

**BUDAPEST CORVINUS UNIVERSITY  
Ph.D. PROGRAMME IN MANAGEMENT  
AND BUSINESS ADMINISTRATION**

**IRMA AGÁRDI**

**THE IMPACT OF HORIZONTAL RETAIL ALLIANCES ON THE MARKETING  
STRATEGY AND PERFORMANCE OF THE MEMBER FIRMS IN THE HUNGARIAN  
GROCERY RETAILING**

**DOCTORAL DISSERTATION**

**SUPERVISOR: ANDRÁS BAUER**

**2004**

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## INTRODUCTION

### *The Aim and Importance of the Dissertation*

The present dissertation aims at exploring and analysing the influence of horizontal retail alliances on the marketing strategy and performance of member retailers.

Both in domestic and international retailing, retail alliances are gaining territory. Strategic alliances tend to gain more and more ground both in domestic and international retailing. In the year 2002 the first five places of the domestic grocery retailing toplist were occupied by strategic alliances, 3 of which were ones incorporating domestically owned retail groups (CBA Hungary Network, Co-op Hungary Plc., Honiker Buying Group). One after the other, the independent retailers, whose situation was deemed hopeless recently, come to discover the new opportunities offered by buying groups, franchise system or the combination of the two and more and more of them are joining one of these voluntary chains in the hope of market survival and becoming more competitive.

In domestic retail journals and in workshops on retailing, the phenomena of retail alliances and their market success are hot issues. However, there seem to be too few analyses of their activities and empirical researches which make an attempt to measure their influence on member firms are scarce, too. A particularly interesting research question is, whether joining an alliance indeed improves the retailer's performance and profitability and if yes, along what strategic dimensions it does so.

### *The Economic Importance of the Dissertation*

The research problem is strongly related to the field of interfirm relationships and to researches on strategy-performance.

The marketing literature related to interfirm relationships (co-operation, strategic alliances, partnerships, networks etc.) primarily focuses on the vertical relationships, thus analysing the co-operative behaviour of companies at various levels of the value chain.

Contrasted to this, the present dissertation wishes to give an insight into the relevant components of horizontal co-operation highlighting the similarities and differences between vertical and horizontal co-operations.

There is a wide spectrum of literature on strategic alliances. However, comparatively few pieces of research have adopted the point of view of the member firm to examine the influence of the alliance on the strategy and performance of the participating firm. Similarly, in retail literature, the impact of the alliance on performance is an important issue for there are only a small number of empirical researches which try to quantify the retailer's performance on a more aggregate (store or corporate) level.

The international retail literature focuses mostly on the econometric analysis of scanner panel data at present. My dissertation would like to contribute to the research body about more complex strategic questions. In the empirical research, I identify the marketing strategy elements influenced by retail alliance and its performance consequences.

#### *Scientific and Managerial Relevance*

The scientific importance of the thesis is that the empirical research combines traditional quantitative methods with cognitive techniques which play not only a methodological part but a theoretical role in building causal models. The method of cognitive maps is used for understanding the complex research topic and for the validity improvement of the causal model. In strategic management literature, cognitive methods are widely employed but these techniques are heavily neglected in marketing and especially in retailing research.

Small number of studies have been conducted about Hungarian retail companies and chains and about how both operate. Based on the empirical findings, valuable implications can be drawn for the hub firms of retail alliances and the members of the alliances. Earlier empirical work has justified that the small- and medium-sized, privately owned retail firms are less professional in managing their business and usually fail to quantify the antecedents and consequences of their decisions.

### *The Structure of the Dissertation*

As the context of the research problem is made up of interfirm relationships, co-operations, the theoretical part starts with the definition and discussion of the main types of co-operative relationships between firms.

In the second chapter, strategic alliance as a subtype of co-operation are discussed including an overview of the literature on horizontal alliances. Furthermore, the most common types and tendencies of retail alliances are described in detail.

The third chapter includes the main theoretical approaches concerning retail alliances and co-operations. First of all, the theory of relational contracting is introduced, which helps characterise retail alliances as an interfirm relationship emerging from a series of transactions. Then, within the framework of transaction cost analysis the different governance mechanisms will be discussed. Finally, I review the literature of the resource dependence theory which is the most relevant concept from the point of view of the research problem. By discussing each theory, literature and empirical work linked to distribution channels and retailing play a prominent role.

The fourth part deals with marketing strategy options pursued by retail companies. Relevant papers concerning the components of retail mix and how strategic alliance might influence the elements of the retail strategy are reviewed.

Chapter 5 presents the definition and quantification difficulties of corporate performance particularly in the case of retailing. The possibilities of measuring alliance performance and the performance consequences for the member firms is a part of great concern in the chapter. Furthermore, I identify possible performance measures.

After reviewing and analysing the literature, the next chapter contains the research concept. The main tendencies of Hungarian grocery and fast moving consumer goods retailing are briefly summarised. Also, the profile of the group of retailers which are subject to the empirical research are given.

The profile is presented on the basis of earlier empirical research and secondary data. Thereafter, based on the literature review, the context of the empirical research, the initial model and the research questions are defined in detail. The second part of the chapter illustrates the main results of the content analysis. Then I show how the results received from the content analysis and cognitive technique modify the initial theoretical model. This chapter also includes the research questions, the assumed connections between constructs of the causal model and the hypotheses.

The last chapter contains the results of the quantitative analysis. First, I examine the structure and the representativity of the sample. Before analysing the causal model, it is necessary to compare the groups of allied and independent retailers whether the difference in marketing strategy and performance variables depends only on the alliance. The next subchapter includes the descriptive statistics of the causal model's observed variables, the reliability and validity analysis of the latent constructs. The second part of the data analysis focuses on the interpretation of the structural equation models that enables to prove the hypotheses of the research concept. Finally, I summarise the main results of the quantitative analysis drawing the most important conclusions and implications of the survey findings. At the end of the dissertation, I outline the future research possibilities.

#### *Acknowledgements*

I would like to acknowledge to my supervisor, Professor András Bauer, who has supported this dissertation in many ways. He provided several constructive and valuable suggestions during my Ph.D. studies. I would like to thank my colleagues at the Marketing Department whose helpful comments have shaped the final form of the dissertation too. Special thanks for Professor Ágnes Hofmeister-Tóth for financing of the last phase of the survey, and Dr. Ernő Tari, Professor of Department of Management and Organisation for his valuable contribution. The reviewers of the doctoral theses (dr. Piskóti István and dr. Buzády Zoltán) had helped to improve the research concept as well.

I want to acknowledge with great respect to my family for their understanding and patience during the intensive periods of my working on the dissertation. Finally, I am most grateful to God for his grace and love. *“It does not, therefore, depend on man's desire or effort, but on God's mercy.” Romans 9,16*

## 1. DEFINITION AND MAIN TYPES OF CO-OPERATION

Since the research problem focuses on the impact that co-operation has on retail strategy of retail companies, first I wish to define the term of co-operation, describe its main types and clarify what theoretical approaches it is best characterised by (Exhibit 1.1.).

### Exhibit 1.1.

#### *Definitions of co-operation*

Authors	Definition
Högberg (1977)	Co-operation is an explicit, <i>long term</i> agreement between two or more companies which are independent from the point of view of ownership from one another.
Ring&Van de Ven (1992)	Co-operative relationships are <i>joint efforts</i> to build up repeated contract based transactions of <i>idiosyncratic assets with the same organization</i> .
Varadarajan (1986)	Co-operation is participation of two or more business units and/or pooling of resources in an effort to achieve profit growth or goals of other nature relying on the joint opportunity, in order to promote the mutual benefit of all participants.
Stern&Reve (1980)	In the process of co-operation, the channel member co-operate and work together to achieve their individual goals.
Anderson&Narus (1990)	The working partnerships of a distributor and a manufacturer is defined as the extent to which there is mutual recognition and understanding that the success of each firm depends in part on the other firm, with each firm consequently taking actions so as to provide a coordinated effort focused on jointly satisfying the requirements of the customer marketplace.
Anderson&Narus (1991)	Partnering is a process where a customer firm and supplier firm form strong and extensive social, economic, and technical ties over time, with the intent of lowering total costs, and/or increasing value, thereby achieving mutual benefit.
Andaleeb (1995)	Intent to cooperate is defined as the inclination of a party to engage in concerted/joint action with another party to achieve individual or joint goals.
Sriram&Krapfel, Spekman (1992)	A collaborative exchange relationship is one in which trading parties develop a long-term cooperative effort and common orientation toward meeting their individual and mutual goals.
Mohr&Spekman (1994)	Partnerships are defined as purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefit, and acknowledge a high level of mutual interdependence.

In economics and strategic management but also in the literature of marketing, co-operation as a corporate strategy has been a recurrent research issue. A wide range of terms are used by researchers describing co-operative activities, such as co-operation, interfirm relationships, strategic alliances, networks, or vertical marketing relationships etc. of whose individual definitions have been somewhat debated.

In my approach, co-operation is the collective term for all the above mentioned forms of co-operation. Thus, I aim at exploring the definition of co-operation first. (For the sake of a holistic view, I have to note that not every researcher shares the view to treat co-operation as a strategy but a behavioural trait of a partnership. (Cannon&Perreault [1999], Dabholkar&Neeley [1998]<sup>1</sup>).

Although the definitions reflect different theoretical approaches, they have a common element i.e. co-operation is based on an interfirm agreement which does not necessarily mean a contractual agreement, but regularly repeated transactions. Co-operation may be formed between partners who are independent from one another from the point of view of ownership, with mobilising resources through joint efforts, having mutual interests in view. The co-ordination and addition of company activities are realised with retaining the legal independence of co-operation partners.

Contract-based interfirm relationships can operate in the form of strategic alliances, partnerships, coalitions, franchise, various types of consortiums (Ouchi&Kremen-Bolton [1988]), and networks (Jarillo [1988], Ring&Van de Ven [1992]). There appear a growing number of articles about relationship marketing in marketing literature. As Carman (1980) puts it, aiming at the taming of the market, more and more companies create vertical marketing systems, tighter client-supplier relationships (Dwyer&Schurr, Oh [1987]) and interfirm strategic alliances (Anderson&Narus [1990], Heide [1994]).

It is important to make a distinction between the concept of *co-operation* and *network* because the network of organisations and the network organisation do not have the same meaning (Möller, Rajala, Svahn [2002]). Networks are not equivalent to the networks of co-operating firms but to the sets of connected relationships between firms (Anderson&Håkansson, Johanson [1994], Achrol [1997]). In the case of networks, the unit of analysis is not the firm but the relationship (Thorelli [1986], Johanson&Mattson [1989]). According to the research question, I focus on the participating firm in the co-operation, not on the relationships between member firms.

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<sup>1</sup> Dabholkar and Neeley (1998) understand negotiation strategy between two partners under the term ‘co-operative behaviour’.

## 2. STRATEGIC ALLIANCES

In strategic management literature, there is a wide range of definitions applied by strategic alliance researchers. In the present dissertation, the concept of strategic alliances is treated as a subtype of co-operations. In my view, strategic alliances are long-term co-operations established by autonomous companies. Exhibit 2.1. illustrates the further variety of possible definitions of strategic alliances.

### Exhibit 2.1.

*Definitions of strategic alliances in strategic management and marketing literature*

Authors	Definitions
Devlin&Bleackley (1988)	Strategic alliances take place in the context of a company's <i>long-term strategic plan</i> and seek to improve or even dramatically change a company's competitive position.
Lei, D. (1993)	Strategic alliances may be thought of as coalignments between <i>two or more firms</i> in which the partners hope to learn and acquire from each other technologies, products, skills, and knowledge that are not available to other competitors.
Parkhe (1993) Young&Gilbert, McIntyre (1996)	Relatively enduring interfirm co-operative arrangements involving flows and linkages that <i>utilize resources and/ or governance structures</i> from autonomous organizations for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm.
Faulkner (1995)	Interfirm relationships that require substantial investments in the view of long-term relationship and fulfilling joint goals.
Tari Ernő (1999)	Strategic alliances are <i>mutually beneficial, long-term co-operations</i> in which the relatively autonomous partners <i>integrate their activity</i> to a certain extent through unifying and complementing the knowledge and resources shared by the allied firms.
Leunissen&Pieters, Reijnders (1996) Spekman&Sawhney (1990)	Strategic alliances are types of interorganisational exchange relationship in which suitable <i>partners make substantial investments</i> in developing a long-term collaborative effort and common orientation toward individual and mutual goals to respond to changes and competitive pressures.
Coughlan et. al (2001)	In strategic alliance, two or more organizations have connections (legal, economic, interpersonal) that cause them to function according to a perception of a single interest, shared by all parties.

Strategic alliances are more specific than co-operations because - apart from mutual coalignment and common goals - they assume long-term co-operation, as well as mutual investments. Unlike them, co-operations may be based on the harmonisation of short-term and operative activities. Mutual investments might not only include tangible assets but also knowledge-transfer and sharing resources already available.

Besides taking the common objectives set by the alliance into account, the companies primarily expect to build new and/or keep existing competitive advantages (Porter [1993], Devlin&Bleackley [1988], Doz et. al [1989], Lei [1993], Faulkner [1995]), which is made possible by exploiting synergic effects emerged between the allied firms. Consequently, according to the paradigm, competitive advantages should lead to better market and financial performance (Day&Wensley [1983]). Recently, several forms of co-operations have appeared in retailing among small- and medium-sized retailers in an effort to make up for their competitive disadvantages (Tietz [1993], Leunissen et. al [1996]).

There is a research stream in strategic alliance literature (Varadarajan&Cunningham [2000], Sheth&Parvatiyar [2000], Buzády [2000], Tari [1999]), which focuses on the motivational (corporate, industrial, and environmental) factors of creating strategic alliances in detail. The incentives to form retail alliances will be discussed later in the subchapter concerning retail buying groups<sup>2</sup>.

## **2.1. Types of Strategic Alliances**

The literature enumerates several approaches that attempt to classify strategic alliances. One is e.g., Contractor and Lorange (1988)'s who have examined three main alliance types (joint ventures, autonomous and non-autonomous alliances)<sup>3</sup> from which further subgroups have been created. One such subgroup is that of retail alliances which comprise present and potential competitor alliances whose activity includes joint purchasing and sales. Faulkner (1995) has created a taxonomy based on the complexity of task carried out by the alliance, on whether the alliance leads to a joint venture, and on the number of participating firms. Sheth és Parvatiyar (2000) have identified four different types of alliance depending on whether the alliance focuses on the co-ordination of the strategic versus the operative activity, and whether it is formed by competitors vs. non-competitors.

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<sup>2</sup> See Exhibit 2.4!

<sup>3</sup> Contractor and Lorange's view about strategic alliances differs from the approach of this dissertation. The difference lies in the assumption that allied firms remain independently owned. This view is supported by Cravens and Cravens (2000) who consider co-operative activities as strategic alliances when the allied companies are autonomous.

Varadarajan and Cummingham (2000) have described alliances within industry, between industries and international ones, and alliances classified according to their function i.e. product development, joint production and marketing.

However, the most common classification is the distinction made between vertical and horizontal alliances. It is based on the level of the value-added chain occupied by the co-operating firms.

Vertical alliances integrate businesses to manage the flow of goods and services along some part of or the entire value-added chain in order to achieve systemwide economies of scale (Johnston&Lawrence [1988]). For small retailers, however, vertical integration is not a suitable option because they usually suffer from lack of capacity (Leunissen&Pieter, Reijnders [1996]). Companies entering vertical strategic alliances complement each other's operation.

Horizontal alliances are lateral relationships between firms at the same level of the value-added chain i.e. between competitors (Doz et. al [1989], Bucklin&Sengupta [1993], Dussauge&Garrette [1997], Cravens&Cravens [2000]). Horizontal alliances are not necessarily thought of as new phenomena, for co-operatives can be regarded as such formations, too. Their novelty therefore does not lie in their existence but in their institutionalisation and international power (Bailey et. al [1995]).

Cravens and Cravens (2000) interpret horizontal strategic alliances as components of the corporate strategy since the alliance becomes part of the management control system of the organisation. The alliance's strategic role is that it enables the company to co-operate with other firms in order to be able to create customer value. In the authors' view, horizontal coalignments are more complex than are traditional vertical relationships (supplier-manufacturer) because the alliance becomes integrated in the organisational structure of the partners, whereas vertical partnerships rely on already existent supplier-vendor relationships.

According to the literature, it is the strategic alliances in which the partners complement each other's operation that prove to be the most successful ones (Bleeke&Ernst [1995], Bucklin&Sengupta [1993]). Complementary activities are more feasible in vertical than in horizontal alliances.

The majority of marketing papers studying interfirm relationships tend to focus on vertical relationships. However, some articles have been published about the topic of horizontal alliances and co-marketing alliances recently.

Still, the concept of horizontal coalignments as such, is not a new phenomenon in marketing literature, Adler (1966) being the first to conceptualise it as symbiotic marketing<sup>4</sup>. The empirical work of Bucklin and Sengupta (1993) has illustrated how an alliance between IT-companies – as a new organisational structure – can most efficiently be managed and what significant management challenges might emerge. Venkatesh&Mahajan, Muller (2000) have investigated the dynamics of horizontal alliances formed in entertainment business. Robson&Dunk (1999) have examined Pan-European horizontal alliances in fuel market.

## **2.2. Horizontal Retail Alliances**

Exhibit 2.2. illustrates the basic types of the possible connections between members of the distribution channels. Combinations of the dyadic relationships depicted in the exhibit are not by any means excluded. In distribution channels therefore, highly complex, multilevel alliances might emerge through co-operation possibilities being accumulated. From the point of view of the research problem, horizontal co-operations between retailers are of most notable interest.

In the European retail sector, Pan-European buying groups and marketing co-alliances gained ground in the nineties, most often through the mergers of national buying groups with huge retail chains. Recently, they have been expanding their activity into creating and distributing store brands while constantly increasing their purchasing power (Ferne [1992]).

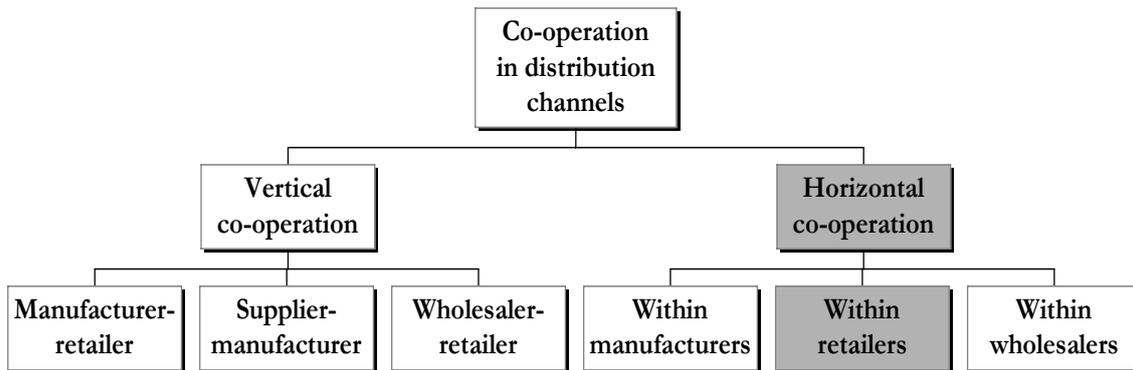
Dawson and Shaw (1992) have defined retail strategic alliances as "co-operation between two or more retail companies whereby each partner seeks to add to its competencies by combining the own resources with those of its partners".

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<sup>4</sup> Symbiotic marketing refers to mutual co-operation between independent companies or business units which mutually exploit the benefits and growth opportunities emerging from synergy (Adler [1966]). Successful implementation of symbiotic marketing can supplement the capabilities of the company, ensure economies of scale and scope, exploit the synergistic relationships between products and services, overcome resource constraints (Varadarajan&Rajaratnam [1986]).

## Exhibit 2.2.

*Co-operation possibilities in the distribution channels*



The effects of horizontal co-operation between retailers have been modelled by Leunissen et. al (1996) in clothing retailing. In their work, they have defined retail strategic alliances as "all activities in which a retailer forms relationship with one or more partners, for the specific purpose of engaging in some form of joint activities".

Retail strategic alliances co-ordinate and support several activities (purchasing, marketing, market research, counselling, branding) by offering services to the allied retailers, which enables its members to build up long-term sustainable competitive advantages (Bailey et. al [1995]).

Just as in strategic management literature, retail alliances have been classified in a number of ways; in terms of the type of functions provided and the closeness of the links between member firms of the alliance.

The Institute of Grocery Distribution in the UK (1992) has distinguished four groups. The first category includes *buying groups* whose members co-ordinate only purchase in order to improve their negotiation power against manufacturers. Alliances, which co-operate on particular projects, most often like market entry, belong to the *development-based* group.

In the case of *capability-based alliances*, retailers share their knowledge and expertise with each other. *Multifunctional alliances* can be interpreted as the combinations of the former three groups in which retailers gain strategic advantages through sharing information and resources.

Bailey et. al (1995) pursued the attempt at a more comprehensive taxonomy that is able to classify all types of retail alliances (Exhibit 2.3). In their study, they have examined and grouped British retail strategic alliances with international operation in terms of the scope and tightness of co-operation between member firms.

**Exhibit 2.3.**

*Types of retail strategic alliances*

Types	Description
Loose Affiliations	These are defined as organisations whose primary function is to act as a focal point. These are trade bodies engaged in research and dissemination of market data as well as political lobbying.
National Buying Club	Buying organisations exist for the benefit of their members, predominantly within one nation-state, whose main purpose is the procurement of merchandise and maximisation of purchasing power.
Co-Marketing Agreements	Co-marketing alliances are a form of working partnership that are defined understanding that the success of each firm depends in part on the other firms (based Anderson&Narus [1990]).
International Alliances with Central Secretariat	These are retail groups which form an international alliance and create a central secretariat for the purpose of co-ordinating operational activities (buying, branding, expertise exchange and product marketing).
Equity Participating International Alliances	These types of alliance involve two or more members each of which has an equity stake in its partners, and the alliance is formally constituted. The rationale for such an alliance is to achieve wider and more strategic goals than the operational focus of a buying alliance.
Joint Ventures	Joint ventures are business agreements where two or more owners create a separate entity (Harrigan [1988]) with purpose of entering new markets.
Multiple Alliances	Retail alliances often pursue multiple alliance strategies and strategic goals and appear as combinations of different alliance types.

Source: Bailey et. al (1995), pp. 30-36

Bailey' classification also reflects the magnitude of the difference in *ownership* because the closer the co-operation and co-ordination between the allied retailers are, the more confounded the ownership relations are.

Considering the research problem, the most relevant category is that of *multifunctional alliances*, for Hungarian strategic alliances in grocery retailing run as the combinations of retail buying groups and horizontal co-marketing alliances. The partners partly or entirely

harmonise both their purchasing and marketing activities. These alliances are typically established on a contractual basis within the frame of traditional supply agreements, franchising, licence and various forms of concessions.

Retail strategic alliances provide numerous *benefits* for their allied partners e.g.: representation of interests, economies of scale, better purchasing conditions through increased buying power, brand- and image transfer, acquiring new capabilities and skills employing outlet types, promotional activity and information technology of the alliance. The alliance might protect its members against new market entries and improve competitiveness (Bailey et. al [1995], Barth [1996]).

Retail strategic alliances can be characterised by a threefold goal system: the objectives of the alliance, the objectives of the allied members, and the pursued goals of the potential members. In the case of alliances/groups of firms the focus is on achieving an interfirm goal compromise (Tietz [1993]).

*The objectives of the alliance members* might cover several fields of operation, such as increasing the efficiency of marketing tools, maintaining and increasing competitiveness against alternative forms of co-operation, enhancing market position, reducing risks, reducing investments costs, increasing market transparency and entering new markets (Tietz [1993]).

As far as the internal structure of strategic alliances is concerned, undifferentiated and segmented retailer groups are to be distinguished. Segmentation might be aimed at by member firms, for which it is easier to achieve their goals through segmentation. Segmentation has a beneficial effect on the alliance, as it is in the retailers' interest to have partners that help them achieve their individual aim (Tietz [1993]).

In the next subchapter, I wish to introduce the two main components of *contractual agreements* (buying groups and franchise<sup>5</sup>) which play an essential part in the grocery and FMCG retailing of Hungary.

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<sup>5</sup> There is a fierce discussion in the strategic management literature to which extent franchise chains can be considered as retail strategic alliances. Since the franchisee's autonomy and thus its room for strategic decision have become very limited (Tari [1999]). In grocery retailing, the components of franchising are playing an important role in the strategic alliances. However, the presence of franchise elements have not led to a fully integrated franchise system. So, they do not threat the strategic autonomy of the member firms. By the analysis of strategic alliances in grocery retailing, we can not avoid to discuss the features of franchise systems.

## 2.3. Contractual Agreements in Retail Strategic Alliances

### 2.3.1. Buying groups

In their original forms, buying groups are initiated by retailers and/or wholesalers on the purpose of joint purchases of merchandise. However, buying groups as strategic alliances often take a step further than only co-ordinating their purchasing activity. In most cases, they expand their operation and evolve into offering a comprehensive service package for the allied retailers (Tietz [1993]).<sup>6</sup>

Hardy and Magrath (1987) have analysed *the evolution process of buying groups*. In their view, it is in the industries which are characterised by price competition and margins under pressure that the creation of buying groups is most encouraged. Intermediaries are thus forced to purchase merchandise at the most favourable prices possible.

At the first stage of the evolution, the firms belonging to a buying group strive for *surviving* the competition against more capitalised competitors. In the next step, the *buying group* starts to provide its members with logistical support to decrease costs of interest rate and improve inventory turnover. Then (Step 3) the scope of the co-operation is usually extended into promotional and advertising activities. In the fourth step, the group starts to develop its own product line manifested in *store brands* that increases customer added-value and ensures a higher margin for retailers. Finally, the buying group becomes an integrated marketing system which mainly engages in marketing planning, geographic and product diversification.

A very similar course of evolution could have been observed in Hungarian grocery retailing. At first, retailers have only aimed at purchases under more favourable conditions but then they have started to integrate more and more retail functions. Quite soon, it has become obvious for them that joint purchasing activity alone would not ensure their market survival and success, for the other main advantage of multinational retailers lies in the chainwide marketing strategy (store layout, price and promotional

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<sup>6</sup> Buying groups can operate in the form of partnerships and co-operatives but in both cases there is a central organisation (a hub firm) that is responsible for the co-ordination. Buying groups manage warehousing, merchandise transportation, accounting, sales representation and dispatching. Furthermore, the hub firm organises agreements with third parties: traditional supplier agreements, offerings of the supplier, merchandise recommendation, bank covers, guarantors, central government (keeping the accounts of members) (Tietz [1993]).

policy) they apply. Thus, besides purchasing, buying groups have started to co-operate on marketing and sales, exercising joint marketing activity, whereby market entries and sales activity are promoted. Purchases are performed and administered centrally. It is not unusual to take immediate liability for one another within the group. They sometimes engage in joint training activity and apply the same layout in the stores. (Bauer&Agárdi [2000]).

Multinational retailers have certainly recognised the importance and benefits of buying groups as well. For example, the largest European retailer, Metro has launched a buying group in form of a joint venture with Spar and they purchase merchandise under the name of Metspa jointly. The French hypermarket chain Cora, has formed a buying group called Provera with Csemege/Match and Profi. Since each multinational chain has its well-defined identity, they can easily do without adjusting their marketing activities to one another's.

The recent innovations of the buying groups of domestic retailers now show a tendency towards developing their own store brands, a higher level of co-operation and joining international, mostly European buying groups.

Shaw, Dawson and Harris (1994) have summarised *the benefits offered by buying groups* and the direction of changes, all illustrated in Exhibit 2.4. Primarily, they have considered aspects of economies of scale and scope when evaluating the advantages of buying groups.

Retailers are basically interested in achieving more favourable buying conditions through large volume purchasing. A general trend is that the initial benefits are essentially connected to economies of scale but the changes reveal a tendency towards satisfying local and different customer needs at a higher level and thus combining economies of scale and scope.

The authors give a comprehensive overview about the advantages of buying groups. However, the benefits are strongly interrelated and overlap each other. E.g. joint marketing activity (pricing) implicitly includes the economies of scale provided by buying volume and the same is true for the economies of scope.

As it is concluded from an earlier survey<sup>7</sup>, Hungarian retailers are of the view that the main advantages of buying groups are as follows: favourable wholesale and consumer prices (45%), professional management of purchasing (24%), co-operation and favourable transportation and warehousing conditions (16%). As drawbacks of buying groups unreliability and incorrectness of the hub firm (13%), the limited purchasing opportunities (13%), the obligation of carrying certain merchandise (10%), and the fear of losing autonomy (8%) have been mentioned.

The development of buying groups does not only produce positive changes but members should be prepared to encounter substantial costs with the tightening of integration. If the group tries to compensate for the costs by increasing membership fees, in a short while one or two members will no doubt drop out. This, however, may lead to liquidity problems, then, in the most extreme case, to the dissolution of the group. The same may be observed if a firm with a great purchasing volume leaves the group (Hardy&Magrath [1987]). A good illustration for this case is the Hungarian buying group Honiker which lost its most important partner, “Kisalföld Fűszért” in 2002. The large volume founder company left the group and entered another alliance which offered more benefits, particularly in the field of marketing.

### 2.3.2. Franchising

Another important component of retail strategic alliances is franchising, or more precisely the presence of franchise elements in the co-operation when members of retail alliances have some obligations regarding pricing, selection, promotion, and store layout. This understanding can be typically found in Hungarian grocery and FMCG retailing.

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<sup>7</sup> GfK Hungary Ltd. (1997): Survey on Retail Buying Groups

**Exhibit 2.4.**

*Benefits Sought by Retail Buying Groups and Directions of Change*

Benefit	Incentive to form group	Direction of change
1. Economies of scale		
1.1. Buying volumes	<p>Dependent on the size of discounts, which vary by sector and distribution Economies among members</p> <p>Strong case to maximise size of alliance to achieve full benefits</p> <p>Extent of alliances will depend on competition Especially from voluntary chains and non-aligned wholesalers</p>	<p>Growth of corporate chains increased pressures for independents to form groups but varies by sector.</p> <p>Local differentiation provides alternative strategy to compete with multiplies.</p> <p>Growth in national corporate chains increases territorial coverage necessary for groups but strong voluntary chains in some sectors limit scope for groups, as does the falling number of independents.</p> <p>Manufacturers concerned at growth of retail concentration may seek to limit discounts to discourage chains and groups, but success will depend on relative power in channel.</p> <p>Consumer demand for variety and global product sourcing has increased the need for professional buying skills, the cost of which is more easily sustained through groups.</p> <p>Increase in manufacturer concentration results in larger volumes of business with major retailers which increases the importance of volume-related discounts.</p>
1.2. Marketing economies e.g, retail brands, product testing, advertising, promotion	<p>Large volume sales allow use of more effective marketing and reduce costs per unit</p> <p>Shared costs of marketing innovation</p> <p>Greater need to be aware of what other retailers are doing to enable faster diffusion of new concepts is encouraged by larger organisations</p>	<p>Rise in emphasis on retail marketing by corporate chains leads to increased importance of retailer image. Source of potential competitive weakness for non-aligned independents.</p> <p>Requirement to introduce marketing innovations faster places a premium on marketing information about competitors.</p> <p>Increased costs of retail brand development with moves away from "me too" brands weakens the competitive position of medium-sized retailers.</p>

Source: Shaw et. al (1994), pp. 87-88

**Exhibit 2.4. (continued)**

*Benefits sought by retail buying groups and directions of change*

Benefit	Incentive to form group	Direction of change
1.3. Economies in operations, systems, financial, legal and personnel services	Bulk purchase can reduce costs but competition is present from alternative providers	Moves to meet the specific demands of local markets encourage local managerial control within alliance-type organisations.
2. Economies of replication		
2.1. Recurrent costs e.g. product ranges, operating systems	Where benefits in competitiveness through improved marketing and lower unit costs by replication across outlets.	The more direct the competition with corporate chains, the more important this becomes but market fragmentation may mean that highly distinctive adaptation to local market conditions is an alternative.  But this may require high levels of retail skill which independents may not possess and at which corporate chains have become more adept. New information and control systems allow varying product assortments among stores.
2.2. Fixed and capital costs, e.g. equipment provision, format design	Spreading costs across members. Retail technology systems costs are responsive to replication economies.	Increased importance of store design and layout and efficient operating have increased the importance of these economies.
3. Economies of scope		
3.1. Combinations of product ranges and services	Main advantages are the consumer attractions of different assortments together with opportunity for lower costs through joint overheads.	Trend to more specialist retail formats and product ranges in some sectors reduces importance of this factor in those sectors.  Where wide range needed because of convenience elements in shopping, this may have strengthened case for alliances.
3.2. Promotion	Economies of scope widely used to underpin promotional activity.	Economies of scope become more important as pressures increase to raise shelf space and floor space productivity.

Source: Shaw et. al (1994), pp. 87-88

However, there are, strictly speaking, no such things as real franchise systems in Hungarian grocery retailing (apart from Co-op Hungary Plc.) since the obligations are addressed to a certain part of the retailer's operation and do not eliminate the autonomy of the member firm.

The main difference between franchise systems and buying groups can be found *in the intensity of co-operation* fixed in the franchise contract. In the case of franchising, the advisory and supporting services are much more emphasised than with buying groups. The success of the system fundamentally depends on drawing up the boundaries between the partners, which is accepted by both the franchisor and the franchisee. The franchisee retains its autonomy within the frame of the franchise contract and the ability to build up its own business.

A franchise contract is *a governed, long-term coalition* between independent partners. The franchisee pays (entrance fee and royalty) for being allowed to use the resources/rights of another company (franchisor) under certain conditions (Tietz [1993]). The right to produce or market the franchisor's brands or use the trademarks, names, know-how, and employing certain production and marketing techniques developed by the franchisor are all established in the contract (Coughlan et. al [2001]). The franchisor supports the franchisee in launching and creating its business and in the ongoing management, when the franchisee is using the rights set in the franchising contract.

In retailing, a distinction is to be made between authorised franchise systems and business format franchising (Tietz [1993], Coughlan et. al [2001]). *Authorised franchise systems* (merchandise-related franchising) aim to produce and/or distribute a product or a brand for the purpose of generating profit from the product directly.

The contract usually contains the restrictions concerning the main distribution channels. (It may be a horizontal 'licence' or a vertical 'manufacturer – wholesaler/retailer' agreement. Vertical agreements can also function in multichannel distribution systems.)

*Business format franchising* is the licencing of an entire range of business under a brand name that includes detailed regulations regarding the purchasing and marketing conditions. The subject of the contract is a marketing system or a store format. This type

of franchising is usually established by hub firms in FMCG or service industry. A similar agreement was entered by two Hungarian retail companies where a buying group (Sláger Ltd.) purchased the business format of another retailer (Co-op Hungary Plc.) enabling its members of its own retail chain to join in the Coop network.

Similarly to buying groups, the issue of sharing costs and profit are the most critical points in franchising, as well as the selection and monitoring of the franchisees. The performance of the franchise system depends on the "quality" of the franchisee and the stability of the franchise system (Tietz [1993]).

Since this dissertation focuses on the impact of alliances on the member firms, it is worth to consider what benefits and drawbacks a retailer might face when the alliance incorporates franchise elements in the co-operation (Exhibit 2.5.).

**Exhibit 2.5.**

*Benefits and Drawbacks from the Point of View of the Franchisee*

Benefits	Drawbacks
Opportunity of distributing branded products or services	Payments (entrance fee)
Using market research information	Unreliable franchisors damage the reputation of the franchisee's business
Benefit from the advertisement of the brand/service	Limited source of merchandise
Start-up and regular training programs	The franchisor does not provide supporting services for the franchisee
Sharing increasing costs	Single source purchasing
Economies of scale in purchasing and logistics	Inflexible pricing if prices are set by the franchisor
Legal and financial background	
Opportunity of substitution	

Source: Mai piac 1997, Nr. 11-12, pp. 12-18 (Hungarian retail journal)

In real market situations the elements of franchising and buying groups mingle. The two forms of contractual agreements have thus induced the creation of *voluntary chains* (Tietz, 1993).

Voluntary chains are retail alliances where the distribution functions are jointly managed by retail (and sometimes wholesale) companies mostly under one chain brand or logo. Most of the retailers I have studied belong to strategic alliances operating in the form of voluntary chains. In Hungary, it was the second largest retail group (CBA) to have launched the first voluntary chain but more and more strategic groups (Reál and Honiker for instance) have opted for this way of co-operation.

### 3. THEORIES ON CO-OPERATION

Theoretical approaches are overlapping in the case of both vertical and horizontal co-operations. Researches concerning interfirm relationships and strategic alliances can be grouped into three main theoretical approaches: relational contracting, transaction cost analysis and resource-dependence theory, each of which is given a summary about in the following subchapters.

The individual approaches may be applied for both vertical and horizontal co-operations, as they primarily explore the economic and behavioural dimensions of the transactions. Differences, however, do arise from the fact, that companies supplement each other's operation in vertical relationships, whereas they are on the same level of the value-added chain in horizontal ones, thus in other words, the co-operating parties are at the same time one another's potential competitors.

#### 3.1. Relational Contracting

Relational contracting has been first described by Ian Macneil (1980). It challenges the long-dominant paradigm of promise-based contracts. Transactions were treated as discrete, single events by classical contract law theory, whereas companies started to engage more in long-term co-operation forms. Macneil believes that any theory of contract has to recognise the vast array of social relations.

The basic assumptions of Macneil 's theory are as follows:

- One of the primal roots of contract is *society* because people are not totally isolated and because they share common needs and tastes with others, from the satisfying of which contracts arise.
- *Each person of the society* is not self-sufficient, but they display a *specialisation of labour* and through exchanges they get in touch with one another.
- *Choice* has an important role as well because if people do not have a choice, then contracts become irrelevant.
- *Awareness of the future*: if people are not aware of the future, they do not need contracts, because all contracts attempt to project into the future.

- Macneil (1980, p. 4) defines contract as “no more and no less than the relations among parties to the process of projecting exchange in the future”.

*Norms*<sup>8</sup> that describe how the parties to a contract can, and indeed should, behave in a contractual relationship, make up the focus of his theory. Norms are defined as expectations regarding behaviour represented by at least a part of decision-makers. (Thibaut&Kelley [1959]).

Norms may certainly differ from one another in a number of aspects (Heide&John [1992]), thus different levels of norms (social, group) may be distinguished. Interfirm transactions are also governed by normative structures (Stinchcombe [1986]). Thibaut&Kelley (1959) have observed that *moving from individual aims to collective ones, norms may display considerable differences from one another.*

Macneil (1980) distinguishes *discrete* and *relational transactions* based on these very observations. He identifies eleven components of contracts, in terms of which all types of relational exchanges can be described. He points out mutuality as one of the most important and general relational norm, when all participants believe fulfilling the contract benefits them individually. Since exchange in the absence of mutuality is stealing or coercion, legitimate contractual exchange requires mutuality. In discrete transactions, planning, implementation and contribution are relevant. In contrast, in relational contexts, role integrity, preservation of relation and harmonisation of relational conflict are emphasised. Other types of norms are the ones that draw a parallel between relational exchange and society, such as norms on distributive justice, human dignity, social equality, flexibility and transferability. (Gundlach [1996]).

