation of the leading machinery merchants. General stability in production and administration allowed controlled rationalisation in the wholesale sector. Strongly dependent on the influence of positional power, this course brought extensive savings and was apparently accomplished without undue loss of network or market authority. As a consequence of both long and short-term trends in supply conditions, it occasioned substantial establishment mobility within distribution forces and afforded a case study in the substitution of spatial action for broader corporate ends.

TABLE 6.8: RETAIL REPRESENTATION, THREE LARGE FIRMS^a, AGRICULTURAL MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA,^b 1967-72

Condition	Aggregate Number of Dealers	Percentage of 1967 Dealers	Terminology
Existing 1967	475	100	1967 base
Existing 1967-72	325	68	Maintenance rate
Cancelled 1967-72	150	32	Cancellation rate
Replaced 1967-72	57	12	Replacement rate
Deleted 1967-72	93	20	Deletion rate
Failed 1967-72	85 ^c	18 ^c	Failure rate
Added 1967-72	16	3	Addition rate
Existing 1972	398	84	Retention rate

a Data for the fourth were inaccessible. Names of the present three are suppressed for confidentiality. For one firm, only New South Wales and Victorian data were available.

b New South Wales, Victoria and South Australia.

c Estimate.

Source: Dealer lists 1967-72, and personal interviews in sample firms.

At the retail level, further rationalisation and stability was evinced, admitting high maintenance and retention rates and only a low incidence of failure. In sum, the behaviour of the leading merchants corresponds with the hypothesized situation. Chapter Seven contrasts the present results with those of small enterprises to permit an assessment of the two groups' capacities in sales management and their spatial tactics. The fusion of both sets of findings in Chapter Eight allows an interpretation of the performance of a product franchise system under recession and, in Part Four, leads to conclusions about the processes of corporate decision-making.

CHAPTER SIX FOOTNOTES

1. No other firm had ancillary production units which could be closed.
2. For example, it is estimated that in International Harvester and Massey Ferguson, direct farm machinery employment dropped by about fifty per cent. Annual reports reveal that the total workforce for the latter during the six years after 1967 ran: 2,338; 2,472; 2,512; 2,060; 1,457; 1,504. Huge lay-offs in the latter half of 1970 shook both the industry and the press. See The Age [Melbourne], 22 August 1970, 12 October 1970; The Herald [Melbourne], 11 December 1970; The Sun [Melbourne], 12 December 1970.
3. In 1966, International Harvester had purchased a forty-two hectare site for a farm machinery factory at Werribee, Victoria. Plans were shelved by the recession. See History and Development of the International Harvester Company of Australia Pty Ltd, Company Publication, Melbourne, n.d., p. 8.
4. Annual Report and Notice of Meeting 1970, Massey Ferguson Holdings (Australia) Ltd, Melbourne, 1970, p. 4.
5. Bernasek and Kubinski (1963: 461).
6. International Harvester's Sydney branch -- a truck service and retailing depot -- continued the *administration* of wholesale machinery distribution throughout New South Wales. Apart from minor difficulties in parts supply, the company perceived its post-rationalisation arrangements as more satisfactory. See also Appendix Three.
7. Larger machinery throughput probably perpetuated these branch functions longer in Massey Ferguson than in the case of International Harvester or Ford. Awareness of service obligations and the difficulties of transport connections in the Eyre and Yorke peninsulas influenced Massey Ferguson's slow withdrawal from South Australia. See also Appendix Three.
8. For a discussion of Chamberlain's history, see Hutton (1966: 251-52).
9. A useful background to aspects of pricing behaviour may be found in Guthrie (1950), Alton (1962), Gould and Preston (1966) and Knox (1966).
10. As observed in freight rate books and differentials in interstate price lists among the chosen companies.
11. For commentary on locational implications of other forms of price-basing, see Greenhut (1964: 179-84).
12. The appropriate equation could be written:

$$\text{Percentage sales movement 1967-71} = 100 - \left[\frac{\text{Mean sales (1969-71)}}{\text{Mean sales (1967-68)}} \right]$$

13. Use of this statistic was determined by its ability to abstract from raw data and thereby accord with disclosure provisos. Its formula can be expressed:

$$\frac{\text{Standard deviation of 1967-71 sales}}{\text{Mean of 1967-71 sales}} \% = 100 \left[\frac{\sqrt{\frac{1}{n(n-1)}(n\sum x^2 - [\sum x]^2)}}{\frac{\sum x}{n}} \right]$$

14. To preserve confidentiality in detailed discussions of individual companies' strategies, letters are adopted in the text of Chapters Six and Seven and in Tables 6.4, 6.5, 6.6, 7.7, and 7.10. Allocation of letters and ordering of firms' appearances in the tabulations was randomised.

15. The figure of 359 dealers is incompatible with any combination listed in Table 6.4 because it includes only outlets for which adequate data was available for the period 1967-71. Nonetheless, over ninety per cent of the two firms' 1967 retail complement was covered.

16. All Statistical Divisions mentioned are those construed under the old Commonwealth Bureau of Census and Statistics nomenclature which pertained until 1970. This terminology was selected because it applied throughout a longer phase of the recession. Some changes were made by the Bureau in 1971.

17. Values of the percentage of sales movement were correlated with those of the coefficient of variation with the individual dealer point as the unit of observation.

18. In this sense, the definition of failure is probably more stringent than would appear in other franchise literature.

19. The maintenance rate does not portray the dealer's probability of 'survival' in the recession, since most outlets have a number of supplementary lines.

CHAPTER SEVEN

NETWORK CONTROL THROUGH DISTRIBUTION PRACTICE:
SPATIAL REPRESENTATION OF SMALL FRANCHISORS

The differing backgrounds of small equipment franchisors infused marked diversity into their representation over the recession. Some had scant assurance of survival and were mainly concerned with improving their short-term economic condition. Others apparently made little adjustment to networks despite unfavourable financial straits. Finally, competitive power enabled stronger members to emulate strategies previously discussed. Such heterogeneity is confusing, since synthetic examples and case studies cannot be used to good effect. Yet, a counter is available in inter and intra-class comparisons, for which the original grouping is well-equipped. Based on these distinctions, this Chapter again examines spatial developments at the manufacturing and administrative wholesale and retail levels and tests the structural contention that minor firms should have experienced greater difficulty in maintaining proper channel authority between 1967 and 1972. The parameters of recession -- sales losses and variability -- can be assumed from Chapter Six; the incidence of failure, breakdown of wholesaling and atrophy of dealer forces now become more pertinent indicators of the ramifications of the rural crisis.

CENTRAL ADMINISTRATION AND PRODUCTION

Variation to the short-line pattern of administration and production occurred in isolated instances of centralisation and through closure occasioned by takeover or failure. Though, in all, only five companies were concerned, they exhibited a high level of activity *vis-a-vis* that of large counterparts and so accorded with the predictions of the main

hypothesis. Operational upheaval generated by the change not only reflected more stringent repercussions of the setback, but also underlined the mobility of corporate facilities.

Manufacturing centralisation

Two out of three minor machinery suppliers which manufactured at more than a single plant in 1967-68 made locational alterations (Table 7.1). Case's situation demanded the complete withdrawal of equipment fabrication from a recently-opened factory at Murray Bridge (South Australia) to the focal Sydney assembly point. Horwood Bagshaw, however, combined new centrifugal planning with a programme of asset disposals in order to upgrade its liquidity. By 1969, it had concentrated the functions of three Melbourne businesses acquired since the late 1950s¹ on one premises at West Footscray (Melbourne). The economic malaise prompted further contraction -- at a cost of \$A0.18 million -- to keep the Adelaide head-office factory in top gear. The expense of the move, completed in 1971, was offset by plant sales in Victoria and the redemption of a sizeable Adelaide site once intended for expansion. In 1971 and 1972, recoveries on surplus property benefited Horwood Bagshaw's cash flow -- and loss position -- by nearly \$A1.00 million². Spatially, the case highlighted three issues:

- (a) the intimate relationship of geographical action to commercial goals;
- (b) the possibility that major locational investment or disinvestment decisions are taken as a last resort in the face of extreme financial pressure;
- (c) the potential role of high movement costs in inhibiting industrial relocation and promoting inertia.

The intensity of Horwood Bagshaw's adjustment was paralleled by the outcome of takeover or failure in the administration of other minor sellers.

TABLE 7.1: CHANGES IN CENTRAL ADMINISTRATION AND PRODUCTION,
SMALL FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
AUSTRALIA, 1967-72

Class	Firm	Event	Locations Affected	Corporate Impact	Date
Small tractor	Allis Chalmers	Cessation of machinery production	Newcastle (N.S.W.)	Major	1968
	Case	Cessation of machinery production	Murray Bridge (S.A.)	Minor	1970
	Thiess Equipment Distributors	Cessation of machinery importing and assembly	Sydney	Major	1970-72
Small implement	Horwood Bagshaw	Cessation of machinery production, centralisation	Melbourne/ Adelaide	Major	1971
	Ralph McKay	Product-line manufacturing shifts	Melbourne/ Adelaide	Minor	1970-71
	David Shearer	Insolvency; acquisition by Horwood Bagshaw	Mannum (S.A.)	Major	1972

Source: Unpublished internal documents and interviews, sample firms; various press clippings supplied by the Tractor and Machinery Association of Australia, Melbourne.

Takeover and failure

Though the only takeover between small enterprises -- David Brown by Case in mid-1972³ -- followed expansion among huge international parent conglomerates not even directly concerned with the agricultural machinery industry, the consequences bear comparison to those of the Chamberlain-John Deere merger mentioned before. In contrast to Chamberlain's immediate divestiture of facilities, Case retained all its acquisitions including several highly-competitive retail stores. These new outlets were used for machinery marketing while Case, enjoying improved sales conditions of 1973 and a fortified internal situation, deployed its own offices to handle buoyant industrial ranges. The dissimilarity of the two results shows the importance of demand, environmental and intra-firm factors in shaping spatial policy-making in corporate management, as presupposed in Stern's (1966: 13) distribution planning model (cf. Chapter One).

Three failures also abetted significant development in the physical arrangement of short-line suppliers. The first, arising from David Shearer's announcement of insolvency in August 1972 (The Advertiser [Adelaide], 9 August 1972), caused a situation resembling takeover. Horwood Bagshaw purchased the company's assets and converted the Mannum (South Australia) factory into a division of its own organisation (see Appendix Three). Wholesale branches were likewise incorporated or sold during 1973, demonstrating some extended implications of the contraction. The transaction reflected not only the widespread financial movements characterising the agricultural equipment industry between 1967 and 1972, but also the recession's removal of excess supply capacity. The exit of two other enterprises accentuated this role. Allis Chalmers ceased importing in 1969, leading to the closure of its Newcastle (New South Wales) warehouse. Domestic manufacturing was simultaneously phased out at a nearby factory⁴. Financially-disarrayed Thiess

Equipment Distributors similarly disposed of all its inventory by mid-1972⁵ in an intense programme of heavily-discounted sales. Sydney assembly space reverted to its parent body and interstate branches were shut down.

The three competitors which terminated their machinery interests had among the smallest turnovers in their respective classes and had all suffered acute losses with subsequent deterioration of liquidity early in the downturn⁶. They were hampered by product line difficulties which frequently predetermined an emphasis on the most depressed sub-markets and their positional power was low⁷. Hence, the preconditions and incidence of withdrawal from the farm machinery industry appear to reinforce the claims of the main hypothesis. While failure and the pressures of the slump brought turbulence to the highest channel levels of small suppliers, a diversity of behaviour suggests that corresponding conditions prevailed elsewhere in their distribution.

WHOLESALE REPRESENTATION

Wholesale representation policy varied distinctly between tractor and implement companies throughout the study era. Networks of the former remained essentially static or collapsed into forms of forward integration involving direct and bulk selling. By contrast, their implement counterparts displayed several different reactions -- rationalisation and restructuring for sounder members, stability or retraction for the smaller or weaker competitors. In this arena, inter-class comparisons provide the best approach for assessing the structural position.

Tractor firms: stability and retraction

Sales volumes of all short-line manufacturers were generally insufficient to warrant the extensive corporate facilities of large organisations. For example, in 1967-68, only two of the tractor concerns controlled wholesaling in more than two States and a reliance on independent middlemen was most common (Table 7.2). It restricted the choice of action open to management from the outset (cf. Little, 1970: 34); distilled by the relative size of machinery operations, longevity and financial status, such dependence produced stability and retraction (Table 7.3).

Three competitors, enjoying equipment revenue comparable with most small enterprises but significant penetration in their respective specialities, *avoided change*. They entered the recession in an average to favourable economic situation, evincing healthy accounts, weighty overseas backing, or wide interests in fields unaffected by decline. The only significant alterations were Case's takeover from a non-aligned agency in Western Australia and Howard Rotovator's entry into and subsequent retreat from company marketing in Victoria between 1968 and 1971 (Table 7.3).

Retraction was employed by a second group of four tractor firms which, despite their sizeable total standing, were of limited importance as equipment producers. For each one, annual penetration in any year between 1967 and 1972 was less than three per cent and other machinery lines were, similarly, of minor note. Since agricultural ranges were peripheral to their corporate thrust, distribution was frequently conducted in an autonomous fashion by a small division using its own facilities or those of outside agencies. Application of economic power in the form of greater investment could almost certainly have negated many of these networks' disabilities but, in three out of four concerns, liquidity was tight and aggregate

TABLE 7.2: WHOLESALE REPRESENTATION, SMALL TRACTOR FIRMS,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-68

Firm	Wholesale Distribution Facilities within States		
	Company branches	Independent distributors	Total Australian facilities
Allis Chalmers	1	1	2
Australian Motor Industries	1	5	6
Case	3	2	5
Fiat	2	4	6
Howard Rotovator	2	4	6
Leyland	2	3	5
Thiess Equipment Distributors	4	1	5

Source: Unpublished internal documents and interviews, sample firms; and Power Farming, Technical Annual 1967-68, [25th ed.], The Sydney and Melbourne Publishing Co. Pty Ltd, Sydney, 1967, pp. 11-12.

TABLE 7.3: WHOLESALE REPRESENTATION STRATEGIES, SMALL TRACTOR FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-72

Wholesale Strategy	Participants	Locational Repercussions	Impact on Total Distribution Network	Year
Stability	Case	Change of Hobart independent distributor Replacement of Perth independent distributor with wholesale branch	Minor Major	1968 1971
	Fiat	Intrametropolitan relocation of Sydney head-office and wholesale branch	Minor	1968
Retraction	Howard Rotovator	Establishment of Melbourne wholesale/retail store Closure of Melbourne wholesale/retail store Intrametropolitan relocation of Brisbane wholesale branch	Major Major Minor	1968 1971 1971
	Australian Motor Industries	Change of Brisbane independent distributor Cancellation of Brisbane distributor Cancellation of Sydney distributor	Minor ^a Major ^a Major ^a	1970 1971 1971
	Leyland	Replacement of independent distributors with wholesale branches in: Melbourne Perth	Major ^a Major ^a	1971 1971
	Allis Chalmers	Closure of Newcastle (N.S.W.) warehouse Cancellation of Perth independent distributor	Major ^a Major ^a	1971 1971
	Thiess Equipment Distributors	Closure of wholesale branches in: Sydney Melbourne Brisbane Perth	Major ^a Major ^a Major ^a Major ^a	1972 1972 1972 1972

^a Operative factor in classification.

Source: Unpublished internal documents and interviews, sample firms.

profitability low⁸. During the interval under consideration, returns on tractors varied from break-even to cascading losses and so executives were eager to cut costs, concentrate on other lines and curtail deficits. Retraction was therefore associated with either forward integration or termination of representation (Table 7.3).

Different styles of integration were achieved by the important vehicle corporations with limited exposure in the equipment industry. Leyland amalgamated its tractor supply with that of trucks and buses to eliminate two State distributors which could no longer be supported; Australian Motor Industries was forced to supplant its formal State-based wholesaling arrangements with regional assembler/distributors, leaving itself primarily a low-stocked importer/concessionaire. Terminal retraction, by comparison, saw two smaller, weaker enterprises close down various branches prior to quitting the machinery trade. Both negotiated huge bulk sales to former dealers who afterwards assumed direct importation of the respective brands (cf. Table 7.4). Allis Chalmers, never a major contestant in Australia, had gradually downgraded its operations over the late 1960s but the collapse of Thiess Equipment Distributors signified the most serious instance of decay over the recession.

The implications of retraction *vis-a-vis* those of stability were clearly observable in ancillary facets of wholesale action. As formal supply organisation foundered, adherents of the former policies had to abandon set product forwarding boundaries over southeastern Australia and, consequently, often bore uneconomical transport costs through continuing freight absorption or inflated discount margins. Further, in contrast to stable producers, the four enterprises dispensed with defined representatives' territories and either employed roving staff at higher expense or sent factory personnel on service calls on an *ad hoc* basis. All these changes reflected a breakdown in

TABLE 7.4: UNIT MACHINERY SALES BY MARKETING MODE,
 SMALL RETRACTING FIRM, AGRICULTURAL MACHINERY
 INDUSTRY, AUSTRALIA, 1968-71
 (Percentages)

Market	Year			
	1968	1969	1970	1971
Franchised dealers ^a (Australia)	97	81	82	68
Direct sales	3	19	18	8
Bulk sales	-	-	-	24
Total sales	100	100	100	100

a If 'agents' who did not sign franchise agreements had been segregated from this category, percentage sales of 'franchised' dealers would have shown an even greater decline.

Source: Unpublished sales accounts, sample firm, 1968-71.

the cheap, co-operative arrangements outlined by the printed 1967 franchise contracts.

As a group, tractor suppliers lacked the turnover or general economic and positional power to apply definitive, cost-cutting strategies such as rationalisation. Their stability might have averted risk but was probably also an expensive option. The experience of marginal participants, however, became the most critical issue in differentiating wholesale administration potentialities across the entire company size spectrum. It pointed up that risks of outlet atrophy, loss of functional independence, and downgrading of coverage were imminent within the machinery industry over the crisis -- even if they were sometimes obfuscated in the complexities of divergent business backgrounds and resulting actions, as was the case among the other class of small merchandisers.

