Strategic Alliances among Small Retailing Firms: Empirical Evidence from the Netherlands

Introduction

Strategic alliances of one sort or another have become common practice in manufacturing industry for many years (Harrigan, 1985, 1986, 1988; Kogut, 1988; Nielsen, 1988).
The term 'Strategic Alliance' is used to refer to *'a coalition of a number of organizations intended to achieve mutually beneficial goals'* (Robinson and Clarke-Hill, 1994). One can make a distinction between vertical and horizontal alliances. Vertical alliances focus on supplier-manufacturer relationships (Bucklin & Sengupta, 1993; Forest, 1990; Harrigan 1985, 1986, 1988; Mody, 1993), or on the manufacturer-distributor relationships (Anderson and Narus, 1984, 1990; Anderson and Weitz, 1992; Frazier, 1983; Frazier, Spekman and O'Neil, 1988; Johnston and Lawrence, 1988). Horizontal alliances consist of relationships between similar firms in the same industry, for example retailers.
Over the past decades the number of small and medium sized retailing firms that joined a strategic alliance has grown rapidly. The strategic position of these alliances in the retail industry is significant. In the Netherlands the strategic alliances in 1994 accounted for 44% of the total retail business (See Table 1).

>>>>insert table 1<<<<

The figures in Table 1 show a growing market share for both strategic alliances and fully integrated retailers. The growth of the market share of the strategic alliances in the retail industry has led to considerable research interest, especially in franchising (Justis and Chan, 1991; Peterson and Dant, 1990; Stern and Stanworth, 1994; Withane, 1991). The two main forms of strategic alliances in retailing are franchising and the voluntary association. The voluntary associations can be subdivided in wholesaler and retailer sponsored cooperatives. Except for ownership differences, wholesaler and retail-sponsored cooperatives operate similarly. During the last decades the scope of their cooperative efforts has broadened from a concentrated buying power to include a vast number of programs involving centralized consumer advertising and promotion, store location and layout, training, financing, accounting, and in some cases a total package of support services (Stern and El-Ansary, 1992, p.339). The term strategic alliance in our study will refer to this modern voluntary associations in the retail industry.
Porter & Fuller (1986) and Dunning (1988) formulate a number of potential benefits for a member of a strategic alliance. For a small retail firm joining a strategic alliance, these benefits include:

1) economies of scale and scope on the buying and selling function of the retailer, as well as on the organizational infrastructure (for example a central computer system for all members of the strategic alliance);
2) quick and easy access to knowledge;
3) the reduction of capital requirements and risks involved in the development of new service programs, products or technologies; and
4) the possibility of influencing the structure of competition in the relevant markets.

Regarding the above mentioned benefits, it is to be expected that participating in a strategic alliance will influence the strategic behavior of its members. In our study we will focus on the influence of a strategic alliance on the behavior of its members, small sized retailing firms.

Hypotheses

Efficiency

Yasuda and Mulford (1990) report the most important reasons for retailers to join a strategic alliance in Japan are: future developments and expansion; future security of the firm; increase of trust in your firm; ease of obtaining information; mutual assistance among small firms; and to improve efficiency through cooperation.
In a study on 32 cases Nielsen (1988) found that cooperation within a strategic alliance can increase efficiency. The market approach of a retailer sponsored cooperative was also considered to be more efficient in comparison to the market approach of non-allied firms.
From these studies the hypothesis may be formulated that participating in a strategic alliance will lead to a more efficient execution of organizational and marketing tasks by the participating retailers. This influence of the strategic alliance can be operationalized by the level of outsourcing of organizational and marketing tasks by the small retailing firm to the strategic alliance. We expect the allied retailers to outsource more in comparison to their non-allied colleagues.