Dwyer et al. (1987) have compared discrete and relational transactions on the basis of Macneil’s norms, summarised in exhibit 3.1. Norms represent a continuum, whose two endpoints are recognised as highly discrete transactions and modern contractual relations respectively. *Discrete transactions* are characterised by very limited communications and narrow content. The identity of parties to transactions are ignored.

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<sup>8</sup> The concept of norms stems from psychology which gained ground in several disciplines such as social psychology (Thibaut&Kelley [1959]), law (Macneil [1980]), economics (Bendor&Mookherjee [1990]).

Partners pursue strategies that help them achieve their individual goals (Heide&John [1992]). *Relational exchange* transpires over time: each transaction must be viewed in terms of its history and its anticipated future. The basis for future collaboration may be supported by implicit and explicit assumptions, trust and planning (Dwyer et. al [1987]). Relational exchange participants can be expected to derive complex, personal, non-economic satisfactions and engage in social exchange. Because duties and performance are relatively complex and occur over an extended time period, the parties may direct much effort towards carefully defining and measuring the items of exchange (Lusch&Brown [1996]).

### 3.1.1. Studies from the Field of Marketing Channels

As we have seen, Macneil's approach may easily be applied for the study of interfirm relationships. Therefore, one should not be surprised to find several articles studying relational contracting in distribution systems literature.

In their pioneering work, based on Macneil's theory, Dwyer, Schurr and Oh (1987) investigate antecedent conditions and processes influencing buyer-seller exchange relationships and define the phases of the development of relational transactions (Exhibit3.1.).

Most of the publications analyse norms that are responsible for partners' behaviour in certain interfirm relationships and the extent to which they influence the relationships (Kaufmann&Dant [1992], Dwyer et. al [1987]). Young and McIntyre (1996) have analysed relational norms (solidarity, role integrity, flexibility, limitation of power) operative in different interfirm relationships (traditional supply agreements, just-in-time relationships, horizontal and vertical strategic alliances). From their research they have concluded that role integrity and limitation of power are among the most efficient norms in horizontal marketing systems.

### Exhibit 3.1.

#### *A Comparison of Discrete Transactions and Relational Exchange*

Contractual elements	Discrete transactions	Relational exchange
Situational characteristics		
Timing of exchange (commencement, duration, termination of exchange)	Distinct beginning, short duration, and sharp ending by performance	Commencement traces to previous agreements, exchange is longer in duration, reflecting an ongoing process
Number of parties	Two parties	Often more than two parties involved in the process and governance of exchange
Obligations (sources of content, sources of obligation, specificity)	Content comes from offers and simple claims, obligations come from beliefs and customs (external enforcement), standardised obligations	Content and sources of obligations are promises made in the relation plus customs and laws, obligations are customised, detailed, and administered within the relation.
Expectations for relations (concerned with conflicts of interest, the prospects of unity, and potential trouble)	Conflicts of interest (goals) and little unity is expected, but no future trouble is anticipated because of cash payment	Anticipated conflicts of interest and future trouble are counterbalanced by trust and effort at unity
Process characteristics		
Primary personal relations (social interaction and communication)	Minimal personal relationships, ritual-like communications predominate	Important personal, noneconomic satisfaction derived, both formal and informal communications are used
Contractual solidarity (regulation of exchange behaviour to ensure performance)	Governed by social norms, rules, etiquette, an prospects for self-gain	Increased emphasis on legal and self-regulation, Psychological satisfactions cause internal adjustments
Transferability (the ability to transfer rights, obligations, and satisfactions to other parties)	Complete transferability, It doesn't matter who fulfils the contractual obligations	Limited transferability Exchange is heavily dependent on the identity of the parties
Co-operation (joint efforts at performance and planning)	No joint efforts	Joint efforts related to both performance and planning over time, adjustment over time is endemic
Planning (the process and mechanisms for coping with exchange and conflicts)	Primary focus on the substance of exchange, No future is anticipated	Significant focus on the process of exchange, Detailed planning for the future exchange within new environments and to satisfy changing goals, tacit and explicit assumptions abound
Measurement and specificity (calculation and reckoning of exchange)	Little attention to measurement and specifications, Performance is obvious	Significant attention to measuring, specifying, and quantifying all aspects of performance, including psychic and future benefits
Power (the ability to impose one's will on others)	Power may be exercised when promises are made until promises are executed	Increased interdependence increases the importance of judicious application of power in the exchange
Division of benefits and burdens (the extent of sharing of benefits and burdens)	Sharp division of benefits and burdens into parcels, exclusive allocation to parties	Likely to include some sharing of benefits and burdens and adjustments to both shared and parcelled benefits and burdens over time.

Adapted from Macneil (1974, 1980) in Dwyer, Schurr, Oh (1987)

Paswan and Young (1999) have examined the connection between relational norms (solidarity, role integrity, mutuality) and channel support areas (advertising support, trade allowance, promotional material, etc.) within the context of Indian buyer-seller relationships. They have found that trust between partners and belief in long-term co-operation correlates with the support mechanisms of the company's strategic and marketing activities.

The connection between interdependency between partners and contractual norms has been investigated by Lusch&Brown (1996), who state that interfirm relationships are formed by the norms operative in the relation, as these are the ones to define the parties' behaviour. Implicit and soft contracts are made between the members of the distribution channel through a set of mutual expectations and understandings. Lusch and Brown refer to these as normative contracts. They examine if the dependence between parties (either of a mutual or a one-way nature) promotes explicit or implicit contracts and how partners' behaviour and the performance of the interfirm co-operation is affected by it.

Retail alliances comprise contractual and noncontractual relations. In contractual relations it is formally stated in terms of explicit rules how parties to the contract should behave over time or else they may expect to encounter some legal consequences (explicit contracts). On the other hand, an explicit contract may not be able to see into the future and specify all events that may occur. Thus, members join implicit contracts which are based on tacit agreements and expectations.

Strutton et al.(1995) study the psychological climate of franchise systems, wherein mostly the connection between the franchisor's solidarity i.e. the most relevant norm of contracting and the psychological climate perceived by the franchisee have been examined.

Cannon&Achrol and Gundlach (2000) consider the performance of certain co-operation forms, including contractual agreements and relational norms in situations with different levels of uncertainty and relation-specific adaptation.

Stern&Reve (1980) argue in favour of a multidimensional analysis of interfirm relationships, as transactions appear as the combination of economic, social and political

dimensions. Two types of co-operation are investigated by them: one based on legal contracting, the other on co-operative norms (flexibility, solidarity, mutuality, harmonisation of relational conflict, limitation of exercising power). The results of the empirical research show that both in relations with high, and with low uncertainty, co-operative norms demonstrably affect performance in a positive way.

### 3.1.2. Macneil's Critics

Macneil's theory proves to be of great relevance in studying the forms of interfirm co-operation. However, there seem to be too many overlapping constructs (Gundlach [1996], supposedly owing to the fact that when creating the theory, the operationalisation of the contract norms was not a set aim by the author (Macneil [2000])).

Gundlach (1996) criticises the fact that researchers tend to pull a small subset of contract norms out of the theory's nomological net of norms and elements. The danger of this common practise is that contextual elements that are relevant in the contractual context become excluded. Too often, researchers simply presume to know the nature of the exchange context of the type of co-operation investigated, in order to justify their use of measurement of a specific norm.

## 3.2. Transaction Cost Analysis

Transaction Cost Analysis is based on the studies of organisational theory, economics and modern contractual law in an attempt to explain why economic actors choose certain structures to conduct their transactions (Dwyer&Oh [1988]). The foundational point of the theoretical approach is made up by the transactions between economic actors, which all trigger certain costs (Williamson [1975]). Whether the transaction is carried out by the market or the company, will define the degree of costs.

In real market situations, there are always some costs to be found<sup>9</sup>, which emerge in connection with preparing transactions (searching for the right partner, evaluating

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<sup>9</sup> From assuming, what might be theoretically possible, i.e. there are no transaction costs, follows that there is no need of companies whatsoever, for transactions can be conducted with a simple market exchange.

offers), carrying out the transaction, and ascertaining whether contractual compliance has taken place (Picot [1986]).

Williamson (1975) is of the view that certain dimensions of transactions (such as transaction-specific investments, internal and external uncertainty, transaction complexity and duration and performance evaluation complexity) increase transaction costs so that market mechanisms become inefficient. The efficiency criterion is an essential element of the theory; it recognises economic exchange as an efficient contractual relation.

### 3.2.1. Governance Forms in Transaction Cost Analysis

In Transaction Cost Analysis, two governance forms are differentiated: 1) markets, where there is governance through price mechanism, and 2) hierarchies, through forward or backward integration, conducting transactions within an organisation (Williamson [1975], Heide [1994]).

The main assumption of TCA is that there are potential costs associated with carrying out transactions (safeguarding, adaptation, and evaluating processes). Williamson (1975) suggests *vertical integration* as an alternative governance form of the market. However, recent business practice has not justified his notion, since vertical integration, too imposes a considerable amount of costs on firms, paving the way for long-term interfirm relationships to come in the focus.

This is the phenomenon studied by Stinchcombe (1985), drawing attention to the fact that safeguarding mechanisms guaranteed by vertical integration may be simulated by *explicit market contracts*, as well. Thorelli (1986) suggests that TCA has overly polarised out attention and that it treats the wide variety of interfirm relationships (i.e. relational exchanges) that lie between the extremes of market and hierarchy very skimpily. Dwyer&Oh (1988) dub interfirm relationships “largely neglected middle ground” in TCA. Later Williamson (1985) himself studies governance forms between market and hierarchy, which gained ground in the eighties. These mean, co-operations that do not necessarily suppose an entire ownership commitment but they are able to reduce market uncertainty.

Based on company practice, several authors have considered the possible combinations of market and hierarchical governance forms. Heide (1994) describes market vs. non market (unilateral/hierarchical and bilateral) integration. Coughlan et al. (2001) distinguish classical market transactions, quasi vertical integration (a relational governance form) and vertical integration. Gosh&John (1999) study relational transactions besides market and hierarchical transactions. Ring and Van de Ven (1992)'s classification seems to be the most thorough one, as they recognise recurrent contracting and relational transactions within hybrid transactions, which is displayed in Exhibit 3.2. in detail.

From the point of view of the research question, the two 'intermediate' or hybrid (Heide [1994]) governance forms are of specific interest, namely the case of recurrent contracting and relational contracts. The strategic alliances of retail companies are best characterised by *relational contracts*.

Relational contracts usually include *long-term investments*, which develop in the course of regular transactions between partners who are *legally equal* and *autonomous*. Jointly developed and marketed property rights contain *specific investments* to a great degree. Consequently, relational contracting is much riskier than are market or hierarchical transactions. *Conflicts* are resolved through internal mechanisms in order to preserve co-operation, keeping the realisation of the outcome stemming from partnership heavily in mind. The relationship is characterised by a *bilateral governance form* (Ring& Van de Ven [1992]).

Other theorists have studied organisational structures instead of classifying governance forms. Traditional supply agreements, just-in-time relationships, vertical strategic alliances and horizontal marketing alliances have been analysed by Young et al. (1996) from the point of view of 'relationalism' (Kenesei [1998]) characteristic of the co-operation. Dwyer&Oh (1988) examine decision-making structures and competitive position of wholesalers, retailing buying groups and independent retailers in the hardware market place from a transaction cost perspective.

**Exhibit 3.2.**

*Governance Forms in Interfirm Relationships*

	Forms			
Distinguishing characteristics	Discrete market transactions	Hierarchical managerial transactions	Recurrent contracting transactions	Relational contracting transactions
Nature of exchange	One-time transfer of property rights	On-ongoing production and rationing of wealth	Episodic production and transfer of property rights	Sustained production and transfer of property rights
Terms of exchange	Clear, complete and monetised, sharp in by agreement, sharp out by pay	Authority structure superior hires subordinate obeys quits the employment relationship	Certain, complete contingent on prior performance, plans for experimentation on safeguards	Uncertain, open and incomplete, plans for bilateral learning safeguards and conflict resolution
Transaction-specific investment	Non-specific	Idiosyncratic	Mixed	Mixed and idiosyncratic
Temporal duration of transactions	Simultaneous exchange	Indefinite	Short to moderate term	Moderate to long term
Status of the parties	Limited, nonunique relation between legally equal and free parties	Structural functional command-obedience role relationship between legally unequal parties	Unlimited, unique relation between legally free and equal parties	Extensive, unique, social-embedded relation between legally equal, and free parties
Mechanisms for dispute resolution	External market norms and societal legal system	Internal conflict resolution by authority	Norms of equity and of reciprocity and societal legal systems	Endogenous designed by the parties and based on trust
Relevant contract law and governance structure	Classical contract market governance	Employment contract unified governance	Neoclassical contract market governance	Relational contracts bilateral governance

Source: Ring&Van de Ven (1992), p. 486

### 3.2.2. Constructs in TCA

The fundamental concern of TCA is to develop satisfactory *safeguards against* the hazards of *the opportunism of the market partner*. In Heide and John (1988)'s view, transaction-specific investments are the principal safeguarding mechanisms against opportunistic behaviour. The assumption of opportunism has been heavily criticised (by e.g. Rindfleisch&Heide [1997]), questioning whether opportunistic behaviour correctly describes human behaviour and if it is indeed opportunism that interfirm relationships are motivated by (Wathne&Heide [2000]). Fein&Anderson (1997) represent a different approach, attributing transaction-specific investments to the *credible commitment* of the partner, which reduces the possibility of the partner behaving in an opportunistic way.

*Transaction-specific investments*, assets: resources invested in business relationships that cannot be redeployed or can only be redeployed on a limited scale in transactions with other economic actors (Coughlan et. al [2001]). Domestic buying groups require serious commitment from entering retail companies. Members are to pay an entry fee, a deposit (for incidental unsettled bills), a monthly contribution to warehousing costs and a royalty. The enterprise may occasionally be prone to audit (equipment of store, expertise of the sales personnel, liquidity of the firm), it is expected to participate in joint promotions and the products of the company's suppliers are to be represented in a certain percentage in the assortment and that same products should be sold at the same price by the stores (Bauer&Agárdi [2000]).

Ring and Van de Ven (1992) criticise the assumption of TCA that economic actors are opportunistic. Their basic assumption is that governance mechanisms are primarily determined by *trust*.

TCA studies the issue of market power, as well. The role of power is extended by Stinchcombe (1985) who believes the nature of hierarchical elements within market contracts are being shaped by market power.

### 3.2.3. Criticism of the Theory

In TCA, besides the discussion of hybrid forms of the governance of repeated transactions being somewhat neglected, and the problems concerning opportunism, there appear to emerge some further critical remarks, as well.

Company managers are not always sure to consider efficiency criteria exclusively. Other motivational sources may also exist (e.g. equal contribution of the partner) but they are generally ignored by the theory. Added to this, co-operative arrangements involve repeated transactions, during which the contexts are continuously changing. Managers thus confront decisions in dynamic contexts, while TCA remains static. (Ring&Van de Ven [1992]).

In hybrid governance forms, hierarchy is simulated by the contract. Partners establish safeguarding mechanisms in the contract that ensure safeguards against opportunistic behaviour. However, in hybrid organisational forms (relational contracting), smaller firms cannot enforce such safeguards on partners with a high level of bargaining power (Stinchcombe [1985]). On the contrary, they become defenceless in the face of the more powerful partner due to transaction-specific investments (Heide [1988]), since, in the contractual agreement, – having no sufficient bargaining power – they cannot restrain the opportunism of the partner. In sum, TCA fails to give satisfactory explanations in the case of partners whose powers are not balanced.

### **3.3. Resource-Dependence Theory**

This type of theoretical approach first appeared in sociology, but since then has gained territory in management and marketing literature in studying interfirm interactions. Emerson (1962) is credited with formulating dependence theory through social exchange. Social actors are in possession of limited resources, and thus not being self-sufficient, are driven into exchanges with other members of the society. Exchange, however, results in dependence between social actors which may be defined as follows:

*“The power of A over B is equal to, and based upon the dependence of B upon A ... The dependence of actor B upon actor A is (1) directly proportional to B’s motivational investment in goals mediated by A, and (2) inversely proportional to the availability of goals to B outside of the A-B relation (Emerson [1962], p. 32).*

The measure of dependence depends therefore on how important the relationship is for me and what other possibilities I have to carry out the transaction. While Emerson applies resource-dependence for the members of society, Pfeffer and Salancik (1978) have generalised it at the organisational level, saying that companies establish exchange relationships because they are in the need of resources to function in full measure. They suggest that organisations respond to the demands of organisations that control critical resources. The key to organisational survival is the ability to acquire and maintain resources.

The resource-dependence model regards the *environment* a source of scarce resources and, therefore, on which organisations depend. Dependence triggered by transactions also means that a clear boundary between the environment and companies is beginning to dissolve. According to this conceptual framework, environment is primarily a social construct, as, when establishing a relationship, one firm gains a certain amount of influence over the other firm while giving away some of its independence at the same time (Anderson&Narus [1990]). It is clearly reflected by vertical and horizontal relationships in distribution systems. Co-operations between manufacturers and retailers reduce external uncertainty, internalise a part of their environment but develop dependence between one another and internal uncertainty increases, which appears as a consequence of co-ordination of harmonising activities and contrasts of interests.

Pfeffer és Salancik (1978) argue that dependence comprise three elements: 1) importance of the resource 2) the extent to which the other party has discretion over the resource and 3) the number of alternatives. Considering these three components, there appear to be several means to increase dependence over the other partner:

- When outcomes obtained from a relationship are important or highly valued (or the magnitude of the exchange is high)
- When outcomes from a relationship are comparatively higher or better than the outcomes available from alternative relationships (role performance, or comparison of outcome levels);

- When fewer alternative sources of exchange are available, the difficulty of replacing the incumbent exchange partner may arise.

Companies aim at minimising their dependence while maximising their power. Cook&Emerson (1978) suggest that exchange relationships are interdependent, i.e. exchange in one relation is contingent upon exchange in the other relation.

Dependence may be symmetric and mutual. If, however, resource-dependence evolves only with one partner, being one-way, non mutual, then there develops an asymmetry between firms. Dependence, consequently, creates a power differential between trading parties, which may be exercised by the stronger party over the weaker one if it means to act on his interests. Power as one of the most significant phenomena of interfirm behaviours is discussed later in greater detail. Here I only wish to point out the fact that it derives from dependence (Emerson [1962], Frazier&Summers [1984]).

In a company context, dependence is directly proportional to the importance of the item of exchange (transaction importance) and is inversely related to the availability of alternative sources of supply. Importance is a function of the criticality of the resource to the firm's operation and survival (Pfeffer&Salancik [1978]). Where therefore, few alternatives exist and resources are critical to the firm, a state of dependence is created between the exchange partners. And as for dependence, it may influence partners' behaviour (Hallén et al. [1991]).

It is important to mention the notion of relative dependence. It can be defined as a firm's perceived difference between its own and its partner firm's dependence on the working partnership (Anderson&Narus [1990]). From it follows how parties perceive power relations in the co-operation, which leads on to the questions of influence and power. This particular consequence of relative dependence is studied later in the subchapter of the theoretical constructs.

### 3.3.1. Possible Approaches of Measuring Dependence or Evaluating Partnership

The perspective of social exchange explains how to evaluate partners' performance in a relationship based on dependence.

Thibaut and Kelley (1959) posited two standards for evaluation of *partnership efficiency*, represented as rewards obtained minus costs incurred:

- *comparison level* (CL): the standard that the person has come to expect from a given relationship, based upon knowledge and past experience;
- *comparison level for alternatives* (CL<sub>alt</sub>): the standard that represents the quality of outcomes that are available from the best alternative exchange relationship. Sheturaman et al. (1988) have analysed CL<sub>alt</sub> in a vertical (manufacturer – distributor) relationship and have come to the conclusion that it can be viewed in a marketing channel as the lowest level of outcomes that a manufacturer (distributor) firm will accept, given its knowledge of potential alternatives.

If, in a strategic alliance, a general opinion that a partner is not contributing sufficiently to performance (its performance approximates or falls below CL<sub>alt</sub>) is shaped about a party, then the alliance will find it increasingly difficult to justify that party's remaining in the relationship.

Based on Emerson's theory (1962), two other main approaches have been used to evaluate relationship efficiency, being also suitable for establishing the degree of dependence. The *sales and profit* approach has been developed by El-Ansary&Stern (1972). Sales and profit are two extremely important goals for all for-profit business organisations. In this approach, the greater the percentage of sales and profit contributed by the source firm to the target firm is, the greater the target's dependence on the source becomes.<sup>10</sup> Many researcher have applied the sales and profit approach (Brown et. al [1983], Anderson et. al [1987]). Kale (1986) makes a contribution to the approach by considering, in addition to sales and profit levels currently contributed by the source firm, the target's expectations of the sales and profit levels that will be generated by the source firm in future.

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<sup>10</sup> I.e. the goal mediation component of dependence identified by Emerson (1962).

Frazier (1983a), based on earlier research efforts by El-Ansary&Stern (1972) and Stern (1972) is credited with creating the *role performance* approach. The role performance of a firm refers to how well it carries out its role in a channel relationship with another firm. When the level of a source firm's role performance is perceived as being high, the target should be highly motivated to maintain the exchange relationship. Furthermore, the higher the perceived role performance of a source is, the fewer the alternatives that should be available to the target to replace it sufficiently are (Frazier [1983a]). Role performance theory exhibits several similarities to that of comparison levels described by Thibaut&Kelley (1959) ( $CL$  és  $CL_{alt}$ ). The distribution channel role may correspond to comparison level and target replacing to comparison level for alternatives.

In addition, what may be worth considering from the point of view of the research question is *how dependence affects the performance of a given firm*. Seemingly, it is no use contemplating it, for it is generally thought of as a negative association. I.e. the more dependent a company upon its partner is, the more exposed it is, and it is going to influence its performance in an unfavourable way. This effect is closely supported by the findings of Porter (1993)'s industrial model where the increasing bargaining power of suppliers and buyers reduces firm profitability.

Heide and John (1988) however, criticise the resource-dependence theory of not being able to offer unambiguous performance implications. In general, firms are assumed to be motivated to reduce dependence and this motivation is not linked explicitly to performance consequences.

Beier and Stern (1969) argue that dependence in an exchange situation makes one party susceptible to power and may want to influence the other party. The more powerful partner is in a position to create more favourable terms of trade for itself and may divert profit from the less powerful party. The result should be a negative relationship between dependence and profit. Beier and Stern (1969) nevertheless present yet another possibility: in a co-operation those with the greatest power are able to manipulate other members in order to achieve greater positive results for the system. The result should then be greater profit for every partner (of higher and lower bargaining power equally). Concerning Beier&Stern (1969)'s example, it is worth noting that in the first case it is

about the relationship of two companies, whereas in the second about increased profit performed by the system. How this profit is distributed among partners is not elaborated on, therefore I am not personally convinced that a negative relationship between dependence and profit is to be excluded when it is about the relationship of two firms.

### 3.3.2. Constructs in Resource-Dependence Theory

Theorists fundamentally derive the notion of *power* from dependence between parties. Dependence and power seem to be negatively associated (Emerson [1962], Leunissen et. al [1996]), which is a logical consequence of the Emersonian definition.

Power originates from one party possessing resources or control over resources that the other does not. In this case, the structure of their relationship is developed into one when the one with more resources is able to influence its partner (Gaski [1984]). Power may be present both in asymmetric and symmetric dependence relations in interfirm relationships. While the first is that of an unbalanced type of power relation, the latter may be viewed as a balanced one.

The presence of power is certainly not the same as exercising power (Coughlan et. al [2001]). French and Raven (1959) have specified five types of power<sup>11</sup>: reward, coercive, legitimate, referent and expert power. Several researchers have concluded that the mere presence of power is of less importance than how it is perceived by the partner (Thibaut&Kelley [1959], Beier&Stern [1969]).<sup>12</sup> Consequently, power depends on to what extent it is perceived by the party influenced.

Some researchers (Cook&Emerson [1978]) observe that actors of society tend to prefer exchanges with similarly or equally powerful actors because there are fewer costs

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<sup>11</sup> 1) Reward power: B's perception that A has the ability to mediate rewards for B. 2) Coercive power: B's perception that A has the ability to mediate punishments for B. 3) Legitimate power: B's perception that A has a legitimate right to prescribe behaviour for B. 4) Identification power: A has the ability to make B identify with A. 5) Expert power: B's perception that A has some special knowledge or expertness. (French&Raven [1959])

<sup>12</sup> „The power of O depends on the perceptions of P in terms of O's ability to satisfy P's desires" (Beier&Stern 1969). „ Person A's promise of reward to B will be effective in changing B's behaviour only if he perceives that A can truly deliver the promised outcomes" (Thibaut&Kelley 1959).

attached to the exchange process. Drawing upon these observations, Bucklin and Sengupta (1993) point out that the performance of a horizontal alliance ought to be dependent on partners' ability to mitigate any power imbalance among them.

*Commitment* is a logical consequence of the theory. The degree of dependence or power depends on partners' motivation, which means they invest emotional and physical resources into establishing and maintaining the relationship. Cook&Emerson (1978) consider commitment a central variable in distinguishing social from economic exchange.

Moorman et al. (1992) characterise commitment to the relationship as an enduring desire to maintain a relationship. Relationship commitment exists only when the relationship is considered important.

Morgan&Hunt (1994) define relationship commitment on the basis of the resource-dependence theory. The authors specify commitment as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it, that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely. In Morgan and Hunt's view commitment is established in a relationship going on for a longer period, i.e. parties are on the level of at least repeated or relational transactions.

Establishing a long-term relationship entails dependence, in which *trust* among partners plays a crucial role. In TCA, a similar construct, opportunism appears and is negatively associated to trust. In resource-dependence theory, trust emerges as a decision factor to the quality of dependence relationship.

Dependence and asymmetric dependence above all, is likely to cause *conflicts* among partners. In a strategic alliance, both among actual and potential member firms there are differences of opinions between bigger and smaller companies. Firms with less performance may feel at a disadvantage comparing themselves to companies with greater performance even when they are enjoying all the benefits provided by the alliance. Bigger companies, however, are afraid of their contributions not being exploited in the best possible way. Growth opportunities of member firms, discounts at purchasing prices and adaptability are important reference points.

The most relevant consideration is whether it is inside or outside a group, that a firm is able to achieve its targets. A further problem between the hub firm and a member firm may arise when deciding what fields their co-operation ought to include, what objectives of development (individual growth or the expansion of the alliance) and the intensity of development the alliance ought to set for itself. Again a significant aspect is admitting new members into the alliance. It is usually in the alliance's interest to take on new members but member firms from inside the group may not always be in favour of enlargement (Tietz [1993]). It is particularly true for horizontal alliances where potential partners are the competitors of the allied members at the same time.

### 3.3.3. The Criticism of the Theory

As far as the research question is concerned, it seems highly relevant to point out that contrasted to TCA, resource-dependence theory does not include an unambiguous efficiency criterion (Heide [1994]), resulting in the fact that dependence may affect company performance either in a positive or a negative way.

## **3.4. The Relevance of the Different Theoretical Approaches in the Research Question**

Relational contracting (Macneil [1980]) analyses the role of norms in co-operational forms. Studying relational norms is not the aim of the present research, it is much more about investigating the effect of ongoing co-operations or strategic alliances. Though, Macneil's theory bears relevance in the respect of putting co-operations among Hungarian grocery retailers into the context of interfirm transactions.

Transaction Cost Analysis also focuses on how governance forms evolve and safeguarding mechanisms against the partner's opportunism. To apply TCA for smaller firms with less bargaining power may not be very feasible (Heide&John [1988]), since the approach here is not able to give a satisfactory explanation. In an asymmetric relationship, the party with less bargaining power is not in possession of the influence needed to introduce safeguarding mechanisms against opportunism of the partner.

To explore the behavioural part of the research question, resource-dependence theory seems to be the most suitable approach, for companies joining co-operations are usually small in size and the development of a unilateral dependence is of relevance for them.

From the aspect of the resource-dependence theory we can say that retailers join alliances to have a share of synergic effects of resources such as economies of scale and economies of scope and thus be at a competitive advantage against independent retailers (Shaw et. al [1994]). In exchange for the resources provided by the alliance, they renounce part of their independence and so dependence is established between the retailing company and the alliance.

The theory makes it possible to study the degree of dependence and its further behavioural consequences (trust, commitment, conflicts, power).

Besides the degree of dependence, however, it is also important to specify what fields it concerns, which parts of the member firm's strategy are affected by belonging to an alliance. The next chapter discusses retail strategy, with special reference to strategic elements that may be influenced by the alliance. Retail strategy at the same time helps eliminate the questionable spot of resource-dependence theory, i.e. measuring the effect on performance.

#### 4. RETAIL STRATEGY

Co-operation becomes an integral part of corporate strategy in horizontal alliances (Morgan [2000], Cravens&Cravens [2000]). Retail companies that establish a strategic alliance with their competitors, harmonise their core activities in order to achieve successful co-operation. Co-operation affects the firm's retailing activities (purchasing, logistics, optimising assortment, promotion, etc.) Consequently, horizontal alliances determine the retail strategies of member firms.

However, before the study of retail strategies, it is worth devoting some space to the definition of retailing and retail companies.

By the term *retail* we mean all activities that include the sales of goods and services directly to end-consumers (private individuals, families, households or not on a business purpose). Retail has to bridge a temporal, a qualitative, a quantitative and a geographical gap between manufacturers and consumers. As it is linked to end-consumers, numerous and small-sized transactions are usually associated with high transaction costs (Anderson [1993]).

*Retailers* or retailing stores are business enterprises, more than a half of whose business is made up of retail activity. Diverse business enterprises may engage in retail activities, such as manufacturers, wholesalers and retailers (Anderson [1993]). The scope of the dissertation excludes manufacturers and wholesalers, being restricted only to retailers.

##### 4.1. An Overview of Retail Strategy Researches

*Retail strategy* shows what resources are concentrated by companies in order to realise their goals. It also identifies target markets, upon which retailers focus their resources, defines merchandise and services offered by retailers to satisfy target market demands, and demonstrates how long-term competitive advantages are established against competitors (Levy&Weitz [2004]).

Literature on retail strategy has the Porterian generic strategy as its main premise<sup>13</sup> (Dwyer&Oh [1988], Porter [1993]). Wortzel (1987) separates three types of strategies when discussing retail companies: 1) *price leadership*: retail companies that permanently identify lower prices than fellow competitors; 2) *merchandise differentiation*: retail companies that offer a unique assortment; 3) *service-oriented strategy*: retail companies that offer convenience, consulting and an attractive environment. This is the classification adopted by Smith&Venkatraman, Wortzel (1995), when investigating the effect of strategic fit between retailers and manufacturers on retail performance. They fundamentally distinguish between price leadership and merchandise differentiation strategies. Leunissen et al. (1996) stress the porterian cost leadership and differentiating strategy in their study whose benefits can be combined in a strategic group and are available for small-sized companies, as well.

Lewis&Thomas (1990) study strategic groups in British grocery retailing on the level of retail chains. Groups have been classified in terms of the size of retail chains on the one hand, on the other hand in terms of five variables (number of stores, average size of stores, advertising expenditure related to turnover, number of product lines, proportion of own-label lines).

A similar survey has been conducted by Hawes and Crittenden (1984), in an attempt to establish homogenous groups of supermarkets where components of marketing strategy involve target market, product, promotion, pricing and purchasing policies. In the empirical research, the authors separate groups of aggressive initiators, conservative prospectors and defenders. Hawes&Crittenden's typology displays a number of similar features with the prospector strategies introduced by Miles&Snow (1978).

Barth [1996] has produced the most thorough summary of marketing strategies feasible for retail companies. In it, he combines the porterian generic strategies (Porter [1993]) with product-market strategies (Ansoff [1965]) and possible ways of diversification. As a basic premise, Barth (1996) differentiates between one-segment and multisegment<sup>14</sup>

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<sup>13</sup> Cost leadership, differentiating, and focus strategies (Porter [1993]).

<sup>14</sup> Retail companies aiming at a *multisegment marketing strategy*, may engage in market standardisation, market differentiation and diversification (Barth [1996]).

marketing strategies. In the case of *one-segment strategies*, retail companies set out to position themselves upon one *market niche* or supply niche. The difference between the latter two concepts is, that the capacity of a competitor on the given market alone may not suffice for meeting the demands of the given market or segment. Areas or municipalities in Hungary that lag behind in terms of infrastructure might set an example for this, as their grocery and FMCG supply is shared among several smaller stores. Grocery retail companies in Hungary entering strategic alliances primarily opt for a one-segment strategy, positioning themselves – in most of the cases geographically – on supply niches.

Joining an alliance, however, opens up advantages of scale economy, and as a result, they may be orientated towards a cost-driven strategy. Voluntary chains formed in this way are to be regarded as market followers<sup>15</sup> (Agárdi&Bauer [2000]).

The principal goal of companies in strategic alliances is to gain competitive advantages in the market through a conscious harmonisation of their activities (Porter [1993], Doz et. al [1989], Varadarajan&Cunningham [2000]). Day&Wensley (1988) enumerate factors leading to competitive advantages. The sources of competitive advantages lead to an improved market position and as a consequence, to performance growth. Competitive advantages are reflected in the retail strategy applied by the firm, or more exactly, in the elements of the retail mix (Leunissen, Pieters, Reijnders [1996]).

In Anderson (1993)'s understanding, retail mix is a subgroup of marketing mix, which includes product policy, pricing, promotion, distribution and service. Levy and Weitz (2004) approach the issue more specifically, and in their interpretation, retail mix is the enforcement of retail strategy, helping the retailer meet the demands of his target market on a wider range than can his competitors.

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<sup>15</sup> Levitt, T. [1966]: Innovative Imitation. Harvard Business Review, (Sept-Oct. 1966), p. 63: Three types of follower strategies are described by him:

1) Close following: a company follows the leader in as many market segments and areas of marketing mix as possible. It almost acts like a challenger, but provided it does not offend the leader's interests, a direct clash can be avoided.

2) Following from a distance: the follower has its own individual features in some aspects, but market is fundamentally defined by the leader. A distant follower may achieve growth by incorporating its competitors by force that are smaller than it.

3) Selective following: the company partly follows the market leader, partly it establishes its own strategy (in Kotler, Ph. [1991]: Marketing management. Műszaki Kiadó, pp. 292-293)

Retail mix comprises merchandise management, pricing, advertising and promotion, location selection, store layout, service policy and personal selling.

For the sake of a clearer understanding of the effect of strategic alliances imposed on marketing strategy, I wish to review the literature related to the components of retail mix.

#### **4.2. Merchandise Management**

The profile of a retailer is greatly defined by the *merchandise*, this being a strategic question at the same time, too (Mulhern [1997]). Retail companies try to optimise their merchandise and ensure a breadth of merchandise<sup>16</sup> and a depth of merchandise<sup>17</sup>, from which better sales, better turnover, higher margins and, as a result, bigger profit are derived (Tietz [1993], Levy&Weitz [2004], Barth [1996]).

One of the main tool of market positioning is retail mix (product lines, brands, services). One of the chief challenges of merchandise policy is having to carry a broad merchandise variety in order to be capable of serving more consumer segments (Kopp et. al [1989]), while having to consider costs of inventory management, as well.

Retail companies of strategic alliances purchase a large percent of their merchandise in a centralised way, about which the hub firm decides. Consequently, the merchandise policy of the member firm is greatly determined by the merchandise policy supported by the alliance. Added to this, supplier agreements often contain product assortment standards during promotions or with regards to a certain product line. By means of buying groups, retailers are able to realise scale of economy and a broad merchandise variety i.e. scope of economy (Shaw et. a. [1994], Leunissen et. al [1996]).

The fact that brand and merchandise variety has a positive effect on consumer behaviour, has been studied by several researchers. Hoch et. al (1999) examine how consumers perceive variety in retail merchandise and how it affects their store preferences.

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<sup>16</sup> Breadth of merchandise: the number of product categories kept in a store (Levy&Weitz [2004]).

<sup>17</sup> Depth of merchandise: the number of articles within a given product category. However, retail companies are in possession of limited physical (selling space) and financial resources (Levy&Weitz [2004]).

The empirical results justify the assumption that consumers are more satisfied with and are more likely to choose stores, in which they judge merchandise to be more varied and signs and merchandise display more structured.

Bergen, Dutta, Shugan (1996) with applying econometric modelling have shown that brands displaying a number of varieties attract consumers more and make retailers admit the brand in their merchandise and support those with their services. The increasing number of brand variants makes comparisons between the supply of different stores more and more complex and increases the searching costs of the consumers. Van Ryzin and Mahajan (1999) have modelled the advantages of increasing merchandise and its effect on inventory costs. Although increasing retail merchandise triggers much less indirect costs than increasing manufacturer supply, retailers are still limited by the space at their disposal and implicit costs of stock out and overstocking. High margins encourage retailers to make their merchandise variety and assortment more sophisticated, but rising margins correlate with a decrease in sales, increasing the volume of unsold products and the risk of overstocking. Broader merchandise variety also reduces the rate of non-buyers. The authors distinguish between an independent population model and a trend-following population model<sup>18</sup> which define the effect on performance made by merchandise increase.

Bawa et al. (1989) have found consumers of stores with a smaller merchandise to be more likely to remain loyal to the store. Whereas stores with a greater merchandise exhibit higher rates of effectiveness in promotion.

The other principal component of merchandise management is the decision on store branding. Aggressive store branding from the part of the retailers is most often caused by competitors offering the same products to consumers and in that case, store brands may be the tools of differentiation (Wortzel [1987]). As a consequence, they also influence store choice (Mulhern [1997]).

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<sup>18</sup> In case of an independent population model, aggregate demand is the result of a series of independent choices from a heterogeneous population of consumers. In the trend-following population model, aggregate demand is the result of a series of dependent choices from a homogeneous population (van Ryzin&Mahajan [1999]).

In many cases, co-operation may be a beneficial tool for retail companies because most chains develop their own brands, which not only ensure a reasonable consumer price, but also high margins. Mulhern (1997) agrees that store brands tend to secure higher margins than do manufacturer brands, but the total profit of the store will also be defined by the turnover of each item, thus profit being not always the highest with store brands.

There seems to be a principal focus on the competitive interactions of manufacturer and store brands in literature (Cotteril et. al [2000], Halstead&Ward [1995]). Halstead&Ward (1995) state there may be a 10-40 percent price difference between store and manufacturer brands, however, with their own brands, retailers are able to enforce 5-50 percent higher margins. Store brands are getting more and more advertising support, which increases retailers' costs and reduces their margins, for they are not able to represent the increased costs in their prices owing to the image of store brands already formed in consumers' minds and competitive pressures.

Shetaraman&Mittelstaedt (1992) relates the market share of store brands to several descriptive variables. After having analysed a number of food categories, he concludes that the market share of a store brand is higher if there is little price difference between the manufacturer and the store brands, if manufacturer brands are not promoted regularly, i.e. manufacturer brands are less likely to apply couponing or they are not advertised, and if the price elasticity of the product category is low.