Implement firms: a varied response

Longevity had assisted implement businesses to attain a greater complement of company branches than the tractor sample by the start of the downturn (Table 7.5). The majority ran depots in all three southeastern States and only one had not yet expanded nationwide. Relatively high levels of exposure, combined with functional specialisation, stimulated a significant amount of spatial readjustment in policies of rationalisation, reorientation, stability and forward integration (Table 7.6).

- (i) Rationalisation adopted by three contestants ranged from the closure of Adelaide and Sydney branches by New Holland in 1970 to the deletion of a subsidiary distributor by Melbourne-based Ralph McKay.
- (ii) Reorientation¹⁰, undertaken by two South Australian firms, involved downgrading or elimination of Victorian representation, offset by expansion of corporate facilities into Western Australia.

TABLE 7.5: WHOLESale REPRESENTATION, SMALL IMPLEMENT FIRMS,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967

Firm	Wholesale Distribution Facilities within States		
	Company branches	Independent distributors	Total Australian facilities
Alfarm Distributors	2	-	2
Connor Shea	2	4	6
Horwood Bagshaw	5	1	6
Ralph McKay	3	2	5
Mobilco	3	3	6
New Holland	5	1	6
David Shearer	2	4	6
John Shearer	4	2	6

Source: Unpublished internal documents and interviews, sample firms.

TABLE 7.6: WHOLESALE REPRESENTATION STRATEGIES, SMALL IMPLEMENT FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-72

Wholesale Strategy	Participants	Locational Repercussions	Impact on Total Distribution Network	Year
Rationalisation	Horwood Bagshaw	Closure of Melbourne wholesale branch Intrametropolitan relocation of Sydney wholesale branch	Major ^a Minor	1971 1972
	Ralph McKay	Closure of Melbourne wholesaling subsidiary Change in Toowoomba (Qld) independent distributor	Major ^a Minor	1970 1970
	New Holland	Closure of wholesale branches in: Sydney Adelaide	Major ^a Major ^a Major	1970 1970 1970
Reorientation	David Shearer	Replacement of Melbourne independent distributor with wholesale branch Closure of Melbourne wholesale branch Closure of Adelaide parts depot Change in Perth independent distributor Replacement of Perth independent distributor with wholesale branch	Major Major ^a Minor Minor Major ^a	1969 1969 1970 1971 1972
	John Shearer	Intrametropolitan relocation of wholesale branches in Melbourne Sydney Replacement of Perth independent distributor with wholesale branch	Minor ^a Minor ^a Major ^a	1970 1972 1972
	Connor Shea	-	-	-
Stability	Mobilco	Replacement of Sydney wholesale branch with wholesale/retail store Change in Brisbane independent distributor Closure of Hobart wholesale branch	Major Minor Major	1970 1971 1971
	Alfarm Distributors	Closure of Adelaide wholesale branch Establishment of wholesale/retail store in Toowoomba (Qld)	Major ^a Major	1967 1970

^a Operative factor in classification.

Source: Unpublished internal documents and interviews, sample firms.

- (iii) Stability was founded on extensive use of independent distributors and incorporated only minor alterations to wholesale coverage.
- (iv) Forward integration was forced upon one of the smallest suppliers in the total sample by inadequate sales volumes and the unwillingness of dealers to accept the risk of high-value harvesting lines.

Several undercurrents, therefore, characterise the approach of the implement set. Larger and more viable members accepted the competitive uncertainties of rationalisation, whereas smaller ones remained stable or were pressed into a retractive forward integration. Positional power increased the flexibility of Adelaide and, especially, Melbourne merchants. High degrees of corporate coverage prompted locational change for asset realisation and cost reduction, as evinced in the examples of Horwood Bagshaw, John Shearer and Mobilco. Despite a contrast in the implement sample's range of strategies as opposed to the relatively homogeneous behaviour of tractor producers, the wholesale action of all short-line companies corresponds with a major structural dimension.

Evaluation of wholesale representation

From the outset, economic standing appeared a chief factor in prescribing the choice of tactics in the small sector. Rationalisation characterised robust marketers with higher machinery sales volumes; the gradation through stability to retraction related to decreasing equipment volume and a deteriorating corporate trading situation. A spectrum of decay was also mirrored in allied activity such as the definition of product supply boundaries. The effects of different courses on control potentialities were exemplified in the cleft between the experiences of rationalising and retracting enterprises. The former were able to enjoy cost reductions but still maintain their distribution arrangement along 1967 lines; contraction of outlets

among the latter eventually necessitated expensive forms of direct intervention and promoted withdrawal. In sum, the situation provides tangible support for the relationship of economic power, channel authority capacities and spatial conduct proposed in the central hypothesis. Evidence from the next channel level seconds this viewpoint.

RETAIL REPRESENTATION

The prominence of between and within-group variations in small suppliers' wholesaling was repeated at retail. Here, from this study's stance, problems of heterogeneity were compounded by inadequacies of the available records. For instance, primary trade debtor analysis was sometimes necessary to complete a set of annual sales statistics by dealer point and scrutiny of invoices was even required on occasions. Often, disjointed marketing information could not be related satisfactorily to other accounts. Although such shortcomings, exacerbated by losses, discontinuation of series and personnel retrenchments, somewhat limit the following enquiry, minor tractor and implement sellers' strategies and franchise movement emerge with sufficient clarity to allow comparison with those of bigger enterprises in Chapter Eight.

Retail strategies of tractor firms

Widely differing patterns of retail coverage obtained among tractor concerns in 1967. The three more sizeable participants had predominantly active networks, consisting either of a restricted number of outlets localised by product applicability (Case) or a greater population spread throughout mixed-farming regions (Fiat and Howard Rotovator). By comparison, the structures of the remaining companies

included a significant complement of non-effective franchisees¹¹. For the two vehicle builders, a few specialists were greatly outnumbered by automobile vendees little interested in tractor sales or service. Similarly, the sales organisation of Thiess Equipment Distributors was inflated by many old, inert resellers taken over in 1967-68. The bearing of all four marginal franchisors was distinctly weighted to the State of head-office location.

Differences in the initial constitution of dealerships thus presupposed varying courses for the two groups (Table 7.7). *Stability*, the keynote of policy among the first subset, was maintained through such techniques as expanded retail margins and credit, selected use of consignment stock, infusions of managerial acumen and a relaxation of franchise provisions. Compared to the 'stability' of principal machinery corporations, it involved the option of *low* maintenance and a far greater influx of additions to keep organisations at original strength. Despite the costliness of incessant turnover and high failure rates, participants successfully controlled their operations along 1967 lines such that no fundamental distribution changes were necessitated. The spatial dynamics of the policy are portrayed by a case study in Figure 7.1. Similar numbers of market-induced and entrepreneurial cancellations were widely scattered throughout southeastern Australia with a slight concentration in cereal-growing areas. Deletion outweighed replacement but was balanced by an energetic search for new appointees, focused on coastal and tablelands districts. Hence, the selected vendor apparently diversified geographically away from areas worst affected by the rural problems.

Unwillingness to invest more heavily in machinery left the marginal tractor producers without the means to exercise effective control among over-large networks and, thus, prompted *retraction*. The tactic's chief characteristics were low maintenance, high deletion and failure rates

TABLE 7.7: RETAIL STRATEGIES, SMALL TRACTOR FIRMS, AGRICULTURAL MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA, 1967-72

Retail Strategy	Firm	Effects on 1967 Dealer Network (percentage rate of)								Commentary
		Maintenance	Cancellation	Replacement	Deletion	Failure	Addition	Retention		
Stability	A	51	49	16	33	29	32	99	-	
	B	54	46	14	33	36	43	96	-	
	C	Moderate to high	Moderate to low	Moderate	Moderate	Low	Moderate	Slight expansion	Assumptions based on interview discussions	
Retraction	D	Nominally low	Low	Low	Low	Nominally low	Low	Effectively fairly low	Assumptions based on analysis of dealer sales volumes. Largely inactive force.	
	E	34	66	5	61	48 ^a	21	61	-	
	F	24	76	12	64	54	34	70	Total dealer network disbanded 1972 with franchisor's withdrawal from market	
	G	29	71	15	70	65 ^a	18	59	Dealer network became unaligned in 1972 with franchisor's withdrawal from market	

a Estimate.

Source: Dealer lists 1967-72 and personal interviews, sample firms.

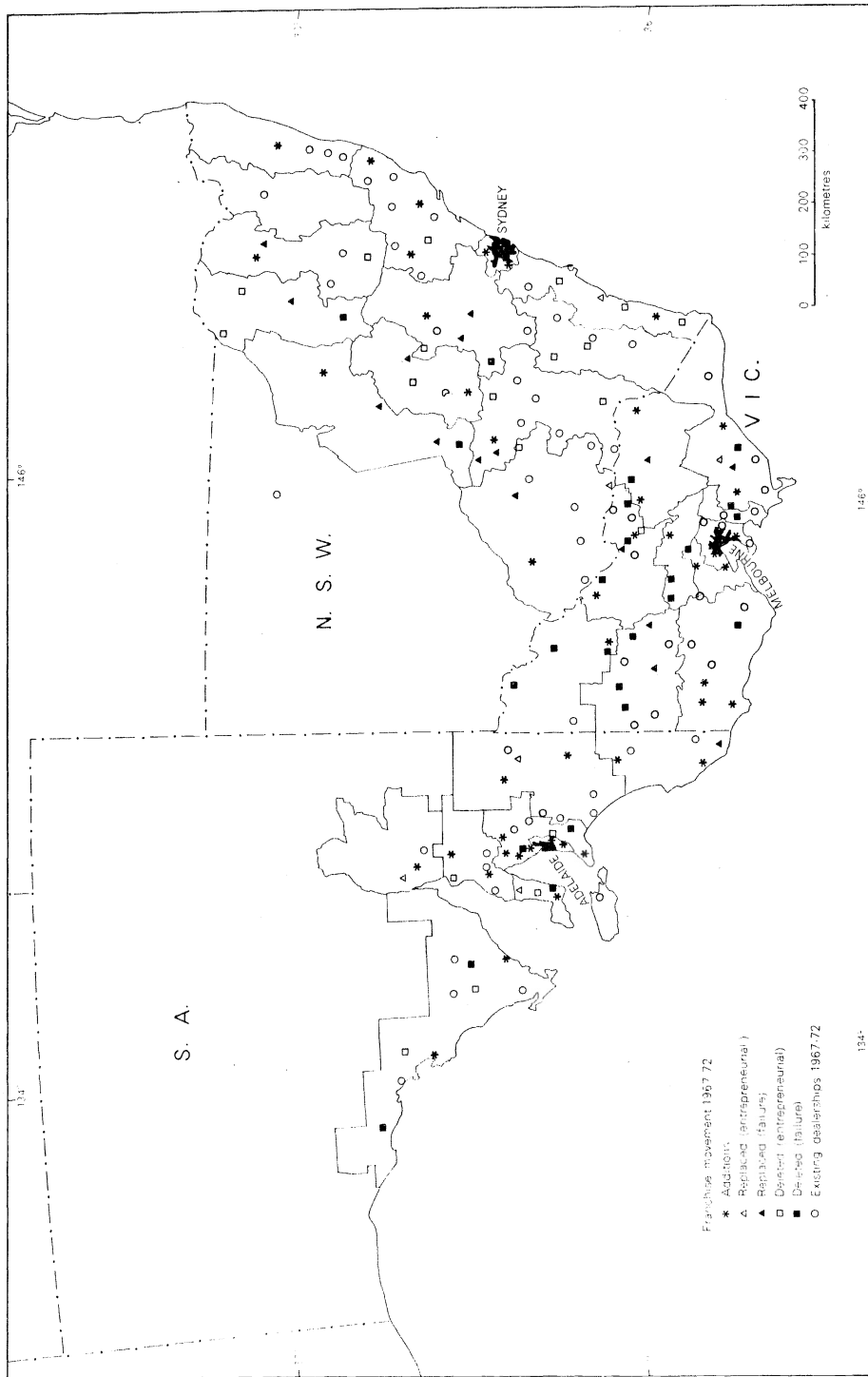


FIGURE 7.1: Franchise movement in retail stability, sample small tractor firm, agricultural machinery industry, southeastern Australia, 1967-72.

Source: Dealer lists 1967-72, sample firm.

and a significant proportion of additions. These agencies, often unsatisfactory, were acquired by the two new entrants during their early expansion phases to bolster flagging representation and improve market share. The terrestrial manifestations of retraction are depicted in Figure 7.2. The chosen case shows that deletions, emphasized above all other aspects of franchise movement, were most prolific in the cereal-growing regions of New South Wales and Victoria. Though appointments were again directed towards more temperate zones, many subsequently failed because the franchisor's goods were of limited application. By 1972, very few dealers were still operative.

Two different orientations were displayed among the retracting suppliers. For Australian Motor Industries and Leyland, the object was to contain and continue machinery marketing whereas Allis Chalmers and Thiess Equipment Distributors ultimately discontinued their participation (Table 7.7). Both avenues, however, frequently involved the dissolution of formal franchise procedures as dealers uncommitted to principal brands diversified functionally or shifted their emphasis to better-known lines of machinery. Retreat from selective and orderly distribution was accentuated by heavy discounting and bulk and direct selling, especially among the terminating firms after 1969¹². When appended to the costs of servicing largely moribund agencies, these methods boosted the expense of selling substantially. Yet, despite the introduction of hybridisations of franchising and even forms of *laissez-faire* merchandising, corporate stores were not contemplated (Table 7.8). Indeed, none of the sampled tractor firms made strong moves into the field, probably because of the equipment operation's secondary position and restrictions on capital availability.

For this class of company, the state of dealer forces in 1967, longevity, the application of economic power and size of farm equipment turnover appeared central to subsequent network authority. While

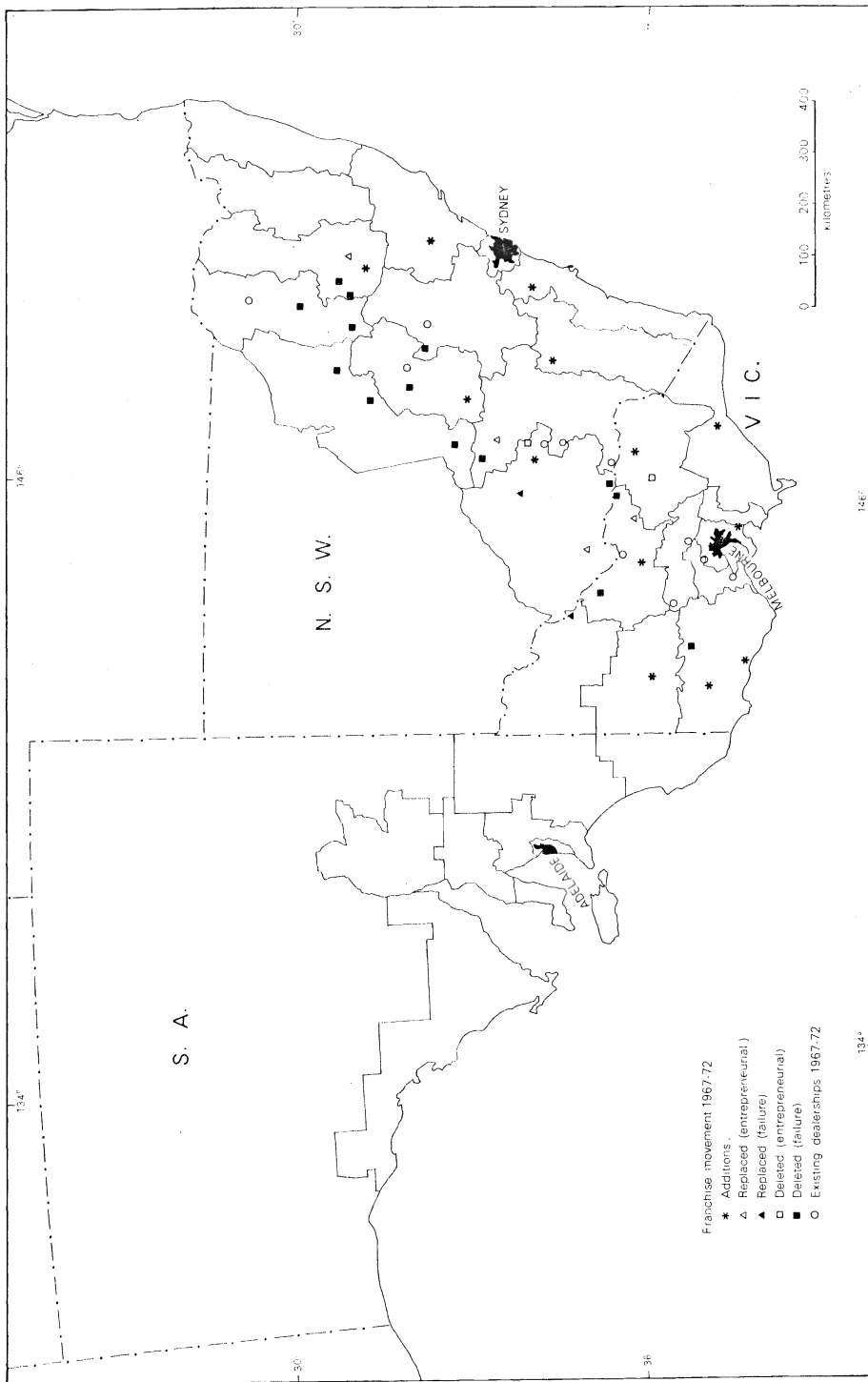


FIGURE 7.2: Franchise movement in retail retraction, sample small tractor firm, agricultural machinery industry, southeastern Australia, 1967-72.

a No company operations conducted in South Australia.

Source: Dealer Lists 1967-72, sample firm.