Entrepreneurial behavior

A franchise arrangement is said to increase the competitive advantage of the franchisee (Knight 1986). The same can be said for membership of a strategic alliance.
However it remains unclear how the competitive advantage of being a member of a strategic alliance will affect strategic market behavior. Pilling (1991) found that there was a significant positive correlation between the attitude of the retailers towards a franchise relationship and four entrepreneurial tasks: -1- the ability to control inventory shrinkage; -2- merchandising and marketing (assistance) for increasing sales; -3- cost control; -4- (assistance in) complying with government regulations. The relationship of voluntary membership of a strategic alliance with entrepreneurial activities in the marketplace is however not heavily researched at.
As we hypothesize a member of a strategic alliance to outsource more tasks to the strategic alliance we expect the retailer to have more time and attention available to devote to entrepreneurial tasks at the marketplace. Therefore, we expect the members of a strategic alliance to be more active in their marketing performance. More specifically we hypothesize them to have a more competitive price level, to have a distinguishable assortment and to advertise more actively than the non-allied retailers.
Withane (1991) found that many small firms choose to join a strategic alliance (franchising) over starting an independent business because of the established business format, the goodwill and the start-up and ongoing support.
We expect the members of a retailer-sponsored cooperative to benefit from the support of their strategic alliance. More specific, we expect the influence of the strategic alliance to lead the individual small retailing firms to attain a higher level of professionalism within their firm.

Performance
Gordon & Dollinger (1993) found a positive correlation between the number of interorganizational relationships (networking), sales and profitability. Firms that use any type of interorganizational network had a higher average three years' sales. Interorganizational relationships were found to be instrumental in helping small firm profitability and thus endure over time. From this finding we expect that being a member of a retailer sponsored cooperative will have a positive effect on the performance of the small retailing firm.

Set Up of the Study

The research focuses on small sized men's wear retailing firms. In 1994 the market share of the fully integrated retailers in men's wear in the Netherlands is 45%. The allied and non-allied small retailing firms have a marketshare of 35% respective 20%. The allied retailing firms are allied within 11 strategic alliances. All of these alliances can be characterized as a retailer-sponsored cooperative that offer a number of programs involving centralized consumer advertising and promotion, store location and layout, training, financing, accounting, central creditor payment facilities and in some cases a total package of support services. Retailers are free to make use of the service package of the alliance.
The study was conducted in two phases. In the first part of the study the managing (marketing) directors of all the retailer-sponsored cooperatives were interviewed. The purpose of these in depth interviews was to get an insight into the role of the strategic alliance in relation to the allied retail-members. Special attention was given to the distribution functions, the retail mix and the shop formula, as well as on the support the strategic alliance can give to the individual retailers.
In the second phase a written survey among small sized retailers of men's wear was executed. The questionnaire was sent to all the allied and non-allied small retailing firms selling men's wear. In total 1322 questionnaires were sent out (670 non-allied and 652 allied). A response of 451 usable cases has been obtained: 217 non-allied and 234 allied retailers. This response of 34.1% is to be considered representative (chi-square is 0.171) for the population of small retailing firms selling men's wear.
The questionnaire included indicators of professional performance; market performance with respect to pricing, product/assortment portfolio, and promotional activities. An additional oral survey was conducted among 88 retailers, representative for the population with regard to the organizational and marketing task evaluation. In addition to this, the financial performance derived from the year books, profit and loss accounts as consolidated by the financial controller, was measured. The survey included both allied retailers and non-allied men's wear retailers.

Results

Cooperating within a strategic alliance means a loss of independence but also to have help on the multiple demand of managing a small business. Curran et. al. (1993), using the critical incidents technique, found that motives for networking include stress release, emotional support, advice, information, and solving specific problems. Within the managerial school of entrepreneurship networking serves the management of tasks defined as part of entrepreneurship. In our study, the tendency to outsource organizational and marketing tasks to others was investigated (See Table 2).

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The tasks most frequently sourced out both by allied and non-allied retailers are: market research (A (allies) 44%, NA (non-allies) 40%), advertising (A 50%, NA 37%), making agreements with suppliers (A 42%, NA 25%), and the choice of the additional merchandise (A 41% and NA 27%). 'Regular pricing', 'branding', 'window-dressing' and 'human resource management' are for both type of retailers tasks they are not inclined to source out: all of these tasks score less than 10% outsourcing. The tendency to outsource is significantly higher for the allied retailers in comparison with the non-allied retailers with respect to 'regular assortment selection', and 'interior decoration'. The allied retailers are however not inclined to outsource 'action/sales pricing', while some non-allied retailers would consider this to leave that to the strategic alliance.
The results of table 2 show the entrepreneurial task evaluation not to be very different between allied and non-allied retailers. Not surprisingly we see a higher tendency to board out with the allied than with the non-allied retailers that coincides with their actual behavior.