Hoch&Banerji (1993) explore the success factors of store brands. In their research, they have assumed that in a given product category, a wide range of manufacturer merchandise and intensive advertising of manufacturers will not favour store brands. They have found a strong correlation between market share and quality, i.e. quality is also important for consumers besides price, so it is high quality store brands that are most worth being offered to consumers. Apart from this, a close relationship has been disclosed between gross margins, the concept of product category and market share of the store brand, which means that in product categories ensuring great profit (high margins) store brands are less likely to succeed against manufacturer brands.

Sayman, Hoch and Raju (2002) extend the above analysis into maximising the profit of the total product category, or how retailers should best position their store brands<sup>19</sup> in order to achieve a maximum category profit. Results show that if store brands are positioned directly next to manufacturer brands, then the wholesale price of both market leader and market follower manufacturer brands will decrease, retailers will introduce higher margins with manufacturer brands, realise higher profit with store brands, which altogether increase the profit of the total product category compared to other (trading down store brands) positioning strategies.

Some other authors (Nandan&Dickinson [1994]) are of the view that store brands, similarly to store types, describe a wheel of retailing, i.e. trading down is followed by trading up. The profit of a retailer is influenced by the trading up with store brands. The weaker a manufacturer is, the more profit is accumulated with a retailer.

### **4.3. Pricing**

Pricing is another predominant element of retail marketing strategy that is reflected in defining margins. Margins depend on purchasing conditions on the one hand and consumers' price sensitivity on the other. Wholesale price, discounts offered by suppliers and paying conditions determine the cost of items sold. Demand presents a barrier from the other part, because consumers' price sensitivity influences the margins to be introduced.

Pricing is a component of retail strategy which can be changed in a short time and has an immediate effect on the sales of retailers (Levy&Weitz [2004]). Retail pricing looks as though it would be something not very complicated, for it is only about pricing stock keeping units. In effect, however, it is indeed complicated, because each SKU to be found in a store is at the same time each other's substituting, as they all compete for the consumer resources (Mulhern [1997]).

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<sup>19</sup> Sayman et. al (2002) understand aiming at a given category's manufacturer brand by positioning store brands.

Furthermore, each SKU is each other's substituting in the sense that they can be purchased at the same time. Retail pricing must consider the interconnections of demand, i.e. the substituting and complementary effects between items (Vilcassim&Chintagunta [1995]).

Mulhern and Leone (1991)'s research is based on the above; but they study the effect of pricing on product bunches, not on individual products. The authors suggest that pricing may not be narrowed down to one single product category. They show that price promotions have a positive effect on the sales of substituting products if the discount increases consumer numbers. Its precondition is a display which promotes the buying of substituting products. Another important result is, that even if discounts affect the sales and profitability of a product category negatively, the increase in demand for complementary products induced by discounts may compensate for it, making it possible for retailers to realise profit thus.

From the part of member firms, the formation of retail strategic alliances is typically encouraged by increasing their buying volume, through which they may get access to more beneficial buying conditions, which consequently affects their pricing in a favourable way.

In retailing, there are primarily two types of pricing to be found: one is the policy of *Every Day Low Pricing*, the other being *High-Low Pricing* (Mulhern [1997]). The policy of Every Day Low Pricing levels the difference between regular consumer prices and big discounts. This, however, is likely to mean a steady retail price, rather than the lowest possible price. The main concern of this pricing policy is that it reduces price wars among retail companies, it needs less advertising, improves services provided to consumers due to diminishing demand fluctuations, reduces stock out, makes a beneficial effect on inventory management and, last but not least, increases profit. Even if price level is lower, there are no big discounts which would take sales away from groups of goods securing higher profit. High-Low Pricing: retailers do not normally sell at discount prices but they frequently apply advertising and promotions to boost sales. Promotions, for the most part, rely on supplier agreements (Levy&Weitz [2004]).

The benefits of High-Low Pricing are that the same merchandise may be sold to target groups with different levels of price sensitivity, it raises motivation, mobilises inventory and there is a strong emphasis on quality and service (Levy&Weitz [2004]).

However, between discounts introduced in order to stimulate sales, and pricing which communicates quality and high margins there is a trade-off. EDLP is a popular pricing strategy because it increases sales but it does not necessarily lead to profit growth. Consumers easily get used to discounts and low price levels, and after a while, they will not be attracted by them any more (Subrahmanyam [2000]). Mulhern and Leone [1991] empirically justify that the effects of discounts differ with premium brands and low-price brands. Low-price brands appear to be more vulnerable as against to premium ones, as promotions of premium brands distract sales from low-price brands. On the other hand, EDLP prepares the right price context for store brands.

Hoch et al. (1994) analyse the effects of EDLP and High-Low Pricing on sales and profit in their experiment. They conclude from their investigations that EDLP produces loss for retailers in most cases, for low prices do not induce enough growth in sales to compensate for the loss derived from low margins. Mulhern (1997) and Hoch et. al (1994) all seem to emphasise that low costs are the key to EDLP's success, low prices alone will not make market success.

The price levels of co-operating retail companies decrease because their cost levels are reduced by more favourable buying and operational conditions, which may be passed on to consumers in the shape of *lower price levels*. Researches concerning retail price changes mostly take consumer demand functions as their premise and analyse price elasticity.

The focus of Kim et. al (1995)'s article is on establishing an optimal retail price with special attention to the heterogeneity of consumer price sensitivity. Price changes are analysed on the level of product categories and the demand for a category is defined with the help of substitutability between categories and within category.

Mulhern et. al (1998) study the impact of retail pricing decisions on consumers' price sensitivity. In their econometric analysis they reveal that price elasticity is higher with the brands that are promoted more frequently and have a higher market share.

Litvack et. al (1985) investigate the connection between temporary, short-term unpromoted price changes and sales in the context of grocery retail. They find that changes of price and sales can be described by a negative correlation which is also influenced by the stockability of the product in question. Stock-up goods can be characterised by a higher price elasticity while with non-stock-up goods discounts are less likely to influence sales. Based on their research results it seems feasible to say that it is best to combine selective price reductions of stock-up goods with raising prices of non-stock-up goods.

#### 4.4. Advertising and Promotion

*Advertising* and *promotion* seem almost inseparable from retail pricing policy (Mulhern [1997]). Retailers communicate with consumers by way of advertising, sales promotion, PR activity, store atmosphere and personal selling (Levy&Weitz [2004]). But since there is some overlap between certain elements of retail strategy, such as store atmosphere and personal selling presented as separate components, here I only wish to focus on promotion and the advertising activity related to it.

Concerning the promotions of retailers within strategic alliances, one is to recognise *retail promotion*<sup>20</sup>, provided by retailers for their consumers and *trade promotion*, provided by manufacturers for the alliances and thus its retailers.

Trade promotions are special incentive programs offered by manufacturers<sup>21</sup> to marketing channel members (Blattberg&Neslin [1990]). The individual types of retail promotions are given an overview of in Exhibit 4.1.

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<sup>20</sup> Types of retail promotions: price discounts, display, promotion related advertisements, free goods, retail coupons, and gifts. (Blattberg&Neslin [1990]).

<sup>21</sup> The manufacturer wants the retailer to offer the consumer the price discount and, merchandise the product through displays and advertising . (Blattberg&Levin [1987], Chevalier&Curhan [1976]).

**Exhibit 4.1.***Forms of Trade Promotions*

Trade Promotions	Description
Off-invoice	It gives the retailer a discount for every item purchased during a fixed period of time.
Bill-back	Bill-backs are similar to off-invoice except that the retailer computes the discount per unit for all units sold bought during the promotional period and then bills the manufacturer for the units sold and any other promotional allowances that are owed after the promotional period is complete.
Free goods	Free goods takes the form of extra cases at the same price. (For example, buy 3 get 1 free is a free good offer.)
Cooperative advertising allowances	The manufacturer should contribute to the advertising costs of the retailer. The retailer must demonstrate that the advertisement ran.
Display allowances	The manufacturer wants the retailer to display a given item when a price promotion is being run. To induce retailer to do this and to help defray the costs, a display allowance is offered.
Sales drives	Sales drives are intended to offer the brokers and wholesalers incentives to push the trade deal to the retailer. For every unit sold during the promotional period, the broker and wholesaler receive a percentage or fixed payment per case sold to the retailer.
Terms of inventory financing	The manufacturer gives a longer term of payment period for the retailer, thus increasing the profitability of the retailer who does not need to borrow to finance inventories.
Count-recount or scan-back	Rather than paying retailers on the number of units ordered, the manufacturer does it on the number of units sold. The manufacturer can avoid situations in which the retailer sells the goods bought discounted on regular price.
Slotting allowances	Slotting allowances are a fixed payment to the retailer for accepting and testing a new product.
Street money	Fixed fee paid by the manufacturers based on the amount of support (feature advertising, price reduction, and display space ) offered by the retailer.

Sources: Blattberg&Neslin (1990), pp. 318-319

The effectiveness of *trade promotions* has been investigated by several empirical researches. Abraham and Lodish (1987) for instance, have measured the effect of promotions provided for retailers and consumers by means of a promotion evaluation system (Promoter). The system evaluates the joint effect of trade and consumer promotions by estimating the sales and profit generated by them. The effect of promotions on sales is related then to a normal level of sales (no promotions) and also considers shipments.

Similarly to the above, Blattberg and Levin (1987) have also studied the effectiveness and profitability of trade promotions – how retailers behave once being offered some promotions by manufacturers and why may promotions typically not be profitable. The two models differ in their way of estimation. Promoter estimates the effect of promotions on sales on the basis of normal level of sales, the Blattberg&Levin model on the basis of manufacturer shipment.

A significant number of the researches related to *retail promotions* investigate how retailers' sales and profit are affected by different discounts. Broh (1983) measures promotion success on the level of stores and regards sales and profit growth generated by promotions (Levy&Weitz [2004]) and gaining new consumers as the most important indicators. The success of discounts may be quantified according to some further indicators such as customer awareness of promotion, purchasing frequency, number of items purchased, amount spent, attitudes induced by promotions (Broh [1983]). Levy and Weitz (2004) enumerate furthermore the additional inventory costs and the loss caused by the discounts by extracting sales from products that are not promoted but would have ensured higher profit otherwise.

Moriarty (1985) analyses the effect of retail promotions on sales data within brands and between brands. Promotion seems to be beneficial for retailers if the sales of the given brands increases. However, promotion may affect retail performance negatively if a promotion period with low margins extracts sales from non-promotion periods with higher margins (purchasing in advance), low margin brands extract sales from higher margin brands (substituting).

Kumar and Pereira (1997) analyse the competitive effects of promotions. They explain the different performance rates of brands in each retail chain with the different types of promotions applied. They are of the view that performance differences of the individual brands are influenced by the types, timing and length of retail promotions. In their empirical research it is demonstrated that it is market share and price level differences that seem to contribute mostly to the asymmetric competition of brands.

Different types of retail sales incentives may have a different effect on retailer performance. Walters and MacKenzie (1988) examine the impact of three kinds of promotion (loss leader<sup>22</sup>, double coupons<sup>23</sup>, in-store price specials) on store performance (in terms of store sales, profit and store traffic). On the basis of their empirical research they conclude that most loss-leader discounts do not directly affect store profitability; they lead to a small increase in store traffic and sales. Contrasted to this, double coupon

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<sup>22</sup> Loss-leader is the price of the product most often is at or below retailer's marginal cost, thus the retailer incurs the loss on the sale of these items, and heavily advertises them (Lal&Matutes [1994]).

<sup>23</sup> Retailers reimburse consumers using coupons an amount that is a double of the manufacturer's coupon face value. (Krishnan&Rao [1995]).

promotions increase profitability through the growth of sales of the given products, they tend to leave, however, store traffic unaffected. It is in-store price specials that prove to be the least effective technique, for they fail to affect any performance indicators.

Applying double coupons may also lead to effects of substituting, which induces competitive interactions between brands and retailers. If a retailer uses double couponing, then, because of the substituting effect between brands they will reduce the non-couponed products' price more often. In order to optimise the other retailer's profit, they will reduce the price of the product, which is couponed by their competitor (Krishnan&Rao [1995]).

Loss-leader products encourage consumers to buy in the store. As consumers wish to treat their resources economically, they go to stores for discounted products. Once, however, there, they buy the other products, too, compensating the store for its loss derived from **loss-leader** products. Walters and MacKenzie (1988) in contrast state that most loss-leaders fail to influence profit and little increase store traffic.

Lal&Matutes (1994) have justified in their empirical research, that loss-leader products boost store traffic. They find the most suitable goods for it are the ones that have a high purchasing frequency and are difficult to stock. In spite of their findings they still believe this type of retail promotion not to be able to influence company profit significantly.

Chevalier and Curhan (1976) investigate how trade promotions offered by manufacturers influence the promotions offered by retailers. Retailers often apply temporary promotions just to increase store traffic and sales. In their background, however, there are frequently promotions offered by manufacturers to be found. The authors have empirically justified that periodic promotions increase the sales of discounted products, but have a doubtful effect on profit as:

- the margin of discounted products decreases, consequently, profit lessens,
- discounted products divert profit from other products with a higher margin,
- consumers accumulate discounted products and delay buying till the next promotions,
- besides discounted products, other items are also bought by consumers.

Walters (1991)'s conclusions have been similar. His basic assumption has been that the effect of retail discounts is ambiguous, for there are substituting and complementary effects operating within store and between stores. Discounted brands do increase economic loyalty and sales, but also lead to the decrease of sales of brands not discounted. Profit, however, is left unaffected or, worse, affected negatively by discounts. They ultimately depend on the terms, under which retailers have purchased the products.

Chevalier and Curhan (1976) conclude that retail promotions that are the most likely to influence profit in a favourable way, are the ones, where manufacturer allowance has been greater than what are passed on to consumers (Blattberg&Levin [1987], Blattberg&Neslin [1990]).

#### **4.5. Location Selection**

Selecting the *location* of the store seems to be one of the most momentous decisions, as one of the most important factor as regards consumers' store choice, is the accessibility of the store, on the other hand, location might be a strategic advantage (Mulhern [1997]). Elements of the retail mix are comparatively easy to change in the short run, apart from location (Brown [1994]). Location determines the circle and number of consumers belonging to the trade area of the store. It is thus not surprising to find that most researches concerning locations focus on defining the right location.

There are two main theories about location selection in the literature. One is Hotelling's principle of minimum differentiation, the other is bid rent theory. Hotelling introduces it in a relatively abstract model<sup>24</sup> that an equilibrium is established if neither seller can increase profit by changing their prices. Whereas if one seller may move their location, it can maximise its profit by locating their store next to the other store. It follows from consecutive steps that locations become arranged near the middle of the market (Brown [1994]). The other theory focuses on the returns derived from property utilisation. It assumes that the meeting point of transportation networks is to be found in the centre of the city, and similarly, the maximum market potential is also to be found there, in terms

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<sup>24</sup> Dealing initially with two profit maximising firms, selling identical products with zero production costs at f.o.b. prices, from fixed locations in a bounded linear market where transport rates are constant, demand is completely inelastic and identical, utility maximising consumers are evenly distributed, and patronise outlets solely on the basis of delivered prices (Brown [1994]).

of both consumers and workforce. It is what competition is for; a location with a maximum market potential and as a result, it is the ones who are able to produce the highest possible profit out of a given location, that are the most likely to be able to get hold of the location.

Literature on location primarily defines location on national, regional or local levels but relatively few studies have been conducted about the micro level, i.e. location in a trade agglomeration (shopping centres, city centres suburban trade zones, trade parks) (Brown [1994]).

Researches may be classified into three main groups. The first branch is that of researches that focus upon which geographical areas a retailer should enter. In this case, there is a definite stress upon evaluating the market potential of geographical regions. Mahajan et. al [1988] suggest that retailers prefer entering markets where retailing has not reached a saturation level. Cliquet (1996) considers the effect of the geographical expansion of retail networks on performance. According to his surmise, the geographical expansion of a retail network is a momentous growth strategy. Geographical strategy in fact means establishing new retail units. A retail company may expand in two possible ways: once it can increase store size, second, it may open new stores. Location strategy is equal to the planned spatial expansion of the chain (Gosh&McLafferty [1987]).

The second group is the studies concentrating on directly the location selection of a store. Several papers have appeared in connection with optimising location. A number of location selection decision models have been set up (Gosh&Craig [1983], Hernandez&Bennison [2000], Clark&Rowley [1995]), which aim at establishing an optimal store number and defining location attractiveness.

Thirdly, a number of researches have focused on analysing the composition of consumers in a trade area of a certain location. They are trying to improve the forecasting power of location models by separating certain demographic and ethnographic segments and considering individual consumer characteristics (Green [1995], Mulhern&Williams [1994]). Davies (1995) describes two aspects in connection with retail location selection. In the traditional approach, a retail store's task is to attract customers to the location. Alternatively, a retail unit is to be located to the place where customers are to be found.

As far as locations are concerned, sales are influenced by several factors: substitutability of merchandise with the primary activities of customers, how easy it is for them to step out from their primary activities, how they perceive the amount of time at their disposal, the concentration of customers.

Joining a strategic alliance will not in fact influence the location of the member firm's stores, as these are to be regarded as settled already. However, location affects company performance (sales and profit), consequently it is not in the least indifferent to the relationship between marketing strategy and performance.

#### **4.6. Store Layout & Display**

These days when it is getting more and more difficult for retailers to distinguish themselves from others in terms of merchandise, pricing, promotions or location; stores may become a significant differentiating element, influencing consumer behaviour and store preference (Mulhern [1997]).

*Store atmosphere* is the joint effect of the physical aspects of the store (architecture, style, symbols, display, colours, lighting, temperature, scents and sounds), under which a store image is formed in the mind of the consumer. Atmosphere communicates a number of information about the service, prices and merchandise of the store (Levy&Weitz [2004]).

In grocery retailing independent retailers do not tend to use many differentiating elements apart from names. Member firms of strategic alliances do, however, often apply display elements that enhance their belonging to the chain and distinguish them from independent stores at the same time.

Researches concerning retail display mostly investigate the issue from the viewpoint of consumers, i.e. retail image. Success factors in retailing<sup>25</sup> have been studied in great detail, but in empirical surveys only a few, operative factors have been included (Hildebrandt [1988]). Hise et. al (1983) have analysed 132 clothes stores in terms of their reversible and irreversible factors (store and management attributes, competitive factors, features of location).

Mazursky&Jacoby (1986) identify several components of the image: merchandise quality, merchandise pricing, merchandise assortment, locational convenience, sales clerk service, service general, the store atmosphere, and pleasantness of shopping. Hildebrandt [1988] also studies store image and he finds – similarly to other variables – store atmosphere (style, sales personnel) displays a significant correlation with store level performance indicators.

Grocery retailers in Hungary that enter strategic alliances are normally to adjust their external and internal appearance to that of the alliance.

#### **4.7. Services**

Retail services are approached from two aspects in literature. Broadly speaking, retailing activity is also a kind of service in itself and all components of the retail mix contribute to this. In Levy&Weitz (2004)'s interpretation, here are to be enumerated all the activities and programs of retailers that are valuable for consumers and make the shopping experience more pleasant. In a stricter sense, however, under the same term we mean consumer services offered by the store (Mulhern [1997]) and it is also an important means of differentiating.

A significant part of researches centre upon consumer evaluation of service quality. A lot of them use Parasuraman, Zeithaml, Berry (1985)'s model of service quality as their resource in which service quality is an indicator of how far the service offered by the company is able to meet consumer expectations. Dabholkar et. al (1996) drawing on Parasuraman et al.'s theoretical model extend it to retail companies and have developed a five-dimensional retail service quality scale<sup>26</sup>. This model by Dabholkar has been used by Mehta&Lalwani and Han (2000), who have adapted it to the retailing of electronic devices. During the survey, the dimensions of service quality (service staff, physical aspects, merchandise, trust and parking facility) have been validated.

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<sup>25</sup> Success factors are key variables that are to regarded as the empirical indicators of performance (Hildebrandt [1988]).

<sup>26</sup> Dimensions of service quality model developed by Dabholkar et. al (1996) are: physical aspects, reliability, personal interaction, problem solving, business policy related to service quality.

In the present dissertation – to avoid overlaps –, I wish to apply the narrower approach of retail services which includes special services offered to consumers (parking facility, credit card acceptance, home delivery, etc.).

#### **4.8. Personal Selling**

It is sales personnel that creates a relationship between a retail company and consumers. Retailers are to communicate with consumers to stimulate their needs, provide them with information about products and encourage them in their buying decision process. It all takes place with the help of advertisements, sales promotion, PR activity, sign and displays and sales personnel. Sales personnel serve consumers with more detailed information than do advertisements and they also conduct purchases (Levy&Weitz [2004]).

Retailers continuously aim at improving sales personnel performance in order to increase sales effectiveness. Effective sales may be greatly enhanced by the sales personnel's knowledge about consumers. Sharma et. al (2000) establish an analytical framework in which the relationship between sales competency and performance is explored on the basis of knowledge structures of sales personnel. The higher the declarative knowledge (number of categories, richness of category description, category distinctiveness and description of physical characteristics) and procedural knowledge (richness of procedural knowledge, distinctiveness of sales strategies, information acquisition focus, level of abstraction) of sales personnel is, the higher sales effectiveness appears to be.

Strategic alliances, by and large, accumulate more competency, they provide member firms with training and workshops. As it is apparent from the above, joining a strategic alliance may improve service quality, member firms may introduce new services (paying by credit card) and may contribute to the training of sales personnel.

## 5. PERFORMANCE MEASUREMENT OF THE ALLIED RETAILERS

From the viewpoint of the research topic, performance measurement of allied retailers is an issue of crucial importance. It has already been stated in a number of studies that one of the main motives of creating a strategic alliance is better financial and economic performance. (Gulati [2000], Weitz&Jap [2000]). Therefore it follows that it is only worth giving up its autonomy to a certain extent for an otherwise independent retailer if it is able to achieve better corporate performance within the framework of a strategic alliance.

Gulati's review (2000) about strategic alliances, has suggested that performance consequences of alliances should be explored with regard to both the alliance itself and its member firms. Related to this, two interconnected questions are to be answered: 1) what factors influence alliance success and 2) what effect the alliance has on member firm performance (Varadarajan&Cunningham [2000]). In view of this, the present chapter discusses performance measurement in two subchapters. First, researches about corporate performance evaluation, second, performance measurement of co-operations, more exactly strategic alliances and the variables used in the researches are going to be studied.

The greater part of studies and articles on company management include performance consequences in their investigations, however, relatively few authors attempt to define what they mean by the term 'performance'. I understand corporate performance as the quantification of efficiency and effectiveness (Neely&Gregory, Platts [1995], Stern et. al [1996]). Efficiency reflects the output achieved by exploiting resources (Stern&El-Ansary, Coughlan [1996]). Effectiveness expresses the extent to which goals are achieved.

In Goldman (1992)'s view distribution systems may be classified in terms of a positivist, normative or an institutional, ecological approach. In the first one, the distribution system is assessed in terms of its closeness to the ideal, the last one, however, takes the environmental context of the distribution system into account in which it has been established and being operated. Performance measurement is thus regarded as context-specific, being based on certain input-output criteria and the different elements of the distribution channel.

In the institutional approach, the role of norms, traditions, routines, social and political convictions is emphasised. The individual variables are examined as parts of an integral unit not separated.

The significance of performance measurement is normally agreed on by authors, the views on how to do it, greatly differ, though. Soehadi&Hart (2000) stress the need to rethink retail performance and criticise traditional performance measurement for its retrospective nature.

### **5.1. Corporate Performance Measurement**

In literature, indicators are classified as being one- vs. multidimensional, financial vs. non-financial, absolute vs. relative and subjective ones.

#### **5.1.1. One- versus Multidimensional Performance Measurement**

Kumar et. al (1992) introduce three main theoretical approaches related to performance measurement. In the least intricate case, performance is described along one dimension (Gaski&Nevin 1985, Heide&John 1988). Others (Noordewier et. al 1990) seem to prefer to quantify performance along more than one factors, but each of which is measured independently from the others (Lewis&Thomas [1990])<sup>27</sup> or with the index of weighted or unweighted performance variables. The authors, nevertheless, apparently miss a performance approach which would define performance systematically, on the basis of a theoretical concept and would identify definite indicators to make company performance operationable (Dess&Robinson [1984]).

Eccles (1991) has pointed out that a growing number of companies tend to apply a measurement system with a wider scope, as indicators included in traditional financial reports are not appropriate any more for detecting company performance.

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<sup>27</sup> Lewis and Thomas (1990) aim to identify strategic groups in the U.K. grocery retail industry. For analysing the performance difference between strategic groups, they have applied different performance measures such as: ROS (Return on Sales), ROCE (Return on Capital Employed), PER (weighted index of growth in the price/earnings ratio).

The author states that instead of individual variables, the need is for a comprehensive measurement system (Neely et. al [1995]).

On the basis of Kaplan and Norton (1998)'s balance-score card concept, Slater and Olson (1997) develop a strategy-based measurement system. Four types of strategy are distinguished by them (product leader, consumer closeness, brand leader and operational excellence) and accordingly, different types of measurement systems are suggested by them with which it is possible to detect how far each strategic goal is achieved.

Wimmer (2001) is also in favour of a multidimensional approach when measuring performance and success. She applies financial, market and operative indicators for measuring manufacturer companies' performance.

#### 5.1.2. Financial versus Non-financial Performance

Earlier researches have primarily measured financial performance variables when quantifying corporate performance, which are contained in financial reports. Strategy group research, analysing the relationship between strategy and performance along company databases, typically applies financial indicators, such as turnover, profitability and return on investment.

Capon et al. (1990) have identified financial performance with the help of meta-analysis, drawing on 320 published articles and studies. For measuring financial performance they apply the terms profitability, growth and reduced variability. As a result of their investigations, definite positive correlation has been found between performance and industry concentration, growth in sales and assets, market share, size, advertising intensity and capital investment intensity respectively.

Financial variables reflect the extent to which the goals of a company are achieved. Slater and Olson (1997) suggest in their study that it is not only financial performance that should be taken into account when measuring performance, for it is to be regarded as a "final product". There is a need for indicators that are able to forecast in what directions financial variables will be likely to develop in order for the management to intervene in time (Eccles&Pyburn [1992]).

Soehadi and Hart (2000) regard non-financial variables as antecedents of corporate financial performance and justify causal relationships between financial and non-financial variables in their empirical research.

Brown&Laverick (1994) enumerate possibilities<sup>28</sup> which reduce financial outcome. Methods in accounting to reduce financial performance, however, give only distorted information about real company performance. Company goals do not only involve profit maximisation but express thinking for a short term.

Eccles&Pyburn (1992) imply that financial indicators are not only problematic due to their manipulative, “final product” nature, but also because they express a focus on the internal processes of the company. But financial indicators may also help check the validity of the business performance model. From the point of view of measurement, conceptualising a strategy always includes the planning of a business performance model, while implementation of the strategy focuses on detecting the results achieved within the framework of the given model..

### 5.1.3. Absolute, Relative and Subjective Performance Variables

*Direct measures* express company performance in absolute numbers e.g. sales or profit. Conant&White (1999) quantify retail companies’ performance in relative performance terms comparing results to similar stores of competitors. They measure profitability, labour productivity (sales per person employed) and sales growth of the pervious 3 years.

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<sup>28</sup> *Underevaluation of assets* (for example switching from current valuation of assets to historical costing). Profitability can be influenced by *provisions* because companies make general provisions when business is successful, only to write back the provisions during difficult periods, thereby making profits, earnings look better. The accounting of *capitalisation of costs* is not consistent, either. Some companies may include it in the balance sheet, others may put them in the profit and loss account. *Depreciation* determines the costs of the company and therefore it does so with the financial performance, too. Including the company’s *goodwill* into the balance sheet rewrites the financial performance as well. Companies will try and put as much as possible into goodwill because it is written off immediately to reserves on the balance sheet. High goodwill means lower reserves, lower capital employed and an improved ROCE figure. *Brands* can be included as intangible assets in the balance sheet that might result in a significantly higher value of the assets. *Off balance sheet finance* (removing assets and liabilities) will lead to an improvement in the company’s gearing ratio. *Added value* (company’s operating profit – amount of capital employed): several companies give a penalty to the business unit due to the amount of capital equipment it employs. The penalty is equal to what the firm would have to pay in order to borrow the money for the assets it uses (Brown&Laverick [1994]).

Being compared to competitors, however, expresses *relative performance*. Relative measures reflect contingent productivity as they consider the performance of other similar firms and further environmental factors (Donthu and Boonghee [1998]). Sheth and Sisodia (2002) suggest that marketing efficiency is difficult to quantify because marketing produces intangible assets. This is a statement valid for all activities of service, and so, for retailing, too. In their opinion, absolute measures are useless, for performance is at all times to be compared to alternatives, to competitors. Such a multidimensional relative performance measurement tool is DEA (Data Envelopment Analysis), which evaluates the output and productivity factors of a store or retail company comparing them to the output and productivity factors of similar units.

Similarly, in Bonoma (1989)'s approach, the evaluation of marketing performance contains a number of *subjective elements*, performance being more than a mere absolute index number. Subjective measures are based on perception, i.e. a subjective evaluation.

From the viewpoint of the present theses, it is not only company performance of notable interest, but also how it is affected by joining a strategic alliance for a retailer. In the next subchapter I am studying performance concepts which explore the effects of co-operation upon performance.

## **5.2. Evaluating the Effects of Co-operation Upon Performance**

Co-operation agreements to some extent mean giving up one's economic, legal or sometimes social independence. Thus it is only worth tightening bonds of co-operation if economic and non-economic utility derived from it exceeds that of operating independently. Tietz (1993) distinguishes between two approaches for evaluating co-operation members' performance, as shown in Exhibit 5.1.

**Exhibit 5.1.***Evaluating Methods of Co-operations*

	Economic approach		Behavioural approach	
	Classic	Neoclassic	Static	Dynamic
Criterion of co-operation	Profit= Turnover/costs	Contribution to the objectives = contribution/pay off	Net utility= Incentives/ Contributions	Long-term net utility =dynamic incentives/dynamic contributions
Criterion of dissolution of the co-operation	Insufficient profit ratio	Low contribution to the objectives	Insufficient utility	Insufficient dynamic utility

Source: Tietz, B. (1993): Der Handelsbetrieb. Verlag Vahlen, München, p. 1524

### 5.2.1. The Economic Approach

The classic and neoclassic theories of the *economic approach* primarily differ in the duration of the goal of co-operation. While the classic one prefers to examine it in the short run, the neoclassic one does so in the long run. Both approaches use a strictly one-dimensional economic criterion, because its goal criterion is profit or the difference of contributions and pay-offs.

This type of performance evaluation is represented by Anderson (1993) who suggests that the main aim of retailers is that exploiting resources should produce profit.

Luo (1996) explores the problems of evaluating international strategic alliances. In the empirical research, he measures member firm performance of alliances as a multidimensional construct (along profitability, efficiency, liquidity and financial risk, growth opportunity and business indicators) but primarily with the help of economic indicators.

Smith, Venkatraman and Wortzel (1995) examine how the strategic fit of manufacturer and retailer affects retail performance. They quantify it in terms of return on investment, sales and profit growth in percent of the previous 5 years.

The Strategic Profit Model (SPM) measures the financial performance of member firms of the distribution channel, considering profit (ROI), liquidity, capital structure, selling and profit growth and growth potential. SPM centres upon ROI, as an aggregate financial measure used by wholesalers and retailers. SPM finds 3 ways to increase profit: 1) the company should increase return on assets (ROA), 2) the company should increase

margins, 3) increase leverage, supposing that future cash-flow will cover costs of debt. The model harmonises the main areas of corporate decision-making i.e. capital management, pricing and finance) in order for a ROI growth (Stern et. al [1996]).

Another widely used evaluation method is Economic Value Analysis (EVA) which considers the total cost of capital<sup>29</sup> as opposed to Strategic Profit Model. Defining how much capital channel members use is in the centre of the method. EVA is able to aggregate not only traditional capital investments but all types of investments (such as training of sales representatives, IT investments, etc.) which makes it possible to define a total of capital costs. EVA measures the profit, attainable by the company beyond what has been in fact achieved, should they have chosen another investment with similar risks. The method measures the real value-added of the firm, which anyway tends to correlate heavily with share price (Stern et. al [1996]).

For quantifying the contribution of individual channel members to the total performance there are three methods to be found in the literature: ABC-analysis, Direct Product Profit and Efficient Consumer Response (ECR) (Stern et. al [1996]).

In *Activity-based Costing* (ABC) the costs of individual products are related to the activities having produced the given product or service (Cooper&Caplan [1988]). The method assumes that every attributable cost should be quantified, so it embraces a number of functions (such as logistics, production, services, technology, marketing, sales, administration, information resources). It may be applied on the product-level, to judge the performance of a single company or even that of a whole channel. The ABC method, however, is not chiefly designed to analyse channels with a high proportion of labour cost out of the cost total.

The method of *Direct Product Profit* (DPP) measures the performance of a single product within a distribution channel and shows the rate with which the product contributes to the profit of a retailer. DPP only includes costs into the analysis that can be directly associated with the product, ignoring fix costs. Gross margins may be pretty misleading,

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<sup>29</sup> Capital cost is the weighted mean of borrowed and one's own capital. Total capital cost is the multiplication of the weighted mean of capital cost and capital invested by the company.  $EVA = \text{profit after taxation} - \text{total capital cost}$  (Stern et. al [1996]).

mostly when it comes to evaluating financial performance, as there is low correlation between DPP and the gross margin. It is explained by the fact that gross margins ignore direct operational costs and trade allowances, and net profit does not inform one about the profitability of the product (Stern et. al [1996]). Using DPP, retailers gain a wider range of information about warehousing and inventory costs and space utilisation. At the same time, it promotes co-operation between manufacturers and traders, as it identifies products of both high and low profit. DPP is rarely applied in practice, though. The reason for this is that it needs a significant amount of highly detailed data.

### 5.2.2. Behavioural Approach

*Behavioural approach* (both the static and dynamic one) is based on an understanding of coalitions as social systems joined freely by partners. Each coalition partner is offered some incentives by the system, for which some contribution is expected in exchange. Entry and the contribution depend on how much the advantages offered by the system are able to compensate for the contribution. In co-operation systems the incentive is a member's quantitative and qualitative contribution to realising the tasks of the system (Tietz [1993]).

Sheturaman et al. (1988) regard the success of the co-operation as the benefit of the partnership and the benefit of the partnership is measured by comparison levels<sup>30</sup>. It contributes to establishing competitive advantages and enables both companies to create value for their consumers and/or reduce their costs. If an impression is formed about a partner that it is not able to offer the benefits required, the co-operation will be most likely to dissolve.

Mohr&Spekman [1994] apply two types of measurement for the success of a partnership, i.e. objective and subjective indicators. A number of researches studying interfirm

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<sup>30</sup> CL: the standard that the company expects from a given relationship based upon the knowledge and past experience.  $CL_{alt}$  can be viewed in a marketing channel as the lowest level of outcome that a company will accept being aware of the potential performance of an alternate partner (Sheturaman et. al [1988]). The authors have built on the comparison levels developed by Thibaut and Kelley (1959). See Chapter 3.3.1.

relationships use subjective indicators which are strongly linked to behavioural constructs. In empirical researches the success of a co-operation is measured by the satisfaction with partners.

The most relevant difference between classic and behavioural approaches lies in the variables included, part of which can be quantified, part of which cannot. But both theories are to be based on economic advantages. Apart from objective criteria, subjective criteria also have a share in defining satisfaction with partners, even more so, if there is no difference between economic criteria. The more positive is the judgement of the behavioural approach from the part of the partner, the more stable co-operation is. In this sense, the measure of satisfaction by the partner shows how much the given partner recognises emerging of costs and revenues, sharing the profit and sharing pay-offs and contributions for the long-term, all stated in their agreement (Tietz [1993]).

Drawing upon the institutional approach of performance evaluation (Goldman [1992]), Stern, El-Ansary and Coughlan (1996) have described performance measurement dimensions of marketing channels, comprising three components of performance: effectiveness, fairness and efficiency.

Effectiveness is an ability of the distribution channel providing a service demanded by consumers along with the biggest possible cost-efficiency. The model analyses the performance of the distribution channel on the macro level. In the authors' view, *effectiveness* comprises guaranteeing the right merchandise to meet consumers' demand, offering a proper retail service, right retail pricing, encouraging demand and the distribution system's ability to answer impulses coming from its environment. *Fairness*, the second component expresses that in the given country all actors have equal chances to get access to distribution channels. Last, *efficiency* reflects how cost-efficiently social resources are exploited by the distribution channel. In Stern's model, efficiency involves productivity and profitability. Charges against this theory can be that efficiency may be regarded more as an antecedent of profitability rather than a consequence of it. In literature, furthermore, efficiency and productivity are treated as synonymous terms (Ingene [1982]).

Economic and behavioural variables are both to be found in researches that study performance as a multidimensional construct.

Shaw et al. (1994) considers performance measurement of member firms in international strategic alliances. In literature, the definition and operationalisation of performance is heavily emphasised, but there is no unanimously accepted view on how performance is to be defined and measured. Performance variables are grouped along three principal categories: financial variables, objective and subjective variables:

- *financial* variables reflect fulfilment of economic goals and are typically measured by profitability, ROI and cost indicators (Luo 1996). The drawback of financial variables, however, is that they do not reveal the extent to which the short-term goals of an international strategic alliance are achieved. Anderson (1990) is of the view that financial variables describe merely one dimension of performance, but other, qualitative indicators are also to be involved when analysing the performance of joint ventures. Geringer and Herbert (1991) have observed in their research that the management often deems international strategic alliances unsuccessful, even if the alliance produces a good financial performance.
- *Objective variables* (such as continuity and stability) are often used to evaluate the performance of strategic alliances, too (Contractor et. al [1988], Kogut [1988], Geringer&Herbert [1991]). But objective variables are also heavily criticised, as there may exist several motives to create international strategic alliances, therefore survival for instance may not measure their performance satisfactorily (Harrigan 1988).
- Thanks to the problems arisen from financial and objective performance indicators, authors apparently are growing to prefer *subjective indicators* (Geringer&Herbert 1991, Bucklin&Sengupta 1993). One such indicator, applied most frequently is the general satisfaction of the member firm with the alliance. Subjective indicators show how far the goals of the alliance become realised. One of their main disadvantage is, however, that the evaluation of one's own companies may become biased. On the other hand, several studies have proved (Geringer&Herbert 1991, Venkatraman and Ramanujam 1986, Dess&Robinson 1984) satisfaction to correlate strictly with objective performance.

Shaw et al. (1994) use a number of performance indicators (profitability, market share, growth, market entry, competitive position, ROI, marketing, cost monitoring, technological development, product development, access to distribution channels) which assess the success of the strategic alliance and satisfaction with the alliance in the form of subjective indicators, on a 5-point scale. In the empirical research, the authors have found a strict correlation between performance perceived by managers and the goals realised by the alliance, but loose relationship has been found between performance and satisfaction. A significant result revealed is that most companies prefer to use 'traditional' performance indicators (profit, growth, market share) also when evaluating the alliance, but these are not necessarily the criteria regarded as the most successful ones in connection with the alliance (in an order: market entry, technological development, profit, market share, growth, product development, access to distribution channels).

