

Competitive Strategies and Business Performance within the Retailing Industry

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This article examines the relationship between competitive strategies and the business performance of retail department, variety, and general merchandise stores (SIC 5300). In the past, examinations of this relationship have focused on samples from the industrial sector. This study extends the analysis by empirically investigating strategic approaches to competitive success adopted by various groups of retailers.

RETAIL STRATEGY SELECTION

While no two retail businesses have identical strategies, certain similarities do exist. Primary in strategy selection is the ability of a particular strategy to provide the retail operation with a superior level of performance in the industry. Such competitive positioning commonly involves a singular approach emphasizing either cost leadership or differentiation. However, some competitors may adopt an approach combining the two strategies. This study examines the potential for competitive advantage offered by each of these three approaches.

Cost Leadership

Cost leadership is the approach used by a business which seeks to be the low-cost

producer in an industry. This strategy involves the provision of no-frills outputs industry wide and is associated with cost controls and economies of scale resulting in the ability to accept lower prices, if necessary, and remain profitable. For this reason, it is commonly referred to as the low-cost approach. This approach is associated with US mass merchandisers such as K-Mart or Family Dollar Stores and Boots in the UK.

According to past findings, businesses which primarily compete with the low-cost approach tend to achieve high market shares through the offering of low prices, made possible by scale economies[1-5]. However in many service-centred industries, advantages associated with scale economies are limited[6,7].

Even though business-level operating economies can be reached at low volumes in some service industries, larger businesses within these industries may still have cost advantages, since they may potentially benefit from economies in finance and marketing[8-11]. This may serve to explain the reported growth in profitability among discount retailers[12]. Alternatively, Wright *et al.*[13] contend that business units which compete primarily with the low-cost strategy may perform well because their lower cost positions may allow them the opportunity to attract customers from other businesses through the offering of lower prices.

Differentiation

Differentiation is the approach used by a business which sees itself as unique with regard to certain characteristics valued by buyers throughout the industry. Such a business may be able to command above average prices for its outputs. This strategy is associated with fashionable department stores such as Bloomingdale's. The approach rests on differentiation tailored to the customer characteristics of a retailer's target market segment. In a narrower sense, the differentiation approach may be associated with speciality retailers such as Brookstone or Sharper Image.

Enterprises which primarily compete with the differentiation strategy may obtain a competitive advantage, in spite of their higher cost positions, since their unique product or service offerings allow the alternative of charging higher prices[14]. Berry *et al.*[15, p. 35], recommend a strategy of differentiation based on service quality for service organizations. They state: "service quality has become... the most powerful competitive weapon most service organizations possess".

Even though the retailing industry has been characterized by Wortzel[16] as a mature industry, Varadarajan's findings[17] suggest that businesses competing in mature industry environments are not necessarily helped by adopting a low-cost strategy. Rather, utilizing differentiation appears to be a more effective means for achieving competitive advantage in mature industry environments.

Combination Approach

Retail firms may utilize a combination strategy of low cost and differentiation. Such a strategy involves cost advantages based on inventory methods, transport, purchasing practices, technological advances, efficient staffing, and efficient use of floor space. Other cost measures which these retailers can take advantage of include quantity discounts, thus providing very efficient service as would be expected of low-cost competitors. The broad product lines which can be characteristic of these firms may at the same time allow segment-based differentiation. It is reasonable to expect that marketing efforts which focus on meeting a particular segment's needs (differentiation) may be generalized to a broad range of products. This may permit retail department, variety

and general merchandise stores successfully to pursue a multiple strategy of marketing-oriented differentiation together with cost leadership — thus achieving a combination strategy.

Competing on the combined approach of differentiation and low cost may be beneficial, because the product/service mix offered can have a comparative pricing advantage (due to differentiation), while emphasis on low costs maintains costs in comparison to rivals. Past research indicates that the result of competing with a combination of these approaches has often been associated with higher profitability and larger market shares[9,10,13,18-23]. An empirical test of this multiple approach may demonstrate whether this strategy is also associated with higher business performance in the retail industry.

SERVICE VERSUS INDUSTRIAL BUSINESS

Past studies on strategy selection and business performance have utilized data drawn from manufacturing businesses or information drawn from databases principally containing industrial organizations. For this reason, research examining factors within the service sector and retailing industry — which may differentiate them from industrial environments with respect to the choice of successful competitive strategies — is most relevant.