Marketing behavior
We also investigated the marketing behavior of allied versus non-allied retailers. In table 3 the differences between allied and non-allied retailers in marketing behavior: pricing, assortment composition, and promotional activities, are presented.

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The allied retailers have a significantly lower average price level than the non-allied retailers. For both parts of their assortments: clothes and accessories, this is found. The self-rated price level also shows differences between allied and non-allied retailers: The allied retailers rate themselves more often as medium to highly priced whereas the non-allied retailers think they have either a low or a high price-level. The non-allied retailers have a somewhat different assortment: less often modern and more often trendy. The price level for this latter group is the one rated as highest. This group of non-allied retailers has chosen for a niche strategy: trendy assortments with a high price level. The non-allied entrepreneur has a more narrow assortment than the allied colleague: 52.6% of the turnover is made by only three top brands as compared with 39.0% in the allied group. In promotional activities the allied retailers are far more active than the non-allied. In general door-to-door and newspaper advertising, in direct mail activities, and in specific promotional activities the allied entrepreneur scores higher. The same goes for a more modern communication technique like the use of a customer card. The allied retailers therefore make significantly more use of an advertising agency. Yasuda and Mulford (1990) found that for small retail businesses, a strategic alliance seems to provide an aggressive alternative to being alone. Together small businesses can hope not only to survive but even to compete against large department stores. This study gives support to the hypothesis that this aggressiveness also shows when comparing an allied with a non-allied retailer.

Professionalism
Justis and Chan (1991) found that there is a tremendous need for retailers and franchisers who understand that training affects the overall success of the franchise organization. Training programs provide the lifeblood of qualified individuals to the heart of the orga-

nization, and stimulate the level of professionalism in the franchise system. We included several indicators for professionalism in our study: the degree of automation; the availability of information about the market, the competitors, and internal information, as well as the degree of service to the clients. For each of these professionalism indicators a list of activities was made. The entrepreneur could score on these (5 to 10) activities per indicator. The allied entrepreneur scores significantly ($p<.05$) higher on automation, 48% of the maximal score versus 17% for the non-allied entrepreneur. The allied retailer has more information about the market, (75% vs 33%), also more internal company information (47% vs 24%). He scores not significantly higher on information on competitors (39% vs 22%), however realizes significantly more activities and facilities to serve the clients (57% vs 42%). On all indicators for professionalism the average allied outperforms the non-allied retailer.

Performance

Chell and Haworth (1992) compare 25 shops in the UK clothing industry by identifying their financial and their competitive position. The 6 best performing stores show a clear strategy towards specialists niche markets with an aggressive pursuing of this strategy. The influence of the interorganizational relationships or strategic alliances was however not included in their study. Golden and Dollinger (1993) study whether interorganizational relationships correlate with strategic type and small firm performance. They concluded that few small firms function without some degree of interorganizational relationships. Those that use fewer of these networks tend to be associated with less successful adaptations. The results may also imply that interorganizational relationships help small firm profitability and thus endure over time. Firms that use any type of interorganizational network had a higher three-years average sales than those that did not.

In our study we put in considerable effort to collect financial information from all the retailers. From the consolidated yearbooks and the profit and loss accounts, turnover and profit measures were derived. Table 4 gives an overview of the results.

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Gross turnover and gross profit comparison between allied and non-allied retailers show significant differences: the average turnover per outlet is for the allied entrepreneur 1.000.000 guilders (approximately $ 625.000) versus 760.000 guilders (approximately $ 475.000) for the non-allied entrepreneur. Also the profit differences are significantly higher for the allied than the non-allied retailer. When we compare the other productivity and profit figures the allied do not clearly outperform the non-allied retailers. The turnover per square meters selling space, and per square meters shop space are significantly higher for the non-allied. This can be explained as the allied retailer has an average larger shop (291 square meters) than the non-allied retailer (155 square meters). The gross profit per fte is for the allied retailer somewhat higher than for the non-allied retailer. The higher gross profit margin of 40.5% combined with the lower price level reported earlier, indicates a competitive and profitable entrepreneur when compared to the non-allied entrepreneur. The overall impression of the turnover and profit comparison is that allied retailers perform better than the non-allied retailers with a larger shop, a higher turnover, a higher profit and better margins.