TABLE 7.8: CORPORATE RETAIL OUTLET MOVEMENTS, SMALL TRACTOR FIRMS,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-72

Firm	Acquisitions		Disposals	
	Location	Year	Location	Year
Allis Chalmers	-	-	-	-
Australian Motor Industries	-	-	-	-
Case	Cairns (Qld) Moree (N.S.W.)	1967 1969	- -	- -
Fiat	-	-	-	-
Howard Rotovator	Dandenong ^a (Vic.)	1968	Dandenong ^a (Vic.)	1971
Leyland	-	-	-	-
Thiess Equipment Distributors	-	-	-	-

a Combined wholesale/retail facility.

Source: Unpublished internal documents and interviews, sample firms.

patterns of movement in relation to town size approximated those of bigger organisations and suggested a common industry trend to the disadvantage of minor nodes (Table 7.9), certain problems among the tractor group stand out sharply from those of other competitors. Risks of inactivity and attrition among retailers were high and, though Case, Fiat and Howard Rotovator retained the *status quo* through a programme of recruitment, the marginal contestants were less successful. In order to offset massive outlet loss and remain in the market, they were required to diverge from low-cost franchising into largely-untried, integrative forms of retailing. The inability of their low-throughput systems to maintain their original constitution because of raised entry barriers supports the tenets of the structural argument.

Retail strategies of implement firms

In 1967, every implement firm except one controlled about two hundred cross or multiple-franchised dealers in southeastern Australia. These vast networks had been accumulated partly as a function of longevity, but also as a reaction to the concentrated pressure of full and long-line suppliers and the dangers of extreme manufacturing specialisation. While some franchisees were multifunctional and resilient, many others were weak and rather archaic businesses ill-equipped to handle the incipient contraction in rural supply markets. This subject group's retail strategies paralleled the diversity in their wholesale behaviour and four overriding approaches may be discerned (Table 7.10). Definitive *rationalisation* was undertaken by the financially-strong New Holland and John Shearer. Backed by significant penetration in their respective product fields, they stressed performance criteria and eliminated many marginal or unstable dealerships over the recession. Again, a retreat from lesser settlements was evident in the association of franchise movement to the

TABLE 7.9: POPULATION OF RURAL TOWNS EXPERIENCING DEALER CHANGE,
SMALL TRACTOR FIRMS^a, AGRICULTURAL MACHINERY INDUSTRY,
SOUTHEASTERN AUSTRALIA, 1967-72

Retail Strategy	Firm	State	Average (1971) Town Population by Type of Dealer Change		
			Replacement	Deletion	Addition
Stability	Case	N.S.W.	13440	12996	13941
		Vic.	7693	5790	7883
		S.A.	704	-	4426
	Fiat	N.S.W.	8638	3989	5220
		Vic.	11611	3422	3706
		S.A.	5390	1853	834
Retraction	Allis Chalmers	N.S.W.	11426	3249	4637
		Vic.	19409	4642	8219
		S.A.	-	-	-
	Australian Motor Industries	N.S.W.	25430	6360	7792
		Vic.	9048	4657	5693
		S.A.	-	725	-
	Thiess Equipment Distri- butors	N.S.W.	13830	4740	4519
		Vic.	-	-	3508
		S.A.	-	-	17867

a Data for Howard Rotovator and Leyland unavailable.

Sources: (i) Unpublished dealer lists, sample firms.

(ii) Australia, Commonwealth Bureau of Census and Statistics, Census of Population and Housing, 30 June 1971, Field Count Statements Nos 3, 4, 6; Canberra, 1971. Also, unpublished data on unbounded localities and bounded localities under two hundred population supplied by the Australian Bureau of Statistics, Canberra, January 1974.

TABLE 7.10: RETAIL STRATEGIES, SMALL IMPLEMENT FIRMS, AGRICULTURAL MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA, 1967-72

Retail Strategy	Firm	Effects on 1967 Dealer Network (percentage rate of)								Commentary
		Maintenance	Cancellation	Replacement	Deletion	Failure	Addition	Retention		
Rationalisation	H	56	44	17	27	35	6	78	-	
	I	61	39	10	31	26	5	74	-	
Reorganisation	J	Average to high	Low to average	Average	Low	Low	Average	High	Assumptions based on interviews	
	K	68	32	16	16	20 ^a	9	93	-	
Stability	L	Low to average	Average to high	High	High	Average to high	High	High	Assumptions based on interview results and South Australian data	
	M	64 ^a	36 ^a	21 ^a	15 ^a	18 ^a	7 ^a	92 ^a	Estimates based on Victorian data only	
Forward integration	N	Average to high	Low to average	High	Average	n.a.	High	High	Assumptions based on interviews	
	O	b	b	b	b	b	b	b (100+)	-	

a Estimate.

b Data withheld for confidentiality reasons.

Source: Dealer lists 1967-72, sample firms.

population of supporting urban nodes (Table 7.11). Though deletion and failure rates were relatively high, few new additions were made and, by 1972, each firm had reduced its force by an average of twenty-three per cent (Table 7.10). The spatial implications of active rationalisation *vis-à-vis* the large manufacturer's more passive orientation can be seen by comparing Figures 6.11 and 7.3. The latter shows the short-line franchisor acting decisively in the Western and Wimmera Divisions of Victoria and in northern and western areas of settled South Australia. Elsewhere in the three States, patterns of change more closely resemble the sporadic repercussions of the less intensive rationalisation. New appointees were scattered in a rather random manner to accord with the exigencies of local demand.

Interpretation of several small implement marketers' actions is complicated by insufficient information for 1967. However, contingent upon their wholesale moves, two producers appear to have *reorganised* their coverage considerably through administrative alterations in Victoria. David Shearer took over the sales organisation of an independent distributor¹³ while Ralph McKay's southern resellers, previously accountable to a Melbourne subsidiary¹⁴, joined a three-State force run by the Adelaide-based Port Implements Division. Moreover, company stores established in the late 1960s were closed for reasons of economy (Table 7.12). Given other franchise movement effected by these two concerns, it is unlikely that 'reorganisation' greatly varied dealer numbers¹⁵. Each force probably contracted by about ten per cent between 1967 and 1972. On the other hand, lack of competitive power and recalcitrant product lines forced David Shearer into a more active role to counteract its outlets' declining capacity to stock and trade high-value items. Its participation paralleled that required of another harvesting equipment seller, Alfarm Distributors.

TABLE 7.11: POPULATION OF RURAL TOWNS EXPERIENCING DEALER CHANGE,
SMALL IMPLEMENT FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
SOUTHEASTERN AUSTRALIA, 1967-72

Retail Strategy	Firm	State	Average (1971) Town Population by Type of Dealer Change		
			Replacement	Deletion	Addition
Rationalisation	New Holland	N.S.W.	15262	3079	3121
		Vic.	9615	7027	1083
		S.A.	4760	634	1208
	John Shearer	N.S.W.	5337	1156	9465
		Vic.	8628	2633	2000
		S.A.	1347	601	1473
Reorganisation	David Shearer	N.S.W.	4769	1118	4375
		Vic.	11049	1660	11950
		S.A.	1532	508	316
Stability	Connor Shea	N.S.W.	n.a.	n.a.	n.a.
		Vic.	8489	1015	2621
		S.A.	n.a.	n.a.	n.a.
Forward integration	Alfarm Distributors	N.S.W.	17913	3121	8108
		Vic.	27088	-	18721
		S.A.	-	-	-

Sources: As for Tables 6.6 and 7.9.

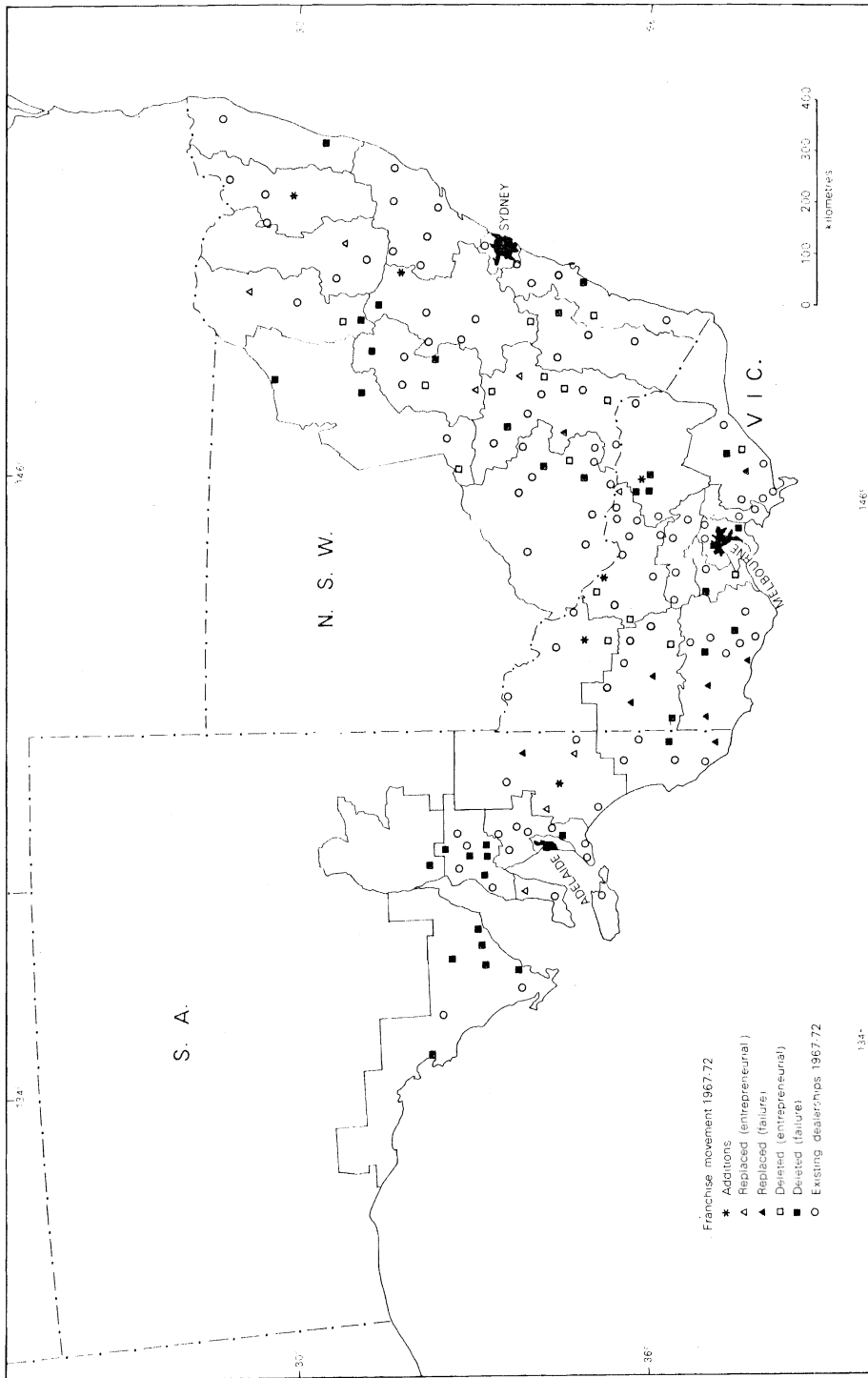


FIGURE 7.3: Franchise movement in retail rationalisation, small implement firm, agricultural machinery industry, southeastern Australia, 1967-72.

Source: Dealer lists 1967-72, sample firm.

TABLE 7.12: CORPORATE RETAIL OUTLET MOVEMENTS, SMALL IMPLEMENT FIRMS,
AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-72

Firm	Acquisitions		Disposals	
	Location	Year	Location	Year
Alfarm Distributors	Toowoomba (Qld)	1970	-	-
Connor Shea	-	-	-	-
Horwood Bagshaw	Orange (N.S.W.) Naracoorte (S.A.) Maitland (S.A.)	1967 1967 n.a.	Orange (N.S.W.) Albury (N.S.W.)	1970 1970
Ralph McKay	Warrnambool (Vic.) Ballarat (Vic.) Dandenong (Vic.)	1967 1968 1969	Warrnambool (Vic.) Ballarat (Vic.) Dandenong (Vic.)	1970 1970 1970
Mobilco	-	-	Parramatta (N.S.W.)	1970
New Holland	-	-	-	-
David Shearer	-	-	-	-
John Shearer	-	-	Temora (N.S.W.)	1970

a Combined wholesale/retail facility.

Source: Unpublished internal documents and interviews, sample firms.

In the absence of 'hard' data, interviews suggested that *stability* prevailed in the representation of Connor Shea, Horwood Bagshaw and Mobilco. In any event, each still listed over two hundred points serving southeastern Australia in 1972. In conjunction with its wholesale rationalisation, Horwood Bagshaw realised on two less-advantageously positioned stores and confined its corporate coverage to more immediate markets (Table 7.12). In this company and Connor Shea, the nature of output probably determined a slight decrease in dealer numbers and a degree of forward integration¹⁶. By comparison, Mobilco's involvement in lower-value ranges largely unaffected by the setback facilitated control and the acquisition of new retailers.

Finally, the *concentration and forward integration* practised by Alfarm Distributors saw sales of the larger and more viable resellers supplemented by direct retailing, while a restricted number of well-established small agents continued to act in a service and spotter capacity. Like other minor makers, the company reduced its area of operations and provided more assistance to franchisees. This constrained and highly-mobile form of marketing, backed by fluid franchise policy and experience as a machinery dealership at Albury (New South Wales), appeared somewhat more successful than formulae which involved extensive sales organisations used by other members of the lower size echelons¹⁷.

Against the background of the structural hypothesis, small implement houses lack the clear differentiation lent to the tractor sample by the criterion of atrophy. Yet, a dimension relating to the prominence of forward integration permeates their various strategies. Larger and economically more powerful organisations such as New Holland and John Shearer enforced distinctive actions and retained their wholesale role. Others, especially those selling expensive equipment

involving great risk to dealers, became directly concerned with the uncertainties of retailing.

Evaluation of retail representation

An overview of the various policies of short-line merchandisers is afforded by a comparison of aggregated statistics on franchise movement (Table 7.13). Among tractor producers, sixty per cent of the 329 dealers existing in 1967 had been disenfranchised by mid-1972 indicating a rather inequitable 40:60 probability of continuation. In contrast, the 62:38 ratio among their counterparts approximated that of large businesses. An estimated 132 tractor dealers were cancelled for lack of performance or other market-based reasons, such that the recession years exacted a forty per cent failure rate. Implement suppliers fared somewhat better with a twenty-seven per cent loss.

During the recession, tractor merchants recorded the high increment rate of thirty per cent. Although this host of new appointees boosted their retention to eighty-one per cent, many of the final complement were only 'nominal' outlets. Indeed, if the withdrawal of Allis Chalmers and Thiess Equipment Distributors in late 1972 had been assimilated in these statistics, minor tractor suppliers' retention would have dropped to sixty-one per cent. The concomitant erosion of network and market control not only points up the negative implications of retraction and the difficulties faced by marginal competitors, but also the applicability of the structural hypothesis' predictions to the retail context.

The combined results of the tractor and implement samples produce a maintenance rate of fifty-five per cent among small companies' dealerships. Replacement occurred at fifteen per cent of original foci, though deletion was twice as prevalent. The total failure rate of

TABLE 7.13: RETAIL REPRESENTATION, SMALL FIRMS^a, AGRICULTURAL MACHINERY INDUSTRY,
SOUTHEASTERN AUSTRALIA, 1967-72

Condition	Tractor Firms		Implement Firms		Total Small Firms		Terminology
	Aggregate number of dealers	Percentage of 1967 dealers	Aggregate number of dealers	Percentage of 1967 dealers	Aggregate number of dealers	Percentage of 1967 dealers	
Existing 1967	329	100	788	100	1117	100	1967 base
Existing 1967-72	133	40	486	62	619	55	Maintenance rate
Cancelled 1967-72	196	60	302	38	498	45	Cancellation rate
Replaced 1967-72	42	13	123	16	165	15	Replacement rate
Deleted 1967-72	159	48	179	22	338	30	Deletion rate
Failed 1967-72	132 ^b	40 ^b	212 ^b	27 ^b	344 ^b	31 ^b	Failure rate
Added 1967-72	99	30	59	7	158	14	Addition rate
Existing 1972	268	81	659	84	927	83	Retention rate

a Companies excluded for lack of data were Howard Rotovator, Leyland, Horwood Bagshaw and Ralph McKay. For Connor Shea only Victorian information was included.

b Estimate.

Source: Dealer lists 1967-72 and personal interviews, sample firms.

minor franchisors reached thirty-one per cent but its repercussion on channel stability was alleviated by a moderate level of additions -- fourteen per cent. Thus, by 1972, sales organisations stood at eighty-three per cent of their initial 1967 strength. Seen against their respective trends in retail coverage over the 1960s, the seventeen per cent decrease among short-line enterprises indicated a more striking metamorphosis than the nearly-equivalent fall in the dealer numbers of large corporations. More detailed comparisons are employed as indicators of relative co-ordination capacities in the following Chapter.

RÉSUMÉ

As in franchise policy, the marketing practice of large and small producers diverged sharply. The most pronounced change in the latter's administration and manufacturing was the forced exit of three enterprises. Wholesale policy varied noticeably with a company's size, stage of specialisation and, to a lesser extent, positional power. The most crucial consequences of the setback were the collapse of two networks and the dissolution of formal franchise procedures in several others. These results highlight the dilemma encountered by the smallest sellers. In the retail sector, their problems created sufficient outlet atrophy and loss of authority to necessitate greater degrees of forward integration. Again, the principles of low-cost franchising were often relinquished.

Of all the evidence from minor businesses, the decline among marginal participants offers the most substantial advocacy of the central hypothesis. Chapter Eight now evaluates the performance of large and small machinery merchants together to summarise the support for a relationship between structural power, consequent network control

potentialities and spatial policies during a business contraction in the sampled industry. The discussion broadens to examine the effect of these factors on market and trading performance as a test of the financial postulate of the main argument. Next, a solution to the applied problem concerning the economic and spatial response of franchising corporations to recession is proposed, finally leading to generalisations about the processes and parameters of an enterprise's spatial decision-making.