Anderson (1990) studies the performance evaluation of joint ventures. He states that founding firms often tend to treat joint ventures as their subsidiaries and evaluate start-up joint ventures with traditional, formal methods, i.e. financial indicators and ignore input indicators. Consequently, they either dissolve the company far too early or the commitment of partners decreases. It is more feasible to evaluate joint ventures on the basis of a more balanced, less formal, i.e. a subjective performance measurement system. The author suggests an input-output continuum with which to measure the performance of joint ventures. The input end contains variables which define measurable results. Inputs in fact show what the company deals with, how it aims to achieve its goals and how the organisation uses its resources, which reflects the strategy pursued by the company. Output variables demonstrate the results of the inputs used. Learning for example may be regarded as an output, for in this case the company has already achieved something that may contribute to its present and future performance. Marketing performance variables (market share, customer satisfaction) are reflected in financial performance (profit margin, cash flow), too.

Kumar, Stern and Achrol (1992) develop a multidimensional scale in which suppliers can evaluate the performance of resellers. Kumar et al. have deduced and operationalised a scale suitable for evaluating reseller performance<sup>31</sup> from theoretical approaches on organisational effectiveness. The authors have also examined environmental variables, global performance and sales generated by the reseller, duration of the relationship with the reseller, the amount of contribution to promotion and number of employees of the reseller.

Leunissen et. al (1996) investigate the effect of retail strategic alliances on member firm performance. Similarly to the above, retail performance is viewed as a multidimensional construct quantified by financial and non-financial indicators and further performance variables bearing importance for retailers. They use gross margin as a financial indicator and vertical dependence as a non-financial indicator. Vertical dependence grasps how future-oriented a retailer is. The extent of future-orientation varies with individual retailers and depends on their desire for autonomy and the extent of control. A partnership between a retailer and an alliance is effective as long as power – through market conditions – turns into control. Control has an important role, as sources of power are transformed into a dependent relationship by partners.

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<sup>31</sup> The authors assessed the reseller performance along the following dimensions: contribution to sales and profit, reseller competence, compliance, loyalty, adaptation, contribution to growth and customer satisfaction, influence over the supplier, supplier satisfaction, conflict resolution (Kumar&Stern, Achrol [1992]).

## **6. RESEARCH CONCEPT**

In this chapter I wish to introduce the interaction of theory development and applied methodology, i.e. I understand and study the research concept (research problems and hypotheses) and methodological questions drawing upon one another and not as separate issues.

First, I introduce the relevant changes in the Hungarian grocery retailing of the last decade, and the dominant strategic groups and grocery retail strategic alliances. Then I define the context of the research proposal.

Further, I describe applied methodology. In stage one, I explain the steps followed at content analysis then results gained. I present the results of content analysis in the shape of a cognitive map which highlights the causal relationships between performance and retail strategic elements influenced by the alliance. I modify my earlier theoretical model on the basis of the cognitive maps, followed by possible ways of operationalisation of the constructs of the model and the hypotheses that can be formulated in the research framework.

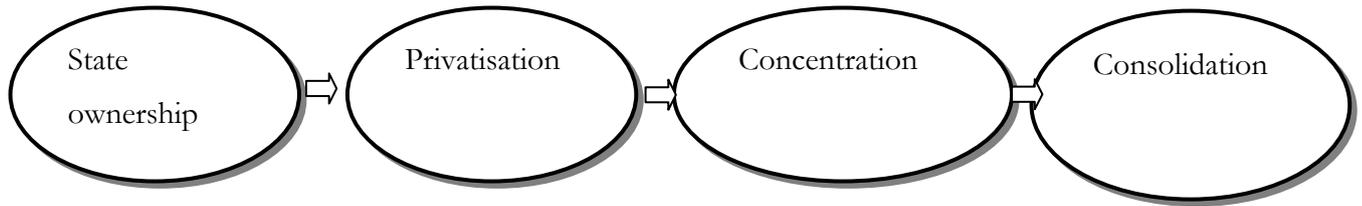
The planning of the survey, the sampling and the composition of the sample are also included in this part. The chapter is concluded with the quantitative analysis of the empirical research, whereby I examine to which extent the hypotheses could be justified and the differences between the strategy and performance of independent and allied retailers.

### **6.1. The Main Tendencies and Strategic Groups of Grocery and FMCG Retailing**

Grocery retailing has experienced a complete structural transformation in the last decade. The process is nevertheless still in progress. Exhibit 6.1. illustrates the phases of evolution in the nineties.

**Exhibit 6.1.**

*The Evolution of Grocery Retailing in Hungary*



Prior to the change of regimes, state ownership dominated retailing and a separation of wholesale and retail functions was to be observed. Privatisation, creating the preconditions of market economy reached retailing first. It dissolved the earlier monolytic, centralised type of sector, which resulted in a fragmented structure. The number of market entities has multiplied, with a predominance of small-sized, privately owned retailers. In the middle of the nineties, foreign direct investment appeared in grocery retailing, and as a consequence, there developed a more and more sharpening price competition. In the third phase, a process of concentration has begun, lasting up to these days or even becoming more and more enhanced in the shape of take-overs and certain interfirm partnerships.

In market competition, as a result of concentration processes three types of groups have emerged: 1) multinational retail companies, 2) domestic-owned companies having entered buying groups 3) independent micro- and small enterprises. Each actor is experiencing a growing amount of market pressure. In one of our earlier empirical research (Agárdi&Bauer [2000]), we have explored the strategic and operational attributes of the individual strategic groups, summarised in Exhibit 6.2.

**Exhibit 6.2.**

*Strategic Groups in Hungarian Grocery Retailing*

	Multinational retailers	Domestic Chains	Independent Retailers
Strategic objective	Spatial growth	Spatial growth /Retaining existing position	Retaining existing position
Strategic	Price leader, multisegment	Imitator, follower One-segment	Follower, defenders Focusing on supply niches
Outlet type	Hypermarkets, supermarkets, category specialists	Supermarkets, Speciality stores, Traditional grocery store	Traditional grocery stores, „garage” stores, speciality stores
Field of operation	National	National, regional	local, eventual regional
Operating efficiency	High	Medium	Low

Source: Agárdi&Bauer [2000]

As the scope of the research comprises the exploration of strategy-performance relationship of domestic-owned chains, from now on I wish to focus on this particular group of companies.

The emergence of domestic retail chains can primarily be traced back to two phenomena. On the one hand, they have survived in the form of transformed retail companies, on the other hand, they have evolved as independent enterprises having entered buying groups. For the former state-owned grocery retail companies, market competition has proved to be far too challenging, their role has been reduced a great deal, and the chains that could survive, tend to reduce their operation to one definite region. The creation of alliances out of independent retailers has therefore been due to the price competition in the sector.

Domestic retail chains mainly pursue a follower or a defending strategy. They aim at maintaining their positions achieved already, for few of them are able to expand owing to lack of capital. They try to adjust their policies to that of international chains, though, as much as possible.

Since the mid-nineties, interfirm partnerships, co-operations have been gaining ground. Among them, contract-based partnerships appear to be particularly in the focus, e.g. buying groups, franchise, private label strategy. Initially, the only goal was to purchase merchandise at more favourable conditions, later, the harmonisation of activities has embraced distribution and joint marketing. This is how Co-op Hungary has been formed out of the General Distribution Co-operatives, but also with newly emerged groups such as Sláger or Reál Hungary Plc. The co-ordination of the total marketing activities is highly emphasised.

The toplist prepared by *Mai piac* (a Hungarian professional retail journal), introducing the most significant grocery retailing companies, heavily underlines the relevance of strategic alliances. The figures for both 2002 and 2003 show strategic alliances to occupy the first places of the list – as illustrated in Exhibit 6.3. Shaded cells depict domestic-owned horizontal strategic alliances, chiefly made up of independent retailers.

### Exhibit 6.3.

*The TOP 10 Grocery Retail Alliances in Hungary (arranged according to annual turnover)*

2002			2003		
Alliance	Turnover (HUF Mrd)	Number of stores	Alliance	Turnover (HUF Mrd)	Number of stores
Metspa	388,3	146	Metspa	409	148
Co-op Hungary Plc.	<b>300,0</b>	<b>3474</b>	CBA Hungary	405	2895
Tesco	279,8	53	Tesco	354,4	60
Provera	215,0	364	Co-op Hungary Plc.	335,0	3575
Tengelmann Group	174,2	168	Provera	214,0	374
Rewe Group	156,4	150	Reál Hungária Plc.	191,3	2044
Honiker Ltd.	<b>149,9</b>	2233	Tengelmann Group	174,5	171
Reál Hungária Plc.	<b>148,0</b>	1943	Auchan	155,1	8
Auchan	112,4	7	Rewe Group	135	132
S.E.F.T.	23,1	31	Honiker	131,2	1613

Source: *Mai piac* 2003 May, pp. 16-17., 2004 April pp. 18-19 based on the data of AC Nielsen

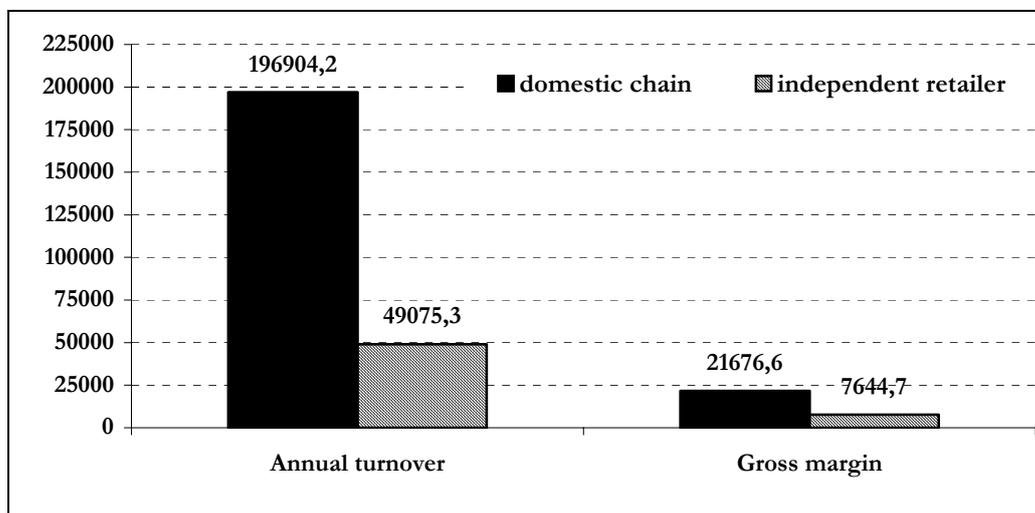
There is certainly a trend to be observed with also multinational groups to form strategic alliances, Metro and Spar setting an example for this or the co-operation of Cora and Delhaize. Still, there may be several differences spotted as far as strategic alliances of domestic-owned or foreign-owned retail companies are concerned:

- The co-operation of multinational firms is generally limited to joint purchasing, while Hungarian groups prefer to extend co-operation to their marketing activities, as well.
- Multinational companies normally possess a well-established corporate identity of their own, whereas domestic stores have to be turned into a chain, for most member firms do not apply any identity elements.
- As regards the size and type of member firm stores, considerable differences are to be found between the two groups. Multinational companies are predominant in the larger-sized supermarket and hypermarket category while domestic alliances consist of smaller-sized, fairly heterogeneous grocery stores to organise them into chains.
- Last, different ownership structures mean different types of management philosophy and practice. With multinational companies, firms possess their individual strategic goals and a professional management, while alliances of domestic retailers tend to build up strong emotional ties to their stores (Agárdi, Bauer [2000]).

In the above-mentioned empirical research (Agárdi&Bauer [2000]) we have found considerable performance differences between strategic groups, demonstrated in Exhibit 6.4. The basic premise of the research is the performance difference between independent retailers and domestic chains. Domestic chains are mostly made up of chains that are in fact independent retailers having joined buying groups. Both in terms of turnover and gross margin they significantly perform better than independent retailers. Drawing upon this, I assume that differences between the two groups of retailers arise due to belonging to a chain and the advantages offered by a strategic alliance.

**Exhibit 6.4.**

*Annual Turnover and Gross Margin of Domestic Retail Chains and Independent Retailers in 2000 (HUF Thousand)*



Source: Agárdi&Bauer [2000], p. 13.

Cravens&Cravens (2000) give a detailed description of what units of analysis one is to choose from when studying horizontal strategic alliances. In the authors' view, a research may wish to focus on the top management responsible for co-operation, the dyadic relationship of partners, corporate strategy or the whole alliance. The unit of analysis of this research proposal is the retail company as the member of a horizontal strategic alliance, whose strategy is influenced by the fact of co-operation.

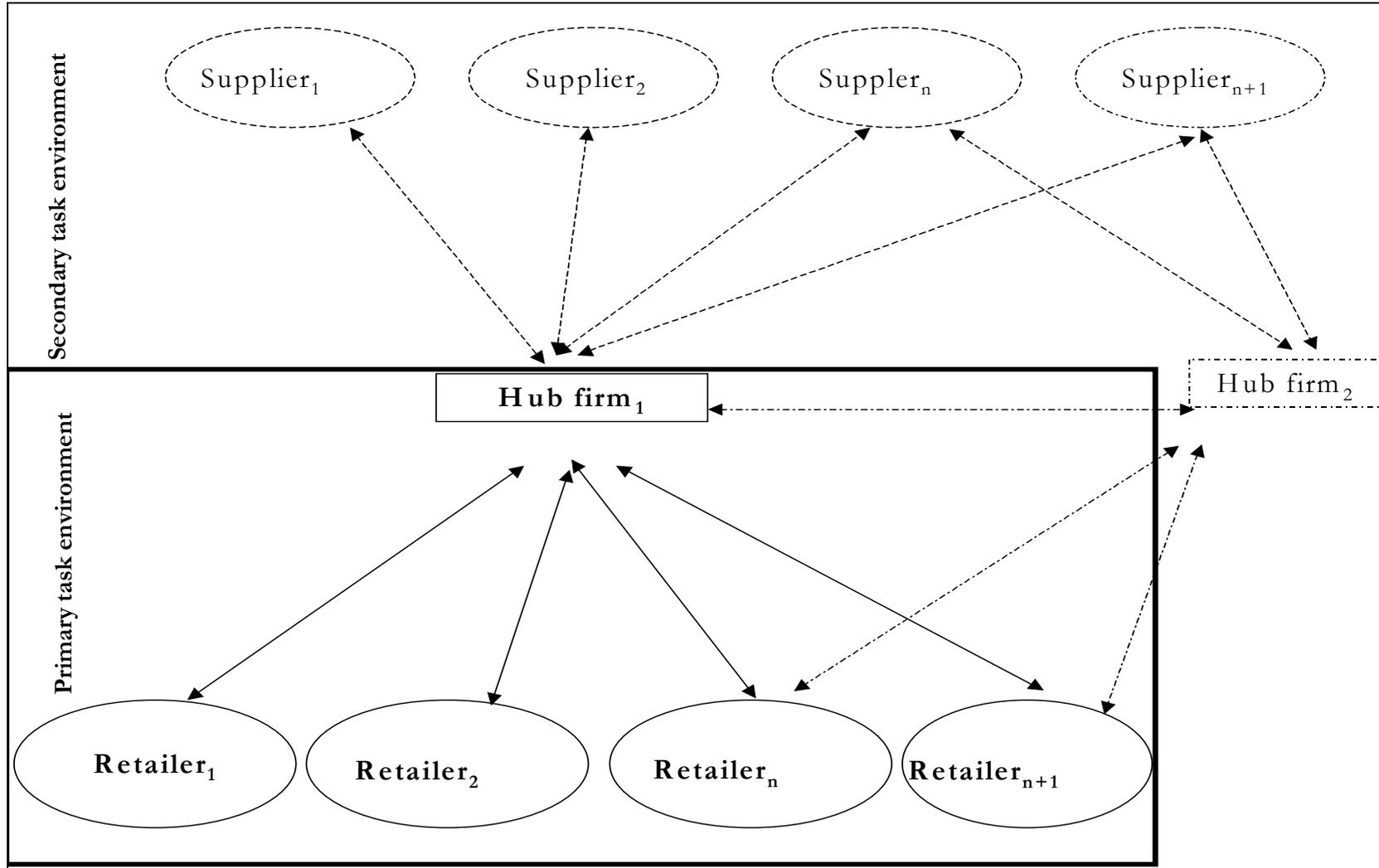
The research context is depicted in Exhibit 6.5., describing the environment of allied retail companies and the possible co-operations between actors of retailing in Hungary.

Achrol&Reve, Stern [1983]) divides the marketing environment of partnerships in the distribution channel up into several parts. A secondary task environment has been distinguished which the firms of the co-operation mainly encounter only indirectly, through the hub firm, but which certainly makes an effect on member firms. Primary task environment includes immediate suppliers, in the present case, the hub firm and consumers. The authors furthermore recognise the macro environment embracing the social, economical and political factors of a given country or region.

The research examines interactions between hub firm and member firm within the framework of the primary task environment. Member firms chiefly conduct their transactions with the hub firm. The role of the hub firm is either filled by one of the member firms which is then responsible for joint purchasing and marketing activities. Honiker buying group is an example for this, where up to 2002 it was Kisalföld Fűszért that co-ordinated the activities of the alliance. Or, alternatively, member firms create a hub firm which later starts to develop the chain on its own, winning more and more independent retail companies as potential member firms over (e.g. Reál Hungária Élelmiszer Plc.). Domestic alliances are for the most part two-level ones, for there is a regional organisation inserted between the national centre and the member firms.

After having defined the research context, I would like to give an overview of my research methodology and concept. Due to interactions between methodology and theory, they are presented in the same chapter, as one part of the methods serve the theory development.

**Exhibit 6.5.**  
*Determining the Research Context*



## 6.2. The Theoretical Model

In accordance with Chapters 4 and 5, retail marketing strategy is determined by being a member of a retail alliance. Marketing strategy comprises retail mix, i.e. choice of location, merchandise management, pricing, advertising&promotion, store design and layout, services and personal selling (Levy&Weitz [2004]). In the research context, the retail strategy elements that may be affected by partnerships are primarily examined. Drawing upon literature and results of earlier empirical research we assume that co-ordination of purchasing and distribution may mostly influence merchandise management, pricing, advertising&promotion and retail services in a stricter sense of the term. We suppose these retail mix components directly affect the financial performance of retail companies.

The connection of retail strategy elements and corporate performance are moderated by the competitive environment (dynamism and complexity of environment) and the attributes of the company (field of operation, location and size).

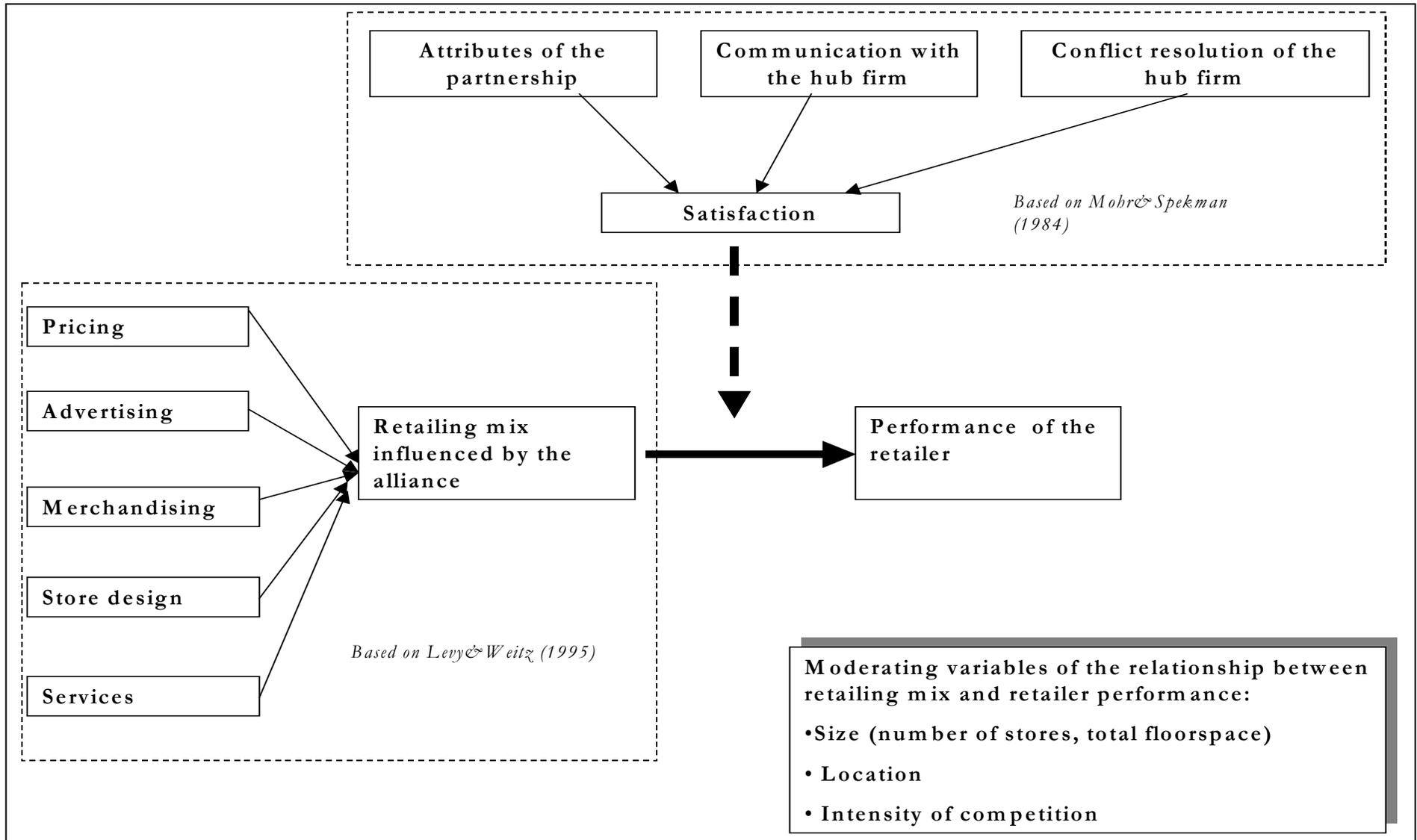
The other dimension consists of interfirm processes that emerge in the interaction of the strategic alliance and the company. In both marketing and retailing literature, these processes are grasped in terms of behavioural categories, contained most thoroughly in Mohr&Spekman (1994)'s model.

In the model's framework, partnership is described along terms such as mutual interdependence, trust and commitment, it stresses the factor of communication between partners and conflict resolution techniques (forced or non-forced) applied, which constructs all influence satisfaction with partners. Mohr and Spekman (1994) assume that the more successful the company judges the partnership, the more highly behavioural dimensions are valued by it.

We analyse the behavioural dimensions of strategic alliances from the viewpoint of member firms: i.e. how they evaluate the relationship with the hub firm. We assume these dimensions to affect satisfaction with co-operation directly.

**Exhibit 6.6.**

*The Impact of the Alliance on the Retail Strategy and Performance of Member Firms*



In addition, I propose the relationship of strategy and performance is influenced by the size, location and competition intensity of the retailer.

The phases of the empirical research are shown in Exhibit 6.7. the aim of content analysis is that dimensions identified in the theoretical model (Exhibit 6.6), and possible new elements of co-operation could be revealed. For exploring the causal relations between dimensions denoting the effect of a horizontal alliances, I am using the method of cognitive maps. Based on the results of content analysis and the cognitive map, I introduce the hypotheses of the analytical model and the operationalisation possibilities of the individual dimensions.

**Exhibit 6.7.**

*Phases of the Empirical Research*

<b>RESEARCH METHOD</b>	<b>OBJECTIVE</b>
I. Content analysis	Reducing the initial, theoretical model to the relevant constructs
II. Cognitive map	Exploring the causal relationships between constructs identified by the literature and content analysis
III. In-depth interviews with hub firms	Validating the identified causal relationships explored by the content analysis, developing the analytical model
III. Survey	Testing the hypothesis of the analytical model with quantitative methods

**6.3. Content analysis**

Studying the method, I first introduce the phases of content analysis, complemented by the result received from my own research. *Content analysis* is an analytical tool of written communication, a preferred research method in the field of social sciences, for instance politology. Nevertheless, its use is becoming more and more widespread in management researches, too. In the field of marketing, it is mainly used for analysing the content of advertising messages, newspaper articles and radio programs (Malhotra [2001]).<sup>32</sup>

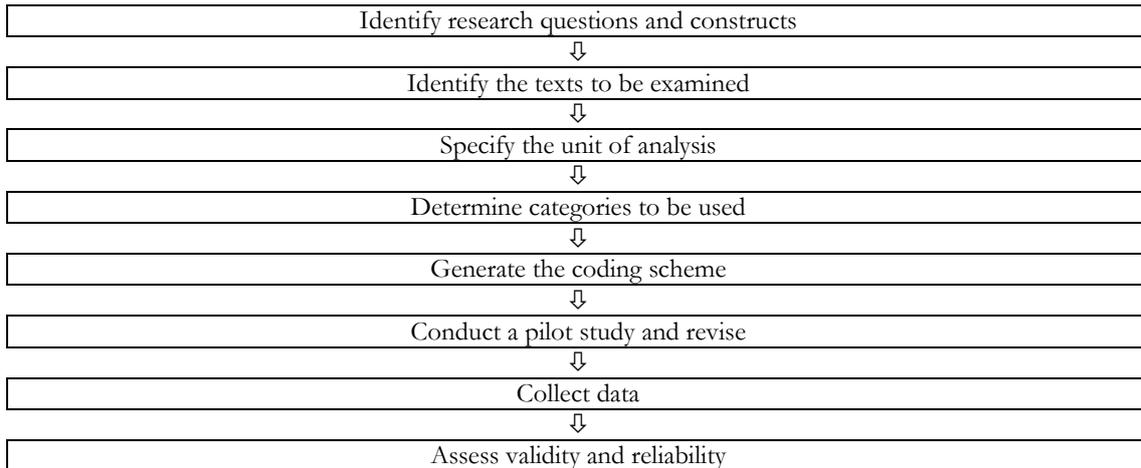
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<sup>32</sup> Content analysis is an objective, systematic, and quantitative description of the communication's manifest content (Kolbe&Burnett [1991]). Furthermore, Erdener&Dunn (1990) have distinguished between manifest and latent content. The first one explores the use of a particular word or expression when the researcher focuses on the word frequency counts and key words in context. The basic assumption is that these key words relate to underlying concepts or constructs that are germane to the

The process of the content analysis conducted is illustrated in Exhibit 6.8. The *research question* of the present dissertation seeks an answer to how horizontal strategic alliances affect the marketing strategy of member firms and thus their corporate performance. The research focuses on domestic-owned, allied retailers.

**Exhibit 6.8.**

*The Process of Content Analysis*



Source: Howard, H.. [2001]: Content Analysis of Secondary Data: A Study of Courage in Managerial Decision Making. Journal of Business Ethics, Vol. 34, 194. old.

As I study the interconnection of retail strategy and performance in *a grocery retailing context*, I have collected articles and interviews which describe co-operation between domestic retailers. These are, most typically, articles and interviews with company managers published in professional retail journals (*Mai piac*), that deal with the horizontal co-operation and its effects on retail chains in Hungary. The articles fundamentally embrace the period of 1996-2002, for this was the time when co-operation between domestic retail companies started to intensify. A total of 42 articles (see Appendix 1) have been selected. Texts had been previously evaluated in terms of their relevance in the research problem and then recorded.

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research question at hand. However, there is rarely a perfect match, and so the validity of this measure is always subject to challenge.

The latent content analysis unfolds the underlying, deep meaning embodied in a text and therefore it better addresses the validity problem. However the coding and interpretation of the meaning depends on the subjective judgement of the researcher, latent content analysis has an unfavourable effect on the reliability of the results. This problem is usually addressed to cross-check the coder's potentially subjective interpretation whereby measuring the intercoder reliability with correlation coefficients (Erdener&Dunn, 1990).

The analysis concentrates on the marketing strategy and performance indicators of allied member firms and the associative relationship to be found between the two. *Units of analysis* have been *words* or *expressions* which could have been found among the expressions of the initial theoretical model (Exhibit 6.6.). We have also added new marketing strategy and performance elements to the coding scheme which we identified in the texts. The coding scheme used for content analysis has been prepared on the basis of dimensions and their synonyms of the initial theoretical model and latent content analysis (see Appendix 2).

Based on the aboves, I have applied a combination of latent and manifest content analysis. One of my aims has been to identify relevant strategy and performance elements which occur in grocery retailing in Hungary. Another aim has been to measure word count frequency, for domestic co-operational forms are not yet unambiguous and various groups of companies harmonise their operation to various extents. Thus I have aimed at selecting *the most relevant, co-operation – defined factors*, that serve to increase the validity of the explaining model.

My analysis has been conducted with the help of two other coders, hence preparing a coding scheme has been essential. The *coding scheme* contains the goal of research, the research problem, the theoretical model, a short explanation of technical terms used and coding rules which have promoted the reliability of results obtained (see Appendix 3). When selecting coders, an important aspect has been for them to be greatly familiar with retailing in Hungary, for it is an essential precondition if one is carrying out a latent content analysis.

In the *pilot analysis* 5 articles have been chosen, analysed individually, then codings were compared and problems that have arisen incorporated in the coding scheme.

In *data analysis* we have identified key words and expressions and recorded the word count frequency, after which we have compared the consistency of codings both from a validity and a reliability aspect. From among *validity and reliability measures* suggested in literature (Krippendorff, 1980) we have investigated the face validity<sup>33</sup> and the semantic

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<sup>33</sup> Face validity is the extent that a category appears to measure the construct that is intended to measure.

validity<sup>34</sup> of results, the stability of results<sup>35</sup>, and their reliability by comparing them to the results which have been arrived at by the independent coders. In the next phase, I summarise the main results of the content analysis.

First I have examined the types of co-operations that are most likely to occur in horizontal strategic alliances. In the 42 articles altogether three types of co-operation with various intensity have been discovered: buying groups, voluntary chains and franchise. *Buying groups* (21%) fundamentally concentrate on joint purchasing and responsibilities derived from it. More than the half of retail companies choose to be members of *voluntary chains* (51%), such as Reál or Sláger, where besides purchasing some further marketing tasks (bounded prices in sales, joint advertising and promotion, harmonising some identity elements) are carried out jointly by the allied partners. The proportion of stores operating in a franchise system is the lowest (5%), as this is not a truly typical co-operation form in grocery retailing<sup>36</sup> in Hungary.

The main line of content analysis is to explore retail strategy elements influenced by being allied in a partnership and whether there can be found any differences between individual co-operation forms.

More than half of the owners (54%) have mentioned the appearance of *weekly specials* whereby they mean merchandise mostly sold with discounts. Price promotions appear in the texts in diverse contexts. Most retailers have pointed out *regularity of promotions* (weekly, biweekly or monthly) organised by the groups. In contrast to independent retailers, the frequency of promotions and the number of products involved in promotions increase with allied companies. Another important feature of sales mentioned has been a *chain-like appearance*. Participating in joint promotions organised by the strategic alliance, however, is normally obligatory.

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<sup>34</sup> Semantic validity is the extent to which phrases placed in the same category have similar meanings and relate to the category in a similar fashion.

<sup>35</sup> Stability is the degree to which the results of content classification and coding remain consistent over time.

<sup>36</sup> It is partly due to the lack of franchise legislation, partly to the fact that integration between retail companies has not achieved this level. Franchise is most widespread with retailers of the Coop chain, being joined by other groups (thus e.g. Sláger Kereskedőház Ltd. provides Coop's franchise system for its own member firms). Still, some managers claim that there is no real franchise in grocery retailing.

It means bounded assortment and prices for member retailers. Lastly, some interviewees have suggested that the scope of promotions differs, as the co-operation form may make it possible to participate in both *national* and *regional* promotions.

The *advertising activity* of the alliance means distributing *flyers* advertising the promotions of the group. Managers and store owners have highlighted *the quality* and *chain-like appearance of flyers*, which is a consequence of a chain-level organisation. For promotions and advertising are heavily interconnected or there are few advertising tools that would not be related to sales. On the basis of the interviews analysed it seems that other forms of advertising are not this relevant or ignored by member firms. Honiker's example, i.e. *advertising the whole chain* and thus creating additional value for chain members, is a rare one.

Store **identity** is an element of retail mix. 43.6% of member firms have mentioned chain identity to bear relevance for them. With buying groups and voluntary chains only certain identity components appear, such as logo, colours and uniform. Identity elements, however, extend to the whole store design and layout when entering a franchise system (e.g. Coop chain). Opinions concerning identity have also emphasised *chain-like appearance*, even when it is only true for a segment of identity elements but which also contribute to enhancing chain-likeness of retail stores that belong to the group.

The main incentive for creating retail strategic alliances is ensuring *more favourable purchasing conditions* for member firms, enabling smaller companies thus to ensure better retail prices for their consumers, which then makes them more competitive against larger chains. In the texts I have examined, 41 percent admitted that within the co-operation they are able to offer more favourable prices to their consumers. Nevertheless, co-operation not only means price advantages for member firms but usually *bounded prices*, too. Supplier agreements may determine the suggested retail price to be used by all members of the alliance, regardless to their costs.

Co-operations significantly affect the *structure of the assortment* of the allied retailers, for a great part of their turnover stems from jointly purchased goods, usually exceeding 50 percent, sometimes even soaring to 80 percent of turnover.

Consequently, member firms are to oblige themselves to keep a *bounded assortment* of promoted products, store brands having been had manufactured by the group and products defined in supplier agreements. *Assortment stability* with allied retailers is an overall advantage in the face of independent retailers. The latter ones are determined by 'bargain hunting' i.e. they always stock products which they can purchase with ad-hoc allowances, while allied retailers, through centralised purchasing, are able to get the same amount of allowances, enabling them to establish a more stabile assortment.

Offering *store brands*, in fact, can be understood as part of the assortment. Practically, every strategic alliance developed its store brands. Store brands reveal more competitive advantages. Interviewees mostly refer to this saying that demand obviously increases for store brands sold by the group. Their other main advantage is, that their prices are lower than that of manufacturer brands but lower prices do not necessarily mean lower margins for retailers in contrast to the promotion of manufacturer brands. *Store brands* are consequently *more profitable* for retailers.

I have already hinted a few times at the fact that co-operation forms may make various effects on marketing strategy. The clearest difference is shown in chain identity. While buying groups and voluntary chains exhibit a uniformity with only certain components (logo, frontal design, etc.), a chain-like appearance with retail companies of franchise systems means to have a uniform store design, layout and assortment. Price level and sales are the most frequently mentioned elements with buying groups.

The model (Exhibit 6.6.) not only illustrates effects on strategy but looks at co-operation as a behavioural process. There is an intensive communication between member firm and hub firm (purchasing and distribution decisions, issues of membership, etc.), there are a series of transactions conducted, on the basis of which member firms perceive and evaluate their relationship with hub firms or groups of companies (dependence, trust, opportunism), and face conflicts. As opposed to views on retail strategy, there have been far less references to the quality of the relationship or references found have been for the most part positive ones. Supposedly, it is due to the fact that the articles and interviews appeared in forums read widely in professional circles and member firms do not wish to give a negative opinion of their own group of companies.

The most important aspect revealed by the texts I have looked at, has been *a correct, predictable and stabile co-operation*, or reliability as we have termed it. From the viewpoint of member firms it reflects the trust put into the partnership.

*The problem of autonomy versus dependence* have arisen in several texts. Retail companies, entering some sort of co-operation, are to give up their autonomy to a certain extent. The more areas co-operation embraces (e.g. after a period with harmonising purchasing exclusively, firms usually start to harmonise their distribution and marketing activities as well), the more member firms will depend on the group. In contrast to franchise system, buying groups leave greater independence to member firms.

The trust of member firms towards hub firms is greatly enhanced by hub firms exhibiting *competence*. Competence is judged along the expertise with which transactions are carried out and consulting is provided.

The essence of the theoretical model is the interconnections of marketing strategy elements influenced by co-operation and member firm performance. From among performance variables, turnover has most frequently (33%) been mentioned, having grown as a result of co-operation. Competitiveness has also been emphasised (10%), where multinational companies are the primary reference points. Competitiveness is, nevertheless, normally identified with survival. I have only found a few occurrences suggesting profit, it otherwise being the most relevant variable when evaluating corporate performance. The lack of formulating a direct relation is possibly because the effect of co-operation on corporate performance is influenced by several other factors.

#### **6.4. Cognitive Maps**

In the second phase of the explorative research, drawing upon the results of content analysis, I construct the aggregated cognitive map of retailers, on the basis of which the theoretical model (Exhibit 6.6.) can be made more precise and the hypotheses of the analytical model can be formulated.

The method of cognitive maps<sup>37</sup> has a central role in the empirical research from the point of view of both methodology and theoretical concept. As the interactions of strategy and performance are highly intricate (Mintzberg [1987], Mason&Mitroff [1981]), it is particularly important to understand the relationships and their nature as perceived by decision makers. In strategy management literature there have been conducted a number of researches on the information-processing of decision makers and their cognitive structures which all affect their decisions on creating a strategy, its implementation and corporate performance. Analytical tools examining cognitive structures of strategic decision making and cognitive complexity are termed mental maps, meta-learning or mindsets (Calori&Johnson, Sarnin [1994]). In accordance with Huff (1990), I use the term 'cognitive map'.

Huff (1990) suggests that cognitive maps are the 'incomplete interpretations of human cognition'. But even if they are entirely accurate, they still appear to influence behaviour.<sup>38</sup> Strategic maps do not only express spatial relations but temporality (logics, consecutiveness, time relations), too.

The manager and the owner of retail companies I have looked at is usually one and the same person. They decide on issues that concern the whole firm, for example whether to enter a co-operation or not. Hambrick&Mason (1984) claim that the strategy and effectiveness of an organisation is the reflection of the values and cognitive bases of organisation members in power. Mintzberg (1987) states that strategy is the abstraction of the manager's thoughts which comprise ideas and constructs generated while identifying and interpreting a problem.

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<sup>37</sup> The term 'cognitive map' originates from Tolman (1962) who has examined maps that help spacial orientation. It has also been observed (Neisser [1984], p. 125.) that these maps may be detached from their original functions and can be used as independent sources of information. Moreover, it is not only spacial orientation we use maps for but for placing all types of events, practically speaking (causal relations, taxonomies). According to Weick (1990), humans live in two worlds – the world of events and things (territory) and the world of words about events and things (the map). The content of the maps consists of distances and differences (Kelly [1955]).

<sup>38</sup> Neisser (1984) demonstrates that while the parts of a cognitive map are made up of schemes, cognitive map themselves are schemes, directing information input and changing the maps. Huff (1990) is of the view that maps depicting the thinking of managers work the same way. Maps that already exist in the minds of decision makers tend to determine their perception, and it results in the fact that they only see what they want to see. Still, as distance between outer information and their own ideas grow, they devote more attention to their own actual experiences and less to the earlier maps. Maps can then be actualised by new information.

Decision makers create simplified mental models (March&Simon [1958]) when they are to face complex problems. The process is characterised by a selective perception, since they are unable to evaluate all variables relevant for the decision at the same time (Tversky&Kahneman [1974], Mason&Mitroff [1981]).