Conclusions

Retailers allied in a voluntary cooperation with regard to buying and selling, perform better than non-allied colleagues.

Our study shows that other forms of alliances than franchise systems, i.e. voluntary cooperations in the retail industry, can be profitable for the allies. In our study the strategic alliances have a supporting function. The influence of the alliance on the performance of the retailer is to be considered an indirect one. The level of professionalism of the allied retailer is higher compared to his non-allied colleague. On the basis of a higher degree of professionalism, supported by the strategic alliance, the allied retailers show more aggressiveness towards the market. They show more willingness to outsource several entrepreneurial tasks to the strategic alliance. In this way they realize economies of scale. The end result for the allies is a higher performance and a higher profit level.

Gordon & Dollinger (1993) conclude that very small firms have limited personnel performing multiple functions. The time-management problem created by this constraint suggests that these small firms would use fewer strategic alliances. Therefore small firms might invest less energy in strategic alliances regardless of their approach to strategy, while mid-size (small) firms may be the most interorganizational-relationship-intensive. In accordance with Gordon & Dollinger we also found that small retailing firms, participating in a strategic alliance, tend to be bigger in size than non allied firms. The question arises whether the differences in performances found are caused by differences due to size or to membership of strategic alliances. Regression analyses on sales with the different size indicators: store size and labor force, and membership as predictors show the size indicators to be responsible for the differences in sales volume. Similar analyses on gross profit margin show a very significant ($p<<.001$) effect of membership of the strategic alliance. So both size difference and membership of the strategic alliance show separate effects on the performance measures.

Previous research stresses the benefits of the franchise system (Chan & Justin, 1992; Peterson and Dant, 1990; Pilling, 1991). The more balanced interdependence of allies and strategic alliance within a voluntary cooperation leads to a relatively good performance too. This is in line with the findings of Buchannan (1992), who found that a strong, balanced interorganizational relationship has a positive effect on the performance: '...... the evidence suggests that such relationships can be instrumental to the firm's ability to improve the outcomes in relation to the stated objectives.' This raises the question how a strategic alliance in the retail industry should be organized. An explanation for the success of both systems, i.e. the franchise system and the voluntary buying and selling cooperation, could be found in the turbulence of the market environment; the nature of the goods sold (fast moving versus durable consumer goods); and the attitude of the entrepreneur towards commercial cooperation. Our study sheds some light on these topics. Further research however, should focus on the differences that exist between the different forms of strategic alliances in the retail industry, and the different relative performance of these different kinds of alliances. Then the question 'what kind of strategic alliance is most profitable in what kind of situation? ' can be more fully addressed.

Another important issue is whether the better performance of the allied retailers is an output of the cooperation or that only good operating retailers will be part of a strategic alliance. Based on the average time the interviewed respondents participated within a strategic alliance, on average more than 20 years, we might suggest that the influence of the strategic alliance be dominant. But a full explanation for this problem is only to be found by means of longitudinal research. Another interesting issue involves the influence of individual differences between allied and non-allied retailers e.g., in thinking styles, cooperativeness, on entrepreneurial behavior. This might lead to more in depth insight into the motivation to join a strategic alliance as well as their performance.

The indications from this study are that membership of a strategic alliance based on voluntariness fits with entrepreneurial behavior that can be typified as professional, active and market driven.