CHAPTER SEVEN FOOTNOTES

1. The three small Melbourne equipment manufacturers were Mitchell and Co. Pty Ltd (West Footscray, 1958), Daniel Harvey Pty Ltd (Nunawading, 1963), and Baltic Simplex Machinery Co. Ltd (Spotswood, 1964).
2. All Horwood Bagshaw statistics in this paragraph are taken from Annual Reports, Horwood Bagshaw Ltd, Adelaide, 1970-72.
3. See The Weekly Times [Melbourne], 19 July 1972.
4. The warehouse was located at Bennetts Green, the factory at Carrington, Newcastle, New South Wales.
5. See The Australian Financial Review, 24 March 1972.
6. See The Australian Financial Review, 23 March 1970; The Advertiser [Adelaide], 30 September 1970; The Age [Melbourne], 4 November 1970.
7. Given the apparent advantages of a Melbourne location in the farm equipment industry, all three companies which failed could be considered peripheral. Certainly, Allis Chalmers' Newcastle (New South Wales) situation was determined more by engineering than machinery interests. In South Australia, David Shearer operated from a decentralised location at Mannum, about eighty kilometres east of Adelaide. With a headcount of over four hundred, it completely dominated the economic life of the town, whose population in 1971 Census Field Counts appears as only 2,036. The company thus faced extraordinary pressures to maintain its workforce and, finally, governmental intervention was necessitated. See The News [Adelaide], 19 September 1969, 11 December 1969; The Advertiser [Adelaide], 6 December 1969, 10 December 1969, 3 April 1970, 25 November 1970, 5 February 1971; The Murray Valley Standard [Murray Bridge, South Australia], 25 September 1969, 11 March 1971.
8. See The Age [Melbourne], 4 November 1970; The Australian Financial Review, 10 August 1971, 19 May 1972 for reference to these claims.
9. Ralph McKay's moves were part of a complete corporate reappraisal which involved the integration of two newly-acquired and other existing subsidiaries as company divisions. See The Courier Mail [Brisbane], 14 July 1970; The Advertiser [Adelaide], 30 July 1970; The News [Adelaide], 30 September 1970. Also, Annual Report 1970, Ralph McKay Ltd, Melbourne, 1970.
10. Barring the Western Australian moves, reorientation can be considered almost analogous to rationalisation.
11. The nominal size of retail forces serving small tractor firms in southeastern Australia in 1967 varied from about thirty to one hundred and fifty.
12. See The Australian Financial Review, 17 September 1970; The Weekly Times [Melbourne], 14 July 1971. For an example of Thiess Equipment Distributors' aggressive, price-oriented advertising, see The Land [Sydney], 18 February 1971 (p. 42).

13. The Buckeye Harvester Co. of Richmond, Melbourne.
14. Welch Perrin Pty Ltd.
15. Because of data inadequacies, it is not possible to portray the spatial effects of a policy of reorganisation.
16. Lack of 1967 information precludes mapping the pattern of 'stability' among small implement firms.
17. For reasons of confidentiality, the geography of concentration and forward integration cannot be mapped.

CHAPTER EIGHTPRODUCT FRANCHISING UNDER RECESSION: THE STRUCTURAL
DIMENSION IN CORPORATE STRATEGY AND PERFORMANCE

This enquiry has contended that company structural attributes representing two forms of competitive power vary relative channel authority among selected franchisors. A geographical application of the argument predicted that large organisations should follow locational policies which would maintain or augment their existing franchise management capacities. In an economic sphere, it was anticipated that they would benefit from greater network control to secure better market and general accounting results. Support for these views emerged in the analyses of distribution policies and practices in Chapters Five to Seven. Now, it is appropriate to advance an overall assessment of the central hypothesis, the spatial postulate of which is tested by integrating and comparing foregoing results from both large and small machinery suppliers. Next, the financial variant is evaluated with data from the specialist ratio samples to expedite interpretation of the reaction of franchising enterprises to depressed demand. Conclusions about processes and relationships of corporate spatial decision-making follow in Part Four.

THE SPATIAL POSTULATE: STRUCTURAL DIFFERENCES IN
DISTRIBUTION POLICY AND PRACTICE

Large manufacturers, with higher liquidity and net return ratios, entered the rural crisis in a slightly more favourable state than most small counterparts. Although inter-divisional differences in the constitution of marketing agreements were not pronounced, the implementation of policy varied. Leading producers' unequivocal stance on key questions of dealer assistance (involving monetary

measures and forward integration) and competing products was matched by only the soundest small enterprises. Other members of this division were unable to retain complete control and witnessed the partial collapse of their sales forces. Such atrophy introduced hybridisations of franchising or, in more extreme cases, *laissez-faire* techniques featuring direct or bulk selling. Although all subject firms aspired to similar authority in their 1967 contracts, a clear distinction based on structural features had occurred by 1972. It paved the way for further divergence in administration and production, and wholesale and retail strategy.

Central administration and production

The principal difference in the administration and production of farm equipment merchandisers between 1967 and 1972 lay in the incidence of failure. Whereas no large organisation closed down, three short-line participants did. For this trio, deficits in economic and positional power produced inadequate network control and declines in market position. Finally, their finances became so strained as to necessitate withdrawal. Hence, in the manufacturing and management sector, the impact of the recession was circumscribed in the manner forecast by the central argument.

Wholesale representation

At the wholesale level, the spatial variant of the hypothesis is supported by study of the preconditions and outcomes of individual strategies. In total, five courses -- rationalisation, reorientation, stability, forward integration and retraction -- were employed by franchisors in varying economic situations (Table 8.1). Rationalisation was indeed the approach of the largest. As foreshadowed in Chapter Seven, a turnover gradient cut through the stable and reorienting

TABLE 8.1: WHOLESALE REPRESENTATION STRATEGY BY EQUIPMENT SALES SIZE,
 SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-71
 (\$A million)

Wholesale Strategy	Equipment Sales of Participant Firms	
	Five-year average	Approximate range ^b
Rationalisation	15.71	5.00 - 35.00
Stability	5.79	2.00 - 12.00
Reorientation	3.76	2.00 - 5.00
Retraction and forward integration ^a	0.96	0.50 - 2.00

a For reasons of confidentiality, results from policies of retraction and forward integration have been combined.

b Generalised for confidentiality.

Source: Unpublished internal documents and interviews, sample firms.

enterprises. Retraction was undertaken by only the smallest sellers -- the ones which, from a marketing viewpoint, could least afford such action.

Other differentials also characterised the adoption of each policy. Rationalisation and reorientation, the distinctive and perhaps riskier options which alone offered prospects of reducing costs without necessarily sacrificing channel power, were entertained exclusively by businesses in a more robust income and liquidity condition at the start of the recession (Table 8.2). Such firms, whose mean age exceeded that of all others, were probably corporately over-represented relative to the rest of the industry and needed to reduce their exposure. Thus, they drew on the positional advantages afforded by a Melbourne or Adelaide head-office location to withdraw strategically-redundant facilities (Table 8.3). Well-established dealer networks permitted continued high-level distribution control so that, by the end of the crisis, rationalising corporations still enjoyed their foremost status on key economic measures (Table 8.2). In any event, no participants reverted to old patterns after 1972 -- partly because they had pre-empted long-term supply movements in the equipment trade. Such results contrasted with those attending marginal producers' retraction. As shown in Table 8.2, the course conferred little financial incentive or advancement to its users. It was associated with significant loss of penetration, the use of costly marketing alternatives and intensification of existing retail problems. Moreover, retraction was perceived as an unsatisfactory and temporary step to be rectified when conditions allowed. In two instances, however, it instead heralded an exit from the industry.

Despite complications arising from data inadequacies and often-intangible expenses and benefits, the ramifications of alternative wholesale strategies correspond substantially with prior spatial

TABLE 8.2: RELATIVE CORPORATE ECONOMIC CONDITION, SAMPLE FIRMS BY WHOLESALE STRATEGY,
 AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-71

Wholesale Strategy	Financial Condition						Trading Condition	
	Current ratio		Quick ratio		Average 1967-68	Average 1969-71	Average 1967-68	Average 1969-71
	Average 1967-68	Average 1969-71	Average 1967-68	Average 1969-71				
Rationalisation	2.38	2.11	0.85	0.64	0.05	0.00		
Reorientation	2.33	1.83	0.81	0.60	0.05	-0.15		
Stability	1.90	1.99	0.57	0.53	0.04	-0.01		
Retraction	1.96	1.52	0.54	0.50	0.02	-0.03		
Forward integration	1.07	1.03	0.48	0.45	a	a		

a Withheld for confidentiality.

Source: Annual accounts and unpublished internal documents, sample firms.

TABLE 8.3: WHOLESALE REPRESENTATION STRATEGY BY LONGEVITY
AND HEAD-OFFICE LOCATION, SAMPLE FIRMS, AGRICULTURAL
MACHINERY INDUSTRY, AUSTRALIA, 1967-72

Wholesale Strategy	Head-office Location					Total	Average (1967) Age of Partici- pant Firms (years)
	Sydney	Melbourne	Adelaide	Perth	Other		
Reorientation	-	-	2	-	-	2	90
Rationalisation	-	5	1	-	-	6	65
Stability	3	2	-	1	-	6	27
Forward integration	-	-	-	-	1	1	12
Retraction	3	1	-	-	-	4	10
Total (or average)	6	8	3	1	1	19	41

Source: Unpublished internal documents and interviews, sample firms.

predictions. Although no policies averted economic contraction, large firms' attempts to maintain coverage and avoid forward integration without undue cost penalty upheld initial advantages and probably optimised the economics of network control under the circumstances (cf. Table 8.2). Further evidence that their structural background assisted better channel management through geographical representation tactics is found in the retail sector. Here, the hypothesis may be tested by reviewing various approaches' precursors and repercussions and by comparing consequent franchise movement between both groups of vendors.

Retail representation

Although many companies apparently adopted a unified locational policy in marketing, the hegemony of factors prescribing wholesale activity did not necessarily apply in the retail area (Table 8.4). Rather, economic condition, size of machinery turnover, functional specialisation and extent of dealer forces appeared primary determinants of a producer's choice among five distribution solutions -- rationalisation, reorganisation, stability, retraction and forward integration. Rationalising merchants were all specialised and recorded substantial equipment volumes through extensive market coverage. In 1967 they exhibited healthy finances and retained their primacy during the recession (Table 8.5). Their stand emphasized the elimination of marginal outlets as a cost-saving measure and, since it attracted only moderate maintenance and failure rates, significant channel control was still feasible.

The situation of rationalising companies contrasted with difficulties experienced by most small organisations but accentuated among retracting producers. From the outset, members of this set had limited machinery interests and little jurisdiction in their outlets'

TABLE 8.4: WHOLESAL AND RETAIL REPRESENTATION STRATEGY,
 SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
 AUSTRALIA, 1967-72

(Number of firms)

Wholesale Strategy	Retail Strategy ^a					Total
	Rationalisation	Reorganisation	Stability	Retraction	Forward integration	
Rationalisation	2	1	2	-	-	5 ^b
Reorientation	1	1	-	-	-	2
Stability	1	-	5	-	-	6
Retraction	-	-	-	4	-	4
Forward integration	-	-	-	-	1	1
Total	4	2	7	4	1	18 ^b

a Southeastern Australia only.

b Retail data for one firm inaccessible.

Source: Unpublished internal documents and interviews, sample firms.

TABLE 8.5: RELATIVE CORPORATE ECONOMIC CONDITION, SAMPLE FIRMS BY RETAIL STRATEGY,
 AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-71

Retail Strategy	Financial Condition						Trading Condition	
	Current ratio			Quick ratio			Average 1967-68	Average 1969-71
	Average 1967-68	Average 1969-71	Average 1967-68	Average 1967-68	Average 1969-71	Average 1967-68	Average 1969-71	
Rationalisation	2.61	2.77	0.94	0.68	0.05	-0.02		
Reorganisation	2.32	1.96	0.87	0.66	0.06	-0.09		
Stability	1.90	1.95	0.61	0.69	0.04	-0.03		
Retraction	1.96	1.52	0.54	0.50	0.02	-0.03		
Forward integration	1.07	1.03	0.48	0.45	a	a		

a Withheld for confidentiality.

Source: Annual accounts and unpublished internal documents, sample firms.

management. Often, they found supplementary lines monopolising retailers' working capital or excluding their stock from the floor. The restricted penetration, scattered product populations and coverage prescribed by recent market entry hampered publicity efforts and dissipated farmers' confidence; heavy advertising and price discounting became the only solution to the dilemma. Finance companies were wary of extending consumer credit on equipment considered high-risk. Further, since established brand loyalties determined product choice in about seventy per cent of sales, the chances of breaking the vicious circle without massive investment were slight (Wadley, 1970: 144). As in wholesaling, marginal suppliers were beset with the breakdown of formal franchising and network atrophy. In some instances, the need for bulk and direct selling added further expense to that connected with servicing largely-inactive dealer forces; inability to attain satisfactory ongoing marketing arrangements finally contributed to the withdrawal of two retracting participants. Seen in aggregate, the preconditions and outcomes of different retail planning thus lend more weight to the structural claims on the relationship of economic and positional power, channel authority capacities, and spatial behaviour.

Subject companies' franchise movement over the rural crisis is amalgamated in Table 8.6. Assuming that the data is derived from a random sample, inter-divisional variation in change rates can be dissected through a large-sample proportion-testing technique based on the standard normal distribution (Freund, 1967: 285-87).

- (i) The maintenance rate of major firms was significantly higher ($p < 0.001$) than that of small competitors. Between 1967 and 1972, the former were able to offer dealers a 68:32 probability of continuation, whereas short-line franchisors could only promote a 55:45 ratio.
- (ii) The replacement rate of both groups showed no significant difference.

TABLE 8.6: PROPORTION TESTING, RETAIL REPRESENTATION, SAMPLE FIRMS^a, AGRICULTURAL MACHINERY INDUSTRY, SOUTHEASTERN AUSTRALIA, 1967-72

Condition	Terminology	Large Firms		Small Firms		Proportion Testing		
		Number of franchises ^b	Percentage of 1967 franchises	Number of franchises	Percentage of 1967 franchises	Z	P	Difference significant? ^c
Existing 1967	1967 base	475	100	1117	100	-	-	-
Existing 1967-72	Maintenance rate	325	68	619	55	-5.00	<.001	Yes
Cancelled 1967-72	Cancellation rate	150	32	498	45	-5.00	<.001	Yes
Replaced 1967-72	Replacement rate	57	12	165	15	-1.33	>.025	No
Deleted 1967-72	Deletion rate	93	20	338	30	-3.96	<.001	Yes
Failed 1967-72	Failure rate	85 ^d	18 ^d	344 ^d	31 ^d	-5.38	<.001	Yes
Added 1967-72	Addition rate	16	3	158	14	-6.41	<.001	Yes
Existing 1972	Retention rate	398	84	927	83	0.40	>.025	No

a Three large, nine small firms.

b Among large firms, virtually every franchise represents one dealership due to outlet exclusivity. Since small organisations cross-franchise, the figure of 1117 represents about seven hundred business establishments.

c Two-tailed test, $\alpha = 0.05$.

d Estimate.

Sources: Data taken from Tables 6.8 and 7.13; for technique used, see Freund (1967:285-87).

- (iii) The deletion rate of leading corporations, significantly lower ($p < 0.001$) than that of their opposition, was a major contributor to the disparity in maintenance levels.
- (iv) The addition rate of large producers, who were able to maintain their networks principally by replacement, significantly underscored ($p < 0.001$) that of their counterparts who were forced to seek more distantly for retailers in new locations.
- (v) The retention rate of the two samples did not vary significantly.

The parity of the retention rates necessitates analysis of other measures to evaluate whether large producers in fact demonstrated the firmer channel management capacity. Indeed, their high maintenance teamed with low replacement, deletion and addition contrasted prominently with the low maintenance and replacement and high deletion and addition of smaller competitors. Restricted replacement and addition suggests that the retail control among the former was not seriously impaired over the recession. Conversely, the preservation of minor sellers' forces apparently needed substantial effort. Their concentration on new appointments reflected not only the difficulties of retaining existing sales organisations but also a dispersion of goodwill and external economies; they probably faced greater uncertainty than their large counterparts. Compared with replacement, additions characterised less populous towns throughout southeastern Australia, implying that sundry pressures were gradually forcing the short-line manufacturer from primary entrepôts (Tables 6.6 and 7.11). In view of many villages' and hamlets' blight during the crisis and centrifugal tendencies in the rural economy, the ramifications of this displacement were important in both the short and long-term.

Failure rates command special attention as indicators of distribution control capacity. Small producers' market-induced cancellation was easily the greater; low sales volumes, untried goods

or newly-introduced ranges left their dealers without the service and parts market critical to viability in a depressed sales period. For little-known franchises, outside commercial wholesale finance¹ and services offered by leading machinery companies such as floor-planning, staff training, goodwill, national advertising and buy-back protection on faulty parts ordering were frequently unavailable and so minor firms' retailers more commonly succumbed to high degrees of competitive exposure. In essence, the nature of retail strategy and franchise movement endorses the structural viewpoint concerning the effects of franchisors' relative channel capacities on distribution.

Evaluation of the spatial postulate

Both policy and practical facets of marketing in the Australian agricultural machinery industry over the recession indicate principal sellers' anticipated primacy in network control. From the outset, they stood more firmly on their established marketing agreements and, in both wholesaling and retailing, were able to employ geographical policies which cut costs while still maintaining adequate authority. The financially-stronger small companies were similarly favoured but, in contrast, marginal machinery suppliers saw their sales forces recoil under demand declines. Their locational strategy was frequently determined by necessity, atrophy was common and in some cases contributed to failure. The disparity points up the applicability of the spatial postulate to the chosen context. Following sections now question whether major firms' more comprehensive distribution management and their representation action should have assisted better market and financial performance as predicted in Chapter Two. This enquiry permits a thorough review of the structural hypothesis' contribution to an understanding of business behaviour in a depressed

franchise system and expedites conclusions about corporate decision-making in Chapter Nine.