The method has some relevant consequences from the aspect of the research topic. My aim is to assess (1) how managers of retail firms evaluate interrelations of marketing strategy elements and performance indicators and (2) how co-operation affects the relationship of strategic elements and performance indicators.

When the manager-owners decide on entering a co-operation, they consider the entry's consequences on further business policy and performance of the chain. It is highly relevant that these 'perceived' relationships should be revealed, for these are the ones determining organisational behaviour and its outcome. One cannot certainly expect these maps to be complete and exact but the perceived interrelationships, directing decision makers can be clarified.

Mapping methods depicting strategic thoughts can be described along a continuum (Weick [1990]). At one extreme of the continuum are mapping methods that are relatively simple models of cognition, and verbal expression is taken as a direct indication of the mental activity. Content analysis can be classified into this group. At the other end of the continuum are methods that interpret the language used and set of words as a symbol of the latent content. The manifest content has to be further analysed before the cognitive structure could be identified (Huff [1990]). These methods involve considerable interpretation from the part of the researcher, and they draw on more complicated models of cognition. However, the way of interpreting results may be biased by the subjective judgements of the researcher.

Huff (1990) attempts at a more detailed categorisation of cognitive maps and identifies five different types of them<sup>39</sup>. By exploring causal relations i, the closest to the research goal I have set is the method of cognitive maps showing influence and causality.

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<sup>39</sup> Cognitive mapping methods: 1) maps that assess attention and importance of concepts 2) maps that show dimensions of categories, 3) maps that show influence, causality, and system dynamics, 4) maps that show the structure of arguments and conclusions, 5) maps that specify schemes, frames and perceptual codes (Huff [1990], pp. 14-16).

Cognitive maps describing causality assume that *the image of the world formed in individuals* is best described by causal relationships, that causality is the most frequent retrospective explanatory tool of events, and choosing from possible alternative actions also takes place in the form of a causal evaluation. Maps illustrating causal relations are the most typical ones in management literature. Reger&Huff [1993]'s research concentrates on causal features of organisational performance which are significantly higher or lower than an industry average. They argue that poor performance makes managers' basic premises about company operation doubtful. If performance is consistently lower than the industry average, there seem to emerge some efforts of the company to reinterpret environment and blame external events and actors.

The precondition of the graphic illustration of the causal relationships of constructs and the identification of variable nodes is that nodes should possess a bipolar value. The direction of causality between two constructs is shown by an arrow. The content of causal maps may also be illustrated in a matrix form which would represent the nature of causal relationships in cells (Axelrod [1976]). The matrix may be used for analysing further causal interconnections.

I apply a particular type of causal cognitive map, i.e. revealed causal mapping, and instead of drawing on individual interviews, I have relied on the results of the content analysis. The revealed causal maps are therefore based on analyses of the public utterances of decision makers. Narayan and Fahey (1990) define these maps as affirmations of causal relations declared by decision makers themselves for their environment (market, competitors, industry, etc.). Revealed and true causal maps may obviously differ from one another, for part of the thoughts and intentions are not of a public nature – even more so if they concern strategy. In a context where information may serve as a strategic weapon, differences between revealed and true casual maps may be considerable. In this research context, revealed and true maps are quite close to each other, consequently, the application of the method is justifiable.

Researchers get access to revealed causal maps more easily, because they use pieces of public information. Revealed causal maps reflect the wordings of decision makers and interviewees.

The maps are typically complex networks of components with significant overlaps, therefore may well be carrying some redundant information. In order for maps to be compared, they have to be brought to a common denominator. There is a need for a common language, such as a theoretical framework which would help interpret the specific language use of individual utterances and make individual maps comparable (Narayan and Fahey [1990]).

I have summarised the results obtained from content analysis, serving as a starting point for preparing the aggregate cognitive map (see Appendix 4, 5). It aggregates revealed causes and effects. Exhibit 6.9. shows the map prepared on the basis of 42 articles. Numbers stand for the ordinals of concepts. Causal relationships between elements are denoted by an arrow. Arrows show from cause towards effect. The content of the map<sup>40</sup> and its structure has been analysed with the software Decision Explorer 3.2.6.

When searching for interrelationships, I have primarily focused on dimensions discovered in content analysis and elements related to them. The map contains 15 components, among which interviewees of the articles have formulated a total of 28 interconnections. The density, or in other words, interconnectedness of the map is 0,1333 (aggregate relations in the map/aggregate possible relationships). Although the map does not contain too numerous elements, still, at first sight, systematising causal relationships found among them is not an easy task.

First I have separated constructs that are obvious consequences of joining an alliance (arrows only point at them but no arrows start up from them). One of the highest number of connections (10) belongs to the consequence element 'turnover increases' but also a significant consequence of co-operation is the improvement of 'higher chance to succeed' and 'competitiveness' (elements 5 and 6), further, 'retail margin increases' (element 12). Therefore, as a result of being allied, retailers experience the growth of sales and profitability (margins and effectiveness) and, in a broader sense, the increase of competitiveness in their companies.

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<sup>40</sup> The content of a cognitive map can be interpreted with the help of the individual constructs and connections between them. The configuration of the map may be described by complexity (elements displayed in the map) and the number of connections between elements (interconnectedness) (Calori&Johnson and Sarnin [1994]).

The output of the co-operation is mostly promoted by the ‘competence of the hub firm’ (element 8), ‘carrying store brands’ (element 11) and ‘regular promotions’ (element 13).

How many connections the individual constructs have, is also a notable aspect. The greatest number of connections is that of element 4’s (‘turnover increases’), followed by ‘joining the alliance’ (element 1) with its 7 connections. ‘Carrying store brands’ is connected to five other constructs and ‘competence of the hub firm’ is related to some further 4 elements.

A number of methods<sup>41</sup> can be applied when analysing cognitive maps. During the analysis, I follow the logic of theoretical model (Exhibit 6.6). Namely, which are the elements that are directly related to the joining a retail alliance and how can the relation system of marketing variables be grasped; and which elements are linked to corporate performance, either directly or indirectly.

A direct consequence of having joined an alliance is access to favourable purchasing conditions – as put by the interviewees of the articles. It contributes to performance and competitiveness growth, too. Initially, retail companies started to ally in order to join their powers and achieve more favourable purchasing conditions with manufacturers, which then may be reflected in their retail prices and also, which would enable them to fight their competitive disadvantages against multinational chains. Many people interviewed refer to this benefit of co-operation.

Constructs related to reducing prices highlight that retailers believe the competence of the hub firm is essential for being able to offer competitive retail prices, which leads to sales growth.

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<sup>41</sup> **Explanation** allows you to choose a concept number from which you wish to see explanations. **Consequence** allows you to choose a concept number from which you wish to see consequences. **Cluster**: this menu option performs a cluster analysis on the model. **Collapse**: This command causes a collapse on the named set to occur. This effectively hides all concepts which are not members of the specified set, whilst maintaining links (whether direct or going through other concepts) between concepts in the set. You can specify up to five sets upon which to collapse. Only concepts in all such sets will be displayed. **Composite Tails** This command traces the path from each tail concept until a branch point is reached (i.e. a concept has more than one consequence). **Hierarchical domain analysis** will list each concept in descending order of link density around that concept (i.e. those concepts with the highest link density will be listed first). The total number of links around each concept is displayed, not individual link type. **Hierarchical Set Clustering** This command looks around all of the 'root' concepts in the Set specified, and traces all of the explanations of each concept until either a tail or another concept in the Set is reached. Source: Decision Explorer Help. ©1994-99 Matthew Jones, Banxia Software Ltd.

Relying upon the map, a stable assortment is the consequence of both entering the alliance and the competence of the hub firm which, with the improvement of assortment, contributes to the sales growth of retailer/store. As a contrast, independent retailers are forced to shape their profile corresponding to current weekly specials and favourable purchasing conditions.

In the content analysis, the other affected factor of merchandise management has been the presence of store brands. Store brands prove to be quite popular with member firms. Store brands, as SKUs, not only affect turnover but margins and company effectiveness, too. They also trigger consumer loyalty and lower prices and a result that these products can be sold at higher margins, improving company profitability (effectiveness) thus, too. Store brands, in addition, increase inventory turnover.

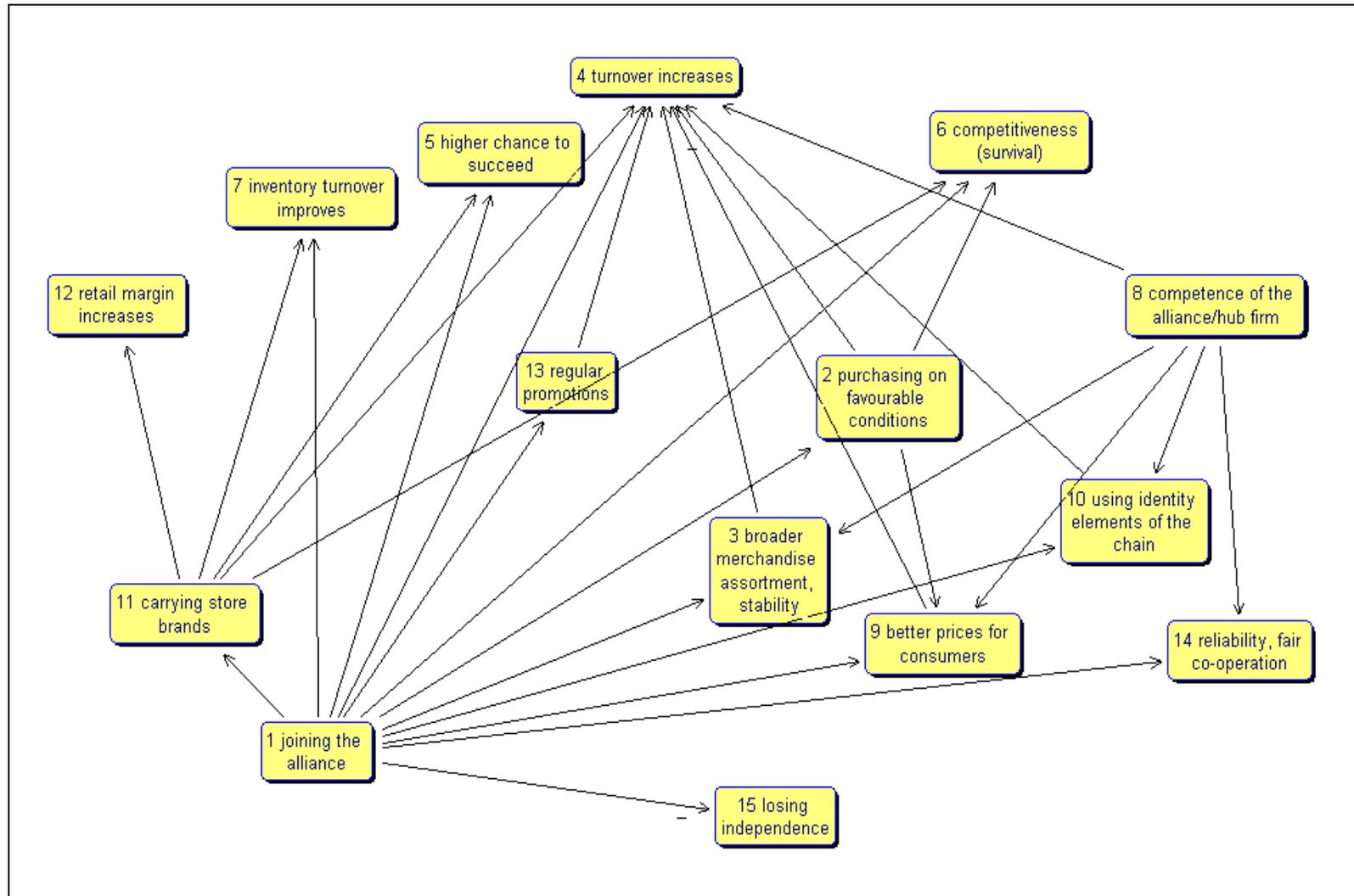
The most marked feature of the content analysis has been promotion which involves discounts and related promotional fliers. In texts analysed, there has been a particular focus on the intensity, uniformity and quality of promotions. Several managers have hinted at the positive correlation between promotions and company/store turnover.

The importance of a chain identity created by the alliance has been pointed out in several articles. This is a construct with a less extended network of connections. Chain identity also fosters the increase of member firm turnover. Uniform identity greatly encourages the establishment of a chain-like appearance of autonomous member firms. The competence of the hub firm considerably determines the way the assortment, price level and identity of member firms develop.

The reliability of the hub firm has been underlined by a number of member firm representatives, which reflects the trust of retail companies put into the co-operation. Trust is reinforced if the hub firm proves its competence and expertise. The autonomy of member firms decreases along with an increase of co-operation intensity for co-operation extends to a growing number of fields of company activities. Parallel to this, they start to be more and more dependent on the group, i.e. their horizontal dependence increases while their vertical dependence (on suppliers) decreases. Trust and a desire for autonomy are not directly related to corporate performance, still, by way of the competence of the hub firm, determine company turnover.

**Exhibit 6.9.**

*An Aggregate Cognitive Map of Allied Retailers*



It is more than evident that on the strength of neither content analysis, nor a cognitive map, general conclusions cannot be arrived at. Though, the interconnections found bear a high relevance to be used at specifying the initial theoretical model. One aspect, however, must be considered when analysing these interviews and articles, i.e. views on strategic alliances are generally positive and there is no hint at conflicts, opportunism, abusing power or communication problems whatsoever. Thus, the results of content analysis may show some distortions which may only be revealed when interviewing the hub firms of strategic alliances.

## **6. 5. Interviews with Experts**

I have interviewed the decision makers, i.e. sales and marketing executives of the hub firms of four strategic alliances (Honiker, Coop, Reál and CBA). (For the guide line of the interviews and data on interviewees see Appendix 6.) Interviews are suitable for evaluating the role of strategic alliances from the other part, i.e. how hub firms perceive co-operation with allied retailers. It also provides a chance to validate the results of my content analysis and causal maps.

Not surprisingly, interviewees have for the most part mentioned purchasing and marketing activity as the main areas of co-operation. The necessity to harmonise marketing in fact stems from joint purchasing i.e. supplier agreements. Favourable purchasing conditions are only valid if allied retailers keep themselves to what has been prescribed for them in the contracts with the suppliers. Furthermore, almost all alliances provides its members with training and consulting (e.g. introducing HACCP systems).

Within marketing activity, four main areas have been mentioned by respondents: harmonising merchandise management, pricing, advertising and promotion, and creating a chain identity, which all justify the relevance of dimensions revealed by cognitive maps.

Hub firms try to bring several regulations into force in merchandise management. First, each group defines the constituents of a bounded assortment which has to be stocked in stores. A part of the bounded assortment concerns the product categories where the hub firm has made national or regional contracts, excluding the possibility for retailers to purchase merchandise from other sources.

The other part of the bounded assortment is made up of store brand products. Alliances apply different store branding strategies. Each alliance has its own store brands, well representing the name of the chain. However, store brands with their own brand names are gaining ground, which can challenge manufacturer brands on the one hand, on the other hand they can be purchased by other chains, as they are not linked to one specific network. Opinions vary concerning the effect of store brands. A few of the interviewees have suggested that they increase turnover and enhance loyalty, rather than affecting profit. Others, in contrast, claim that store brands carry 2-3 percent surplus in retail margin for retailers.

Answers to the question of approximately how much the bounded assortment of the total merchandise of retailers amounts to, have also been highly varied. The most integrated co-operation is characteristic of Coop, it can cover the whole assortment for a small-sized store (apart from fresh food), while Honiker's policy is that of a looser co-operation, where members can freely decide on selling store brands.

One of the material effects of a joint purchasing activity is apparent in prices. All the alliances make acts of 'strategic purchasing'. It means they are able to sell certain items at a highly favourable retail price, an option gladly embraced by retailers. A less favourite obligation is that of bounded prices for store brands and promoted products. For obligatory items, a suggested retail price is defined by the hub firm but in this respect the retail company is allowed to retain its autonomy in decision making.

The observation of obligations concerning bounded assortment and prices are encouraged by financial incentives (pay-backs) by both hub firms and suppliers.

With two retail companies (Coop and Reál), category management has been introduced. It has been a successful initiative in the Coop group, while it had to be stopped with Reál, due to the resistance of members.

Beyond favourable purchasing conditions, alliances organise regular promotions for their members, thought evidently to be an important advantage by retailers in the content analysis.

Groups normally organise two-level promotions, one on a national, one on a regional level, based similarly on supplier agreements. Promotional fliers appear on a biweekly basis, with national promotions in the first half of the month and regional promotions in the second half of the month, the latter exhibiting more potential to adapt to local demands. The advertising of the alliance is composed of promotions and related advertisements. They sometimes organise nationwide campaigns and promotional games, as well, advertising the whole chain.

One interviewee has observed that the turnover of stores increases by 20-30 percent in promotion periods.

Creating a chain identity is also a process initiated by hub firms because they have realised that manufacturers, beyond the amount sold, tend to focus on distribution to end-consumers. It is the retail network that appeals to manufacturers a lot, but a uniform layout has to be ensured in allied stores. Establishing a chain identity is an evident priority with each group, nevertheless, its realisation may vary from alliance to alliance. Hub firms have created a detailed corporate identity handbook, containing the components of store design and layout. By the present days, applying chain identity elements has become a precondition of entry.

Co-operation between hub firm and allied retailer is determined by alliance structure and way of decision making. In retail strategic alliances, decision making is also a highly similar process. Shareholders, who have invested in creating the alliance make decisions on issues concerning the network. Most of the members are associated members, having joined the chain later than the others. Interviewees argue that the relationship between allied retailers and hub firm is especially influenced by the attitude, competence and retail experience of the owner. Despite this, allied retailers are not easily persuaded to co-operate where the autonomy of their decision making is reduced. It is most apparent when harmonising activities and implementing uniform regulations. On top of all this, the composition of retailers is greatly heterogeneous in all the four alliances, which makes it difficult to create and enforce uniform regulations.

Due to the heterogeneous nature of the composition of the networks, every group employs some type of differentiation among their allied retailers.

The basis of differentiation may be location, floor space or sometimes even shelf capacity. The owners of small-scaled stores and with a worse location have to meet lower requirements, but consequently, in direct proportion to this, the allowances they may be entitled to, are limited.

The performance of members are typically measured by monthly sales data, declared by retailers themselves. Sales are monitored on the basis supplier reports and then financial outcome is aggregated from financial reports.

There are some marked differences between the performance of retailers, which may be attributed to differences of size and region. Larger-scaled stores can be operated with a better scale of economy. The turnover and assortment of stores depend on the region and the type of settlement, caused by the differences of buying power and consumer habits.

All interviewees shared the view that member retailers who are willing to co-operate and exploit advantages offered by the alliance, may obtain considerable profit and reinvesting it, may realise significant capital accumulation. Shareholders and large-scale companies are characterised by ongoing investments and long-term perspectives, whereas small-sized companies firstly aim at survival and short-term outcomes, which render co-operation more difficult.

In view of the content analysis, causal map and results of interviews with experts, I have modified my initial theoretical model (see Exhibit 6.6.), shown in Exhibit 6.10. The interconnections revealed are described in the next subchapter containing my hypotheses.

## **6.6. Hypotheses**

6.6.1. The relationship between performance and marketing strategy elements influenced by the alliance

Content analysis has revealed that retailers' purchasing costs decrease after having joined an alliance, enabling them to introduce a few percents' *price level reductions*. Price level decrease leads to turnover growth. Mulhern and Leone (1991) have illustrated in their

research that, considering several product categories, reducing retail prices produces the effect of turnover increase. A similar conclusion has been arrived at by Litvack et. al (1995).

*H1a) There is a negative relationship between price level decrease influenced by the strategic alliance and sales of retailers.*

Providing that other factors are invariable, price level decrease alone affects profit in an unfavourable way, for it results in a decrease of retail margin (Tietz [1993]). Still, it has also been demonstrated by Hoch et al. (1994) that price reductions may make a favourable effect if they are coupled with the reductions of purchasing costs (Mulhern [1997]).

*H1b) Price level decrease influenced by the strategic alliance affect retailers' profit in a positive way if retailers' costs have decreased since their entry.*

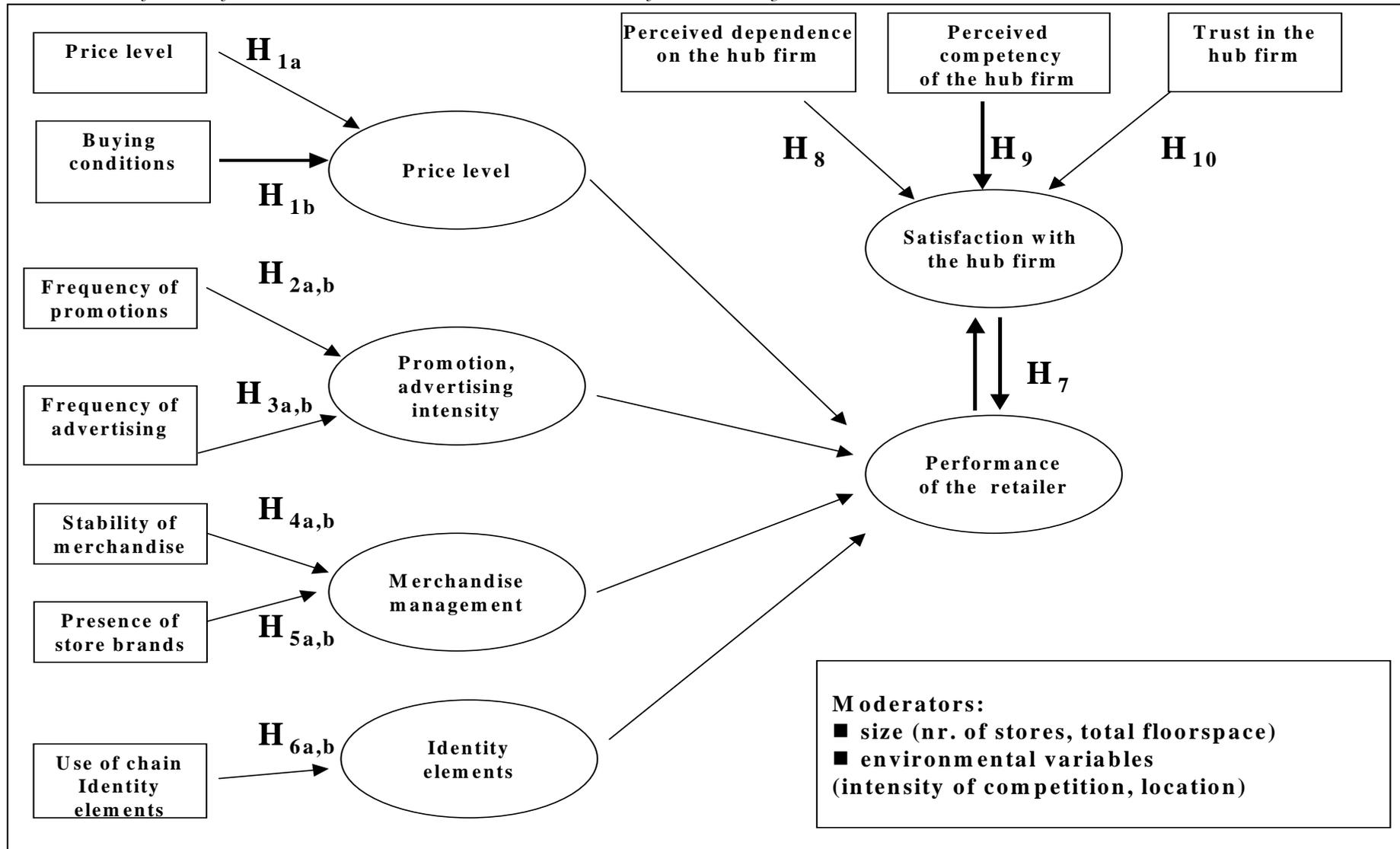
The literature review and the results of the content analysis both support the statement that a strategic alliance plays a significant part in member firms' promotional activity.

Most of the empirical researches have recognised the positive effect of sales promotions upon turnover (Mulhern [1997]). However, it must be noted that conclusions have mostly been described on a product category level and there may arise some substituting or complementary effects between brands. It has only been Leunissen et al. (1996) who have examined the relationship between allied companies' advertising intensity and performance on a more aggregate level, having found a positive correlation. Retailers investigated have suggested that joint advertising with the strategic alliance and sales promotions affect company turnover positively. In contrast to their previous independent status when most they profited only occasionally and through resellers from the benefits of manufacturer promotions (Bauer&Agárdi [2000]). In the content analysis, several retailers have mentioned that after their entry their promotional activities have become more regular and intense.

*H2a) There is a positive relationship between the intensity of promotions organised by a strategic alliance, and retailer sales.*

**Exhibit 6.10.**

*The Modifications of the Initial Theoretical Model based on the Results of Content Analysis*



The effect of promotions on retailer's turnover is a much debated issue. Some researches have concluded (Walters [1991], Walters&MacKenzie [1988]) that various types of promotion (loss-leader, couponing, price discounts) do boost store traffic but do not generate profit for retailers. As opposed to this, others (Mulhern&Leone [1991]) have justified empirically that promotion products may create profit in case complementary effects between product categories are enhanced. The joint promotions of strategic alliances and member firms are normally backed by manufacturer trade promotions, compensating for the margin loss caused by retail promotions. Curhan&Chevalier (1976) argue that retail promotions are profitable if discount provided for consumers is lower than trade allowance. Still, this profit may decrease due to substituting effects triggered by promotions.

*H2b) There is a significant relationship between the intensity of promotions organised by a strategic alliance and retailer's profit.*

Content analysis has revealed that advertising, as a rule, is mostly linked to promotions and there have only been scarce examples for nationwide advertising, supporting the whole chain, to which retailers have attributed a turnover boosting effect.

*H3) There is a positive relationship between advertising ensured by strategic alliances and retailer's turnover.*

The range of products purchased by strategic alliances is highly standardised and often there is a bounded assortment prescribed for retailers. In the exploratory research, the stability of assortment has been an important aspect of merchandise management, i.e. products offered by stores are continuously at consumers' disposal.

Assortment stability as a separate construct has not been mentioned in previous researches, but several authors (Tietz [1993], Levy&Weitz [2004]) have implied that appropriate breadth and depth of merchandise affects turnover and profit positively. Shaw et. al (1994) and Leunissen et. al (1996) have examined that economies of scale and scope provided by the strategic alliance affects business performance (e.g. gross margin) of allied retailers in a positive way.

*H4a) There is a positive relationship between the assortment stability influenced by strategic alliances and retailer's sales.*

*H4b) There is a positive relationship between the assortment stability influenced by strategic alliances and retailer's profit.*

In the content analysis, the distribution possibility of store brands has been mentioned a number of times by retailers as an advantage of being allied, for due to their favourable prices they boost turnover and ensure high retail margins at the same time. Several authors (Cotteril et. al [2000], Halstead&Ward [1995], Mulhern [1997]) have proved in empirical researches that store brands carry higher margins for retailers. Similarly, Hoch and Banerji (1993) have illustrated a strict correlation between the presence of store brands and store turnover and profit.

*H5a) There is a positive relationship between the number of store brands introduced by strategic alliances and retailer sales.*

*H5b) There is a positive relationship between the number of store brands introduced by strategic alliances and retailer's profit.*

Strategic alliances have a strong impact on the layout of the stores as well, by applying certain identity elements. Cronnin&Skinner (1984), Hildebrandt (1988) have evaluated the identity of retail chains from a consumer viewpoint and found a positive correlation between factors forming the retail chain's identity and profit. Leunissen et. al (1996) have examined the effect of the presence of various identity elements on retail performance.

*H6a) There is a positive relationship between the number of identity elements characteristic for a strategic alliance and retailer's sales.*

*H6b) There is a positive relationship between the number of identity elements characteristic for a strategic alliance and retailer's profit.*

In interfirm partnerships, satisfaction itself is an output and a relevant performance indicator of co-operations (Mohr&Spekman [1994], Tietz [1993], Geringer&Herbert [1991], Bucklin&Sengupta f1993]). Earlier research (Venkatraman&Ramanujam [1986], Dess&Robinson [1984]) has assumed that there is a strict positive correlation between objective and subjective

performance variables. Seth and Parvatiyar (2000) suppose that there is a positive relationship between satisfaction with alliance and member firm performance.

*H7) There is a positive relationship between the retailer's performance (sales and profit) and satisfaction with hub firm.*

#### 6.6.2. The Relationships of Behavioural Factors in the Relationship between Hub Firm and Member Firm

Anderson and Narus (1990) have demonstrated in their research that there is a negative association between the influence of a partner firm (the inverse of dependence) and satisfaction. Similarly, Frazier et al. (1989) have concluded that resellers judge their own dependence and satisfaction with manufacturers in a negative way. Gassenheimer et al. (1998) and Andaleeb (1995), however, are of the view that there may be both negative and positive associations between dependence and satisfaction. For dependence – as a reduced scope of activity – may result in dissatisfaction, nevertheless, a comparatively great amount of dependence may still cause satisfaction, provided that the results of co-operation are shaping up according to expectations. Heide&John (1988) have shown in their research that asymmetric dependence, just as commitment and financial performance are positively associated, for the partner suffering the greater dependence will only be interested in maintaining the co-operation if it truly compensates for his loss of autonomy. Heide and Stump (1995) are of an opposing view, having found an inverse relationship between asymmetric dependence and the quality of co-operation. Interviews with managers of domestic retail strategic alliances seem to support a negative association.

*H8) There is a negative relationship between the dependence on hub firms perceived by retailers and the satisfaction with hub firms.*

Kumar et. al (1992) when evaluating reseller performance, have disclosed a positive relationship between competence and satisfaction. Barclay and Smith (1997) presume a positive association between the two constructs, as well. Between competence and trust, a strict positive correlation has been found by several authors (Doney&Cannon [1997], Selnes [1998]), although empirical results reveal interfirm communication to be a relevant intermediary variable between the two constructs (Anderson&Weitz [1989], Selnes [1998]).

*H9) There is a positive relationship between the competence as perceived by retailers and satisfaction with hub firm.*

Ganesan (1994) has assumed a positive relationship between satisfaction with partner and trust. Similarly, Selnes (1998), Anderson&Weitz (1989) presume a positive association, too, justified empirically. Geyskens et. al (1998) treat satisfaction as a direct consequence of satisfaction. Furthermore, Doney and Cannon [1997] suppose a positive interconnection between trust and competence.

*H10) There is a positive relationship between retailers' trust in hub firm and their satisfaction with hub firm.*

### 6.6.3. Hypotheses Concerning Moderating Variables

In my initial theoretical model (Exhibit 6.6.) I have presumed the existence of moderating variables, influencing the relationship of strategy and performance. One of the most evident factors is the effect of environment which may affect the connection between strategy and performance in various ways. Providing that the strategy-performance relationship of companies operating in various environments differ significantly, it can be stated that environmental factors have a homologiser effect i.e. they influence the strength of strategy-performance correlation. It may as well occur that companies operating in various environments pursue various strategies and their effect is manifested only indirectly, via the strategy chosen. In this case, it is the form of the strategy-performance relationship that is determined by the environmental factors. Alternatively, environmental context defines both the strength and form of the relationship, termed a 'quasi moderating effect' (McArthur&Nystrom [1991])

Relying on results achieved so far, I assume that competitive environment i.e. the presence of competitors, may have a homologising effect on the interaction system investigated and affects most of all the strength of a retail strategy-performance relationship. Competitive environment, at the same time, means the intensity of competition, about which I presume that the more intensive competition for a retailer is, the more the relationship of retail strategy and market performance may be weakened.

*H11) The increase of competitive intensity weakens the relationship between retail strategy and market performance.*

The size of an enterprise is at all times crucial in researches about retail companies (Leunissen et al. [1996]). The larger the capacity of a retail enterprise is, the more it is able to operate with economies of scale, consequently, an increase of size will lead to higher sales and gross margin figures.

*H12) The increase of capacity strengthens the relationship of retail strategy and market performance.*

Location is also a significant moderating variable, defining the trade area of a retail enterprise. In larger settlements retailers may expect a greater demand, and thus, better performance.

*H13) The growth of the trade area strengthens of the relationship of retail strategy and market performance.*

## **6.7. Quantitative Research – Survey**

Based on the explorative research methods, I was able to narrow down the initial theoretical model and formulate hypotheses between constructs. Before testing the hypotheses, I wish to outline the applied scales for measuring the constructs of the model (Exhibit 6.10.) in the next subchapter (For the actual scales see Appendix 7.)

As a starting point with allied retailers, I have assessed which activities of member firms the strategic alliance influences, in general and with special reference to marketing activity (Shaw et. al 1994).

### *Scales Referring to Individual Elements of Retail Strategy Influenced by an Alliance*

By the term *retail price* we mean prices available for consumers. Retail price is the function of the demand patterns and the purchasing costs. By way of the content analysis it has been explored that joining a type of strategic alliances (e.g. buying groups or voluntary chains) has a beneficial effect on the price level of member firm stores. It is so primarily owing to favourable purchasing conditions.

Pricing researches in literature prefer to quantify prices on a product category level; relying on scanner data, an average price of the brand or category is considered (Hoch&Banerji [1993], Krishnan&Rao [1995]). Chevalier and Curhan (1976) take the average amount of discounts into account with price promotions. Smith et al. (1995) have measured the pricing activities of retailers by means of a multi-item scale. Respondents have evaluated their pricing on a five-point scale, comparing themselves to their competitors. The authors have used a subjective and at the same time relative scale. Leunissen et. al (1996) use objective, absolute indicators for quantifying the pricing of allied retailers. They define average prices on the basis of product categories, covering the assortment.

In the questionnaire, respondents were to specify the average retail margins of eight different merchandise groups. I have created merchandise groups (fresh food, prepackaged food, sweets, beverages, off-licence, tobacco products, health&beauty products and general products) having considered the supply and classification used of several grocery-retailers, characterising well the merchandise of these type of stores. The margins of individual articles may vary considerably, therefore, I am taking the standard deviation of retail margins into account, too.

The exploratory research concerning *merchandise management* of member firms has highlighted the fact that a strategic alliance fundamentally encourages *stable and uniform merchandise assortment* and the *appearance of store brands*.

Bergen et. al (1996) have identified a product category variety relying on the number of non-identical products in one category and the number of brand variants. A similar solution has been applied by Hoch et al. (1999), aggregating all the different variants of the merchandise. Hoch and Banerji (1993), examining the success factors of store brands, have quantified the breadth and depth of merchandise, considering the number of manufacturer brands within the product category in question, the number of brands and the number of SKUs of the given category. Leunissen et. al (1996) use the number of collections distributed by fashion retailers and the number of product categories stocked in the store when analysing the effect of strategic alliances.

As assortment stability means the continuous occurrence of a certain proportion of SKUs, it seems practical – drawing upon the above – to define it by merchandise groups. For measuring stability, beyond the present number of SKUs, we have also asked respondents to specify the

number of SKUs composing the base level of assortment, disregarding seasonal and promotional assortment.

The presence of store brands has been measured by aggregating the number of store brands in each merchandise group. Consequently, here I have also applied absolute, definite indicators in the questionnaire.

*Promotion and advertising* also play an essential part in the marketing activity of member firms. Content analysis has shown that it is mainly promotion intensity and promotional fliers as regular advertisers that are linked to the co-ordinational role of strategic alliances.

The intensity of promotion has been measured by different tools in a number of researches. Hoch and Banerji (1993) define the intensity of promotion and advertising in terms of promotion and advertising expenditures of a certain product category in a certain period, spent by manufacturers on their brands in the period given. Blattberg and Levin (1987) attempt at a measurement of retail promotion by stock change. Chevalier and Curhan (1976) classify retailers' promotions in terms of different types of promotions (layout, advertising, discounts), recognising a strong, an average and a poor intensity of promotion. Leunissen et. al (1996) evaluate the communication of retailers along three criteria: 1) advertising expenditures; 2) dummies indicating whether retailer advertises in daily newspapers, free local magazines or sheets; 3) two dummies indicating the application of direct marketing (direct mail, retailers' own free magazines or sheets). Mulhern (1997) considers the depth of price discounts, duration of promotion, period of time between promotions when measuring retail promotion.

On the strength of the above, there are several variables applicable for quantifying the advertising and promotion activity of grocery retailers. For measuring the intensity of promotion (national, regional) I have opted for two variables, i.e. frequency of national and regional promotions and number of SKUs included in promotions within one year. Similarly, I have measured joint advertising with the chain's and the enterprise's frequency of national and regional advertising.

Creating a *chain identity* has been a significant factor mentioned in interviews. For the most part, it is a much broader concept than the uniformity of frontal design and logo alone. Leunissen et. al (1996) apply a dummy variable for detecting whether a retailer has been provided with support by the alliance to establish a uniform store design. In content analysis, among identity elements, the application of a joint logo and frontal design elements, uniform merchandise display and featuring prices have been mentioned. In the questionnaire we have aggregated the number and presence of identity elements prescribed by the group and applied by retailers.

#### *Performance Measures of the Allied Retailers*

*Performance researches concerning strategic alliances* have produced controversial results, for the goal system of alliances is highly complex. The dyadic nature i.e. performance measurement generated in the interaction of two companies, represents some further complications. The performance of a strategic alliance may be asymmetric, one company achieving its goals and producing better financial performance within the alliance, while for another, co-operation will be unsuccessful (Doz et. al [1989], Hamel [1991]).

There are attempts to quantify the performance of strategic alliances in terms of the duration of the alliance (Kogut [1989], Anderson&Weitz [1989]). Gulati (2000), however, opposes the idea, criticising that these researches do not distinguish between natural and premature separations.

It is not an easy task to create an association between member firm performance and belonging to a strategic alliance, since performance is affected by several other factors, among which there is the effect of the environment. For this reason, researches frequently apply indirect indicators for measuring the performance of allied retailers. For example Balakrishnan and Koza (1993) came to the conclusions on how much a company has profited from its membership on the basis of share prices of the companies. Others have selected survival as a performance measure (Baum&Oliver [1991]).

Strategic elements applied by the alliance determine the performance indicators to be used. Studies concerning retail strategy unanimously rely on turnover and profit (gross margin) for a measurement of interconnections.

I analyse the effect of certain dimensions in terms of absolute financial performance indicators (turnover, inventory at retail, profit), and relative (price income and percentage change of profit after having joined the alliance), non-financial indicators (inventory turnover). In the survey, I have incorporated both objective and subjective performance variables to enable a multidimensional measurement of member firm performance.

There are, certainly, other factors as well, influencing company performance, which moderate the relationship of retail strategy and performance. Such factors are the competitive environment, the features of location and size of the retailer. When operationalising the competitive environment I have measured how many and what type of stores are there to be found in the trade area of a retailer (Leunissen et al. 1996). I have quantified the influence of location in terms of the type of settlement (county capital, municipality with a population of below or over 50,000 or village). Size has been quantified by the number of employees, stores owned, and aggregate floor space of stores operated.