Fundamental differences between industrial and service businesses affect the choice of strategy. Significant among these differences are the advantage of relative size; the lack of traditional barriers to entry; differences in the effectiveness of traditional low-cost and differentiation techniques; and shifts in successful strategies, brought on by changes in industry structure and customer profiles.

Advantages of Relative Size

In manufacturing, large size is often equated with economies of scale, while increased size or scale in service industries can hurt service responsiveness and efficiency[6]. Thomas[7], evaluating advantages of scale in the service sector, states that except for advertising, advantages of scale are primarily limited to equipment-based (airlines, car rental) rather than people-based service businesses. Therefore, the advantage of dominant size and market share associated with strategy

choice in the industrial literature [2,4,5, 8-10,19,20,22,23] may not be applicable in many service industries.

Barriers to Entry

The merits of size are often considered in conjunction with barriers to entry within a given industry. Porter[4,5] focuses on the importance of creating barriers to entry in addressing the choice of appropriate strategy. It is often difficult to establish effective barriers to entry within service industries. This is largely a result of simultaneous production and consumption, which results in relevant geographical markets for most services being local or regional[24]. This diminishes greatly the ability of current competitors to block entry on the basis of size. An example of this is the inability of an established competitor like Kentucky Fried Chicken to thwart the successful entry of new competitors such as Popeye's or Bojangles Fried Chicken[24]. Wortzel[16] found that product branding reduced entry barriers as it enabled new retail competitors to rely on established brands to engender quick credibility with consumers. Wortzel also cited reduced customer bonding, due to trends such as the separation of after-sales service from the retailer, and the tremendous growth in bank credit cards; enabling customers to buy items on credit almost anywhere they please, as contributing to ease of entry.

Unique Technology and Strategy

Manufacturers attempting to create barriers to entry can invest in proprietary technology and offer differentiation products through product development and product marketing[7]. Services, in contrast, are intangible; they cannot be protected by patents; they cannot be stored, and their specific value is difficult to determine[15]. Retailing technology is difficult to protect; therefore, there is much emulation in the industry regarding the adoption of technology and strategy[16,25].

Consistent Quality

Another source of competitive advantage is consistent quality[4,5]. Manufacturing and service industries differ in their ability to standardize quality[6]. The success of service firms depends upon overall visibility and accountability. It is not just a corporate

image; it is face-to-face visibility in the delivery system, the personnel, the site, and the equipment which constitute the image of the service marketer[24]. For this reason, the selection, training and management of personnel are more critical to the success of service industries than industrial concerns[26].

In service industries many different employees may be in contact with an individual customer, raising the problem of performance consistency[15]. Service performance from the same individual also tends to fluctuate. For these reasons, the level of consistency and quality of service which customers receive is not a certain thing. Thus, differentiation based on consistent service quality may be more difficult to maintain in the retailing environment than in the industrial sector.

Cost Leadership

Cost leadership for competitive advantage in the service sector has not received much research attention. Thomas[7] comments on never hearing a business executive boast that he or she has just hired the least expensive consultant available. Due to the intangibility of service, price may be used as a surrogate measure of quality. While a cost leadership position allows the retailer to maintain margins, a too low price position may undermine customer perceptions of adequate quality. More research on cost leadership in service industries is needed, since price positioning relative to customers' perceptions may be used to achieve a retail image.

Industry Structure

Schmenner[27] states that the successful strategies of service business are constantly changing (see also[12,16,28-30]). Retail industry changes have caused many retailers to place increased emphasis on flexibility in the development of strategic plans[29,30]. Such factors as the unpredictability of changes occurring in retail markets, the fluid industry structure, the competitive nature of retailing, the shortening of retail institutional life cycles, and an unstable economic climate require a high degree of flexibility in retailing[30].

Changing Customers

Specific changes affecting retail strategies include changing demographic factors such as the increasing proportion of men doing their

own shopping, an ever increasing population of singles, and growth in the number of families where both husband and wife are employed[12]. For a broadening range of goods, shopping is no longer viewed as fun or recreational, but simply a chore to be completed as efficiently and economically as possible[16].