THE FINANCIAL POSTULATE: MARKET AND ECONOMIC PERFORMANCE

An assessment of machinery producers' competitive standing is hampered by data limitations. As sales penetration information is elusive, turnover figures are used to gauge market status (cf. Bernasek and Kubinski, 1963: 480). At best, they approximate a vendor's relative position over time; thus, three measures -- farm equipment and aggregate corporate dollar volumes, and extent of functional diversification -- are examined to improve the analysis' accuracy. Relevant *economic* parameters represent income relationships and short-term operating condition, as expressed in liquidity. Profit and loss account and balance sheet ratios are again employed.

Sales performance estimate of market control

During the rural setback, large and small suppliers' net *machinery* sales declined in roughly equivalent proportion (Table 8.7)². Both groups were equally depressed until the 1969-70 collapse in which the former's turnover fell more heavily. Subsequently, it recovered faster than that of short-line manufacturers who experienced another reversal in 1971. However, equipment's importance to the two divisions varied considerably since large organisations were less dependent on machinery as a source of revenue. In 1967, it accounted for fifty-one per cent and, by 1971, only forty-two per cent of their total turnover (Table 8.7). In contrast, the small corporation's concentration retreated from seventy-nine to, still, seventy-one per cent over the same period. The continuing emphasis on depressed lines deflated its overall sales and profit performance.

TABLE 8.7: MARKET CONTROL INDICATORS, SAMPLE FIRMS, AGRICULTURAL MACHINERY INDUSTRY,
AUSTRALIA, 1967-71

Company Financial Years	Estimated Net Farm Machinery Turnover		Consolidated Net Corporate Turnover		Functional Diversification (percentage of net farm machinery to corporate turnover)	
	(Index 1967 = 100)					
	Large firms	Small firms	Large firms	Small firms	Large firms	Small firms
1967	100	100	100	100	51	79
1968	95	94	106	106	49	78
1969	88	92	110	112	46	75
1970	59	71	99	95	42	72
1971	65	60	110	90	42	71
Average 1967-71	81	83	105	101	46	75

Source: Annual accounts and unpublished internal financial documents, sample firms.

The advantages of size and conglomerate status in combating moribund markets were strikingly apparent on the corporate plane. The *aggregate* volume of larger enterprises with limited machinery interests (such as the vehicle builders) scarcely betrayed any adverse effects of the downturn (Table 8.7). Major equipment producers and their opposition suffered similar contraction in 1970; whereas the former recovered a year later, the latter underwent a further reversal. As a result, their average 1967-71 index lags behind that of the principal firms³.

With respect to the relationship of network and market control, present results are optimistic but inconclusive. Further testing is required with penetration data for key product groups between 1967 and 1973; even the addition of 1972-73 sales statistics would allow a more satisfactory evaluation. On the other hand, the above information highlights the importance of corporate stature and diversification in dealing with localised demand declines. Coming investigation of financial performance offers further support to the large organisation's implicit resilience.

Financial performance: profitability

Standardised corporate net income figures reveal that small merchandisers suffered scattered losses between 1967 and 1969 (Table 8.8). After 1970, the majority joined two large producers, Chamberlain and Massey Ferguson, in heavy deficits. Such unsatisfactory returns, the first since inception for many companies, arose from excess competition in the agricultural equipment industry which promoted lower accommodation of overheads. In 1971, improved revenue assisted major suppliers to a marginal improvement while their counterparts descended further into depression.

TABLE 8. 8: CORPORATE NET TRADING PROFIT (LOSS) AFTER TAX, SAMPLE FIRMS,
 AGRICULTURAL MACHINERY INDUSTRY, AUSTRALIA, 1967-71
 (\$A thousand)

Division	Class	Firm	Company Financial Years				
			1967	1968	1969	1970	1971
Large	Full-line	International Harvester	3882	3113	3257	2061	1201
		Massey Ferguson	2516	2080	315	(2792)	(1266)
	Long-line	Chamberlain	590	815	587	(700)	319
		Ford	9791	8651	13483	14995	16082
Small	Short-line tractor	Allis Chalmers	(233)	(786)	(602)	(429)	401
		Australian Motor Industries	1584	2140	1858	1653	1088
		Case	129	201	210	(704)	(482)
		Fiat	28	78	6	37	32
		Howard Rotovator	76	93	145	232	200
		Leyland	799	1959	807	(783)	(2470)
		Thiess Equipment Distributors	0	(20)	21	(2094)	(65)
		Alfarm Distributors	130	6	62	15	(76)
		Connor Shea	336	274	154	(293)	(337)
		Horwood Bagshaw	219	(228)	191	(389)	(1416)
	Short-line implement	Ralph McKay	431	436	476	339	262
		Mobilco	196	99	73	(2)	0
		New Holland	a	a	a	a	a
		David Shearer	55	148	(231)	(738)	(208)
		John Shearer	384	285	264	(381)	(352)

a Divisional accounts withheld for confidentiality.

Source: Published annual accounts or yearly returns to the State Registrar of Companies.

Inter-firm comparisons can be pursued better through consideration of the net margin (net profit after tax/consolidated net sales) and the net return on equity (net profit after tax/shareholders' funds and reserves). Both show a similar interrelationship among specialist machinery sellers and total Australian manufacturing (Table 8.9). From 1966-67 to 1970-71, the net margin of the nation's secondary sector averaged 4.34 per cent. By comparison, the large equipment supplier recorded a 0.60 per cent return and his opposition -0.30 per cent. The performance of leading businesses was assisted by an upturn in 1971 whereas, in the same year, the minor companies slipped again. This inequality in recovery rates, also reflected in the net return on equity, provides a key distinction between the divisions (Table 8.9). Yet, although these profitability figures appear to uphold the structural predictions, the major company's income record did not necessarily extend to its economic condition.

Financial condition

Principal suppliers, with a mean 1967-71 current ratio of 2.39, manifested more satisfactory gross liquidity than small contestants over the rural setback, but their initially-high working capital diminished after 1970 because of heavy overheads (Table 8.10):

we had a commitment on production -- for one, to keep the factory open, for two, if we didn't produce the goods into a finished unit...we'd have the same amount of collateral in unfinished units, so all we really did was increase our investment, in man-hours labour (*large Melbourne supplier, 12 July 1972*).

Extensive manufacturing obligations, combined with the stock accumulation of 1968-69 (cf. Table 3.8), created an inventory imbalance within current assets. Additionally, the ramifications of the large group's long-term trading goals introduced an element of hesitancy into supply management during 1969-70:

TABLE 8.9: NET PROFITABILITY, SPECIALIST RATIO SAMPLES,
 AGRICULTURAL MACHINERY INDUSTRY AND AGGREGATE
 MANUFACTURING, AUSTRALIA, 1967-71

Company Financial Years	Per Cent Net Profit After Tax Over:					
	Consolidated net sales (net margin on sales)			Shareholders' funds and reserves (net return on net worth)		
	Aggregate Australian manufacturing	Machinery firms		Aggregate Australian manufacturing	Machinery firms	
		Large	Small		Large	Small
1967	4.00	5.00	5.50	7.00	13.50	14.50
1968	4.20	4.50	3.62	7.70	14.00	7.00
1969	4.70	2.00	3.38	9.50	6.00	6.55
1970	4.50	-7.50	-6.50	9.60	-16.00	-7.67
1971	4.30	-1.00	-7.50	9.60	-2.00	-10.67
Average 1967-71	4.34	0.60	-0.30	8.68	3.10	1.94

Source: Annual accounts and unpublished internal documents, agricultural machinery industry ratio sample, and Australia [Tariff Board] (1972: 14).

TABLE 8.10: FINANCIAL CONDITION, SELECTED MEASURES,
SPECIALIST RATIO SAMPLES, AGRICULTURAL MACHINERY INDUSTRY,
AUSTRALIA, 1967-71

Company Financial Years	Liquidity Measures			
	Current ratio		Quick ratio	
	Large firms	Small firms	Large firms	Small firms
1967	2.48	2.05	0.76	0.76
1968	2.52	1.98	0.57	0.65
1969	2.52	2.05	0.71	0.85
1970	2.45	1.97	0.34	0.51
1971	2.00	2.16	0.65	0.63
Average 1967-71	2.39	2.04	0.61	0.68

Source: Annual accounts and unpublished internal documents, agricultural machinery industry ratio sample.

by April 1969...[we] suggested we should be cutting all our forecasts by about sixty per cent...unfortunately, this wasn't executed until about November/December of that year. And, in the next year...forecast levels were set around an industry level of fifteen thousand tractors and weren't reduced until March 1970 to more or less ten thousand units (*large Melbourne supplier, 8 May 1972*).

By mid-1970, hedging behaviour and an almost universal excess capacity perpetrated an industry crisis⁴: the inventory/consolidated net sales ratio of large and small producers was seventy-one and fifty per cent respectively, compared with twenty per cent for aggregate manufacturing (Australia [Tariff Board], 1972: 14)⁵. Amidst significant balance sheet movements in the large sector⁶, one company appealed to its dealers to deliver additional machines and make settlements within thirty days to ease:

[a] liquidity problem [which] has developed because of the high inventories, both with us and on a floor plan basis with dealers and distributors, plus inventories of parts to build machines that we know will not be used for some time. Our liquidity is also greatly affected as cash collections planned for this year have not been forthcoming (*confidential letter to dealers, large supplier, source suppressed, 27 July 1970*).

Such acute stock difficulties found expression in the quick ratio, which excludes frozen short-term assets and compares cash equivalents against current liabilities (Graham *et al*, 1962: 219 [fn. 11]). In 1970, large manufacturers' quotient fell to 0.34 as opposed to 0.51 elsewhere in the industry: it reduced their average 1967-71 quick liquidity slightly below that of short-line counterparts. This acid test of financial well-being therefore points strongly to advantages of flexibility accruing from the minor operation. It also suggests that large merchandisers traded hard to achieve their market objectives and, in the short-term, sacrificed some internal strength. Such circumstances crystallise the rationale of their wholesale and retail

policies: spatial strategy was substituted to improve finances and became a powerful device in achieving corporate aims.

Evaluation of the financial postulate

The available evidence from machinery firms can afford limited backing to the structural argument. The relationship of network and market control appears viable but is clouded by data shortcomings. While net income statistics seem at first to correlate business size with profitability, an incongruence to previous findings demands more intensive review (cf. Sheridan, 1974: 46-50). Any move to include measures of financial condition further weakens the postulate, since its monistic assumptions cannot necessarily encompass broader performance with success. Specifically, it downgrades the role of non-distribution factors in the marketing mix and the contributions of other company functions to the final accounts. Nonetheless, the present brief enquiry usefully demonstrates the stability of the large enterprise, an outcome with notable geographic implications incorporated below in the overall solution to the applied problem.

A SOLUTION TO THE APPLIED PROBLEM

As a way of highlighting broader aspects of corporate behaviour, this study grappled with the problem of identifying and assessing the economic and spatial response of product franchisors to depressed demand. The rural recession modified the distribution policy and practice of the sample in three ways:

- (a) revision of objectives to accommodate rapid market shifts and increased prospects of failure;
- (b) more pronounced goal-orientation, which frequently invoked the substitution of spatial and non-spatial courses;
- (c) the introduction of economising actions, a policy which completely revised existing physical patterns.

The enquiry posited a link among company structural attributes, expressed in the intervening variable of channel authority, locational tactics and business fortune. As anticipated, the intensity and direction of the above changes varied with the type of organisation. Economic power (evident in a firm's size, financial resources, diversification and longevity) and positional influence (determined by the siting of head-offices and the extent of contemporary distribution facilities) acted through the franchise code and representation strategy to modify the downturn's impact. Thus, in aggregate terms, sizeable conglomerates were the least affected, followed by large and then small specialist machinery producers⁷. In the equipment market, major undertakings' advantages were reflected in their resilience, an ability to retract market coverage without significant loss of control (and, probably, penetration), higher dealer continuation rates, maintenance of existing retail locations and avoidance of network atrophy.

Despite these concordant findings, the supposed association of firm characteristics with market and financial results can be accepted only with limitations. While the incidence of withdrawal from the industry and the nature of much competitive distribution activity accords with the hypothesized situation, the relative success of different systems is not sufficiently explained. On the other hand, the spatial argument seems highly relevant since it accurately accounts for the response of suppliers exhibiting varying commercial statures. Thus, the presumed interaction of firm factors, franchise management, and geographical policies can be sustained and, with more precise information, could probably be amplified to cover the parameters of market control and economic performance. This solution to the applied problem and qualified acceptance of the structural position can be pursued at two levels -- in relation to farm machinery producers and

product franchising -- as a prelude to specific comments about corporate decision-making in Chapter Nine.

Agricultural machinery franchisors

Although the 1967-72 setback furthered many prevailing patterns of the 1960s, it formed a distinct historical phase in the selected industry. It whittled away marginality and chronic excess capacity. A wave of failure and amalgamation lifted entry barriers, altered competitive relationships in the closely-knit oligopoly, and necessitated extension of product lines to assist the acquisition and maintenance of sales forces⁸ (cf. Bernasek and Kubinski, 1963: 476). At the wholesale level, the decline encouraged rationalisation and asset realisation through a rise in the thresholds of branch operation. Expansion of corporate regions weakened adherence to political boundaries and furthered a national orientation among primary members of the equipment trade. In future, the reduction in outlets necessary to serve a market demanding fewer machines of greater unit value could allow smaller competitors to dispense with some independent distributors and assume Australia-wide integrated marketing (cf. Barber, 1971: 76). In this respect, the rural crisis demonstrated to machinery corporations the benefits of a Perth-Melbourne-Brisbane depot pattern; they could also be acknowledged by other suppliers dealing chiefly with non-metropolitan demand.

Further significant change appeared in the retail area. Raised requirements for effective outlet operation again supported rationalisation policies in the removal of marginal facilities and concentration on fewer, bigger dealers centred in major towns (cf. Tables 6.6 and 7.9). Such a move merely particularised the recession's impact within the urban hierarchy -- it hastened centrifugal tendencies in the country economy and beleaguered the less populous nodes. The

trend could perpetuate many franchisors' long-standing difficulties in finding suitable representation and thereby encourage corporate distribution through retail stores. Although it accounted for up to ten per cent of some machinery suppliers' turnover between 1967 and 1972, this mode was generally avoided because of cost and risk disincentives. Yet, future company establishments could conceivably prove a more attractive investment through horizontal expansion beyond the sponsoring manufacturer's range. A move of this type would accord with a related and widely-anticipated development fostered by the recession's attack on brand exclusivity -- the American-style farm supply supermarket. These facilities, which stress merchandising technique and a greater segregation of the sales and service function, could be used constructively to promote one line of goods backed up by associated products but, among consortia of short-line business, they are likely to advance cross-franchising.

Essentially, a lack of differentiation at the sales point would represent a more *laissez-faire* form of marketing than the industry presently welcomes⁹. The escalation of retail barriers prescribed by a smaller number of cross-franchised outlets would upgrade the influence of positional power and revise current channel relationships in favour of dealers. Franchisors might be required to undertake greater forward integration in their services and in the placement of corporate stores to serve areas of inadequate penetration. Yet, since this possibility could be averted through merger or different representation policies, protracted discussion is still premature. More generally, however, the issue questions the value of product franchising as a distribution method in dynamic conditions -- both during recession and in the future.

Product franchising

As Slater (1964: 21) has pointed out:

editorialists like to wax enthusiastic about the untold opportunities in franchising, and as advocates of the system, we applaud this healthy outlook. By the same token, we fear that in their bullishness, the editors might be overdoing it a bit: most franchisees have done extremely well, but the franchisor did not merely wave a magic wand and -- presto, filled the parking lots.

In addition to indicating franchising's many positive features, events in the farm equipment market throw new light on less sanguine possibilities removed from the glow of the system's recent publicity. Orderly marketing of producer durables depends heavily on accurate stocking and forecasting, adequate wholesale and retail facilities and organisational flexibility, especially as regards cost and asset management. Excessive inventories in the industry under review created severe dislocation through an inability of seasonality counters such as early sales programmes to handle cyclical movements. Accommodation of these more extenuated forces calls for increased market research and long-term planning but the cheapest and most effective solution probably lies in functional diversification. The example of machinery producers suggests that the recent entry and consequent lack of horizontal integration among many franchise organisations, particularly in business and trade name applications, is a point of potential vulnerability in the technique's growth.

Clearly, the value of this distribution method lies not in its contractual relationship, as some writers have implied, but in its implementation. On the question of risk and change, one of the more perceptive critics, Ingraham (1963: 43) argues that franchising

seems well suited to function under conditions of change. As Alderson¹⁰ points out, it can be classed as an ecological system because of the peculiar nature of the bond among the components.

The components are sufficiently integrated so that the system can operate as a whole, but [it] is simultaneously open to expansion via the addition of components, and to improvements in efficiency by the replacement of components. In a franchise system, the secondary units [dealers] share the risks attendant to adjusting to environmental change.

This view may be accepted with certain reservations. A well-established, high-level system is a malleable and resilient tool. Yet, like other forms of business enterprise, franchising has a threshold below which it cannot perform effectively for any channel party. For instance, between 1967 and 1972, uni-functional suppliers would have required an average annual turnover in tractors and machinery of at least \$A3.00 million to contemplate using the practice successfully. Below this volume, there appeared hybridisations or the complete collapse of marketing leading to corporate withdrawal from the industry. While the experience of marginal competitors was unfavourable, franchising did not necessarily 'break down' in adverse conditions. Some participants lacked certain prerequisites for satisfactory operations while others upset delicate physical distribution balances by accumulating excess stock. Such contingencies would have corroded almost any organised selling method. Yet, in several cases, the unique internal allocation of risk and overheads allowed studied networks to handle short-term declines of up to fifty per cent of average annual throughput without serious disruption. It seems unlikely that either corporate or horizontal modes would have performed as efficiently because of hindrances imposed by fixed costs and inadequate administration respectively. Although its strength clearly relates to the network control and structural attributes of the franchisor, product franchising appears adequately-equipped to accommodate the dynamic demands of recession now and henceforth.