#### *The Relationship between Member Firm and Hub Firm in a Strategic Alliance*

A significant element of the behavioural aspect of the model is *dependence* which has been explained in the content analysis as giving up one's autonomy to a certain extent. This is supported by the literature (Pfeffer&Salancik [1978]), where this construct appears as a consequence of interfirm partnerships.

The concept of dependence was explained in great detail in Chapter 3.3, mainly based on Emerson (1962)'s approach, suggesting that the measure of dependence is defined by how much one company depends on resources owned by the other. Dependence is ultimately the potential of organisations and groups in the environment of a certain organisation (Pfeffer&Salancik [1978]). Emerson recognises two components of dependence: 1) value/advantage received, 2) replaceability. Based on this, several researches have created multidimensional scales in terms of advantage derived from co-operation and replaceability of partner firm (Kumar et. al [1998], Lusch&Brown [1996], Andaleeb [1995]).

Researchers have applied a number of approaches<sup>42</sup> but dependence measurement scales are always multidimensional ones. The sales-profit approach of El-Ansary and Stern (1972) measures the rate of sales and profit of target firm contributed by partner firm. The higher this contribution is, the more dependent the target firm is on its partner. A number of researchers (Brown et. al [1983], Anderson et. al [1987]) have applied the sales-profit method. Kale (1986) has developed the method and quantified not only the actual sales and profit contributions but the target firm's sales and profit expectations, the partner firm is likely to generate in future. How much the partner firm promotes the fulfilment of the company's goals is also included in this measurement system (Kumar et. al [1998]). Replaceability assumes the existence of alternative co-operations, includes the amount of switching costs and the difficulty of replacing the present partner in general (Kumar et. al [1998], Andaleeb [1995], Heide&John [1988]).

I measure the dependence of member firms on a strategic alliance i.e. hub firm by means of Kumar, Steer, Steenkamp (1998)'s scale. The scale is fundamentally based on dependence dimensions defined by Emerson (1962): value received from alliance and replaceability of alliance.

In literature, professional knowledge is treated as the *competence* of the partner firm. Anderson and Weitz (1989) defines competence as 'technological and trade expertise' perceived by partner. Kumar et. al (1992) interprets competence as part of reseller performance and evaluates skills and knowledge provided in different fields.

Competence is also understood as a multidimensional construct by authors, incorporating a general evaluation (Kumar et. al [1992], Anderson&Weitz [1989], Doney&Cannon [1997]) and an evaluation by each activity of partner firms (Selnes [1998], Barclay&Smith [1997]). The latter exhibits a number of similarities to the construct of role performance. This research uses Kumar et al. (1992)'s scale which evaluates the hub firm's business skills, expertise, market knowledge and professional development from the viewpoint of the partner firm.

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<sup>42</sup> Stern, El-Ansary (1972): sales- and profit approach, asymmetric dependence (Lusch&Brown [1996]), relative dependence (Anderson&Narus [1990]), role performance (Frazier [1983]).

Geyskens et al. analyse researches investigating *trust* in interfirm relationships relying on meta-analysis. Trust is defined by most researches on distribution systems as ‘to what extent a company considers its partner to be honest and/or benevolent’. Trust in the partner’s honesty is a belief of the company that the partner is reliable, is as good as its word, fulfils its obligations and is serious (Anderson&Narus [1990], Dwyer et. al [1987]).

Trust in the partner’s benevolence is the company’s belief that the partner not only considers its own interests but aims at achieving joint goals and advantages. A benevolent partner submits its own interests to long-term advantages, that can be realised within the framework of co-operation (Anderson et. al [1987]) and will not pursue steps which would affect partner firms negatively (Andaleeb [1995], Anderson&Narus [1990]).

Although the two components of trust are well distinguishable conceptually, in practice they closely intertwined (Geyskens et. al [1998]). Trust is also treated as a multidimensional construct by literature.

I apply the scale developed by Doney and Cannon (1997) that quantifies both dimensions (benevolence and honesty) of trust. Member firm owners were to evaluate their impressions on how much the hub firm cares about the success and well-being of their enterprise and how much it considers their interests, whether the hub firms keeps its promises, information received from them are credible and if there is a danger of its dishonest behaviour.

Performance affects satisfaction with a strategic alliance i.e. a hub firm and the same stands the other way round, member firms are likely to be satisfied with a strategic alliance if financial performance justifies the correctness of the decision (Sheth& Parvatiyar [2000]). Several authors have examined and formulated definitions of satisfaction with partner in the field of interfirm relationships. Gaski and Nevin (1985) argue that the construct of satisfaction is a general judgement of a channel member formulated about the distribution channel. Dwyer&Schurr, Oh (1987) suggest that satisfaction is a global evaluation of relationship fulfilment. Anderson&Narus (1990) establish a highly similar definition, saying that satisfaction is an affective evaluation of all aspects of a working relationship (Gassenheimer et. al [1998], Barclay&Smith [1997]). However, there is an important difference, namely that satisfaction is treated as an emotional component by Barclay&Smith (1997).

A different approach is that of Kumar et. al (1992)'s, who define consumer satisfaction in terms of quality and level of services provided by resellers, drawing heavily upon Oliver&Bearden (1985)'s confirmation/disconfirmation theory<sup>43</sup>.

Although there is no considerable difference between definitions – except for Kumar et al. (1992) –, marked differences are to be found with attempts at quantifying it. In several researches satisfaction is operationalised as a one-dimensional construct, measuring satisfaction with partner along one single statement. The other means for measuring satisfaction is to use multidimensional constructs. General satisfaction is formulated in more statements by one group of authors, while the others measure satisfaction in terms of activities carried out by partner.

In my view, the multidimensional measurement of general satisfaction cannot be suitable because the synonyms of satisfaction are used, among which respondents may not perceive semantic differences. Satisfaction with the individual activities of hub firm is not suitable, either, as these are the ones to be quantified in the effect on strategy. For these reasons, I have decided to measure satisfaction with the help of a one-dimensional, 7-point scale, which expresses the satisfaction with hub firm.

At the end of the questionnaire there have been questions on *member firm's profile* (year of foundation, store number, size, number of employees) and *the owner of the firm* (age, education, number of years spent in retailing).

The questionnaire of independent retailers handled as a control group is identical to that of allied retailers', apart from points on the alliance. We collected data on the elements of retail strategy and the perceived benefits and drawbacks of buying groups.

Before carrying out the field work, I have conducted a *pilot study* with member firm owners in Budapest. I have thus identified interpretational and response problems and finalised the questionnaire.

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<sup>43</sup> The theory (Oliver&Bearden[1985]) predicts that satisfaction is achieved when expectations are fulfilled (confirmation), that negative disconfirmation of expectations will result in dissatisfaction, and that positive disconfirmation will result in enhanced satisfaction.

## 7. DATA ANALYSIS. THE EVALUATION OF RESULTS

After recording the data, relying upon descriptives, I have cleaned the database and checked data entry with the help of probability sampling from 10 percent of the questionnaires.

I analyse the data of the quantitative research with the SPSS and AMOS softwares. In the course of my analysis, I have to apply statistical adjustments. With variables describing retail strategy and performance, I examine outliers and removed them if it seemed necessary. As structural equation analysis does not permit the presence of missing values, I had to substitute missing values with imputed values. For balancing the scale differences of individual variables, I have standardised the variables of the model.

### 7.1. Sampling and the Composition of the Sample

The *population* comprises managers and/or owners of grocery and FMCG retail companies taking part in some type of a horizontal co-operation (buying groups and/or voluntary chains) and own several stores. In domestic retailing over a few hundred retail companies and enterprises have already joined a certain co-operational form, on whom the interconnections of my theoretical model can be tested. As for the controllability of the theoretical model I involve independent retailers as a *control group* in my research, who are not taking part in any type of co-operation.

In the case of both allied and independent retailers there has been a sampling needed. I have defined quotas along counties, considering the population and store numbers. Due to methodological aspects<sup>44</sup> I have planned the group of allied retailers and the control group (independent retailers) both to be the same size ( $n_1=n_2=100$ ). However, as a consequence of unfavourable response rates and mostly the curtailment of the research budget, the planned sample size could not have been realised. County proportions have also become highly distorted, therefore the sample does not represent domestic-owned grocery retailing changes from a geographical point of view (Appendix 8). The conclusions arrived at thus cannot be generalised for all domestic retailers. In view of this fact, the information obtained from the empirical research, is to be regarded as that of an exploring nature.

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<sup>44</sup> Substantial difference in group size might distort the robustness of tests applied by comparing the group statistics.

The sample of allied retailers contains a total of 50 enterprises. Most retailers involved (84%) are associated members, i.e. they have no shares in the alliance. The proportion of shareholders is a mere 16 percent. These proportions quite accurately approximate the composition of allied member firms. 28.6 percent of retailers of the sample have already switched alliances, the majority, however, (71.4%) have been loyal to the alliance once chosen. Associated retail enterprises by and large own one or two stores (76.1%), but there have also appeared a set of companies with bigger retail capacity, operating smaller or larger-sized chains. The tendency is reflected in the distribution of floorspace. Retailers with a floorspace below 100 square metres are represented in the highest share (39.5%) and the proportion of enterprises with a total floorspace of 101-200 square metres is also significant (37.2%). The total floorspace of enterprises with a number of stores falls into the higher categories and there are a few retailers with a capacity of over 800 square metres in the sample.

Broadly speaking, the companies of the sample were founded after 1996 (54.2%), a mere 15 percent had existed before the change of regimes. Approximately one third of respondents founded their enterprise during the privatisation of retailing. Concentration processes starting after the nineties have significantly reshaped the structure of the sector, affecting domestic-owned retailers, too. 67.4 percent of company owners had worked in the same sector before the change of regimes, for they confessed to have spent more than 10 years in retailing. Owners predominantly possess secondary qualifications but 40 percent of them have conducted higher or further education studies. (For more information on the composition of the sample see Appendix 9.)

## **7.2. A Comparison of Allied and Independent Retailers**

Considering marketing strategy and performance variables, I first wish to examine whether allied retailers do perform better than independent retailers. It also means looking at the question if a better marketing and corporate performance is due to the alliance or some other factors. The two retailer groups have been compared using the *t* test.

**Exhibit 7.1.***A Comparison of Marketing Strategy Variables of Allied and Independent Retailers*

Variables of marketing strategy	Type of the retailer	N	Mean	Std. Dev.	Variance	t statistic	Sig.
Basic assortment (Number of SKUs)	Allied	34	1123,91	1021,99	Equal	3,35	0,001
	Independent	43	509,29	568,77	Not equal	3,14	0,003
Average retail margin (%)	Allied	43	18,49	4,96	Equal	-2,32	0,022
	Independent	46	21,16	5,83	Not equal	-2,34	0,022
Number of allowances received	Allied	50	2,38	0,99	Equal	4,69	0,000
	Independent	49	1,39	1,11	Not equal	4,68	0,000
Annual number of promotions	Allied	50	28,30	18,68	Equal	7,85	0,000
	Independent	49	6,10	6,60	Not equal	7,91	0,000
Annual number of advertisements	Allied	50	8,12	8,96	Equal	4,79	0,000
	Independent	49	1,43	3,97	Not equal	4,82	0,000
Number of chain identity elements	Allied	48	3,83	1,31	Equal	9,75	0,000
	Independent	49	1,35	1,20	Not equal	9,74	0,000

Allied retailers prove to have better results than independent retailers in terms of almost all retail strategy variables. Group means differ significantly from one another ( $p < 0,005$ ), even if the condition of variance homogeneity is not fulfilled. Practically speaking, basic assortment is twice as large with allied retailers as with independent enterprises. The statement is valid for all the nine product groups i.e. there are no shifts in proportions to be found, the individual product groups are approximately equally represented in the merchandise of both retail groups. Allied retailers receive more allowances from suppliers, manifested in an extended payment deadline, more favourable purchasing prices and the pay-back of secondary conditions. It has possibly been for more favourable conditions and bounded prices prescribed by hub firms that allied retailers are able to introduce a retail margin 2.67 percent lower than independent retailers. Lower margins supposedly result in lower consumer prices, as well.

While independent companies are only able to organise promotions for their consumers on 6.1 occasions annually, allied retailers run an average of 28.3 promotions backed by the alliance. The majority of their promotions is made up of national and regional promotions supported by the corresponding advertising. The application of chain identity elements is also more enhanced with retailers belonging to an alliance.

**Exhibit 7.2.***Performance Measures of Allied and Independent Retailers*

Performance measures	Type of the retailer	N	Mean	Std. Dev.			Sig.
					Variance	t statistic	
Total sales in 2003 (Thousand HUF)	Allied	30	156431,8	178158,13	Equal	4,29	0,000
	Independent	35	26264,1	23416,96	Not equal	3,97	0,000
Total profit in 2003 (Thousand HUF)	Allied	26	19010,5	25626,61	Equal	3,19	0,002
	Independent	25	2527,3	3293,55	Not equal	3,25	0,003
Total gross margin in 2003 (Thousand HUF)	Allied	28	33957,4	38815,9	Equal	4,33	0,000
	Independent	35	5363,1	4739,9	Not equal	3,88	0,001

It is revealed that there are considerable differences in performance variables within each group, ignoring these, however, allied and non-allied retailers shows that they exhibit substantial differences ( $p < 0,05$ ). Member firms of retail strategic alliances enjoyed higher sales, gross margins and higher profit last year than independent retailers.

**7.3. The Effect of Size versus Alliance**

On the basis of the above analyses we may challenge the initial assumption whether it is exclusively a horizontal alliance that is to be responsible for a better marketing- and financial, market performance or there are some other factors contributing to differences between the groups. Size is of a crucial importance in retailing, therefore now I investigate the size differences of the two groups (Exhibit 7.3.).

**Exhibit 7.3.***A Comparison of Size between Allied and Independent Variables*

Measures of size	Type of the retailer	N	Mean	Std. Dev.	Variance	t statistic	Sig.
Number of store employees	Allied	46	11,2	15,5	Equal	3,63	0,000
	Independent	46	2,8	2,1	Not equal	3,63	0,001
Total number of employees	Allied	46	12,6	17,0	Equal	3,66	0,000
	Independent	46	3,3	2,1	Not equal	3,66	0,001
Number of stores	Allied	46	2,8	3,9	Equal	2,88	0,005
	Independent	49	1,2	0,5	Not equal	2,79	0,008
Total square meter of the store(s)	Allied	43	228,6	283,0	Equal	4,16	0,000
	Independent	49	58,5	40,5	Not equal	3,91	0,000

I quantify retail company size with several variables (store number, total floorspace and number of sales and administrative personnel). Despite significant standard deviation it is to be recognised that there are scale differences in terms of store floorspace and sales personnel number. Store numbers also differ, still, a difference of 1.6 stores does not necessarily explain the huge difference encountered when looking at the total floorspace. It is thus disclosed that allied retailers do not necessarily operate more stores but stores with a larger floorspace. Size differences of the two groups may account for the assumption that it is not for the co-operation but larger capacity that allied retailers perform better.

I analyse the effect of marketing strategy and size on performance by means of regression analysis. In regression analysis, retail strategic variables and variables describing size have stood for independent variable groups; sales in the year 2003<sup>45</sup> for the dependent variable. Appendix 10 contains the summary of regression analysis. (Model 1 always exhibits models referring to the strategic variables, Model 2 the co-effect of strategic and size variables.)

Both variable groups have significant and considerable effect on turnover. If the size variables of a retailer are involved in the regression equation, the coefficient of determination of the model<sup>46</sup> will grow significantly. It is, however, not certain that each size feature has the same effect on sales of the retailers, thus in view of this, I have stepwise reduced the number of the size variables.

In the course of the modelling process it has been revealed that in fact it is sales personnel number that contributes to explaining sales differences to the largest extent. Removing this variable from the regression equation will lead to the coefficient of determination decreasing by 28%, which reveals a relevant loss. Surprisingly enough, store number and floorspace exercise far less explaining power. Relying on the above, I argue that size has almost the same effect on performance variables than do strategic variables.

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<sup>45</sup> The gross margin in value and the profit reveal high correlation ( $r > 0.9$ ) with the total sales figures, so I have not repeated the regression analysis for the other performance measures because the analysis leads to the same results.

<sup>46</sup> The coefficient of determination ( $R^2$ ) signifies the proportion of the total variation in the dependent variable that is accounted for by the variation of the independent variables. It shows the strength of the relationship between the dependent and independent variables (Malhotra [2001], p. 610)

Strategic group research has studied the effect of size on performance on several occasions. Porter (1979) has first employed size when establishing company groups, on the basis of which he distinguishes between market leader and follower types of companies. He concludes his empirical research by stating that market leaders possess bigger size and operate far more profitably than the other company group. Porter attributes this strategic and competitive advantage to efficiency due to size. Size thus appears here as a main effect. Mascarenhas and Aaker (1989) similarly find a significant relationship between the performance variables and size versus strategic attributes of oil drilling companies but they conclude that size alone is not sufficient to explain strategy differences.

Lewis and Thomas (1990), examine strategic groups in British grocery retailing. They include strategic variables like store number (reflecting the retailer's geographical field of operation and expansion policy), the average floorspace of stores (representing the firm's ambition to achieve economies of scale). Grocery retailers have also been classified along several concepts (size, key strategic variables). When investigating the groups generated on the basis of size and their respective performance, they arrive at a dissimilar conclusion to that of Porter (1979), namely they find that strategic groups generated on the basis of size correlate to none of the performance variables involved (ROS, ROCE, PER).

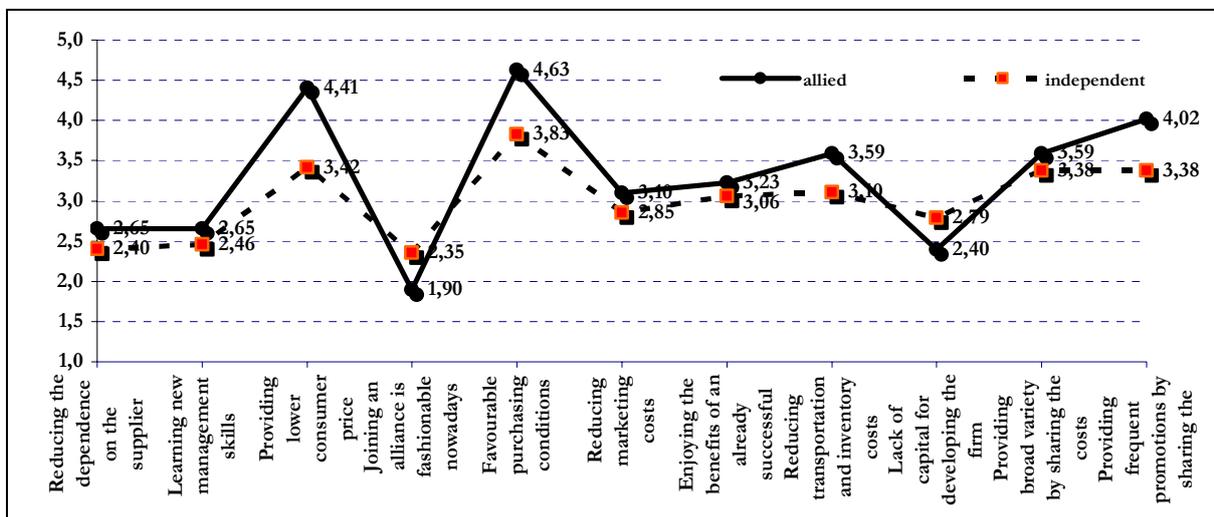
When evaluating the actual effect of size there are several factors that need to be taken into account. To start with, retail alliances set certain expectations towards member firms. The aspirant member is to be in possession of a certain capacity and level of turnover in order to be able to settle entry expenditures (entry fee, guarantee, monthly contribution to warehousing costs, membership fee). The alliance thus sets the scene for a kind of pre-selection, for small-sized enterprises are unable to meet the entry requirements. On the other hand, co-operation significantly influences ( $R^2=0.526-0.612$ ) annual sales. Thus both size and strategic variables determine the annual turnover of a retailer. Consequently, the size of retailers may be regarded as quasi moderators (McArthur&Nystrom [1991]), for acting both as independent variables and moderators that significantly affect performance.

## 7.4. The Effect of the Alliance on the Marketing Strategy of Member Firms

Initially it is well worth looking at the motivational factors of retailers which stimulate their entering an alliance or group. Exhibit 7.4. clearly shows the ultimate incentives to be favourable purchasing conditions (with a mean of 4.63) and providing lower consumer prices (with a mean of 4.41) directing them towards co-operation. Owners have regular promotions very much in view (mean: 4.02) as an important factor, which they otherwise, as independent retailers, are only able to offer rarely and in charge of their own margins.

### Exhibit 7.4.

*Evaluation of Incentives Provided by the Retail Strategic Alliances*



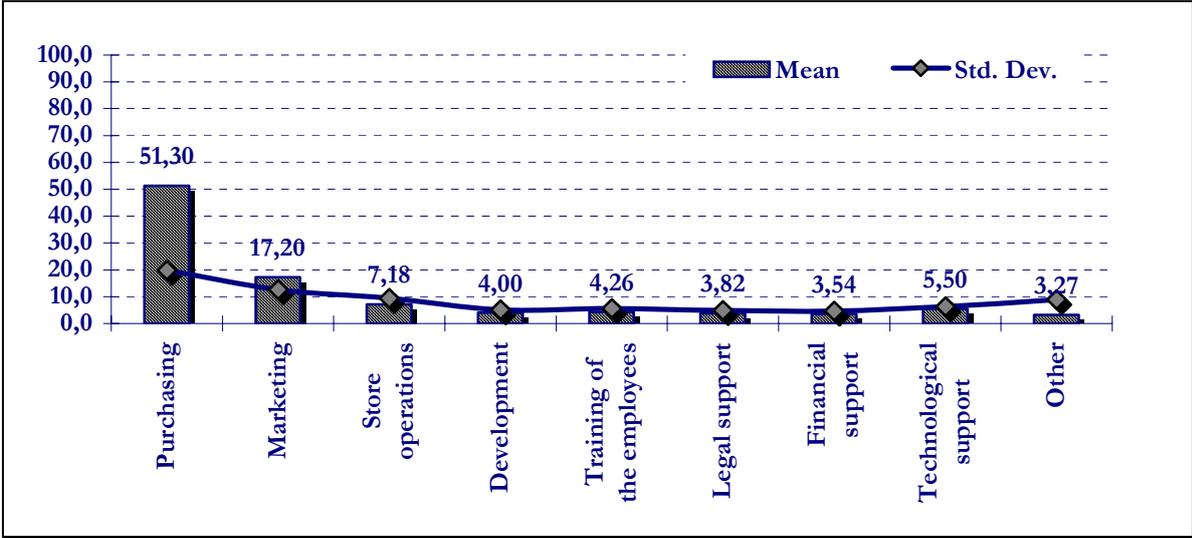
$$n_{\text{allied}}=50 \cdot n_{\text{independent}}=49$$

The figures represent the averages of the respondents' opinion measured on a 5-point Likert-scale. (1: do not agree at all, 5: fully agree)

It is, however, interesting to note that developing the firm within the framework of the alliance (2.40), or learning new management skills (2.65) prove to be less effective incentives. From content analysis and interviews with experts it has been unveiled that most retailers under market competition pressures primarily had favourable purchasing prices and conditions in view when having decided to join an alliance.

**Exhibit 7.5.**

*The Influence of a Retail Strategic Alliance on Member Firms' Function (%)*



n=50

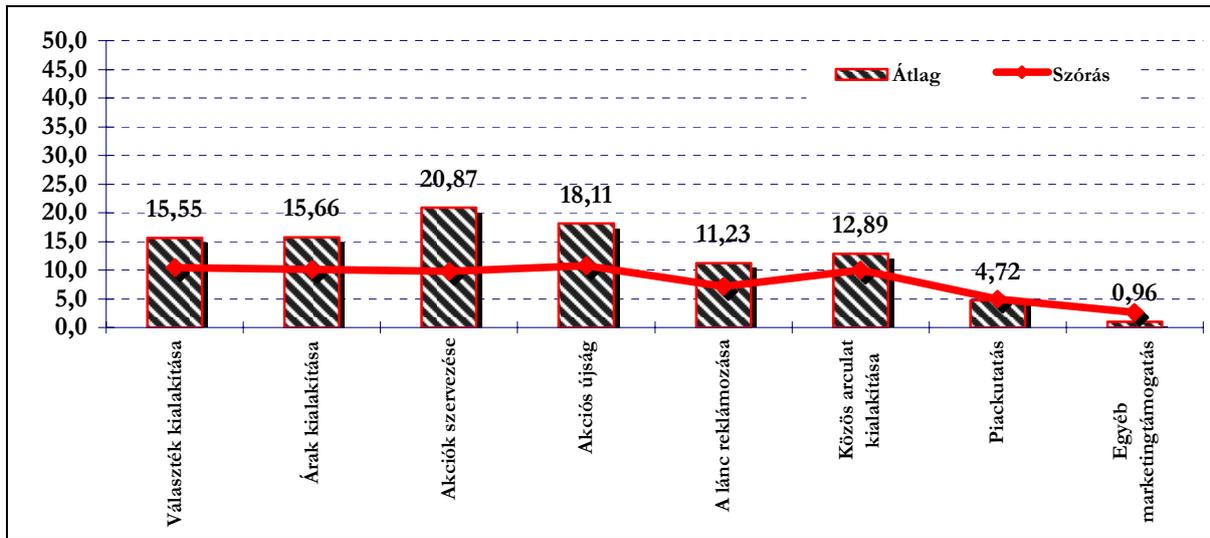
Exhibit 7.5. depicts that the member firm owners of the alliance believe the firm’s purchasing (51.3%) and marketing activities (17.2%) to be mostly affected by the strategic alliance. Co-operation little influences store operations (7.2%), and it is a few retailers (5.5%) who receive technological support from the hub firm.

The effect on marketing may at first seem less relevant but it is important to note that from joint purchasing a number of obligations follow for the member firm (bounded assortment, prices and promotions), determining marketing strategy. Still, the data of the above two illustrations bear witness to the fact that owners are not fully aware that a centralised purchasing not only leads to competitive retail prices and extended payment periods but is reflected in everyday marketing activities, too. The joint share of purchasing and marketing (68.5%), however, has a considerable effect on the business of member firms.

Beyond the fields of operation I have explored the extent to which the alliance contributes to each marketing function (Exhibit 7.6.). Owners were similarly to divide 100 points among marketing functions, covering the main marketing tools of retailing. Respondents state that the alliance provides the greatest help by organising regular promotions (20.87%) and printing related flyers (18.11%). Apart from this, the alliance shapes assortment (15.55%), prices (15.66%) and identity of the stores (12.89%). Market research scores are extremely low (4.72) which is not a focal activity of retail strategic alliances.

## Exhibit 7.6.

### Marketing Functions Influenced by the Retail Alliance



n=50

The first part of the survey deals with marketing tools applied in retailing in great detail. In the following part I focus on the analysis of the descriptive statistics of retail strategy elements relevant from the viewpoint of the analytical model.

Concerning the *merchandise management of member firms* we collected data on the number of SKUs distributed in terms of eight merchandise groups (fresh food, prepackaged food, sweets, beverages, off-licence, tobacco products, health&beauty products and general products). When establishing the merchandise groups I relied on the assortment of 4 grocery retailing chains (Coop-chain, G-Roby, CBA and Hélikar-chain), whose merchandise showed considerable overlaps – ignoring a few exceptions. The number of SKUs in each merchandise group offers one an inspection of the breadth and depth of merchandise. The higher the number of SKUs, the more probable it is that a retailer is keeping several product categories (the breadth of merchandise) and more SKUs within that (depth of merchandise). In Exhibit 7.7. the bars depict the number of SKUs of the given product category, the line diagram the respective standard deviation. Deviation is usually the same or they sometimes exceed the average of SKUs, which points at the heterogeneity of allied retailers.

In connection with the actual composition of the assortment it is revealed that member firms prefer prepackaged food (mean: 429.9 SKUs), fresh food (mean: 223.0 SKUs), sweets (237.5 SKUs) to offer in the largest number in their merchandise. It also justifies that companies, enterprises appearing in the sample were in fact grocery and FMCG retailers (population).

The above data describe merchandise at retailers' disposal at the time of data recording, seasonal and promoted products also included. The elements of the basic assortment have a crucial role from the aspect of assortment stability. Practically speaking, the composition of the permanent assortment is the same as the above. It is dominated by fresh food and prepackaged food, but sweets, health&beauty products and general products also play an important part in its structure. It is of notable interest to compare the permanent number of SKUs and the number of SKUs at a specific point of time of product categories. The most stable product group is health&beauty and general products (93 percent of the basic assortment were distributed by the enterprise when completing the questionnaire), then fresh food (91%) and tobacco products (82%).

Every alliance possesses a self-developed store brand portfolio. Store brands affect the chain's image and consumer loyalty in a positive way and they help distinguish chains recruited of member firm stores from competitor chains (Levy&Weitz [2004]). Allied firms distribute an average of 92.48 store brands in their stores, with certainly considerable differences within company groups. Among store brands it is also consumer goods that are the most emphasised products, fresh food and sweets, however, taking their own share too from store brand supply. Store brands also appear among general products and health&beauty goods. In these categories, however, they frequently become provided with individual brand names, due to higher perceived consumer risk. Furthermore, companies sell these products to other, even competing chains, too.

Analysing the retail margin diagram (Exhibit 7.7.) it is to be seen that while applying almost the same margins, member firms differ greatly in terms of assortment. In view of all product groups, they are to cover their costs and produce profit from a 18.49 percent margin on average. Off-licence and health&beauty SKUs provide the highest margins. The actual margins approximate 20 percent. The average is reduced by the margins of tobacco products and fresh food.

The price of tobacco products is regulated by the government, thus in this product category retailers have a limited range of action. In the case of fresh food, however, there is a rapid inventory turnover (3.4 days on average). The relative homogeneity of margins is valid for not only allied but independent retail enterprises, too. But with them, the absolute magnitude of margin is some percent (2.67%) higher than it is with allied retailers.

In addition to retail margin, price level is determined by purchasing, or within it, allowances received from suppliers. Allied retailers are provided with several allowances as members of a retail alliance (Exhibit 7.8.). One of the most frequently mentioned allowance is an extended payment period, affecting 82 percent of respondents. Favourable purchasing price is also widespread; 78 percent of owners perceive they can purchase merchandise at more favourable costs than previously. One of the most important incentives of alliances and suppliers is reimbursing secondary conditions in form of pay-backs. Pay-backs are financial 'rewards' received by member firms in exchange of bounded prices, assortment and promotions. A relatively high proportion of retailers (68%) exploited this allowance in 2003.

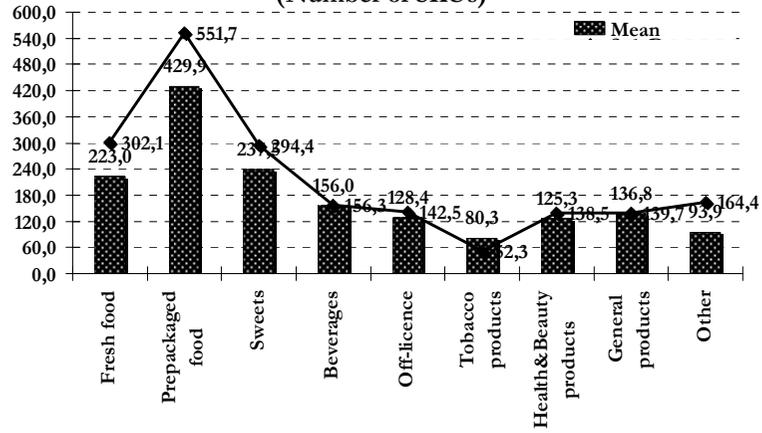
Regular promotions are regarded as one of the most relevant impacts of the alliance by respondents. Retail alliances in Hungary primarily concentrate on two types of promotions. One of them is price promotion, advertised in flyers. The first two weeks of the month is reserved for national promotions, the second two weeks for regional promotions. If a retailer gets involved in every promotion, he is able to present an assortment on promotion of even 200 products on a maximum of 24 occasions<sup>47</sup>. Regional promotions are of less intensity, including about a maximum of 100-150 products. An obvious advantage of them is that they are able to adapt to local demands, but a drawback is that they often aim at less valuable periods as far as consumer demand is concerned. Besides regular promotions backed by the alliance, members may naturally want to organise their individual promotions, which, however, offer products at discounts at a much smaller scale (a maximum of 100 SKUs, with an average of 10.26 SKUs).

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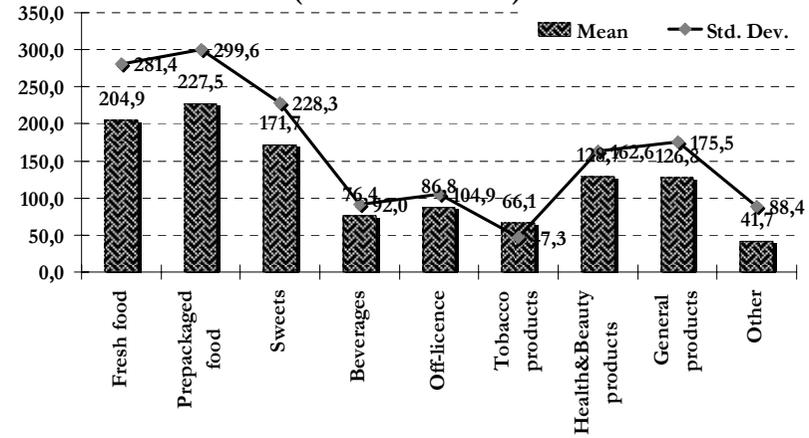
<sup>47</sup> The average values lag behind maximum values (24 occasions annually), which is possible because allied retailers are differentiated and smaller-sized companies are not able to participate in every promotion organised by the alliance.

Exhibit 7.7.

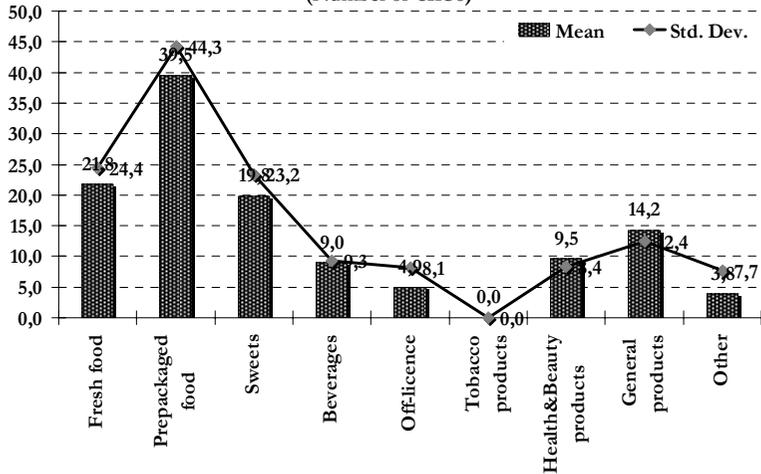
**RECENT ASSORTMENT OF THE MEMBER FIRMS**  
(Number of SKUs)



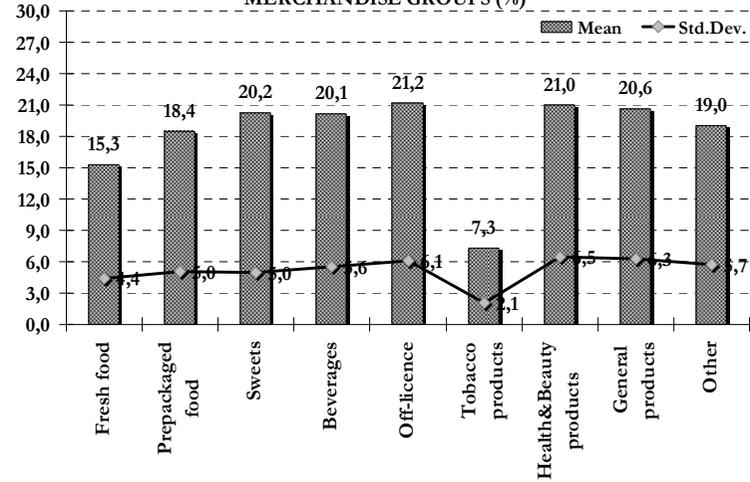
**BASIC ASSORTMENT OF THE MEMBER FIRMS**  
(Number of SKUs)



**STORE BRANDS CARRIED BY THE MEMBER FIRMS**  
(Number of SKUs)



**AVERAGE RETAIL MARGINS OF THE MEMBER FIRMS BY MERCHANDISE GROUPS (%)**



The other main type of promotions very popular with retail alliances is promotional games, organised jointly with suppliers. This co-operative type of promotion appeals to not only consumers. Namely, it is a typical conflict between retailers and manufacturers that retailers wish to emphasise the chain, whereas suppliers would want to focus on their given brands in the course of the promotion. Joint promotional games serve both parties' interests, for the promotional game of the given brand only runs in the given chain. It is 5.4 times a year, such promotion is conducted in the stores of allied retailers.

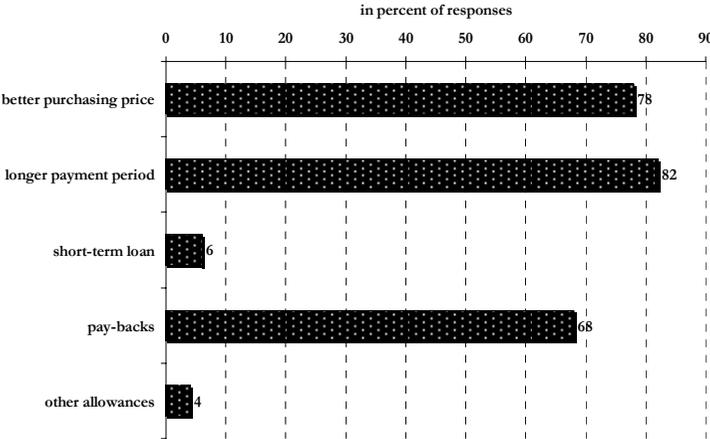
Earlier it was not evident – not even with alliances operating in the form of buying groups – to carry out advertising apart from supporting promotions. Along with establishing a chain identity, nevertheless, the image enhancing effects of advertisements have become more articulate. For this reason, there are now national advertising campaigns in order to improve the awareness and image of a chain. Exhibit 7.8. clearly illustrates that for the most part, national advertising is carried out on the largest scale (with an annual average of 6.2), regional advertising is minimal. Individual advertising can similarly be regarded insignificant if compared to national advertising.

The growing intensity of advertising is a part of the process, in which alliances aim to organise into chain the stores of their member firms. For larger suppliers channels with a uniform identity are more valuable. Almost without exception, every allied retailer applies flyers as a chain identity element, but using a logo is also typical (86%).