According to Caminiti[12], the dilemma which retailers face is common in service industries: the customer has changed but the strategies have not. For example, the "smart shopper" of today often considers shopping a responsibility which should be completed as quickly as possible. Many department stores, however, continue to use floor layouts designed to increase in-store exposure rather than promote shopping efficiency[16,31,32]. The smart shopper seems to view three separate dimensions of a purchase: the value of the goods themselves; the cost relative to the quality; and the benefits and services provided by the store to augment the product[16].

Watkin[33] states that competitive advantage can be achieved by retailers which focus on the consumer value chain, reducing various consumer costs. These costs include financial costs, frustration, convenience costs, and improving performance by raising the satisfaction levels of customers by fulfilling wants and needs. This strategy, however, may be illusive for today's consumers, since there is a limited consensus as to what constitutes value. For some consumers, having a clerk find and display merchandise is a shopping value; for others it may be of more value to have merchandise easily identifiable on self-service racks[16]. Convenience may take on meanings ranging from short driving time to efficient transaction completion. For other consumers still, convenience may mean one-store shopping, which requires a store with a varied assortment[31].

A recent report "Discounters and Specialists"[34] indicates that a changing industry structure and consumer profile during the past has resulted in the pre-tax earnings of discounters climbing from 3.70 per cent of sales in 1978 to 4.68 per cent in 1988. During this same ten-year period pre-tax earnings of full-line department stores declined from 5.32 per cent of sales to 4.36 per cent. These changes demonstrate that successful strategies in retailing are rapidly changing and help to explain why 25 per cent of retail executives reporting the use of

strategic planning employ a time frame of one year or less[30].

There are differences between service industries and manufacturing industries with respect to advantages of relative size; the absence of many traditional barriers to entry; and differences in successful strategies brought on by changes in customer profiles and industry structure. These differences raise the question of transferability to the service sector of theoretical positions regarding business strategy and performance relationships developed in a manufacturing environment.

In this study, select competitive positions of retail firms were tested, utilizing three central research questions. This empirical investigation may show whether specific competitive approaches are associated with competitive advantage in retailing.

RESEARCH QUESTIONS

Three questions were tested in this study of competitive approaches adopted by various retail businesses. They are as follows:

- (1) Those retailers which compete primarily on the basis of low cost will perform better than those simultaneously competing with a combination of low cost and differentiation.
- (2) Those retailers which compete primarily on the basis of differentiation will perform better than those competing with a combination of low cost and differentiation.
- (3) Those businesses simultaneously competing on the combined basis of low cost and differentiation will perform better than those businesses primarily competing solely on the basis of low cost or solely on the basis of differentiation.

METHODOLOGY

Using data from a sample of retail firms, strategy variables were examined by a cluster analysis procedure. The clusters reflected the three strategic approaches:

- (1) low cost
- (2) differentiation
- (3) a combination approach.

Performance variables representative of the three clusters are then contrasted.

Sample

The retail industry, unlike many service industries in which competition is limited to a local geographic service area, comprises many national competitors, allowing for meaningful nationwide analysis of competitive strategy.

The four-digit Standard Industrial Classification (SIC) code was chosen as an appropriate measure of the industrial environment within which a given business competes. The particular industry examined within this study, Standard Industry Classification 5300, is composed of retail department, variety, and general merchandise stores. Within Dun and Bradstreet's *Million Dollar Directory*[35], are 1,707 firms, the principal business activity of which involves the operation of department, variety, and general merchandise stores (SIC 5300). A sample consisting of 40 of these firms was selected for analysis within this study. The sample includes publicly held firms operating continuously for the past five years which earn at least 70 per cent of their operating revenues from the operation of department stores, variety stores, or general merchandise stores.

Data for each retailer included in the sample were drawn from archival information, consisting of financial and operating statistics for the five-year period extending from 1984 through to 1988, and were extracted from sources including annual reports, Securities and Exchange Commission filings, and the Disclosure Database.

Strategy Variables

Various approaches have been taken regarding the inclusion of variables in studies exploring the strategic profiles of firms. For example, Gupta and Govindarajan[36] used two variables, product performance and pricing, as the strategy variables in their study. White[23], also using two strategy variables, elected to use per unit cost of production and pricing within his investigation. More complex approaches, based upon many variables, have also been adopted in the development of strategic profiles[1,9,18].