Generalisation of results

Exacting experimental conditions detailed in Column A of Table 8.11 urge caution in generalising the project's results. The structural hypothesis was applicable to the *product* franchise system of a *producer-durables* industry in a *consumer* marketing environment. Unlike other depressions, the operative economic setback was localised, temporarily-confined, and induced by income factors within the demand function. Perhaps only amongst the motor vehicle and truck trades could all these specifications be replicated. Strictly, therefore, extension of the current findings should be limited to these fields. Moves beyond the contingencies arrayed in Column A of Table 8.11 should centre initially on Cells 3B and 6B, since the particular market and duration of recession would probably alter attendant reactions little from that observed in farm equipment supply. In fact, a longer, more widespread or severe setback would conceivably emphasize the larger concern's advantages and, hence, reinforce the claims of the central hypothesis. Similar structurally-oriented patterns of corporate behaviour could thus be expected within the oil, automobile, and specialised household appliance industries in a major business setback -- whether the Depression of 1929, the 'Credit Squeeze' of 1961 or even the immediate economic downswing of 1974.

However, the present conclusions may not necessarily apply to other forms of franchising or marketing (Cells 1 and 2). Business and trade name systems relate primarily to non-durable goods and services with substantially different demand characteristics to the product-based group. The effect of variation in the type of marketing or recession is similarly obscure, since few Australian franchise organisations sell other than directly to consumers, and supply-induced recession has been rare in advanced economies since 1945. Yet, the contemporary fuel

TABLE 8.11: EFFECT OF EXPERIMENTAL CONDITIONS
ON GENERALISATION OF RESULTS

Variable	Cell	Conditions		
		A	B	C
Type of marketing	1	Consumer	Industrial	Institutional
Type of franchising	2	Product	Business	Trade name
Type of market	3	Producer	Consumer	-
Type of goods	4	Durable	Non-durable	-
Nature of recession	5	Demand-induced	Supply-induced	-
Duration of recession	6	Brief	Protracted	-
Extent of recession	7	Localised	General	-

Source: Author.

crisis with its implications for vehicle manufacturers could open possibilities -- albeit unappealing ones. After the case of franchising such investigations could lead towards a wider view of distribution under economic contraction -- a useful practical endeavour and worthwhile contribution to a discipline whose theoretical masterworks:

are not to be found in textbooks; they are still to be developed (Halbert, 1965: 59).

The benefits to another nascent field, marketing geography, would also be considerable.

RÉSUMÉ

Although an association of channel and network authority and general financial performance could not be demonstrated conclusively, core aspects of the main hypothesis had direct application to the conduct of Australian farm equipment merchants between 1967 and 1972. An integration of findings from large and small franchisors supported the predicted relationship of company competitive powers expressed through structural attributes, distribution control capacities, and the choice of spatial strategy. This insight permitted a broad interpretation of the recession's effect on the subject industry, the adaptation of product franchise systems to uncertainty and the universality of current results. Completion of the analysis now leads to conclusions about selected processes of corporate spatial decision-making in Part Four.

CHAPTER EIGHT FOOTNOTES

1. In fact, finance companies, controlling wholesale floor-planning while also selling near-new repossessions, became serious competitors for machinery dealers.
2. Raw data were entered into the computations without adjustment. Price increases between 1967 and 1972 were largely offset by the indeterminate, raised, or floating wholesale margins which effectively lowered producers' net sales during the period.
3. Three small suppliers, specialising in areas outside the machinery market onslaught, were fortunate enough to escape the recession's blight. In contrast, the most debilitating total sales decline recorded in the division was fifty per cent from 1967 levels.
4. See The Australian Financial Review, 12 May 1970.
5. Overstocking led to severe price wars, expressed in inflated wholesale margins and trade-in allowances at retail. See The Australian Financial Review, 17 September 1970, The Weekly Times [Melbourne], 14 April 1971.
6. Specifically, Massey Ferguson was required to undertake heavy overseas borrowing. See The Australian Financial Review, 22 June 1970, 14 December 1971 for further details of the company's problems.
7. Much of the recession's impact was therefore related to levels of corporate exposure.
8. If further amalgamations ensue as a result of the recession, the industry structure of the late 1970s could exhibit more pronounced concentration. Remaining small firms would face a choice of intensive specialisation for competitive advantage, merger, or product and functional diversification. Either of the last two options -- probably the more attractive for risk and profit-conscious management -- would contribute to the corporate growth process described by Steed (1971c: 55).
9. The development of restrictive trade practices legislation will afford dealers greater discretion on exclusivity issue. Cross-franchising is widely practised in the United States.
10. W. Alderson, Marketing Behaviour and Executive Action, Irwin, Homewood, 1957, pp. 29-32.

CHAPTER NINEASPECTS OF CORPORATE DECISION-MAKING DURING RECESSION

Until recently, the rise of the corporation had not attracted great attention in geography. Now, however, its striking impact on advanced and developing lands has demonstrated the need for information about its geographical activities. Conventional theory, centred around the small businessman, is of limited assistance in the quest. Yet, its relevance can be gradually uplifted by study of the large producer's decision-making and its relationship with that undertaken by the entrepreneur. Such a method was adopted in this enquiry, whose chief finding is the influence of firm size and other structural factors expressed through channel management potentialities on high-level commercial action during recession. Conclusions about establishment turnover, scale effects and the substitutability of policy elucidate further the processes and relationships governing major companies' choice-patterns and show how they differ from those of the single-plant operation.

PROCESSES OF DECISION-MAKING

Even among a few leading undertakings, much heterogeneity prevails in competitive tactics. It is best countered by intensive, longitudinal analyses of business adjustment, in which an awareness of line management functions and their part in the proposal of geographical moves is essential. Practical aids such as Stern's (1966: 13) marketing planning schema offer an integrated view which is often missing in the design of extensive surveys. This particular technique treated location through underlying firm goals which it separated from divisional objectives. In the subject industry, an oligopoly with

numerous conglomerates, the former exercised a decisive influence on the conduct of specialists, whereas the latter appeared to hold somewhat more sway among diversified concerns whose chief interests were in other product fields. Various responses to the setback were therefore latent from the outset. But in contrast to the predictions of traditional theory -- and, presumably, the position of the entrepreneur -- most depression-bound suppliers seemed preoccupied with aims other than profit maximisation. Balance sheet relativities were a focal issue among minor distributors, while primary organisations could still consider trading criteria -- market share, representation and so forth -- as foremost in facility placement and the achievement of future desires (cf. Webber and Daly, 1971: 16). Though not mutually exclusive, the two orientations were based on a fundamental gap between both groups' perspectives and expectations. Major concerns frequently expressed their certainty of survival despite the dangers of the crisis but such assurance was by no means universal in the small sector. Much of the diversity in spatial behaviour among sampled contestants could be traced to this distinction, illustrating the importance of size factors in the determination of strategy. The response of the bigger undertakings was also modified by the perceptions of the participants in decision-making procedures. For example, one instance of inter-divisional conflict over a spatial question accentuated a range of formal pressures which could have scarcely impinged on the deliberations of the local businessman. The nature and intensity of the corporate policy-process suggests even greater disparity between the two actors' situations, as outlined with respect to establishment turnover.

Establishment turnover

Manufacturing investigations have fostered the notion that commercial shifts involve long-term management choices and heavy capital investment, making the penalties of error sufficiently severe to predispose inertia (see Steed, 1971c: 54). This study confirms the high cost burden in relocation. Yet, the conventional argument neglects the stimuli to change inherent in the business cycle and caused additionally by demand oscillation, monetary appreciation, and the wish to realise assets. As one illustration, recession prompted *intense* physical alteration over a six-year period among farm equipment merchants, encompassing not only the wholesale and retail areas but also production installations. Clearly, these results support Steed's (1971a: 207) speculations about large producers' facility transition. Some of the mobility was probably due to the neglected option of leasing, whereby location decisions need not presume extensive funding. High-risk industries together with new and 'footloose' firms often prefer this proposition as a means of reducing financial exposure and hedging against functional diversification or technological progress. Wider application of the principle should be anticipated in the future, thus allowing spatial tactics to be accomplished in an investment or operating framework depending on the certainty prevailing (cf. Toffler, 1971: 65-68). Establishment movement could increase commensurately, though perhaps not to the extent portrayed among the selected companies which were under duress from the economic downturn. Nonetheless, the magnitude of the observed change again points out the cogency of the corporate phenomenon and its transcendence from the entrepreneur. More specifically, it underlines the significance of scale, and relationships governing the enterprise's policy determination.

RELATIONSHIPS IN DECISION-MAKING

Stern's model listed both the processes *and* the variables likely to affect choices in the major concern's marketing sector. At a general plane, diverse influences in the environment, the market and within the organisation itself play a role. Physical movement occurs chiefly as a part of product distribution. In this setting, it can be substantially modified by communications demands or those of the goods in question. Therefore, between proposal and implementation, plentiful opportunities exist for the substitution of geographical with other types of activity.

Substitutability of spatial policy

Most of a large undertaking's manoeuvres are contemplated in response to its overall aims and divisional objectives. Rarely is location regarded as an end in itself but one among many competitive courses open to executives in achieving their ends. Several subject businesses, for instance, executed spatial action through asset realisation as a way of augmenting cash flows and counteracting liquidity pressures. Others attained the same outcome in an aspatial manner -- through short-term borrowing. An appreciation of the rationale behind such varied behaviour demands a more intensive focusing on the intra-firm situation than has previously obtained in geography. In this respect, present conclusions about scale effects provide some useful perceptions.

Scale effects

The bearing of scale on the distribution of commercial facilities can be interpreted at two levels. In the higher echelons of an industry, it is expressed through company structural attributes and

exercises a marked influence by laying the bases on which choices are made. In a well-established field of production, a vendor's stature is determined by a wide range of correlates, such as sales, investment and financial strength, and operating stability. They are linked to market representation through network control, a medium virtually unrecognised in previous writing.

This project has also argued the effects of scale in the divergence of the enterprise's decision process to that of the single-plant concern around which much work has centred in the past. The distinction is amply depicted by the case of the recession; large organisations' courses were devised with copious information through extensive feedback mechanisms and proceeded in a calculated fashion towards specified aims. The composition of strategy employed developed pathways; it was not an *ad hoc* or infrequent exercise but, rather, an ongoing task based on change in the milieu, market and intra-firm position. In fact, several negotiations could have been undertaken concurrently. Yet, for each, the corporation would have suffered less aggregate financial exposure than the small businessman in his one locational initiative. For the former, economic objectives are of central interest and little adherence was found to accrue to lifestyle factors which may pointedly affect the geographical predilections of the entrepreneur (cf. Katona and Morgan, 1952: 80-81; Eversley, 1965). While the pecuniary orientation vindicated the current concentration on accounting statistics, their use and the subsequent application of other accepted methods of industrial analysis must depend greatly on the development of the conglomerate. Its growing complexity is outpacing research efforts to find basic parameters, let alone its locational matrices. Therefore, directions for future research are critical.

FUTURE RESEARCH THRUSTS

As a basis for the coming discussion, it is apposite to list briefly this thesis' main findings and their relation to prior writing. The study has established certain repercussions of recession at six levels -- that of the Australian rural economy, country towns, product franchising, the farm machinery industry, and its participant manufacturers and dealers. Most importantly, conditions of extreme uncertainty conferred an unusual view into the nature of corporate spatial decision-making. As portrayed by establishment mobility and strategy substitution, its component processes and interrelationships seemed removed from those of the entrepreneurial situation; it was geared more expansively to serve different company aims. They were not necessarily the aims of classical location theory and varied with the characteristics of individual organisations. Apart from implying that the assumption of continuing prosperity has weighed too heavily in the past, these findings support the supposed divergence of the enterprise and lone businessman. By centering on the former, little-explored area, they afford some insight upon the interface.

To pursue this thrust, the ultimate objective of enquiries issuing from this analysis would be a reassessment of conventional theories in the light of the corporation's progress. A three-stage attack is envisaged. The immediate step is to verify present conclusions by contacting a sample of extant and de-registered machinery firms smaller than the nineteen selected here in order to examine their experiences between 1967 and 1972. A later check on all subject groups should evaluate the recession's *prolonged* ramifications. Second, the results must be generalised by considering the different states listed in Table 8.11. The initial emphasis would deal with the outcome on policy-formation of variation in the type, duration or extent of an

economic setback or the nature of the market served. Subsequent enquiries within other forms of franchising and marketing could produce a theory of corporate location in franchise systems during both depressed and favourable business eras.

Establishment of this bridgehead would introduce a third drive designed to detect whether the behaviour reviewed here (or any other aspects under further investigation) hold throughout the secondary sector. Sophisticated comparisons of tactical choice in horizontal or fully-integrated vertical distribution could employ previously-determined franchise information as a control. Recognition of the effects of variation in experimental conditions (as demonstrated in Table 8.11) would foster a scientific approach to the discovery of spatial regularities characterising the large firm's marketing -- the sector which provides most opportunities for geographical change. Emergent principles could be later integrated with results of research into its manufacturing patterns and, finally, turned to improve the applicability of existing theory.

Such planning presumes preparatory logistics work. Apart from material on size concentrations collated by the Australian Bureau of Statistics and the Industries Assistance Commission, sources by which enterprises and their operations may be identified are lacking. Although the new *Census of Economic Activity* is attempting to tackle the definition problems, broader acknowledgement is needed of issues relating to reporting and disclosure (cf. Mautz, 1968). Multi-disciplinary conferences between company directorates, collection agencies, and users of statistics would be a worthwhile measure to lay the bases for future studies.

Assuming headway with these practical considerations and the continued support of enlightened business management, a complementary advance could be effected to the dynamics of corporate strategy and

aspects of Australian economic geography. To avoid the confusion of facts hampering conceptualisation in marketing, a focus on established theory must always obtain (cf. Kernan and Sommers, 1968: vii).

A paramount responsibility is the assimilation of new empirical conclusions with prior research into firm behaviour and plant location. Given properly organised investigations and the growing importance of both product distribution and the corporation to the nation's welfare, marketing geography appears poised to make a significant applied contribution and forge a new place in the mainstream of the discipline.

APPENDIX ONE

PARTICIPANT AND OTHER FIRMS

This Appendix presents a list of the nineteen agricultural machinery companies which participated in the study and various other Australian firms referred to in the text.

THE NINETEEN PARTICIPANTS

Alfarm Distributors Pty Ltd,
Hume Highway,
ALBURY. N.S.W. 2641

Allis Chalmers Australia Ltd,
N.R.M.A. House,
26 Ridge Street,
NORTH SYDNEY. N.S.W. 2060

Australian Motor Industries Ltd,
155 Bertie Street,
PORT MELBOURNE. Vic. 3207

J.I. Case (Australia) Pty Ltd,
Windsor Road,
NORTHMEAD. N.S.W. 2152

Chamberlain Industries Pty Ltd,
(until 1970) and, thereafter:
Chamberlain-John Deere Pty Ltd,
Welshpool Road,
WELSHPOOL. W.A. 6106

Connor Shea and Co. Pty Ltd,
Fourth Avenue,
SUNSHINE. Vic. 3020

Fiat of Australia Pty Ltd,
Cnr. Egerton Street and Silverwater Road,
LIDCOMBE. N.S.W. 2141

Ford Motor Company of Australia Ltd,
(Tractor and Implement Division),
1764 Sydney Road,
CAMPBELLFIELD. Vic. 3061

Horwood Bagshaw Ltd,
Victoria Street,
MILE END. S.A. 5031

Howard Rotavator Pty Ltd,
Boundary Road,
NORTHMEAD. N.S.W. 2152

The International Harvester Co. of Australia Pty Ltd,
171-205 City Road,
SOUTH MELBOURNE. Vic. 3205

Leyland of Australia Ltd,
(Tractor Division),
52 Joynton Avenue,
WATERLOO. N.S.W. 2017

Ralph McKay Ltd,
36-42 Hampstead Road,
MAIDSTONE. Vic. 3012

Massey Ferguson (Australia) Ltd,
2 Devonshire Road,
SUNSHINE. Vic. 3020

Mobilco Ltd,
410-422 Whitehorse Road,
MITCHAM. Vic. 3121

New Holland Division of Sperry Rand Australia Ltd,
232 Princes Highway,
DANDENONG. Vic. 3175

David Shearer Ltd,
Adelaide Road,
MANNUM. S.A. 5238
(until 1972)

John Shearer and Sons Ltd,
Share Street,
KILKENNY. S.A. 5009

Thiess Equipment Distributors Pty Ltd,
Alexander Avenue,
TAREN POINT. N.S.W. 2229
(until 1972)

OTHER FIRMS UNDER DISCUSSION

David Brown Tractors Pty Ltd,
49 Derby Street,
LIDCOMBE. N.S.W. 2141
(until 1972)

John Deere Ltd,
160 Sunnyholt Road,
BLACKTOWN. N.S.W. 2148
(until 1972)

H.V. McKay Pty Ltd,
(until 1930) and, from 1930-58:
H.V. McKay Massey-Harris Pty Ltd,
2 Devonshire Road,
SUNSHINE. Vic. 3020

APPENDIX TWOA COMPOSITE AGRICULTURAL MACHINERY
FRANCHISE AGREEMENT

This Appendix presents a composite franchise agreement typical of those obtaining in the Australian agricultural machinery industry in 1967. From the sixteen available contracts, representative clauses have been selected to cover the thirty-nine subject areas listed in Table 5.5. Rather than simply reproducing one firm's document, this procedure was adopted to ensure confidentiality and avoid bias. For practical reasons, however, the more detailed examples have been chosen to allow a full view on the average marketing code. On the question of manufacturer/dealer equitability, the collation attempts to maintain a neutral stance.

DEALER AGREEMENT

for the Sale of
Products manufactured and/or sold by

SURROGATE COMPANY LTD

Made this..... day of..... 19.....

between

SURROGATE COMPANY LTD

(Herein called THE COMPANY)

and.....

trading as.....

in the State of.....

(Herein called THE DEALER)

Agreement Number.....