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Table 1: Market shares of Strategic Alliances in the Dutch retail trade

	market share (%)				
	1980	1985	1990	1993	1994
- Non-Allied SME's*	44	31	24	20	18
- SME's within Strategic Alliances	29	35	40	43	44
- Fully integrated retailers	27	34	36	37	38
Total	100	100	100	100	100

* SME: Small and Medium-Sized Enterprises

Source: Center for Retail Research the Netherlands (CRR) and Tilburg University (1995)

Table 2: Organizational and marketing tasks: tendency to outsource by allied and non-allied small retailing firms (allied N= 61; non-allied N=27)

organizational and marketing tasks	tendency to outsource (in %)		
	allied	non-allied	t-value
-1- regular assortment selection	39	4	3.97*
-2- additional merchandise selection	41	27	.78
-3- regular pricing	3	0	.22
-4- action/sales pricing	0	7	-2.86*
-5- determination of specific sales actions	8	14	-.07
-6- making agreements with suppliers	42	25	1.52
-7- choosing the suppliers	20	7	1.53
-8- interior decoration	23	4	2.25*
-9- exterior decoration	15	7	1.04
-10- branding	7	4	1.10
-11- window-dressing	5	7	-.37
-12- house styling	21	7	1.62
-13- merchandise control	10	22	-1.51
-14- human resource management	5	4	.20
-15- shop location	10	7	.45
-16- advertising	50	37	1.40
-17- market research	44	40	.35
average score	20.2	13.1	5.24*

Legend: * = p of t-value < .05

Table 3: Marketing behavior: allied versus non-allied retailers (N=451)

marketing behavior		allied	non-allied	t-value
PRICING				
- average price level		ƒ 338	ƒ 368	-2.47*
- price level according to the respondents	- low to medium - medium -medium to high -high	3.4% 37.6% 50.9% 8.1%	9.2% 35.0% 41.5% 14.3%	-2.56* .57 2.01* -2.09*
ASSORTMENT				
- type of assortment	-classic -modern -trendy	38.6% 56.4% 5.0%	46.9% 41.7% 11.4%	-1.78 3.12* -2.49*
- turnover share three most important brands		39.0%	52.6%	-5.57*
- number of collections per year		2.2	2.1	.31
- average markup		2.28	2.27	.05
- % of pre-ordering		78.7%	75.3%	2.04*
ADVERTISING				
- media advertising		79.9%	53.0%	6.06*
- direct mail		73.5%	50.7%	4.99*
- special offers		23.1%	12.4%	2.96*
- customer card		14.5%	8.3%	2.06*
- use of advertising agency		56.7%	23.1%	7.28*

legend: ƒ = one Dutch guilder ($ = ƒ 1.60)
* = p of t-value <.05

Table 4: Differences in productivity and profitability: allied versus non-allied (N =227)

Performance	allied	#	non-allied	#	t-value
PRODUCTIVITY					
- turnover per full-time equivalent	ƒ 278,099	179	ƒ 266,092	188	1.17
- turnover per labor hour	ƒ 141	231	ƒ 132	217	.99
- turnover per m^2 selling space	ƒ 5,965	230	ƒ 7,475	211	-2.00*
- turnover per m^2 shop space	ƒ 4,341	230	ƒ 5,307	209	-2.21*
- speed of turnover	3.3	61	3.0	27	1.16
- average turnover per outlet	ƒ1,059,373	232	ƒ 762,000	217	3.71*
PROFITABILITY					
- gross profit	ƒ 433,717	232	ƒ 298,200	208	4.12*
- gross profit margin	40.1%	232	37.5%	208	5.63*
- gross profit per m^2 selling space	ƒ 2,397	230	ƒ 2,888	203	1.61
- gross profit per fte	ƒ 111,224	179	ƒ 100,272	188	1.96*
- gross profit per labor hour	ƒ 56	207	ƒ 50	194	1.96*

legend: # = number of respondents; ƒ = one Dutch guilder ($ = ƒ 1.60); fte=unit labor (full time equivalent) *: p of t-value <.05

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ABSTRACT

Strategic Alliances among Small Retailing Firms: Empirical Evidence from the Netherlands, by Will J.M. Reijnders and Theo M.M. Verhallen.

This study focuses on the influence of a strategic alliance on strategic behavior of small retailing firms. The study compares allied and non-allied retailers on the evaluation of entrepreneurial tasks; differences in market approach; the degree of professionalism, and their financial performance. In total 217 non-allied and 234 allied retailers from the men's cloths retail branch in the Netherlands were interviewed. The financial results were drawn from the company's yearbooks. The findings show that membership of a strategic alliance has a positive effect on the performance of retailers. Allied retailers perform better: they have a more professional and active market approach and they realize a higher profit.