Two strategy variables similar to those used by White[23] are used in this study. As a proxy for the price which can be commanded

by the firm for its products and services, the variable used in this study is the gross profit margin on sales (five-year average, 1984-1988). The rationale for this is that the ability of a firm to command a higher price for goods and services is a function of the ability meaningfully to differentiate the goods and/or services of the firm [4,5,10,11,13,21,23]. Thus, it is expected that a retailer which competes primarily on the basis of low cost will have a lower gross profit margin on sales because its competitive advantage is based upon the ability to attract customers through the offering of lower prices. Alternatively, rival firms which compete on the basis of meaningful differentiation would be expected to command a higher gross profit margin on sales to cover costs of differentiation[4,5,21].

Since the cost of production is reflected in studies of strategic group performance, this study employed the comparable retail variable of net sales revenue per employee (five-year average, 1984-1988). This variable is accessible since international harmonization of accounting standards requires the reporting of this figure. In retailing, employee productivity is the most critical factor in determining profitability[37]. The Association of General Merchandise Chains (1982) reports that payroll represents approximately 50 per cent of total operating costs in retail department, variety and general merchandise stores[16]. It is expected that those firms with the highest net sales revenue per employee are providing their principal service (retail sales) with lower total direct costs. Specifically, it is anticipated that adherence primarily to the low-cost strategy would involve the commitment of efforts towards the reduction of direct sales costs.

A retail firm which mainly competes on the basis of low cost, would be expected to place greater emphasis on obtaining a high volume of sales per employee, since its primary advantage is not based on the creation and maintenance of an exclusive image based on differentiated product offerings or service. Alternatively, high transaction costs, which Jones and Butler[21] associate with the differentiation strategy, are consistent with the expectation that firms which compete principally on the basis of differentiation will incur greater direct sales costs. Thus, this variable may be viewed as representative of the degree to which a retail firm stresses either efficiency of operation, or differentiation of service.

Performance Variables

Two measures of business performance are included in this study. Thomas and Venkatraman[38, p. 548], in discussing the use of performance measures, state:

Given that performance is not a unitary concept, it needs to be recognized that the strongest support for predictive validity of strategic groups will be found only through the use of multiple indices of performance reflecting both financial and operational criteria.

Operational performance is represented by pre-tax income as a percentage of total assets (five-year average, 1984-1988).

This measure represents the return achieved on both debt and equity investment in the firm, a critical component of operating productivity. Financial performance is represented in the study by the net sales margin percentage for the same five-year time period. Since this figure reflects all of the costs associated with generating retail sales, the net margin directly addresses the financial performance or profitability of the sales achieved by the retailers within the sample.

Measurement Procedure

Retail businesses included in the sample are grouped using cluster analysis. The term cluster analysis collectively refers to several different algorithms used to group similar entities. Each entity is usually described by its position on a set of attributes (dimensions), and the boundaries of the groups are not prespecified[39,40]. Group boundaries are developed according to patterns found in attribute measurements, making this tool suitable for the identification of strategic groups and determinations of the extent to which these groups differ[37]. Cluster analysis has frequently been used in the development of strategic profiles[1,9].

Strategy variables utilized in the cluster analysis are first standardized, based on the number of standard deviations of each observation value from the sample mean. There is strong support for such standardization of variables in cluster analysis to minimize distortions which may occur when using clustering variables with dissimilar scales.

The number of clusters included within this study is determined based upon statistical differences between the groups evaluated, utilizing multiple group ANOVA

tests, and cubic clustering criteria values for various numbers of clusters. Clustering decisions also stem from a priori theoretical expectations that there should be three different groups of retailers in the sample: those retailers which compete principally with a low-cost strategy, those firms which compete primarily with a differentiation strategy, and those retailers which compete with a combination of the differentiation/low-cost approach.

STRATEGIC DIFFERENCES AMONG RETAIL BUSINESSES

Means and standard deviations for strategic variables resulting from the cluster analysis of the data are reported in Table I. Results of multiple group ANOVA tests, reported at the bottom of Table I, indicate significant differences among the groups of retail businesses based on strategy variables employed within the study. These results indicate that differences in business strategy between strategic groups are statistically significant at the 0.05 level.