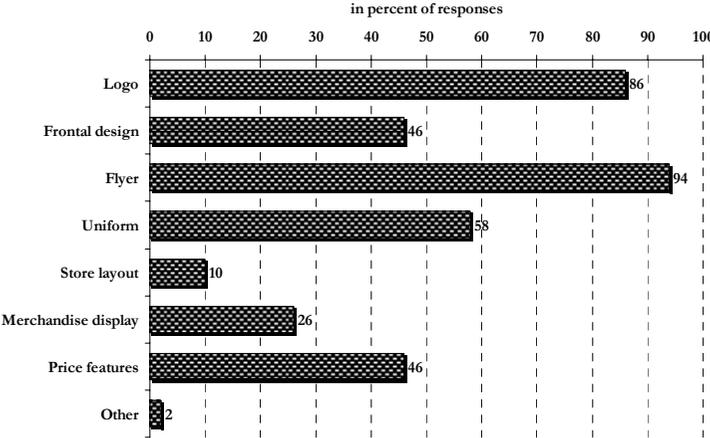
Furthermore, more than half of owners (58%) said that employees wear a uniform and that there is a uniform price label displaying the chain's name. Selling space (10%) and merchandise display (26%) are relatively neglected fields of co-operation. Only members of the Coop-chain are to submit themselves to such obligations, for the franchise contract involves directives on how to establish store layout and shelf picture. The greatest barrier to a uniform store design is the high heterogeneity of stores; for it is highly difficult to realise a concerted merchandise display in different-sized stores.

Exhibit 7.8.

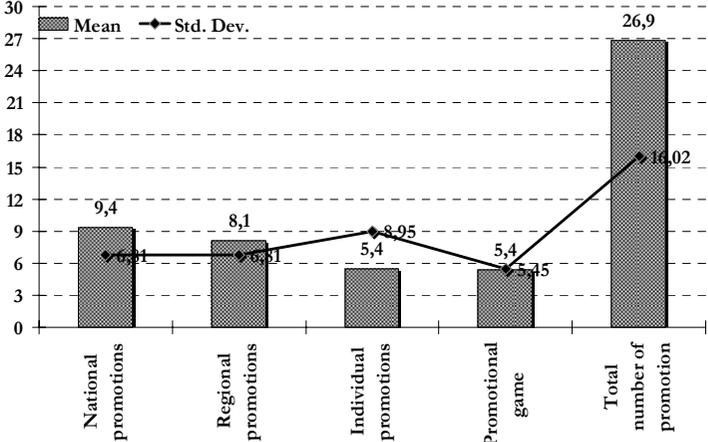
TYPES OF ALLOWANCES RECEIVED



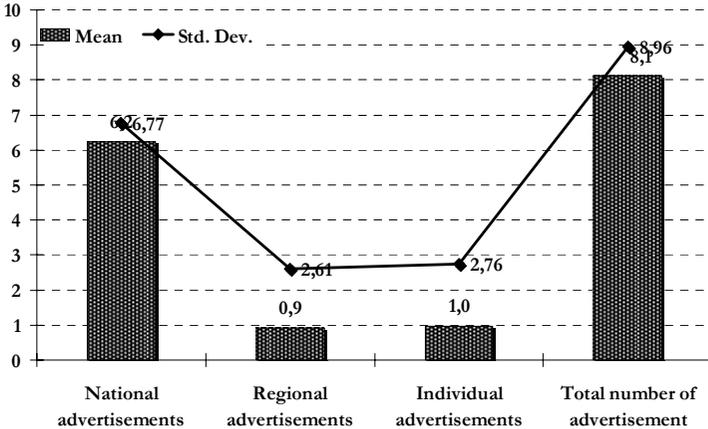
USE OF CHAIN IDENTITY ELEMENTS



ANNUAL RETAIL PROMOTIONS



ANNUAL ADVERTISING ACTIVITY



## 7.5. The Relationship between Member Firm and Hub Firm

The other dimension of co-operation is made up of the alliance itself, i.e. processes between hub firm and company. As content analysis revealed, when evaluating partnership, member firms believe dependence, the reliability of the hub firm and its competence to be of utmost importance.

I measured dependence relying upon literature (Emerson [1962], El-Ansary&Stern [1972], Kumar et. al [1998]), along two dimensions. I first quantified the contribution of the alliance to member firm performance (value received), then retail enterprise owners were to speak about the replaceability of the present alliance. (For the multi-item scale I applied the five-point Likert-scale.)

Statements related to dependence are shown Exhibit 7.9. The two statements concerning the value received were mainly positively evaluated by respondents, i.e. more confessed the group to have contributed to the growth of both their sales and profit. 59.1 percent of respondents almost fully or fully agreed with the statement that the sales of the enterprise increased after having joined the alliance. Retailers were nevertheless more careful when speaking about the positive effects of profit (51%). It is only one fifth of respondents (20.4%) who attribute profit growth to the alliance. 28.5 percent of the sample is not convinced about the alliance providing them with either sales or profit advantages.

Variables describing replaceability measure if another group would be able to offer the advantages currently enjoyed. Investigating the means, a significant part of respondents do not or only partly feel that it would be difficult to replace the present co-operation, neither from the point of view of benefits offered (conditions, sales, profit), nor costs.

On the whole, retailers are positive about the value received from the alliance. These advantages, nevertheless, are not unique, for other alliances offer similar conditions to their member firms, which renders partnership replaceable. It is also supported by the fact that 28 percent of retailers of the sample have already switched to another alliance.

### Exhibit 7.9.

#### *The Perceived Dependence of Member Firm on Hub Firm*

Perceived dependence	N	Mean	Std. Dev.	Dimension
<b>B1)</b> Since I joined the alliance, the sales of my firm has been increased.	49	3,47	1,29	Value received
<b>B2)</b> Since I joined the alliance, the profit of my firm has been increased.	49	3,31	1,31	Value received
<b>B3)</b> There are other alliances who could provide my firm with comparable benefits.	50	3,24	1,22	Replaceability
<b>B4)</b> Our total costs of switching to a competing alliance would be prohibitive.	50	2,90	1,28	Replaceability
<b>B5)</b> It would be difficult for our firm to replace the sales generated from this alliance.	50	2,54	1,31	Replaceability
<b>B6)</b> It would be difficult for our firm to replace the profits generated from this alliance.	50	2,60	1,39	Replaceability

(1= fully agree, 5= do not agree at all)

Literature quantifies the measurement of trust in partnerships along two dimensions (Geyskens et. al [1998], Anderson&Narus [1990], i.e. trust in the benevolence of the partner and the honesty of the partner. It is the 50 percent of owners who believe that the hub firm is genuinely concerned with well-being of his enterprise and bears members' interests in mind (48%). As far as the financial welfare of the enterprise is concerned, they were less eager about the alliance, for 47 percent disagreed with this statement. As the interviews with experts revealed, co-operation is not always without conflict in alliances, as in the course of the integration of activities, individual interests are very probably to be hurt.

### Exhibit 7.10.

#### *Trust in the Hub Firm*

Trust	N	Mean	Std. Dev.	Dimension
<b>T1)</b> The hub firm of the alliance is genuinely concerned that our business succeeds.	50	3,22	1,33	Benevolence
<b>T2)</b> The hub firm keeps our best interest in mind.	50	3,24	1,35	Benevolence
<b>T3)</b> The hub firm considers our financial welfare as its own.	49	2,76	1,30	Benevolence
<b>T4)</b> The hub firm keeps promises it makes to our firm.	50	3,74	1,12	Honesty
<b>T5)</b> The hub firm is not always honest with us.	50	2,48	1,28	Honesty
<b>T6)</b> Information provided by the hub firm is not always credible.	49	2,69	1,23	Honesty
<b>T7)</b> We find it necessary to be cautious with the hub firm. .	50	2,38	1,34	Honesty

(1= fully agree, 5= do not agree at all)

Member firms altogether (Exhibit 7.10.) have a favourable opinion about the honesty and credibility of the hub firm. The majority agreed on the hub firm keeping its promises (58%), being honest (54%) and providing them with credible information (45%). The average values that belong to each statement also give a positive picture about the reliability of the hub firm and low standard deviations do not unveil more severe differences in opinion, either.

Content analysis showed that the alliance is chiefly judged by the competence of the hub firm. Competence is evaluated on the basis of carrying out transactions smoothly and the consulting provided for member firms. I quantify the competence of the alliance along the business skills, professional knowledge and market knowledge of the hub firm (Exhibit 7.11.).

**Exhibit 7.11.**

*The Perceived Competence of the Hub Firm*

Perceived competence	N	Mean	Std. Dev.
<b>C1)</b> The hub firm has excellent business skills.	50	3,68	1,10
<b>C2)</b> The hub firm has excellent professional knowledge in retailing.	50	3.68	1,10
<b>C3)</b> The hub firm knows the competitors well.	49	3,98	1,09
<b>C4)</b> The hub firm knows the market well.	49	4,10	0,92
<b>C5)</b> The hub firm invests enough time and money in its own education and training.	50	3,46	1,27
<b>C6)</b> The hub firm provides me with useful advice for running my firm.	50	3,40	1,18

(1= fully agree, 5= do not agree at all)

Member firms gave a favourable opinion of the hub firm on the whole. It is particularly true for the market knowledge (mean: 4.10) and knowledge of competitors of the hub firm (3.98). Training (3.46) and consulting (3.40) received the lowest means, but these data still carry a positive attitude meaning on the five-point Likert scale.

I measured dependence, trust and competence all by means of multi-item scales, i.e. the statements used describe only single aspects of the given concept, so there is a need to analyse scale reliability and validity. Reliability expresses the extent to which a scale gives consistent results in the course of repeated measurements. Reliability may be interpreted as measurement free from random error (Malhotra [2001]). From among methods assessing reliability<sup>48</sup> I have chosen the one based on internal consistency reliability, Cronbach's alpha coefficient<sup>49</sup>.

I quantify dependence by means of a 6-item scale (Kumar et. al [1998]). Statement D3 is of a negative direction which I re-coded before analysing the scale. The statements of the two dimensions of dependence achieved a total of  $\alpha=0.8014$ , relying on which the internal consistency of the scale can be evaluated good ( $\alpha=0.4$  in the original research). Even if it can be

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<sup>48</sup> The reliability can be estimated by test-retest method, alternative forms of the scale, furthermore by analysing the internal consistency of the scale. The latter includes two popular techniques: the split-half reliability and the internal consistency (Cronbach's alpha) (Malhotra [2001]).

<sup>49</sup> The Cronbach's alpha is a measure of internal consistency reliability that is the average of all possible split-half coefficients resulting from different splittings of the scale items. The coefficient varies from 0 to 1, and a value of 0.6 or less generally indicates unsatisfactory internal consistency reliability. However, the alpha coefficient is very sensitive to the number of scale items (Malhotra [2001]).

seen from the last column of Exhibit 7.12. that the structure of scales measuring dependence could be further purified, if statement F3 is removed from the set of items. As, on the basis of the correlation matrix, this item is the least correlating factor (See Appendix 11) of the dependence scale, thus its removal is justified. Consequently, the value of the alpha coefficient increases to  $\alpha=0.8191$ .

**Exhibit 7.12.**

*Internal Consistency of the Scale Dependence*

Item-total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
D1	14,1224	21,5264	,6433	,7814	,7508
D2	14,2857	22,6667	,5234	,7479	,7784
<b>D3 [R]</b>	<b>14,8163</b>	<b>25,4031</b>	<b>,3227</b>	<b>,1495</b>	<b>,8191</b>
<b>D4</b>	<b>14,6735</b>	<b>24,3078</b>	<b>,3893</b>	<b>,2931</b>	<b>,8073</b>
D5	15,0612	19,9753	,7757	,8808	,7172
D6	15,0000	20,0417	,7123	,8655	,7315
Reliability Coefficients		6 items			
<b>Alpha = ,8014</b>		<b>Standardised item alpha = ,7978</b>			

I measured member firms' trust in the hub firm with Doney&Cannon [1997]'s scale, as the reliability of the set of items they used was high ( $\alpha=0.94$ ) without having too high number of redundant elements. Three elements of the scale (B5-B7) have a negative direction, thus a re-coding was needed in their case before carrying out a reliability analysis. In the present research, items reflecting the benevolence and honesty of the hub firm altogether make  $\alpha=0.8118$ , which – even if the two dimensions are treated as one – disclose a consistent internal structure (Exhibit 7.13.).

Looking at the correlation matrix of scale elements (See Appendix 11), there are possible ways of some further refinement; the pairwise correlation coefficients of statements B5 and B6 are relatively low ( $r<0.4$ ), thus I excluded them from further analysis, bearing the cleaning of the scale in mind. (The problem is most likely to be attributed to the fact that member firms were unwilling to share a negative view of the hub firm.) Having excluded the two statements, Cronbach's alpha coefficient increases to  $\alpha=0.8460$ .

**Exhibit 7.13.***Internal Consistency of the Trust Scale*

Item-total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
T1	20,4167	26,5035	,5994	,7762	,7777
T2	20,4167	25,6099	,6442	,8055	,7690
T3	20,8750	24,1968	,7954	,7183	,7396
T4	19,8958	28,8187	,5173	,2910	,7926
<b>T5 [R]</b>	<b>20,0417</b>	<b>29,6578</b>	<b>,3700</b>	<b>,2883</b>	<b>,8166</b>
<b>T6 [R]</b>	<b>20,2917</b>	<b>29,9131</b>	<b>,3684</b>	<b>,3023</b>	<b>,8161</b>
T7	19,9375	27,0386	,5565	,4011	,7856
Reliability Coefficients		7 items			
<b>Alpha = ,8118</b>		<b>Standardized item alpha = ,8090</b>			

I quantified the competence of the hub firm with 6 statements, with which member firms evaluated the business, market and professional competence of the hub firm (Exhibit 7.14). The scale used in the original research (Kumar et. al [1992]) had an alpha of 0.77, which is one the most reliable scale in literature. In my empirical research too, competence statements display high internal consistency, thus a suitable reliability ( $\alpha=0.8766$ ). Excluding, however, statement C5, further increases the reliability of the multi-item scale ( $\alpha=0.8881$ ).

**Exhibit 7.14.***Internal Consistency of the Competence Scale*

Item-total Statistics					
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item- Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
K					
C1	18,5510	18,1276	,8765	,8102	,8218
C2	18,5510	19,2109	,7381	,7128	,8459
C3	18,2245	19,4277	,7124	,6677	,8503
C4	18,1020	20,2602	,7685	,7470	,8455
<b>C5</b>	<b>18,7551</b>	<b>19,9388</b>	<b>,5171</b>	<b>,3211</b>	<b>,8881</b>
C6	18,8367	20,2645	,5549	,3665	,8776
Reliability Coefficients		6 items			
<b>Alpha = ,8766</b>		<b>Standardized item alpha = ,8843</b>			

To sum up the above, the reliability of these constructs serve their aims properly, and work well in the research context, consequently, are suitable for the quantification of the relationship between member firm and hub firm. (For the statistical details of the reliability analysis, see Appendix 12.)

When testing the validity of scales that measure the relationship between member firm and hub firm<sup>50</sup> I examined content validity<sup>51</sup>, construct validity<sup>52</sup> and nomological validity<sup>53</sup>. I have already studied content validity when choosing a scale in Chapter 6. From among scales known and used in the literature, I selected the ones that best match my research context and have the relevant theoretical validity. I intend to describe construct validity and nomological validity when presenting my causal model. For measuring the previous one, I apply the confirmative factor analysis incorporated in the LISREL algorithm. In nomological validity I analyse how much the scale for measuring the given concept correlates to the measurement of related concepts in theoretically predicted ways (Malhotra [2001]).

## **7.6. The Effect of the Alliance on Member Firm Performance**

In the survey we collected data from member firm owners on their performance derived from retailing. Respondents were to supply data on objective financial indicators concerning their enterprise (turnover, profit, gross margin), relative performance indicators (the average percentage change of turnover and profit since entry) and an indicator of a non-financial nature (inventory turnover). I measure the outcome of the partnership with the hub firm with a one-dimensional satisfaction scale. Exhibit 7.15. depicts the performance measures of member firms.

The heterogeneity of allied retailers<sup>54</sup> is also illustrated by objective, absolute performance indicators. When comparing them to independent retailers, I have already mentioned that high standard deviation within the group can partly be attributed to size differences. Another reason for it is the different extent of marketing integration, which I wish to further study in connection with my causal model. Member firms admit to have handled sales of 147 million HUF on an average in the year 2003, but high deviations reveal that there were considerable deviations between allied retailers.

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<sup>50</sup> The validity of a scale may be defined as the extent to which differences in observed scale scores reflect true differences among objects on the characteristics being measured, rather than systematic or random error (Malhotra [2001], p. 349)

<sup>51</sup> Content validity is a subjective but systematic evaluation of how well the content of a scale represents the measurement task at hand. Whether the scale items adequately cover the entire domain of the construct being measured (Malhotra [2001], p. 349).

<sup>52</sup> Construct validity addresses the question of what construct or characteristic the scale is measuring. An attempt is made to answer theoretical questions of why a scale works and what deductions can be made concerning the theory underlying the scale (Malhotra [2001], p. 350).

<sup>53</sup> Nomological validity measures the relationship between theoretical constructs. It seeks to confirm significant correlations between the constructs as predicted by a theory (Malhotra [2001], p. 350).

<sup>54</sup> Similarly to the marketing variable, the performance measures were cleaned and the outliers removed before starting with the data analysis.

**Exhibit 7.15.***Performance Measures of Member Firms*

Performance Measures	N	Mean	Std. Dev.
Total sales in 2003 (Thousand HUF)	27	146957,5	145849,5
Total gross margin (Thousand HUF)	50	27912,7	33044,1
Total profit (Thousand HUF)	25	15450,9	18464,1
Growth in sales due to the alliance (%)	37	11,1	8,7
Growth in profit due to the alliance (%)	38	8,2	9,2
Average inventory turnover (days)	42	16,6	7,3
Overall satisfaction with the hub firm of the alliance (7-point scale)	49	4,98	1,30

The enterprise with the lowest sales produced 10 million HUF, and the one with the highest sales 520 million HUF. In retailing, a relevant performance indicator is gross margin in value (sales \* average retail margin). Member firms generated an average of 27.9 million gross margin, from which the costs and profit of the retailer are settled. I calculated the profit of retailers relying on sales data and profit rates reported in the survey, concluding that respondent retailers produced an annual average of 15.5 million HUF. There are, however, enterprises in the sample, close to the break even and companies, closing the year with a profit of 72 million HUF.

With the help of relative performance measures I tried to assess the range to which the alliance contributes to the sales and profit of the member firm. 78 percent of respondents were of the view that their sales increased by an average of 11.1 percent since their entry. 72 percent of respondents evaluated the profit contribution of the alliance favourable, having led to an 8.2 percent profit growth with member firms on average.

I examined the inventory turnover of member firms as a non-financial performance indicator. Considering the total merchandise it takes 16.6 days for the member firms' inventory to turn, with considerable standard deviations from one product group to another.

The 'performance' of the relationship with the alliance I measured on a 7-point interval scale in terms of satisfaction with the hub firm. The opinion of the majority of allied retailers (69.4%) falls into the positive magnitude of the scale (mean: 4.98). The modus and median of the scale is the value five, suggesting that member firm owners are somewhat more satisfied with the operation of the hub firm than the middle point of the scale.

There are various interconnections between the performance measures of member firms to be highlighted (See Appendix 13.). The tightest link can be revealed between objective financial measures (sales, gross margin, profit) where correlation coefficient is  $r > 0.900$  ( $p = 0.000$ ). Relative indicators (the contribution of the alliance to sales and profit) also have a high correlation coefficient ( $r = 0.766$ ). Inventory turnover as a non-financial performance measure is not interrelated to any other indicator.

Notably enough, the correlation matrix reveals that annual sales ( $r = 0.412$ ,  $p = 0.063$ ) and profit ( $r = 0.528$ ,  $p = 0.014$ ) shows a medium extent but significant correlation ( $p < 0.07$ ) to the percentage change of sales experienced since having joined the alliance. The percentage change of sales ( $r = 0.393$ ,  $p = 0.018$ ) and profit ( $r = 0.327$ ,  $p = 0.048$ ) shows a moderate correlation to the satisfaction with hub firm.

## **7.7. The Presentation of the Causal Model.**

### **7.7.1. An Examination of the Initial Requirements of the Causal Analysis**

For presenting the model I am using marketing, behavioural and performance measures introduced earlier. The statistical analysis of the causal model (Exhibit 6.10.) using the AMOS software. Before the analysis, missing data had to be imputed. (Outliers had been removed in the phase of data cleaning procedure.) Missing data were analysed with the help of the SPSS Missing Value Analysis<sup>55</sup>. Appendix 14 contains the input and estimated statistics of the individual variables. All items of the input data are metric (interval and ratio scales), but they are not of the same magnitude, thus, for the sake of comparability, I standardised the input variables of the causal model.

One part of the model is based on latent variables (illustrating the relationship between member firm and hub firm), the other on direct, observed variables (retail strategy and performance measures). The applied statistical algorithm in fact confirms to the LISREL methodology, in which I explored the relationship of exogen (latent and non-latent) and endogen variables, supposing that the relationship between the variables can be described by a linear model.

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<sup>55</sup> Within the MVA algorithm I mainly applied regression estimation, as the data were metric and showed considerable correlation with one another. I chose independent variables based on the pairwise correlation coefficients, related to the estimated variable

The algorithm of estimation applied (Maximum Likelihood) assumes a normal distribution of variables. The appendices (Appendix 16, 17, 18, 19, 21, 22) contain the tests for the multinormal distribution of variables for each model respectively, on the basis of which I conclude that my model variables follow the pattern of a normal distribution or with only some minor deviations<sup>56</sup>.

Although the number of variables involved in the analysis has no upper limit, algorithms of estimation used for causal analyses require the availability of considerable amount of data. The more pieces of information (sample size, number of specified relationships) are provided for the estimations of parameters, the more accurately a hypothesis system can be checked (Backhaus et. al [1996]). Sample size has an important role in estimation and measures of fit (Chi-square, Goodness of Fit, AGFI, RMR)<sup>57</sup>. The sample size of the analysis is relatively low<sup>58</sup>, affecting the fit of the models unfavourably. For counterbalancing it, I am going to exploit the results of the correlation matrix that are based on observed data when interpreting the models.

The low sample size posed some further difficulties at the identification of the model, and as a result, indicators of marketing strategy (price level, merchandise management, advertising&promotion) could not be treated together, for it led to a negative degree of freedom and did not enable an estimation of parameters. Thus instead of my original intention I specified a regression model with exclusively observed variables, which made it possible to estimate the relationships between marketing measures and performance but allowed interactions between independent variables to stay quantifiable, too. Another advantage of this solution is that in this way, member firm marketing strategy and performance (affected by the retail alliance) and the relationship between member firm and hub firm could be tested in one single model.

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<sup>56</sup> Researcher often apply the rule of thumb stating that samples of over 30 elements approximate the normal distribution well (Backhaus et. al [1996]).

<sup>57</sup> The Chi-Square test relies on the null hypothesis that the empirical covariance matrix is identical with the covariance matrix estimated by the model. The hypothesis can be accepted when the significance level ( $p > 0.05$ ) related to the Chi-Square exceeds the empirical value of the test. The Goodness-of-Fit Index (GFI) functions as the coefficient of determination in the regression analysis that shows to what extent the estimated model is able to explain the total variance of the initial variables. The value of GFI varies from 0 to 1. Value 1 means perfect fit. The Adjusted-Goodness-of-Fit Index (AGFI) adjusts the value of GFI by the number of variables and by the degrees of freedom. The index ranges from 0 to 1 as well. The Root-Mean-Square-Residual Index (RMR) is the complementary of GFI and AGFI because it compares the variance unexplained by the variance to the total variance of the input variables. (This measure is usually applied when the estimation is not based on a covariance but a correlation matrix.) When RMR takes the value 0 then the estimated model fully covers the observed variance of the model variables (Backhaus et. al [1996]).

<sup>58</sup> The literature determines the minimum sample size required by LISREL taking the difference between the number of respondents and the number of the estimated parameters which should exceed 50 (Bagozzi [1981]).

Below I present the results of the causal analysis in three stages. First I introduce the relationship of strategy and performance in terms of 4 different retail performance indicators (sales, gross margin, profit, sales growth due to the alliance). In stage two I present the interaction system between satisfaction and relationship variables of member firm and hub firm. Lastly, I study the complete causal model, derived as the fusion of the two partial models. The statistical analysis of the models and the interpretation of results enable to control for the hypotheses of the analytical model (Exhibit 6.9.)

#### 7.7.2. The Impact of the Retail Strategic Alliance on Member Firm Marketing Strategy and Performance

The presentation of marketing strategy and performance relations takes place in four models, for it is 4 separate performance criteria (total sales in 2003, gross margin, profit and percentage sales growth affected by the alliance) that display a relationship to marketing strategy variables (average retail margin, number of supplier allowances, annual number of promotions organised by the alliance, annual number of the chain's national and regional advertisements, number of SKUs in the basic assortment, number of the alliance's own store brand SKUs and number of chain identity elements applied). The model includes also the moderating variables (number of multinational and independent retailers in the trade area and the total of sales personnel of the company plus the total floorspace of stores), making it possible to measure the effect of competition and size on performance. The path diagrams of each model are identical, it is only the performance indicators and related regression coefficients that differ.

The correlation matrix of the model elements (Appendix 15) also induces me to specify the interactions between marketing variables i.e. correlation between independent variables, thus improving the fit of the model. Consequently, I primarily analysed the interconnections of marketing measures. Analysing the correlation matrix (Appendix 15) coefficient, reveals that there is of a medium strength but significant correlation between marketing strategy variables. It is retail margin alone that can be regarded as independent from other variables.

The number of supplier allowances shows a positive correlation with the number of national and regional promotions ( $r=0.374$ ) and advertisements ( $r=0.319$ ). The number of allowances further depends on the number of SKUs in the basic assortment ( $r=0.365$ ), i.e. the more SKUs a retailer

stocks in his basic assortment, the more allowances he will be likely to receive from suppliers. It is not at all surprising, considering the fact that after bounded prices retailers get pay-backs from suppliers and consequently, the more products they offer from the supplier's merchandise, the higher the amount of pay-back will be.

National and regional promotions and advertisements mutually reinforce each other's effect ( $r=0.477$ ), content analysis has already revealed the two activities to intertwine very frequently. Promotions ( $r=0.433$ ) and advertisements ( $r=0.434$ ) organised by the alliance define the identity of member retailers, too, for both marketing tools mean continuous communication with consumers.

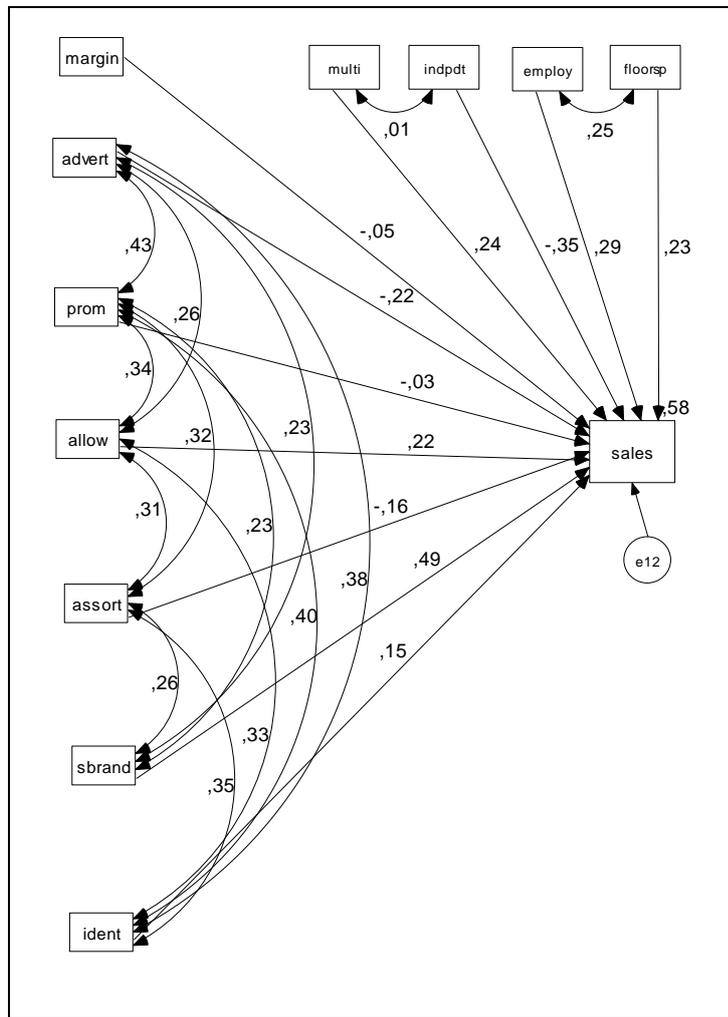
The number of promotions and SKUs of the basic assortment also correlate ( $r=0.383$ ), for which the reason might lie in the size of the company. Interviews with experts showed that hub firms differentiate their member firms along certain criteria, such as size and other quality-related factors. Consequently, the extent of co-operation may vary by segments of the member firms, affecting the involvement in promotions or the size of the basic assortment.

Similarly, the number of store brands and SKUs of the basic assortment correlate with one another ( $r=0.328$ ), which also depend on firm's size. If size variables (floorspace, number of employees) are considered as controlling factors when looking at the correlation coefficient of the two marketing variables, then the partial correlation coefficient ( $r=0.242$ ,  $p=0.091$ ) will somewhat decrease.

Identified interactions between marketing variables were used for specifying the causal models, from among which I first present the one on the causal relationships between the marketing strategy and annual sales of member firms: Exhibit 7.16. illustrates the impact of marketing and moderating variables on performance by means of regression coefficients and interactions between causal variables by the means of correlation coefficients. (For detailed statistical indicators see Appendix 16.)

**Exhibit 7.16.**

*The Causal Relationships between the Marketing Strategy and Annual Sales of Member Firms*  
(standardised regression coefficients and correlation coefficients)



The fit of the model cannot be judged too favourable on the basis of the Chi-square test (Chi-square: 100.870, degree of freedom: 41,  $p=0.000$ ), the explained variance of the model is 0.778 (GFI), to which – due to a low degree of freedom and a relatively high parameter number – a lower value of Adjusted Goodness of Fit (AGFI=0.578) is associated. Marketing and moderating variables are able to explain 58 percent of the variance of annual sales.

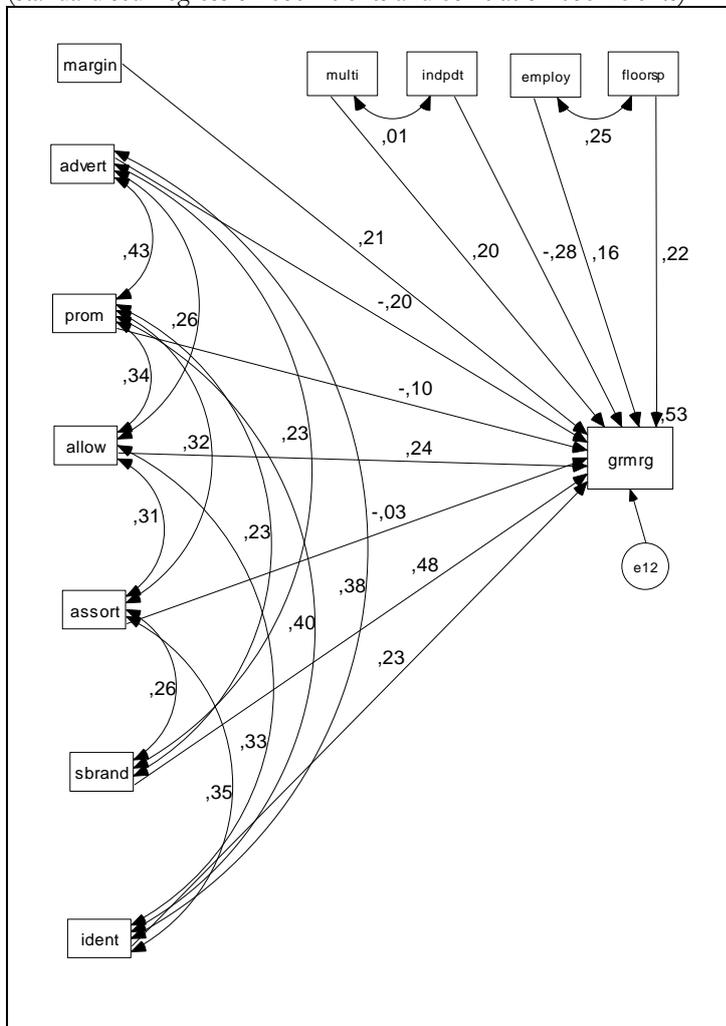
The sales of member firms is fundamentally determined by the *number of store brands* (standardised regression coefficient: 0.486), which is at the same time the most powerful explaining measure of sales.

Namely, the more store brands a retailer distributes, the higher his sales will be. *Sales is predominantly a function of moderating variables.* Retailers' annual sales is strongly determined by the presence of multinational and independent retailers, reflecting the intensity of competition. It is, however, interesting to note that a member firm's sales is affected in a positive way by the number of multinational companies (standardised regression coefficient: 0.240), while in a negative direction by the number of independent retailers (standardised regression coefficient: -0.353). Furthermore, *both size variables have significant effect on sales*, too. By increasing floorspace (standardised regression coefficient: 0.231) and the number of sales personnel (standardised regression coefficient: 0.292) the sales of member firm stores will increase, too. The main effects found significant in the model are consistent with the pairwise correlation coefficients to be discovered in the correlation matrix (Appendix 15).

The causal relationship<sup>59</sup> between marketing variables and annual gross margin is depicted in Exhibit 7.17. Statistical data concerning the model are to be found in Appendix 17.

**Exhibit 7.17.**

*The Causal Relationship between the Marketing Strategy and Annual Gross Margin of Member Firms*  
(standardised regression coefficients and correlation coefficients)



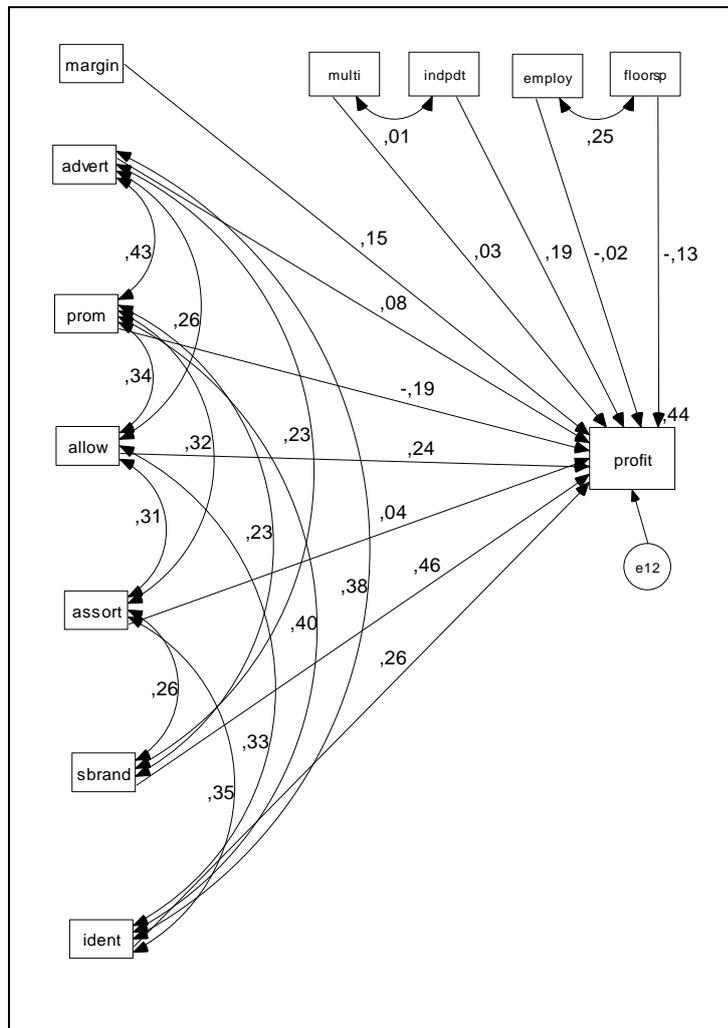
The gross margin of an allied retailer is primarily influenced by the number of store brands. The standardised regression coefficient is the highest one (0.482). In addition to this, it was retail margin (standardised regression coefficient: 0.212) and supplier allowances (standardised regression coefficient: 0.243) that significantly affected gross margin. Retail margin and favourable supplier conditions increase member firm's gross margin, which combined with a proper cost management leads to higher profit. Competition and size are significant factors here, too, with a little difference from that of sales, such as the number of sales

personnel is not significant with gross margin. As opposed to floorspace, which allows us to draw a conclusion about the importance of operating with economies of scale (standardised regression coefficient: 0.218). The variables of the model are able explain 53 percent of the total variance of the annual gross margin. (The main effects found significant in the model are consistent with the correlation coefficients of Appendix 15.)

<sup>59</sup> Chi-Square: 100.870, Degree of freedom: 41, p=0.000; GFI=0.778, AGFI=0.578, RMR=0.194.

**Exhibit 7.18.**

*The Causal Relationships between the Marketing Strategy and Annual Profit of Member Firms*  
(standardised regression coefficients and correlation coefficients)



One of the most important performance measure is the profit generated which is gross margin reduced by purchasing and operational costs and taxes. Exhibit 7.18 shows the causal relationships<sup>60</sup> between the marketing strategy and profit of member firms. (For detailed results see Appendix 18.)

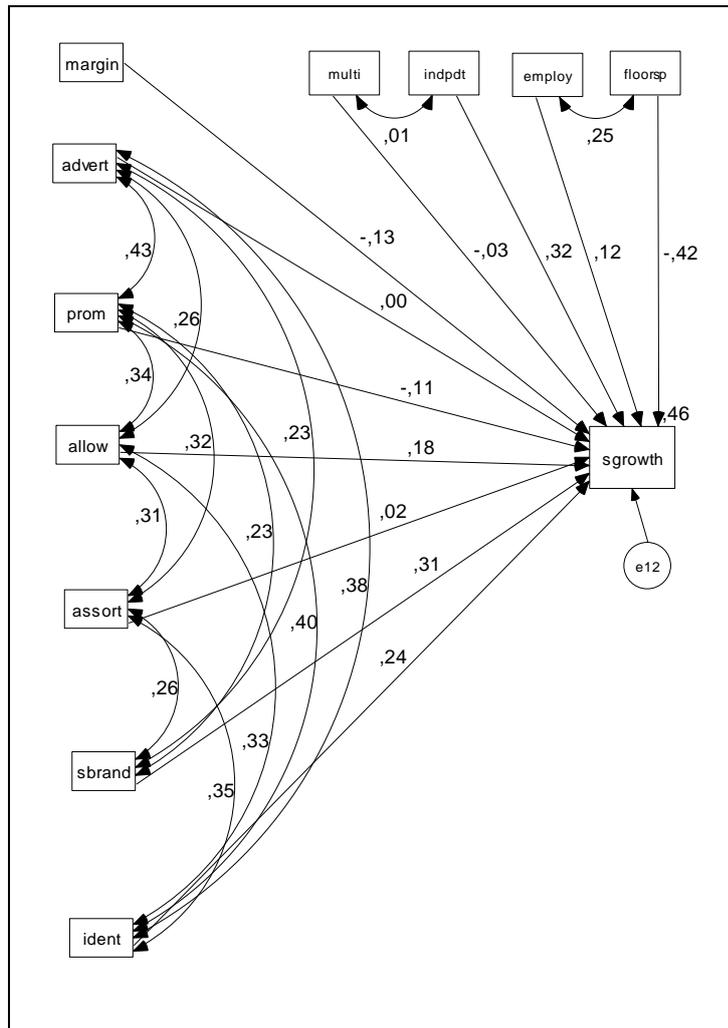
Profit is primarily determined by marketing measures and they account for 44 percent of variance experienced in the profit of a member firm. Member firms' profit was mainly influenced by store brands (standardised regression coefficient: 0.459), supplier allowances (standardised regression coefficient: 0.245) and number of chain identity elements (standardised regression coefficient: 0.261) in the year 2003. Moderating factors do not influence profit significantly. Relying on the above model, it can be stated that it lies in retailer's interest to increase supplier allowances and store brands and a wide usage of chain identity elements, for these all affect their profitability in a beneficial way.