INTRODUCTORY CLAUSES

(1) Purpose of agreement

The Company believes that a well-informed and prosperous dealer organisation is necessary to bring the full benefits of [its] equipment to the primary producer. [It] commands facilities for design, production, and supply of numerous types of agricultural equipment and desires to maintain and extend the use of its equipment by Australian primary producers in volume and efficiency. The Dealer has been selected by the Company as a dealer in its equipment competent to provide throughout the Dealer's territory adequate and continuous sales effort and prompt efficient and courteous technical service. The Company desires to assist its dealers to obtain the best possible results and expects the Dealer to maintain suitable business premises, sales, service and parts facilities to avail himself of the Company's sales guidance, merchandising plans, advertising programmes, business organisation methods (including financial recording and housekeeping) and personnel training.

(2) Previous agreements cancelled

This agreement supersedes all prior dealer agreements whether verbal or written subsisting between the parties immediately prior to the date hereof in relation to goods of which the Company may be the distributor and all such agreements are hereby cancelled by mutual consent.

(3) Interpretations

In this agreement, unless the context otherwise requires, any word importing the singular includes the plural and *vice versa* and any word importing the male includes the female and neuter; *machine* means a tractor or any tool, implement or appliance designed for use in agriculture or pasturage and offered for sale or sold by the Company and includes parts and accessories; *industrial* in relation to *use* means use other than agricultural or pastoral and in relation to *equipment* means anything being used or intended to be used for any purpose other than agriculture or pasturage; *person* includes corporation; and, in relation to the Company, *Manager* means the Chief Executive Officer of the Company.

(4) Jurisdiction stated

All rights, duties, obligations, and liabilities under all orders received by the Company from the Dealer shall be governed by the laws of the State of..... It is understood, however, that such orders are in a general form and that any provisions therein which may in any wise be illegal or void under the laws of state, territory, or other jurisdiction in which a contract is being enforced shall be deemed not to be a part of the order.

(5) Products covered

The Company's products included in this contract are all agricultural tractors, agricultural machines and agricultural

implements for the time being manufactured and/or dealt in by the Company, together with attachments, accessories, and parts (including plough shares, and earth-engaging discs and points therefor).

(6) Contract non-assignable

This agreement cannot be sold, bartered, traded, transferred or assigned either in part or as a whole by the Dealer without the prior written consent of the Company.

(7) Franchise granted

The Company hereby extends a franchise to the abovenamed Dealer for the sale of implements and machines, attachments and duplicate parts (hereinafter referred to separately, or collectively as *goods*) subject to the terms and conditions hereof and to such instructions as may be given in writing by the Company from time to time.

GENERAL CLAUSES

(8) Design changes, product exclusions

The Company may discontinue the supply of any model of the said goods or make any modification in the design of the components or fittings or parts for any of the said goods at any time and shall be under no obligation to make any such modification to any of the said goods previously ordered or purchased by the Dealer whether they are then new or have become used or second-hand and the Dealer shall not alter any of the said goods whether new or second-hand or change or substitute any of the components, fittings, or parts as sold by the Company nor do anything that will in any way infringe, impeach or lessen the validity of the patents or trademarks under which any of the said goods may be made or sold.

(9) Passing of title to goods

The property in goods delivered under this agreement shall not pass to the Dealer before payment for them is made by the Dealer to [the Company].

(10) Non-agency franchise

The relationship between the Company and the Dealer shall be that of vendor and vendee and the Dealer shall under no circumstances be or be deemed to be the agent of the Company and, except as may be hereinafter provided, the Dealer shall not have any right or authority express or implied to enter into any contracts or commitments, nor to make any representation or condition, nor to give any warranty in the name of or on behalf of the Company or purporting to bind the Company in any respect whatsoever and the Dealer shall indemnify and keep indemnified the Company against all actions, claims and expenses arising out of any breach by the Dealer of this provision.

(11) Use of trade marks

The Dealer will sell the machines under their respective names or trade marks and not otherwise, and will not use those names or trade marks or any of them in connection with any firm name or telegraphic address or in any form or connection to which the Company shall have objected and, on termination or cancellation of this agreement, the Dealer will cease and abstain from further use of such names and will thereafter not use any word, expression or device so nearly resembling any such name or mark as may tend to confuse or deceive the public.

(12) Definition of territory

The Dealer's territory comprises the town of.....
and the surrounding districts (herein called the Dealer's *territory*).

(13) Exclusivity of territory

The Company hereby grants to the Dealer, subject to the terms and conditions hereinafter appearing, the right within the territory...to canvass for offers for the sale of or letting out on hire (on such terms and conditions as the Company may from time to time in writing direct) of new tractors, implements, equipment accessories and spare parts. The Company reserves the right to make such amendments or alterations to the territory as it shall from time to time consider desirable for any reason whatsoever. The right hereby granted shall not prejudice or affect the right of the Company or any subsidiary, distributor, dealer, or agent of the Company to sell or hire any of the said goods within or for use within the territory, which right is expressly reserved, to the intent that the right hereby granted is non-exclusive. The Company's ruling shall be final in connection with any matter arising from or connected with infringement of the territory or any infringement by the Dealer of any of the provisions of this agreement.

(14) Types of prohibited sales

The Dealer recognises and understands that the Company may sell, lease, or loan the goods covered by this agreement for use in the Dealer's trade area to:

- (a) the Commonwealth Government and any department and agency thereof;
- (b) State or local governments and any department or agency thereof;
- (c) manufacturers to be used by them in equipment of their respective manufacture or assembly or the repair thereof;
- (d) dealers or distributors of the Company's other product lines for use by such dealers or distributors in the operation of their business; and
- (e) educational or charitable institutions or agencies.

The Dealer also recognises and understands that the Company may sell, lease or loan the goods covered by this agreement through:

- (a) Company-owned retail outlets, wherever located; and
- (b) to dealers wherever located.

No commissions will be allowed or paid to the Dealer on any sale of the types referred to in this section made by the Company or any of its dealers or distributors in the Dealer's trade area. When, upon request of the Company, the Dealer assembles, adjusts, or delivers to the place specified by the Company any goods sold, leased, or loaned by the Company for use in the Dealer's trade area, the Company will compensate the Dealer for his services at the rates established by the Company for such purposes and in effect at the time the services were rendered.

(15) Policy on sub-dealers

A Dealer may distribute the goods within his territory through agents or sub-dealers appointed by him. The Company accepts no responsibility for arrangements between the Dealer and his agents or sub-dealers.

(16) Instructions to dealers

All orders, directions or requirements to the Dealer, if made in writing and signed by any manager or other duly authorised employee of the Company shall, for the purpose of and incidental to this agreement, be deemed an order, direction or requirement of the Company and the Dealer agrees to be bound by them. The expression *the Company* shall be deemed to include any manager for, or duly authorised employee of the Company in the Commonwealth of Australia; and the word *office* shall mean the Company's chief office which controls the Company's business for the State in which the Dealer resides.

(17) Service of notices

Any notice under this contract may be served by letter signed by or on behalf of the Company or the Dealer and posted to the address of the other and shall be deemed to have been served on the day following posting.

(18) Variations of contract

This agreement shall not be varied, added to or altered, nor shall any obligation thereunder be waived or modified otherwise than in writing under the hand of the Manager for the time being of the Company or under the seal of the Company.

(19) Policy on competing products

During the continuance of this agreement, the Dealer shall not and shall procure that no person, firm, or corporation on behalf of or as agent for the Dealer or being directly or indirectly substantially under the control of the Dealer or being a subsidiary of the Dealer shall, without the consent in writing of the Company first had and obtained enter into any agreement with any person, firm, or corporation for the sale of any tractors, accessories, equipment attachments, implements and spare parts other than the said goods.

(20) Powers of waiver

The failure or forbearance of the Company to enforce at any time any of the provisions of this agreement, or to exercise any option or

right which is herein provided, or to require at any time performance by the Dealer of any of the provisions hereof shall in no way be construed to be a waiver of such provision and shall not in any way affect the validity or effectiveness of the agreement or any part thereof, nor the right of the Company to thereafter enforce each and every provision. The exercise of one right or remedy shall not constitute an election or preclude the Company from exercising all the rights and remedies available to it by law or hereunder.

OPERATING CLAUSES

(21) Policy on acceptance of orders

The Company may, at its option, accept any orders for any of the said goods forwarded to the Company provided that, notwithstanding anything herein contained or implied to the contrary, there shall be no obligation upon the Company to accept any order from the Dealer or to deliver any of the said goods so ordered to the Dealer. All orders accepted by the Company shall be deemed to have been accepted subject to and upon the condition that the Company is under no liability whatsoever for failure to deliver or for delay in delivery from any cause whatsoever and howsoever arising. Any order given by the Dealer to the Company may be accepted by the Company as to part only of the goods ordered. Notwithstanding anything herein contained to the contrary and whether express or implied, the acceptance by the Company of any order or any part of any order for any of the said goods shall be revocable by the Company and be final and binding on the Company only as to such of the said goods referred to in the order for which the Company has given written notice to the Dealer in readiness for delivery (hereinafter called *delivery notice*).

(22) Terms of payment

Payment for goods are to be made not later than the twenty-fifth day of the month following the month in which the invoice is raised. All goods supplied by the Company to the Dealer remain the property of the Company until the whole of the purchase price and transport and other charges are paid to the Company. Payment to the Company means payment in cash, and payment by cheque shall not be treated as payment until the cheque is honoured.

(23) Used equipment dealing

The Dealer shall undertake second-hand dealing in tractors and agricultural machines and equipment as a corollary of being able to offer to take the same *trade-ins* on the sale of the Company's products, and, to this end, the Dealer shall establish a second-hand equipment trading fund available to finance such second-hand trading.

(24) Delivery and financial procedure

Delivery of any of the Company's products purchased by the Dealer shall be at the Company's premises from which the goods are despatched. Unless otherwise arranged at the time of order, payment of the price

for the Company's products shall be made on delivery provided always that, if in any case extended terms of payment are allowed, the Company shall have an unpaid seller's lien upon the Company's products concerned, and the Dealer shall not part with title to or possession of those Company's products to any purchaser or bailee until payment in full to the Company of the purchase price of those Company products is made.

(25) Non-fulfilment of orders

The Dealer assumes all responsibility for loss or damage to the products from any cause after despatch by the Company from its factories or any of its branches to the Dealer, and no loss or damage from any cause during the period between despatch of the products by the Company and final payment in cash of the purchase price shall relieve the Dealer from any of his obligations hereunder. The Company shall not be liable to the Dealer in any manner whatsoever for loss, damage, detention or delay in final delivery resulting from causes beyond its control, or caused by act of God, fire, strike, war, civil or military authority, insurrection or riot, embargo, car shortage, wreck, delay by suppliers of materials, or delay in transportation; or in any event for consequential damages, the Company's sole responsibility being limited to fulfilment of the warranty referred to [before].

(26) Consignment conditions

If, by agreement, the Company supplies any of the Company's products to the Dealer for sale on consignment, the Dealer shall hold those Company's products and the proceeds of sale thereof in trust for the Company and the following conditions shall apply.

- (i) No property in Company products on consignment shall pass from the Company until they are sold and the full retail price therefor is received by the Company.
- (ii) All moneys, cheques and negotiable instruments received by the Dealer shall be paid into the Company's banking account to the Company's credit without deduction for discounts or otherwise.
- (iii) The Dealer will insure with an approved insurance office at his own expense, in the name of the Company, against loss or damage by fire or other cause at their retail cash value all products sent to him on consignment by the Company and will indemnify the Company against loss or damage in the event of his failure to comply with this clause.
- (iv) The Dealer shall not deliver any products to a customer from consignment stock without first securing a signed order from the customer and obtaining the consent of the Company and any failure on the part of the Dealer to observe this provision shall render him liable to pay for such products at retail list prices.

(27) Retail pricing policy

Notwithstanding anything to the contrary contained herein or implied, the Company reserves the right to alter or amend as it may in its absolute discretion deem fit the dealer wholesale buying price fixed by it from time to time by notice in writing sent by prepaid

post to the Dealer at his address appearing in this agreement. The Dealer undertakes that he will advertise and sell the [products] at only the retail prices fixed by the Company from time to time. The Company reserves the right to change its retail selling prices and Dealer wholesale prices of the [products] at any time by telegram or letter.

(28) Policy on written orders

Orders for equipment will be accepted by the Company from dealers for fully-equipped machines only, and these must be on the official order forms. These orders will be regarded as irrevocable contracts. No machine will be despatched without a signed order form from a dealer, or a signed [subsidiary] finance agreement.

(29) Spare parts policy

The Dealer undertakes to buy from the Company the whole of his requirements of parts for the Company's products and to maintain throughout the currency of this agreement a stock of such parts as is, in the opinion of the Company's responsible officers, adequate to service the Company's products in the Dealer's territory. The Dealer undertakes to place orders for parts in accordance with regular parts ordering programmes which the Company may conduct from time to time. After expiration of thirty days from date of purchase, parts purchased by the Dealer under this contract shall be returnable to the Company only after submission of a detailed list by the Dealer and after receipt of written approval from the Company. For current parts, the Company will credit the Dealer with the ruling dealer price, less fifteen per cent discount. Parts which are not current in the opinion of a responsible officer of the Company will be credited less such greater discount as the Company may determine. The dealer agrees to pay all freights and charges incurred on parts which he returns to the Company. [In normal circumstances], the Dealer undertakes to pay all charges on the said parts ordered by him, other than freight, from the Company's premises.

(30) Product insurance

Until the Dealer has paid the whole of the purchase price together with transport and other charges, the Dealer shall at his own expense insure and keep insured the goods in the joint names of the Company and the Dealer.

(31) Product alterations

In order to maintain standardisation of models, the Dealer shall not make any alterations to any product without the prior consent in writing of the Company.

(32) Warranty

The Dealer shall have no authority to make or give any warranty whatsoever other than that set out on the order forms as issued by the Company. The Company's warranty in respect of new tractors, implements and accessories as at the date of this agreement is set out hereunder:

the Company warrants and guarantees, as regards all new tractors, implements and accessories supplied by it, that all precautions that are usual and reasonable have been taken to ensure excellence of materials and workmanship and that each such tractor, implement and accessory is free from defects in material and workmanship under normal use and service, its obligations under this warranty being limited to making good, at a factory to be nominated by it, any part or parts thereof including equipment and accessories (except tyres, electrical equipment and proprietary accessories and other articles and parts not manufactured by or on behalf of the Company) which shall, within six months (or, in the case of wheeled tractors used in the sole opinion of the Company entirely for agricultural purposes, twelve months) after delivery of such tractor, implement, or accessory to the original purchaser, be returned to it with transportation charges prepaid and which its examination shall disclose, to its satisfaction, to have been thus defective. The above warranty does not extend or apply to any tractor, implement or accessory which shall have been repaired, altered, neglected or used in any way so as, in the judgment of the Company (whose decision is final), to affect adversely its stability or reliability or to any tractor, implement or accessory, any of whose identification numbers shall have been altered or removed.

The Company does not give any warranty in respect of any Company tractor or any implements or accessories except the warranty contained above, which is given expressly in lieu of all other warranties and conditions expressed or implied and of all other obligations or liabilities in its part. Tractors which are sent for repair will be driven at the risk and responsibility of the owners only. Repairs of tractors are undertaken only on the assumption that the owners give authority to drive them on their behalf. The Company accepts no responsibility for loss or damage to customers' goods howsoever occasioned whilst such goods are in the Company's or Dealer's possession. The above warranty is subject to alteration or amendment from time to time at the Company's discretion. All other warranties, whether express or implied by statute, common law or otherwise are hereby expressly negatived and excluded.

(33) Collateral and set-off

The Dealer shall, upon request of the Company, endorse and deliver to it to be held as collateral security sufficient good, well-secured notes and book debts to cover any indebtedness for goods shipped to the Dealer either on past due notes, open accounts, or for goods resold by the Dealer. The Dealer shall guarantee the payment of said collateral notes and book debts promptly at maturity, waiving presentation, demand, protest, notice of protest and diligence both as to makers and endorsers, and full power and authority is hereby granted to the Company to make collections, enforce payment, renew or compromise such collateral in its own name as it deems necessary and best, but it shall

be under no obligation to collect such collateral or to protect such collateral against the claims, if any, of third parties.

In case of default in payment of any of said collateral notes or book debts, dealers shall remit cash for the full amount of the same within ten days after maturity. On payment of Dealer's indebtedness in full, all collateral in the Company's possession shall be returned to the Dealer. Upon request, the Dealer shall execute and deliver to the Company the title retention notes and such other security instruments as may be required by Company covering unpaid goods shipped. Such notes shall be taken as evidence of indebtedness and not as payment.

(34) Tenure of franchise

Except as otherwise provided below, this agreement is made for the period ending.....but shall continue thereafter for consecutive twelve month periods until cancelled by either party by sending to the other notice in the manner specified at least thirty days before the end of any such period.

(35) Dealer obligations

As evidence of the Dealer's intention to exploit his [franchised] dealership to the full, he undertakes to order simultaneously with completion of this agreement implements applicable to his territory and will always maintain in stock machines and spare parts to be used for demonstration and display purposes.

The Dealer undertakes without prejudice to any other obligations already provided for in this agreement, to provide a motor vehicle at his own cost for the following purposes:

- (a) to canvass his territory for orders with or without the Company's representatives;
- (b) to convey the Company's service personnel when required for starting and/or adjusting machines or implements;
- (c) to convey the Company's representatives to effect settlements and collect overdue accounts;
- (d) to keep the Company's goods under the notice of farmers and others in his territory and to thoroughly canvass the said territory for orders and settlements himself or per medium of his employees.