Three strategic groups of retail firms emerge from this cluster analysis comprising those retailers which compete principally with the low-cost strategy, those retailers which compete primarily with the differentiation strategy, and those retailers which compete with a combination strategic profile.

The first cluster is a strategic group composed of eight retail firms which compete primarily with the low-cost strategy. These retail businesses reveal their emphasis

Cluster	Net sales revenue per employee	Gross profit margin on sales
1 Low cost <i>n</i> = 8	0.716 (0.441)	-1.338 (0.731)
2 Differentiation <i>n</i> = 20	-0.744 (0.570)	0.111 (0.364)
3 Differentiation and low cost <i>n</i> = 12	0.833 (0.700)	0.715 (0.542)
<i>Mean squares:</i>		
Between groups	11.4100	10.3500
Error	0.4200	0.4800
<i>F</i> -score	27.0300	21.5500
Probability value	0.0001	0.0001

TABLE I.
Profiles of Three Clusters – Strategy Attribute Means and Standard Deviations by Clusters

Clusters	Net income/ net sales	Pre-tax income/ total assets
1 Low cost <i>n</i> = 8	0.007 (0.021)	0.076 (0.062)
2 Differentiation <i>n</i> = 20	0.018 (0.010)	0.052 (0.046)
3 Differentiation and low cost <i>n</i> = 12	0.039 (0.024)	0.139 (0.107)
<i>Mean squares:</i>		
Between groups	0.00280	0.0294
Error	0.00056	0.0071
<i>F</i> -score	4.88000	4.1100
Probability value	0.01380	0.0245

TABLE II.
Performance Profiles of Three Clusters – Performance Measures Means and Standard Deviations by Clusters

on low cost by stressing a high level of sales per employee and charging low prices; resulting in low gross profit margins on sales.

The second group identified consists of 20 retail businesses which compete principally with the differentiation strategy. These retailers strive to maintain an exclusive image, placing less emphasis on the reduction of direct cost, resulting in lower net sales revenue per employee. However, these retailers command larger gross profit margins on sales than those firms which compete primarily on the basis of low cost.

The third strategic group identified consists of 12 retail businesses which compete with a combined low-cost and differentiation approach. The ability of this group of retailers to command a high profit margin on sales demonstrates their success in differentiating meaningfully on the basis of product and/or service. In addition, emphasis on the maintenance of low direct costs by this group of businesses is reflected in high net sales revenues per employee.

Performance Profiles of Strategic Groups

Table II contains cluster means and standard deviations of performance variables for each strategic group identified in this study. Results of multiple group ANOVA tests indicate that differences in operational and profit performance variables between the three strategic groups of retail firms are statistically significant at the <0.05 level.

In terms of financial and operational performance, the third competitive group,

which consists of retail businesses which compete with a combination of the low-cost and the differentiation strategy, is the highest performing of the three strategic groups. The other two strategic groups, firms which primarily compete either with the low-cost or the differentiation strategy, produced significantly lower performance results. The differentiation strategy produces better financial performance than the low-cost group. However, the low-cost group demonstrates stronger operational performance, based upon return on investment, when contrasted with that of firms primarily competing with the differentiation strategy. These findings suggest that the member of the strategic group in the sample, competing primarily with a low-cost strategy, tend more efficiently to utilize their asset base, while those in the group of retail businesses competing principally with the differentiation strategy, demonstrate the capability of commanding greater profit margins on sales. This is consistent with theoretical research questions in the literature[1,2,4,5,41,42].

The results of this study tend to disconfirm the research questions suggesting that there will be a strategic advantage associated with retail businesses which pursue principally a singular competitive approach based on either low cost or differentiation. Rather, those retail operations which simultaneously pursue the low-cost strategy and the differentiation strategy appeared to gain a competitive advantage.

The Singular Low-cost Competitive Strategy

The results of this study fail to support the first research question: that those retail businesses competing primarily with the low-cost strategy would perform better than those retail businesses competing simultaneously with the low-cost strategy and the differentiation strategy. The basis for this research question stems from the results of industrial studies which have indicated that even though business-level economies of scale can sometimes be reached at low operating volumes, larger businesses tend to achieve competitive advantage based on reduced cost structures, attributable to firm-level scale economies in purchasing, finance, and marketing[8-11]. Based on this line of reasoning, it was theorized that successful large firms in the retailing industry would compete principally on the basis of low cost,

to enhance their ability to bid customers away from competitors and to capitalize on advantages associated with business-level economies.

The performance of businesses in the sample which compete principally with the low-cost strategy indicates that successful implementation of the low-cost strategy in retailing may require more than addressing the needs of the price-sensitive consumer. In outlining the prerequisites for the successful implementation of a low-cost strategy, Murray states:

A cost leadership strategy is viable only if cost structures vary across competitors within an industry in ways other than in direct ratio to output[43, p. 392].

Retail businesses reportedly have less variability in cost structures across competitors than industrial businesses because of limited size advantages, the public nature of the industry, and consumer perceptions regarding price. Thomas[7] reported that the benefits of size available to people-based service businesses, such as retailers, are principally limited to advertising expenses. Additionally, the public nature of the retail industry limits opportunities for proprietary strategic and technological advantages; therefore, there is much emulation regarding the adoption of technology and strategy[16,25].

It was noted that low pricing may not create the same advantages in retailing as it does in an industrial setting. In service businesses an image of poor quality may result from the adoption of a low price position[7]. Limited size advantages, the public nature of the industry, and consumer perceptions regarding price, may be among the factors which underlie research results, indicating that the performance of businesses within the sample principally adopting a low-cost strategy is below that of businesses adopting the combination low-cost and differentiation strategy.

The Singular Differentiation Strategy

The results of this study fail to support the second research question expectations that those retail businesses competing primarily with the differentiation strategy would perform better than those businesses competing simultaneously with the low-cost

strategy and the differentiation strategy. The basis for this research question stems from reports in the literature indicating that businesses competing primarily with the differentiation strategy may perform well in spite of their higher cost positions, since their unique product lines and/or service offerings allow them the alternative of charging higher prices[14]. However, in retailing, not being cost-competitive tends to increase vulnerability, since differentiation possibilities tend to diminish over time.

Murray[43] characterizes the retail industry as being in the maturity phase of the life cycle, stating that inflation-adjusted growth in the industry is relatively stable. Porter[5] maintains that, as an industry matures, competitors' product and service offerings gravitate towards the product and service configurations most preferred by customers, reducing opportunities for differentiation. This theoretical position is examined in retailing by Wortzel[16], who reports that the structure and layout of retail stores and their product offerings are becoming more similar. He contends that product branding has reduced barriers to entry in retailing, because new entrants can rely on established brands to bring quick credibility with consumers. Another reason cited by Wortzel for retailing becoming more "commoditized" includes the fact that after-sales service has changed. Retailers once had the responsibility for after-sales service, so choosing a retailer was important when one bought products like appliances and consumer electronics. Now consumers can get after-sales service independent of the retailer; thus, the effectiveness of this type of differentiation is also declining. The tremendous growth in bank credit cards has also promoted retailing commoditization. Consumers no longer choose a store because they have established credit there; bank cards enable customers to buy items on credit almost anywhere they please. As a result, historic opportunities for differentiation are diminishing within the retail industry.

One difficulty experienced by retailers attempting successfully to implement a business strategy principally based upon differentiation, is determining what is of value to the consumer. There is little consensus among retail shoppers as to what constitutes value[16]. The value of quality of products and service is determined by the

individual consumer and does not readily lend itself to generalization[44]. Therefore, if individual customers do not value products and services which differ along non-price dimensions, they will not value a differentiated product or service and will not pay more for the product or service.

The performance of businesses in the sample which compete principally with the differentiation strategy indicates that businesses which emphasize primarily the differentiation strategy may in some cases be competitively vulnerable. Factors which may have contributed to this finding may include the inability of retail businesses to prevent competitors from duplicating their efforts to differentiate on the basis of product, image, or service quality; and limited new opportunities to differentiate as product and service offerings in the retail industry gravitate towards consumer-preferred product and service configurations.