The building of the Dealer shall be of satisfactory appearance and size to properly display, handle and store goods delivered under this contract and in keeping with the sales potential of the Dealer's territory. The Dealer shall:

- (a) receive and distribute to probable customers advertising matter and catalogues forwarded by the Company;
- (b) maintain a record of the names and post office addresses of probable customers in his territory described herein and make such records available to officers of the Company when required and forward schedules of the names and addresses to the Company when required by the Company;
- (c) advertise at his own cost the Company's goods in such manner as he and the Company agree is adequate for his territory;
- (d) furnish, when required, complete financial particulars of a proposed customer;

- (e) not promise any customer that any machine or implement will be kept in repair free of charge;
- (f) pay at his own cost all cartage, storage, postage, telegraph, or telephone charges in connection with the franchise;
- (g) be active at all times in the canvassing of his territory, securing orders, and keeping prospective customers supplied with the fullest information, and maintain a record for the perusal of the Company's visiting representative of these customers and the attention they have received;
- (h) demonstrate the Company's goods to any potential customer on his property, whether at the customer's request or otherwise;
- (i) keep a record of the type, serial number and purchaser of all goods sold in the Dealer's territory, and to provide to the Company at the end of each month a list showing such information in respect of all goods sold during that month;
- (j) at all times co-operate fully with the Company's representative whilst he is visiting the territory;
- (k) inspect and put into operation on his customer's property any goods supplied to his territory whether direct from the Company or from his own store, and ensure that every customer is thoroughly conversant with the mechanical operation of the goods and their particular application to his property;
- (l) provide the Company from time to time with information concerning the presence and performance of comparable goods and equipment marketed or manufactured by other persons or companies in the territory of the Dealer;
- (m) not supply employees of the Company with money to defray expenses unless specifically requested by the Company to do so.

(36) Company obligations

The Company will use its best endeavours to:

- (a) supply the requirement for...products within a reasonable time after the Dealer has ordered same;
- (b) inform the Dealer of his service responsibilities to owners of Company products already located in his sales and service area;
- (c) organise the Dealer's service department and train his mechanics so that he will be capable of providing [*Superior Service*] to present and future...owners and also realise the profit potential that is his through the sale of service labour and genuine [spare] parts;
- (d) explain the service aids that will be provided by the Company and explain, interpret, and assist in implementing the basic service policies of the Company;
- (e) furnish the Dealer with a complete set of operator manuals, service bulletins and warranty policy booklets and forms applicable to this agreement;
- (f) thoroughly explain and interpret the Company warranty policy to the Dealer using the policy manual as a guide;
- (g) examine the Dealer's service facilities and, in company with the Dealer, fill out [the questionnaire] *Qualifications to Certify...Dealer's Service Shop* and take the Dealer's order for any special service tools that are necessary to qualify his service department;

- (h) instruct and demonstrate to the Dealer and his servicemen proper assembly and pre-delivery procedures and acquaint the dealership with the operation and adjustment of any machines that he may have received;
- (i) discuss shop management practices and lay out a planned shop development programme for the Dealer's service department and assist the Dealer in procuring and training any additional mechanics who may be needed;
- (j) review in detail with the Dealer the profit that can be developed in parts and labour sales through good service management -- this includes methods of service solicitation, establishment of proper labour rates, selection and training of mechanics, investment in appropriate tools and facilities and service department accounting;
- (k) advertise its products in such advertising media and in such manner as in its judgement will best tend to promote their general use, such advertising to be at the Company's expense;
- (l) upon request, and voluntarily from time to time, supply...to the Dealer [at set prices or free of charge] such catalogues, circulars, and other advertising matter as in the judgement of the Company may be necessary.

TERMINATION CLAUSES

(37) Termination by notice

The Dealer may at any time, with or without cause, terminate the agreement by giving notice of termination to the Company's [local representative]. Such notice of termination shall specify the date upon which the termination is to become effective and not less than ninety days shall intervene between the giving of such notice and effective date. The agreement may be terminated at any time by mutual consent, the effective date of termination to be as mutually agreed upon. The consent on behalf of the Company shall be executed by its [local representative]. The Company, with or without cause, may terminate the agreement at any time by giving to the Dealer notice of termination signed by the [local representative]. Such notice of termination shall specify the date upon which the termination is to become effective and not less than ninety days shall intervene between the giving of such notice and such effective date. Notice of termination shall be in writing. When issued by the Company, notice may either be given to the Dealer personally or forwarded to him by mail. When issued by the Dealer, notice shall be mailed to the Company's [local representative].

(38) Termination by event

The Company may without prejudice to any rights arising from any breach by a dealer of any condition herein contained by notice in writing to the Dealer, forthwith, from the date of such notice, terminate this agreement in any of the following events:

- (a) if the Dealer shall fail to observe or perform any of the terms or conditions hereof;

- (b) if there is any default or undue delay on the part of the Dealer in making payment for parts or accessories;
- (c) if any disagreement shall arise between any of the persons interested in the management, control or ownership of the business of the Dealer which, in the opinion of the Company, may imperil the interests of the Company;
- (d) if the Dealer dies or there is any change in the address or in the constitution or management of his business by dissolution of partnership or otherwise or, being a limited liability company, there is a retirement or change of any of the directors or re-arrangement of control or management;
- (e) if the Dealer commits any act of bankruptcy or is made bankrupt or compounds or makes an arrangement with his creditors or executes a bill of sale or suffers or takes any proceedings analogous thereto;
- (f) if the Dealer, being a company, is wound up either compulsorily or voluntarily or a receiver is appointed.

(39) Obligations on termination

Upon the termination of this contract howsoever occurring:

- (a) all unfulfilled orders of the Dealer to the Company shall be cancelled;
- (b) all debts outstanding by the Dealer to the Company shall forthwith become due and payable, notwithstanding that the time for payment thereof has not arrived;
- (c) any of the Company's products on consignment with the Dealer shall forthwith be returned to the Company;
- (d) the Dealer shall forthwith deliver to the Company all price lists, printed matter, technical bulletins and advertising signs and material in his possession relating to the Company products and shall remove from his premises and vehicles all references to the Company or its products or its trade marks;
- (e) all records of the Dealer relating to the Company's products and/or to purchasers or potential purchasers thereof shall be made available to the Company;
- (f) the Company shall, at the Dealer's expense, undertake all unfulfilled service duties in respect of the Company's products pursuant to the manufacturer's warranty applicable thereto.

The Company may, at its option, re-purchase all or any of the Company's products not re-sold by the Dealer upon the following terms:

- (a) for tractors, machines and implements, the Company shall credit the Dealer at net dealer price less ten per cent and less costs of restoration to condition as new;
- (b) for parts, attachments and accessories, the Company shall credit the Dealer at net dealer price less fifteen per cent;
- (c) the Dealer shall deliver to the Company's branch warehouse freight paid Company products which the Company may re-purchase under this option;
- (d) the Company may set off the value of Company products which it may re-purchase under this option against any moneys which the Dealer may owe to the Company;
- (e) this option shall be exercisable by the Company by notice in writing to the Dealer given before, on, or within sixty days after termination.

Dated this day.....

Signed by or on behalf of the Dealer.....

Witness.....

Signed by or on behalf of the Company.....

Witness.....

Issued from the Company's office
in the State of.....
at.....

APPENDIX THREEILLUSTRATIONS OF CORPORATE FACILITIES

Selected plates in this Appendix illustrate the type of corporate facilities mentioned in the analysis. By including the offices of companies which failed as well as those which survived, they afford a visual appreciation of the recession's impact on the Australian agricultural machinery industry and its implications for business decision-making.

FACILITIES IN OPERATION, 1967-72
(Full-line companies)

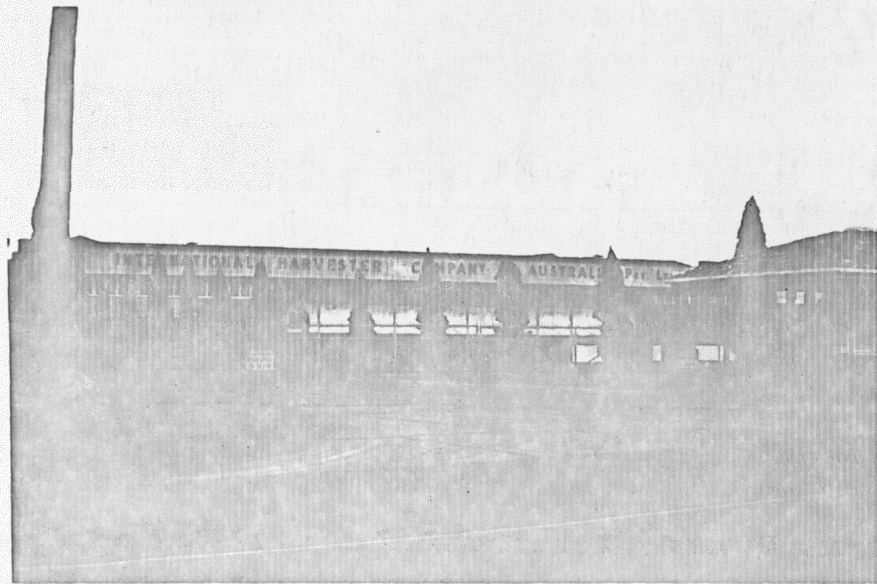


PLATE A3.1: International Harvester's factory at Geelong (Victoria).



PLATE A3.2: Massey Ferguson's head-office at Sunshine, Melbourne. These premises were once owned by H.V. McKay. Note the header on railway cars in foreground.

FACILITIES IN OPERATION, 1967-72
(Long and short-line companies)



PLATE A3.3: Head-office and assembly plant of Ford
at Campbellfield, Melbourne.

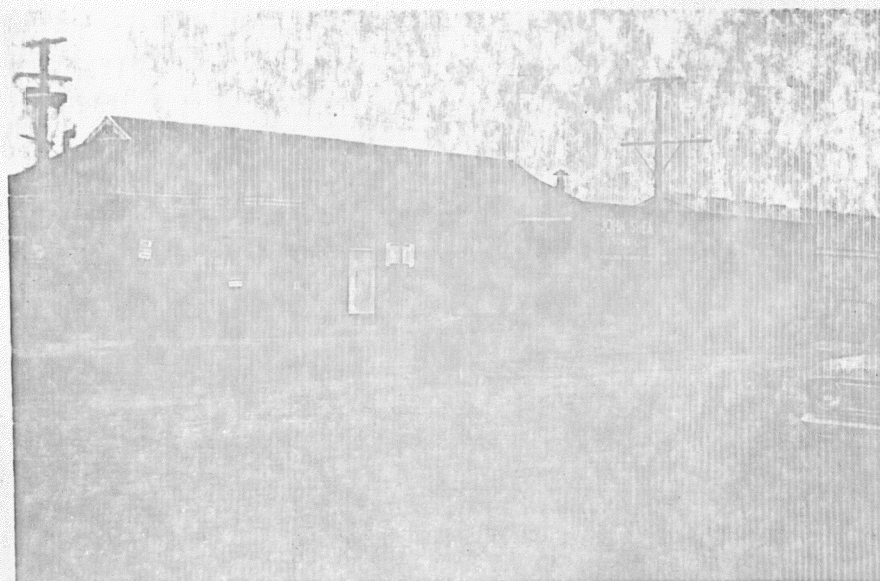


PLATE A3.4: Head-office and factory of John Shearer
at Kilkenny, Adelaide.

FACILITIES AFFECTED BY RECESSION

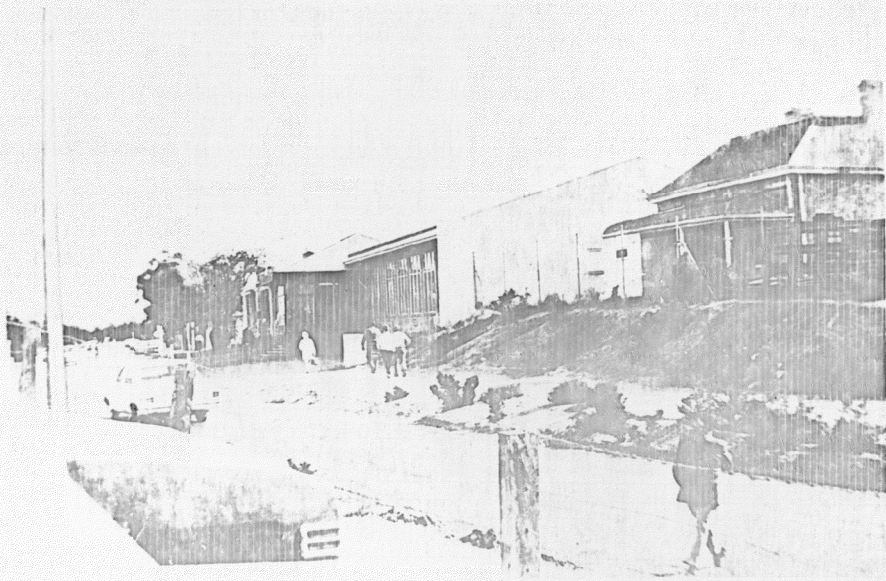


PLATE A3.5: Head-office and factory of David Shearer at Mannum, South Australia. The firm subsequently became insolvent and these premises were acquired by Horwood Bagshaw.

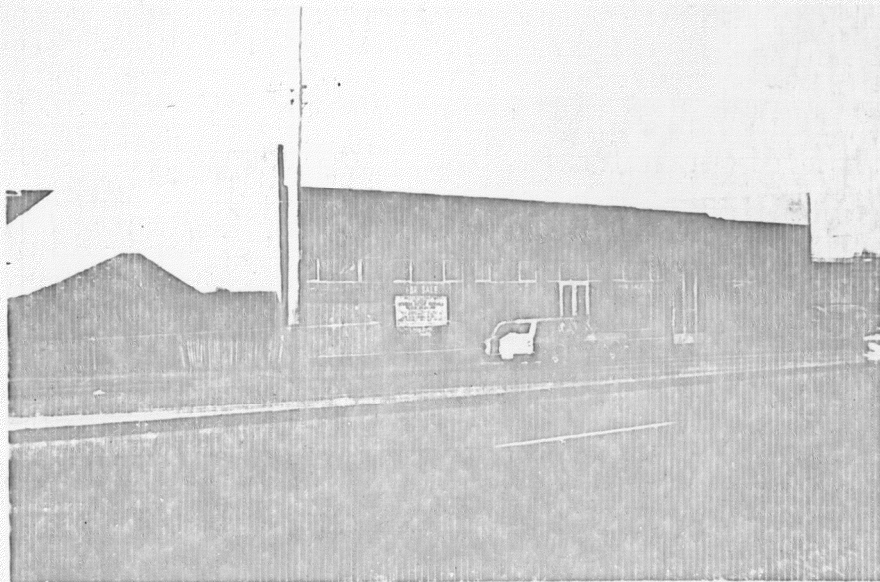


PLATE A3.6: John Deere's wholesale branch at Braybrook, Melbourne, closed after the amalgamation with Chamberlain. Note the 'For Sale' signs on windows.

FACILITIES AFFECTED BY RECESSION

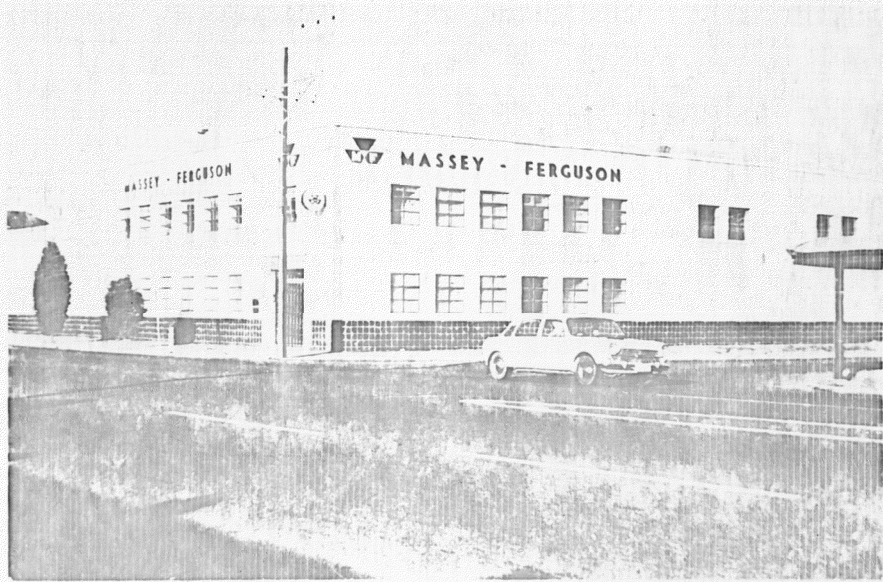


PLATE A3.7: Massey Ferguson's wholesale depot in Port Adelaide, shut down in 1972.

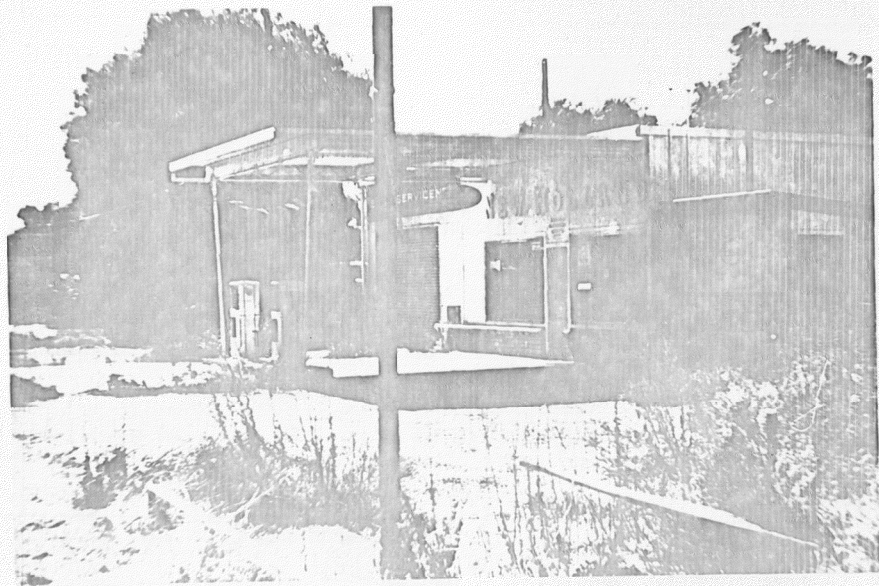


PLATE A3.8: Retail atrophy in rural areas -- an abandoned dealership in north-western New South Wales.

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