Combined Low-cost and Differentiation Strategies

The research results support the third question: that those retail businesses combining the low-cost strategy and the differentiation strategy would perform better than those businesses primarily competing with either singular approach. Both in terms of financial performance and operating performance, the group of businesses adopting the combination strategy outperformed groups of retailers adopting principally the low-cost strategy or the differentiation strategy.

The emergence of the "smart shopper" may be one of the reasons why those retail businesses within the sample which employ a combination strategy, performed better than businesses which adopted principally either the low-cost strategy or the differentiation strategy. Fulmer and Goodwin[45], state that given a hypothetical situation, in which there are three firms *A*, *B*, and *C* respectively, and firms *A* and *B* offer the same services and products but *B* has lower costs, firm *B* will win. If firm *C* chooses to differentiate, success will depend on customers' willingness to pay a higher price for *C*'s products or services to increase satisfaction. Firm *C* will only be successful if this additional value justifies the cost differential in the minds of the customer.

This same line of reasoning is extended by Watkins who states:

Competitive advantage occurs when a firm positively affects its buyers' value chains, either by lowering buyers' costs or improving buyers' performance, or both[33, p. 11].

In such a situation advertising, which builds customer loyalty, a differentiated image and operational efficiency, can benefit from advantages of size.

LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FUTURE RESEARCH

Investigations of the strategy-performance relationship within service industries involve complications not found within most industrial environments. The predominance of local and regional competitors in most service industries, combined with structural differences between people-based (retail) and equipment-based (airlines, car rental) service businesses, requires that samples used in empirical service industry research be narrowly defined. Narrowly defined samples require that caution be exercised with respect to generalizing research results.

Sampling only publicly held businesses within an industry the population of which principally consists of small, privately held businesses may also be considered a limitation of this study. The sample was limited to publicly held firms because reliable financial data are not available for the entire industry population.

A major limitation of strategic profile studies is the assumption of uniformity of quality of effort for all competing firms. In addition to structural and strategy strengths and weaknesses which affect firm performance, there are implementational strengths which contribute to differences in firm performance. A sound strategy coupled with poor implementation is doomed to failure. Unfortunately, reliable measures of the quality of the implementation effort at the business level within this industry are not available.

Difficulties remain with respect to the measurement of intra-group differences when utilizing cluster analysis. For example, differences among competitors pertaining to brand image, distribution system, and location may influence performance; yet, these differences are not measured by the

clustering algorithm, except as they relate to differences in the performance of other businesses within the sample. The concept of strategic groups is theoretical in nature while clustering algorithms are essentially atheoretical. Consequently, the reliability of results derived from cluster analysis is contingent on the selection of dimensions theorized as being most important in distinguishing competitors' strategic approaches to their respective markets.

Contingency Models

Developing a better understanding of the strategy-performance relationship in the retail industry environment is an incremental process. While the results of this study suggest that simultaneous adoption of the differentiation strategy and the low-cost strategy may lead to high performance for retail department, variety and general merchandise stores, this may not be generalizable to other retail businesses.

Theory indicates that there may be a number of moderator variables which influence the strategy adoption-business performance relationship. Thus, future research should be directed towards the eventual development of a contingency model of strategy adoption and business performance. Moderating variables proposed in the literature which model builders may wish to consider include managerial skill[46], strategy implementation expertise[47], managerial ability to foster commitment to strategy[48], organizational structure[49], corporate culture[50], size[51], internal and government regulation[52], industry and market structure[4] and internal resources[50].

International Studies

Research investigating the relationship between strategy adoption and business performance, both in the industrial setting and in service industries, has thus far been limited to examining the strategic groups within a particular nation's boundaries. This is only appropriate if competition is limited to national boundaries. Given the increasing globalization of markets, future research should investigate the appropriateness of including retail businesses from multiple nations within one study.

Strategic Group Stability and Performance

Since little is known about the stability of grouping structures, another opportunity for extension of the current research would involve investigating the stability of strategic groups of retailers over time. While this study was preliminary in nature, future research could be broadened to include an investigation of the relationship between the movement of businesses across strategic groups and performance changes.

In a relatively new area of investigation, such as the relationship between business-level strategy adoption and business performance, opportunities for continued research are virtually limitless. It is anticipated that future research related to the strategy adoption-business performance relationship of retail businesses will explain current contradictions in the literature and enhance the usefulness of research in this area.

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