<sup>60</sup> Chi-Square: 100.870, Degree of freedom: 41, p=0.000;GFI: 0.778, AGFI: 0.578, RMR: 0.194.

**Exhibit 7.19.**

*The Causal Relationships between the Marketing Strategy and Sales Growth Due to the Alliance*

(standardised regression coefficients and correlation coefficients)



Only one relative performance measure showed correlation with marketing variables of retailers in the correlation matrix (Appendix 15), i.e. sales growth<sup>61</sup>. The fit of the model conforms to that of previously analysed models. Sales growth due to the alliance is caused by the variable that has continuously exercised the highest explaining power in the above: the number of store brands (standardised regression coefficient: 0.308). The variance of sales growth may also be attributed to the number of independent retailers in the trade area (standardised regression coefficient: 0.321). The more independent retailers an allied retailer is to compete with, the more the

sales growing effect of the alliance can be perceived after its entry. The floorspace of stores of allied retailers, however, affect sales growth due to the alliance in a negative way (standardised regression coefficient: -0.417). Marketing strategy elements, competitive environment and the size of the member firm explain 46 percent of the total variance of the dependent variable (sales growth due to the alliance). For the details of the statistical analysis see Appendix 19.

<sup>61</sup> The percentage growth of profit correlated to none of the variables but the percentage growth of sales, which may supposedly be caused by the fact that member firm owners could not estimate the profit change due to the alliance enough.

### 7.7.3. The Relationship of the Member Firm and the Hub Firm

In the next stage I aim to analyse the relationship of the member firm and the hub firm (Exhibit 7.20.) (For the correlation matrix of the partial model see Appendix 11.)

The estimating algorithm<sup>62</sup> enables a testing of the nomological validity of latent, non-observed variables, beyond an exploration of interconnections between endogen and exogen variables. All *variables of dependence* (d1, d2, d5, d6) are significant, i.e. they define the concept of dependence. However, statements d5 and d6 on the replaceability of the alliance have less factor weight ( $\leq 0.5$ ) than the sales and profit contribution of the alliance (d1:0.98, d2: 0.87). *Statements evaluating the competence of the hub firm* (competence) have the suitable factor weight. Statements on the business skills of the hub firm (c1: 0.95), retail competence (c3: 0.87), and market knowledge (c4: 0.80) are particularly dominant. From among observed variables on the *trust in the hub firm* indicators expressing the benevolence of the hub firm possess high weight. Statements on honesty (t4, t7 $\leq$  0.50) are significant, yet they play a minor role in shaping the latent variable.

Based on the above, we can conclude that the theoretical concept of ‘competence’ has the highest nomological validity, for each of its indicators have a high factor weight. As for dependence, value received from the alliance is the part of the scale which correlates with the latent variable and is the most significant. Variables of replaceability, however, affect the validity of the concept of dependence unfavourably. The indicators of trust connected to benevolence are the ones mostly contributing to scale validity. The correlation coefficient of the other component, the negative statement connected to honesty is much lower. As it is only one or two statements that are ‘problematic’ within the construct, the nomological validity can be regarded acceptable.

The poor fit of the partial model (Exhibit 7.20.)<sup>63</sup> is reflected in the high rate of standard errors, yet, the values of the indicators always stay between the values of the saturated model and the independence model. (For detailed statistics concerning the model see Appendix 21.)

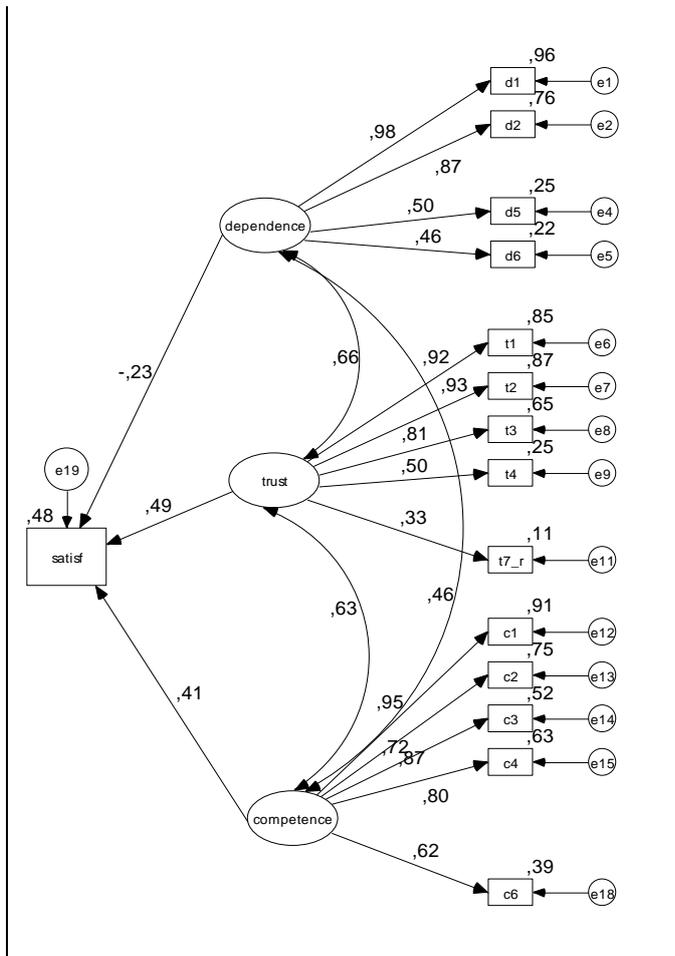
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<sup>62</sup> The LISREL model estimates the latent variables by applying confirmative factor analysis differing from the explorative one that the variables belonging to the factors are determined by the researcher not by the algorithm of the method. (Backhaus et. al [1996]).

<sup>63</sup> Chi-Square: 247.518, Degree of freedom: 85, p=0.000; Goodness of Fit Index: 0.675, AGFI: 0.541, RMR: 0.126

**Exhibit 7.20.**

*Evaluating the Relationship of the Member Firm and the Hub Firm*  
(standardised regression coefficients and correlation coefficients)



In spite of the not too favourable fit the main effects of the model reflects the pattern of the correlation matrix based on the observed variables (Appendix 11). Satisfaction with the hub firm is most increased by the trust of the hub firm (standardised regression coefficient: 0,495). Similarly, competence elicits a significant, positive (standardised regression coefficient: 0.407) effect from member firms concerning satisfaction with hub firm. The regression coefficient of dependence is negative (-0.232), still, the related significance level is high ( $p > 0.1$ ), and on this account, statistically speaking, its effect on satisfaction cannot be regarded

dissimilar to nil. The three latent variables are thus able to explain 48.1 percent of the total variance of satisfaction.

Besides main effects, Exhibit 7.20. also illustrates relationships between latent variables. It is not surprising to find *competence* and *trust* to have a strong positive correlation with each other ( $r = 0.633$ ). The more a member firm believes the hub firm to be competent, the more it trusts in its decisions. This relationship has already been implied by Doney and Cannon (1997) in their studying seller-buyer relationships.

It is even more interesting to study the interaction of *dependence versus trust and competence*. Both latent variables exhibit a positive correlation with dependence. Result become clearer if we consider that dependence is primarily defined the benefits derived from the alliance (sales and profit growth). I.e. the greater the benefits of the alliance are perceived, the more they trust in the hub firm and the more competent they perceive it to be. Kumar et al. (1995) conducted a

research with American and Dutch car retailers where trust and dependence was found to have a positive correlation, too. A similar connection was found by Ganesan (1994) between transaction-specific investments creating dependence and trust in the partner in the course of the co-operation of retailers and their suppliers.

*The perceived competence of the hub firm and the perceived dependence on the alliance* also reinforce one another's effect. I.e. the more competent companies think the hub firm is, the more benefits they hope to receive from the alliance and the harder it gets to replace the co-operation. Kumar, Stern and Achrol (1992) arrive at a similar conclusion in their research, when they find a significant relationship between reseller competence and influence over supplier.

About the *nomological validity* of trust and competence it can be told that both constructs operate according to what theoretical assumptions predicted and conform to the results of other independent empirical researches. The construct of dependence, however, is only partially able to measure the given concept system and it is only the sales and profit contribution of the scale that behaves as expected according to literature assumptions.

#### 7.7.4. The Casual Model

Lastly, I present the estimation of the full model (Exhibit 6.9.) constructed on the basis of literature and exploratory research methods (content analysis, cognitive map and interviews with experts). There is also a possibility to analyse four models based on the different performance measures. Yet, the correlation matrix of member firm performance measures and satisfaction with the alliance reveals (Appendix 14) that the satisfaction of the member firm cannot be linked to annual sales, gross margin or profit, but sales growth due to the alliance. Therefore I only study the relationship system of the latter performance measure (Exhibit 7.21.; Appendix 22).

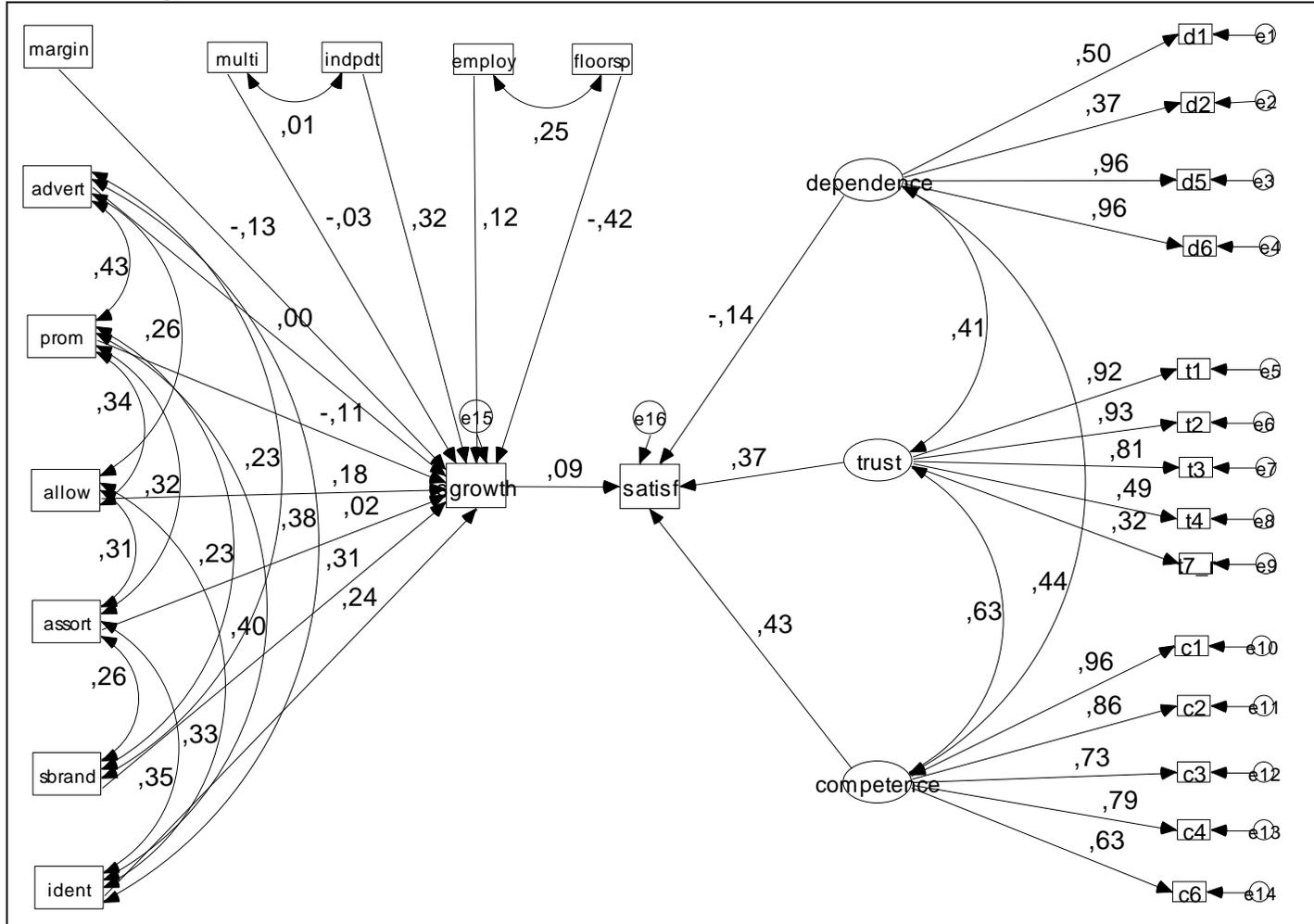
The fit measures of the model were further corrupted by the increased parameter number<sup>64</sup>. In Exhibit 7.22. the effects of the partial models conform to what has been described at Exhibits 7.19. and 7.20. The novelty of the extended model is the estimation of the causal relationship between sales growth due to the alliance and satisfaction with the hub firm.

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<sup>64</sup> Chi-Square: 588.626, Degree of freedom: 305, p=0.000, GFI=0.586, AGFI=0.487, RMR= 0.170.

**Exhibit 7.21.**

*The Impact of Retail Strategic Alliances on Member Firms' Marketing Strategy and Performance (sales growth due the alliance)*  
 (standardised regression coefficients and correlation coefficients)



The low value of the standardised regression coefficient suggests that on the basis of this empirical research, the existence of a connection between member firm and the perceived performance of the alliance cannot be proved. It might be owing to the answers on satisfaction, the majority was more or less satisfied with the hub firm, regardless to the performance achieved within the alliance framework.

### Exhibit 7.22.

#### *A Summary of the Structural Equation Models*

(Unstandardised Regression Coefficients)

	Total sales in 2003	Total gross margin in 2003	Total profit in 2003	Sales Growth due to the alliance (%)	Satisfaction with the hub firm
Retail margin	-0.055	0.207**	0.143	-0.139	
Allowances	0.244**	0.240**	0.241**	0.191	
Advertising	-0.244	-0.098	0.075	-0.003	
Promotions	-0.031	-0.199	-0.191	-0.119	
Basic assortment	-0.172	-0.031	0.039	0.017	
Store brand	0.529**	0.474**	0.450**	0.329**	
Chain identity	0.167	0.229*	0.258*	0.257*	
Multinational retailers	0.259**	0.199**	0.028	-0.032	
Independent retailers	-0.381**	-0.278**	0.184*	0.341**	
Floorspace	0.250**	0.213**	-0.126	-0.442**	
Sales personnel	0.316**	0.159	-0.023	0.127	
Perceived dependence					-0.139
Trust					0.447**
Perceived competence					0.582**
Total sales in 2003					-0.155
Total gross margin in 2003					-0.172
Total profit in 2003					-0.217
Sales growth due to the alliance					0.082

\*\* significant at level  $p < 0.05$

\* significant at the level  $p < 0.1$

Exhibit 7.22. contains the results of the models, previously studied, relying on which in the next subchapter I wish to analyse to which extent the hypotheses of the causal model (Exhibit 6.9.) can be verified.

#### 7.7.5. The Hypotheses of the Causal Model Revisited

In the course of establishing the model I assumed that the retail margin of allied retailers diminishes and that there is *a negative relationship between price level and sales* (H1a). In Subchapter 7.2. it has already been proved that the margin of allied retailers is lower than that of independent retailers, from which I concluded that a lower margin can be regarded as the effect of enterprise

size and the alliance. In models describing the relationship between marketing variables and performance measures the effect of margin had a different outcome. The regression coefficient sign of annual sales was negative, which would justify hypothesis H1a), yet this correlation did not prove to be significant due to high level of standard errors. Sales growth since entry had similar results. Although the direction of the theoretically assumed relationship can be justified, hypothesis H1a cannot be supported by the empirical research, owing to the heterogeneity of sample (high standard deviation of performance measure) and insufficient sample size.

According to hypothesis H1b) *price level decrease influenced by the strategic alliance affects retailers' profit in a positive way* if retailers can get access to favourable purchasing conditions within the alliance. I quantified the profitability of the member firm with two indicators: gross margin and the profit after taxation. The results of the two causal models (Exhibits 7.17 and 7.18.) highlight that the gross margin of allied retailers and retail margin have a clear positive relationship, that is to say, the increase of retail margins leads to an increased gross margin with retailers. The average retail margin defining price level has a minor positive effect on the annual profit of a member firm, being insufficient for us, to accept its effect as being dissimilar to nil<sup>65</sup>.

The second part of the hypothesis is about profitability being increased if *retailers get access to favourable purchasing conditions*, and thus their purchasing costs are reduced, and as a result, their gross margin and profit increased.

This assumption is reinforced by the results of the causal model, for both gross margin and profit are defined by the number of supplier allowances (payment period, favourable prices, pay-backs). When interpreting the results, it is worth looking at whether the effect of gross margin is indeed due to the interaction of margin and supplier allowances or is it that either factor has a more enhanced role in the causal relationship. However, there is no relationship between the number of allowances and retail margin ( $r=0.023$ ,  $p=0.874$ ). The lack of relationship can mainly be explained by the fact that in grocery retailing there is a sharp price competition, supposedly leading to the convergence of retail margins.

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<sup>65</sup> Other than marketing and moderating variables, profit is obviously also affected by some further factors such as the accountancy of the given year (investments, value decrease, building reserves), which may distort the actual extent of profit (Brown&Laverick [1994]).

Therefore, the general retail margin and supplier allowances increase profit in an additive way, and profit is exclusively defined by allowances.

*The interaction between performance measures and national & regional promotions* organised by the alliance is summarised by hypotheses H2a) and H2b). The effect of promotions on sales is insignificant. The same stands for gross margin and profit. Empirical researches measure the effect of promotions on sales on a product category level, for promotions may induce substituting effects within product categories and complementary effects between categories (Mulhern [1997]). In my research, the main reason for the lack of relationship is that chains established by the alliance conduct highly similar promotion policies. Interviews with experts revealed that alliances mostly organise biweekly price promotions for retailers, which are exploited by the majority of retailers. It means that retail enterprises with various sales figures offer approximately the same amount of promotions for their consumers. On the strength of my research results, the alliance's effect on promotions can only be illustrated in a comparison with independent retailers, which revealed a significant difference between the two grocery retailing groups.

There is a similar conclusion to be arrived at when examining the advertising influenced by the alliance. In hypothesis 3 I assumed that *advertising influenced by the alliance has a positive effect on annual sales* (H3). The advertisements (national and regional) of the alliance has no effect on sales but is strongly correlated ( $r=0.433$ ,  $p<0.05$ ) with promotion. It enhances the effect of promotions in the model, still, it is insufficient to produce a positive effect on sales of the member firm.

Hypotheses H4 a) and b) assumed a *positive relationship between assortment stability and annual sales and profitability*. I measured assortment stability by means of a standard number of SKUs, which denotes the assortment that a retailer carries regardless to his promotions and seasonal supply in his stores. In models complemented with moderating variables, assortment stability plays an important role in none of the performance measures as a significant explaining factor. It is mainly due to the overwhelming effect of competition and size, for ignoring moderating variables, the number of basic assortment SKUs correlates with gross margin ( $r=0.375$ ,  $p=0.007$ ). Studies of the marketing literature (Hoch et. al [1999], Van Ryzin & Mahajan [1999], Leunissen et al [1996]) normally find a positive relationship between assortment size and category or store-level performance measures.

Still, a retail alliance does not leave the assortment of member firms untouched, for *store brands distributed by the member firms* possessed the strongest explaining power in each model (H5a,b). The number of store brands developed by the chain greatly determined sales and profit measures. Therefore, the more store brands retailers offer, the higher sales, gross margin and profit they are able to realise. Moreover, in sales growth induced by the alliance it is also the presence of store brands that plays the most decisive role, according to the empirical findings. The acceptability of hypothesis H5) is increased by the fact that the effect of variables connected to size of the retailer and presence of competitors is far less than that of store brands. The findings of earlier research support these results (Halstead&Ward [1995], Mulhern [1997]).

Assumptions concerning *the relationship of identity and corporate performance* (H6a,b) have various outcomes, too. There is no relationship to be revealed with the annual sales of member firm, whereas in the case of sales growth induced by the alliance a correlation can be demonstrated. Consequently, the more chain identity elements an allied retailer uses, the more the sales of his store(s) increases. Using chain identity elements has a beneficial effect on gross margin and profit, too. In view of this, my research results underline hypothesis 6, saying that using chain identity elements developed by the alliance has a favourable effect on member firm performance. Hildebrandt (1988), investigating the relationship between store image and business performance measures, similarly found a positive correlation between the two dimensions.

In my theoretical model (Exhibit 6.6.) I assumed that competitive environment i.e. the presence of competitors affects (McArthur&Nystrom [1991]) the interaction system in question, and primarily influences the strength of the relationship between retail strategy and performance. I examined competitive environment in terms of competition intensity, and measured it by the number of various types of competitors in a retailer's trade area (multinational retailers, other domestic retailers, other retailers of the own chain and independent retailers).

Relying on previous analyses (See correlation matrix in Appendix 20.) the presence of multinational and independent retailers' stores did not reveal a relationship with member firm performance measures. In hypothesis H11) I assumed that *an increasing number of competitors will weaken of the relationship between marketing measures and performance*, regardless the type of competitors. The modelling process if competition intensity unveiled that the two variables affect performance in different ways.

*If the number of multinational stores increases, there will be an increase of sales and gross margin experienced in member firm stores.* The different impacts of the two strategic groups is due to settlement type. Multinational stores primarily appear in settlements, municipalities where there is considerable buying power. Bigger buying power affects the sales of allied retailers in a favourable way, too. *The presence of independent enterprises, however, affects sales and gross margin in a negative way, featuring mostly in smaller settlements and villages.* The negative correlation, furthermore, may suggest the replaceability of allied and independent retailers' stores. However, member firms of alliances believe mainly (56% of respondents) multinational retailers to be the most significant competitors, as opposed to the stores of independent retailers (14%). *The differentiated effect of competitors* may, however, be justified on the basis of Miller et al. (1999)'s research results, who analyse the effects of competition between identical and different retailing forms. They argue that *increasing the number of identical* (e.g. specialist stores with a less broad merchandise) *retailing types leads to a substituting effect*, reducing retailers' sales and profit. In contrast, if the concentration of *different types of retailers* grows (specialist stores and department stores with a broad merchandise) in a trade agglomeration, then synergy is generated and stores *increase one another's sales and profit.*

*Retailer's size* is always a relevant issue with researches on retail companies (Leunissen et.al [1996]). The more capacity a retail enterprise has, the more economies of scale it is able to achieve, consequently, increasing size leads to higher sales and gross margin. For quantifying size of allied retailers I applied several measures: sales personnel number, store number and total floorspace of stores. Previous test (see the correlation matrix in Appendix 20) revealed that it is predominantly sales personnel and total floorspace that affect the relationship between marketing tools and company performance measures. Size variables enhanced the relationship between exogen and endogen variables in terms of annual sales and gross margin. On sales growth due to the alliance, nevertheless, total floorspace has a negative, significant ( $p < 0.05$ ) effect, which is remarkable, for it implies that the more floorspace a retailer has, the less sales growth can be derived from belonging to an alliance. An explanation for it is that larger-scaled enterprises had already been able to achieve certain allowances and economies of scale, that is why sales growth is less significant in their case. However, considering the total value of benefits achieved through the alliance, the co-operation still means a favourable option for the larger sized retailers.

*Location* is also an important moderator, defining the trade area of a retail enterprise. Respondents were to enumerate the type of settlements they operate stores (county capital, towns with a population of over or below 50 000, and village). According to the hypothesis, in larger settlements retailers may expect higher demand, and may achieve a better performance (H13). The correlation coefficients of Appendix 20, however, bear witness to the fact that location variables<sup>66</sup> do not play a direct role in the relationship of retail strategy and corporate performance.

In the analytical model (Exhibit 6.10.) I assumed that *there is a negative relationship between dependence and satisfaction with the hub firm*. This hypothesis (H8) cannot be justified based on the above model. Although the standardised regression coefficient of dependence is negative (-0.232), but this is not a significant main effect. Furthermore, it also presents a problem that dependence is primarily determined by benefits gained from co-operation (the sales and profit contribution of the alliance), so a negative sign contradicts the theoretical assumptions. It is mainly researches that concentrate on the advantages of a partnership (Frazier et. al [1989], Anderson and Narus [1990]) that find a positive relationship between dependence on partner and satisfaction with partner, which conforms to value received in the present study (i.e. the advantages). Replaceability, however, (Anderson&Narus [1984]) affects satisfaction with partner unfavourably. To sum it up, hypothesis H8) cannot be verified on the basis of the quantitative research results.

There is a positive relationship between *the perceived competence of the hub firm and satisfaction with it* (H9), which is of moderate strength and significant. In view of this, the more competent member firms believe hub firm to be, the more satisfied they are with its activity; i.e. competence is one of the most important aspect for retail enterprises. This is the conclusion arrived at by several authors (Barclay &Smith[1997], Selnes et. al [1998]); Kumar et al. (1992) for example also find a positive correlation between satisfaction with resellers and competence.

Further, I assumed that *the trust of allied member firms and satisfaction with hub firm* also enhance one another (H10). Empirical researches justify this hypothesis, as it is trust that has the most

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<sup>66</sup> Location variables were coded as dichotom variables and for the purpose of quantifying their effects, they were standardised.

relevant effect on satisfaction. Literature (Geyskens et. al [1998]) regards satisfaction as the direct consequence of trust, i.e. the more benevolent and honest an alliance towards its member firms is, the more satisfied they are with it. The reason for it is that retailers believe correct and reliable co-operation to be of crucial importance. Moreover, there typically is a well-working communication between partners, also supporting trust in the hub firm (Anderson&Weitz [1989]).

Hypothesis H7) was investigated in the causal model (Exhibit 7.21.), saying *if member firm performance increases, the satisfaction with hub firm from the part of member firm will increase*. On the basis of research results, this hypothesis is refused in terms of any of the performance measures, for neither annual sales, nor profitability variables showed a relationship with satisfaction with hub firm. The lack of correlation may be traced back to several reasons. First, most respondents marked the middle point (4) of the scale on the satisfaction scale, thus satisfaction is invariant to performance measures. Second, satisfaction is a subjective performance indicator, about which a number of authors (Geringer&Herbert [1991]) argued that the evaluations of companies are distorted, i.e. member firms are not happy to support a negative opinion against the alliance. In contrast to this, there are several researches studying interfirm relationships (Venkatraman&Ramanujam [1986], Dess&Robinson [1984]) that find a strong, positive correlation between satisfaction and objective performance measures.

## **7.8. The Summary of the Empirical Research. Conclusions**

### **7.8.1. The Most Relevant Results of the Empirical Research**

Several authors (Morgan [2000], Cravens&Cravens [2000]) have proved that with partners of horizontal strategic alliances, co-operation becomes incorporated in the company's strategy. The quantitative research proved that *the horizontal co-operations of retailers primarily affect purchasing and marketing via purchasing*, which justifies the relevance of the research concept.

When planning the research concept, I consciously made effort to have a control group besides the member firms of the alliance, on which the effects of a retail strategic alliance can be tested. In the course of comparing the two groups, the question arose if the marked differences between

allied and independent retailers is due to the strategic alliance exclusively or differences may occur due to a retail enterprise size. *Regression analysis revealed that marketing strategy and company performance measures are differentiated by the fact of being allied and company size to approximately the same extent.*

The effect of size, however, cannot be treated as totally separate from the effect of the alliance, for strategic alliances carry certain pre-selection effects, manifested in requirements of joining the alliance.

On the sample of allied retailers I tested the relationships and hypotheses formulated in the causal model. In the causal models, the different combinations of marketing strategy variables contributed to the individual performance measures, which at the same time, highlights the relevance of a multi-dimensional measurement.

There are some marketing strategy elements whose effect on company performance is highly stable in the sense that they do not fail to affect almost each performance indicator. One such relevant variable was *the number of store brands* stocked in the assortment, which affected all four performance measures (annual sales, gross margin, profit and sales growth after entry). Earlier researches have shown that the store brands of a chain have a positive effect on profit, for their lower prices boost sales, while their purchasing cost increases profit.

*The number of supplier allowances* is also of crucial importance, which is much higher in the case of allied retailers than with independent retailers. Retailers' sales, gross margin and profit were also affected in a positive way by favourable purchasing conditions and pay-backs. Thus, one of the main appeals of retail strategic alliances are still advantages derived from joint purchasing.

A distinctive feature of belonging to an alliance is the use of *chain identity elements*. Identity elements help establish a uniform image, which represents added value both consumers and suppliers. A chain-like appearance has a beneficial effect on gross margin, profit of retailers, moreover, the number of chain identity elements also define sales growth due to the alliance.

*Retail margin* exclusively correlated with gross margin, which is mainly owing to the strict price competition. Yet this calls attention to the fact that a competitive price level is only a necessary but not sufficient condition for market success. It also suggests that domestic buying groups have arrived at a new evolutionary phase where besides low price some further distinguishing tools (e.g. identity, their own store brands) have appeared as relevant competition factors.

Contradictory to expectations, *promotion and advertising backed by the alliance* failed to affect any performance measures. On the one hand, it is owing to similarities to be encountered in the promotion and advertising activity of alliances, second, the research possibly aimed to grasp the effects of retail promotions on too much of an aggregate level. The comparative investigation, however, justified the assumption that allied retailers are able to offer far more promotions to their consumers than independent retailers.

Hypotheses formulated for moderating variables were justified, for both size and market competition intensity are relevant factors of the relationship between marketing strategy and performance. Thus for instance, ignoring member firm size, basic assortment has a positive correlation with sales and gross margin, including, however, the size variable the significance level of the relationship substantially increases.

Member firms appreciate when *the alliance reveals high level of competence*. The more competent present or potential member firms perceive hub firm to be, the more satisfied they are with the alliance. As a consequence, demonstrating their market competence can be a persuasive tool in the hands of hub firms. *The reliability of the hub firm* becomes attached to this, which member firms measure in terms of benevolence expressed towards them and honest communication. If a member firm is convinced that it can rely on the alliance, it will be more likely to be satisfied with the co-operation.

#### 7.8.2. The Limits of the Research and Future Research Prospects

The main limit of the empirical research is an insufficient sample size and thus retail companies of strategic alliances are not sufficiently represented. Consequently, the results of the empirical research cannot be generalised. Furthermore, small sample size only enables a limited control of

the validity and reliability of the model, at present I applied correlation matrixes based on input, observed data for this purpose.

In future, the research concept could be conducted with other retail companies of a bigger sample size and different merchandise type (e.g. fashion of electronic products) that are operating in some type of a horizontal co-operation, for the results only refer to domestic-owned grocery retailing enterprises.

The present research had one single basis of comparison, i.e. the control group of independent retailers, but it would well worth looking at the issue in the function of time, in order for changes due to the alliance to be traced on. In domestic grocery retailing there would be a need for a panel comprised by retail companies, which would make conducting longitudinal investigations possible. At present AC Nielsen operates one such retail panel, but its data recording units are stores, not companies.

Interviews with experts revealed that strategic alliances made up of domestic retailers may well be able to achieve allowances due to their increased buying power, yet integration is directed by more powerful suppliers. In view of this, a further research base could be to examine the vertical co-operations of retail strategic alliances and suppliers.

The size of member firms proved to be an important influencing factor in the correlation system of marketing measures and performance, which needs further research. On the basis of the research results it may be assumed that conceptualising size could appear as an alternative theory as opposed to modelling the effect of strategic alliances, which again reinforces the expansion possibilities of the research concept.

### 7.8.3. The Scientific and Business Relevance of the Dissertation

The dissertation studies *the effects of a horizontal alliance* in a grocery retailing context. The issue of horizontal alliances is a relatively new are of research in international marketing literature, for earlier research centred upon vertical alliances. Consequently, international and domestic literature on co-operations between retail companies is somewhat limited. The dissertation

studies co-operations created between companies of the sector thoroughly and from several viewpoints.

Thus, the model developed in the research concept is suitable for *illustrating and analysing the marketing and behavioural dimensions of a horizontal alliance*, which normally appears in separate models. Grasping the complex causal relationships was made possible by the methodology applied. In the course of the research it has become clear that the method of *cognitive maps* is of a great potential to contribute to the conceptualising of explaining models and the effectiveness of the quantitative research. Applying the method in the science of marketing is justified and represents a new approach in exploring and specifying causal relationships.

The dissertation is not only of notable interest for researchers but contains relevant conclusions for retail companies and hub firms. The study promotes an *understanding of the effects of co-operation* for both parties. It helps *member retailers* become more aware which are the elements of a horizontal co-operation that play part in their performance, thus enhancing their strategic thinking. *Hub firms*, on the other hand, may realise the factors that influence the evaluation of the hub firm and what are the means by which it can improve its relationship with its member firms and satisfaction with co-operation.

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## Appendix 1

### List of Articles Included in Content Analysis

Nr.	Author	Title	Retailer	Source	Year/Issue	Page
1		Reál: A helyes döntés	Reál Élelmiszer Rt.	Mai piac	2001/12	47
2	Nagy Katalin	Sok kicsi sokra megy	beszerzési társulások (Honiker, CBA, Coop)	Mai piac	2001/6	12-18
3	K.G.	A folyamatos növekedés példája ösztönzően hat	Honiker	Mai piac	1999/2	34-36
4	Varga Ibolya	Tempósan fejlődő vállalkozás	Csopak Szövetkezeti Rt./Tempó üzletlánc	Mai piac	1999/4	18-21
5	Nagy Katalin	Változások kora	CBA	Mai piac	1999/5	34-35
6	Domi Zsuzsa	A hálózatépítés nem áll meg	BÉE Élelmiszer-kereskedelmi Kft.	Mai piac	1999/6	22-23
7	Bukta Zsuzsa	Egerek az elefántok lábánál	Budavidék Rt. (Budakönyéki ÁFÉSZ)	Mai piac	1999/9	42-43
8	Dombi Margit	Falvakban hódít a Privát Üzletlánc	Privát Üzletlánc	Mai piac	2000/12	20-21
9	D.I.	A "diszkont szupermarket" újabban házhoz megy	G-Roby	Mai piac	2000/6	22-23
10	K.L.I.	A nagykertől a franchise-hálózatig	Fezo Kereskedelmi Kft.	Mai piac	2001/11	24-25
11	Justyák János	Árrészyakorlatok	Cartel System Kft.	Mai piac	2001/10	22
12	Dézszi Zoltán	Budapesten is érdemes kereskedni	Coop-Star Rt.	Mai piac	2001/9	20-21
13	K.L.I.	Helyzetbe hozzák a kiskereskedőket	Gulyás Általános Kereskedelmi Kft.	Mai piac	2001/8	23
14	Nagy Katalin	Párhuzamosok ha találkoznak	Sláger	Mai piac	2001/12	22-23
15	Jász	Folyamatos terjeszkedés, növekvő forgalom	Szolnok Coop Rt.	Mai piac	2001/12	38-40
16	Bajor Eszter	A közös fellépés egyéni érdek	beszerzési társulások (Honiker, CBA, Coop)	Mai piac	1996/2	12-16
17	Nagy Katalin	Átváltozások kora: Coop-lánc születik	Coop	Mai piac	1996/1	16-17
18	Hlavay Richárd	A "Kereknap" sikere mögött saját nagyker	Kereknap	Mai piac	1997/9	42-44
19	Hlavay Richárd	Palócker-recept: stabilitás és alkalmazkodás	Palócker	Mai piac	1997/6-8	20-22
20	Honti Katalin	Megújult a Szegedi Élíker Rt.	Szegedi Élíker Rt.	Mai piac	1997/5	34-36

## Appendix 1

*List of Articles Included in Content Analysis (continued)*

Nr.	Author	Title	Retailer	Source	Year/Issue	Page
21	Justyák János	Jégcsillag Kft. Családi vállalkozás a toplistán	Jégcsillag Kft.	Mai piac	2001/1-2	18-19
22	Bukta Zsuzsa	Gé-Ker Bt. Nem a név kötelez	Gé-Ker Bt.	Mai piac	2000/5	40-41
23	Bukta Zsuzsa	Reális jövőkép	Reál	Mai piac	2001/4	26-27
24	Bajor Eszter	A változás minőségi	kiskereskedelmi tendenciák	Mai piac	2000/4	32-34
25	Körtési Zsolt	Több lábon állva	Siófok és Vidéke ÁFÉSZ	Mai piac	1998/10	24-25
26	Varga Sándor	Budapesten is erősített	Tisza Coop Rt.	Mai piac	1998/9	20
27	Bukta Zsuzsa	Sarki Sláger	Sláger	Mai piac	1998/3	34-36
28		A helyzeti előny még nem elég a győzelemhez	Coop	Mai piac	1998/3	12-16
29	Bajor Eszter	A kevesebb néha több	Kerékgyártó Kft.	Mai piac	1998/2	18-19
30	Maróti Zsuzsa	Három a magyar igazság	Győri ÁFÉSZ	Mai piac	1998/12	18-20
31	Bukta Zsuzsa	Maximális kényelem	Max Szupermarket	Mai piac	1999/11	20-23
32	Há	Szerkezetváltás a nagykereskedelemben	Alfa Kereskedelmi Rt.	Mai paic	1995/2	34-35
33	D.I.	Csemegeüzlet a lakótelepen	7Csemege	Mai piac	2000/3	20-21
34		Terjeszkedni kötelező	Szarvas Coop	Mai piac	2002/4	22
35		A régi, új Honiker: Új marketingkonceptió	Honiker	Mai piac	2002/5	24
36	Nagy Katalin	Itt a mirelit sziget, jön a convenience store	Sláger Rt.	Mai piac	2002/7	18-20
37		Reál: Találkozzunk mindennap	Reál Hungária Élelmiszer Rt.	Mai piac	2002/8	31
38		A Reál első éve	Reál Hungária Élelmiszer Rt.	Mai piac	2002/12	51
39		Reál: Találkozzunk mindennap	Reál Hungária Élelmiszer Rt.	Mai piac	2002/9	25
40		Üdülővezeti minisupermarket Igényesebb vevőkörre készülnek	Reál Ibolya ABC	Mai piac	2002/10	26-28
41		Mai Piac Kerekasztal: Közös jövő	Reál Rt, CBA, Honiker	Mai piac	2002/1-2	18-20
42	Gémes Gábor- Kovács L. István	Vevőközeli üzletek, önálló imázssal	Tempo Szupermarket Kft.	Mai piac	2002/1-2	38-39

## Appendix 2

### *Codelist Applied in the Content Analysis*

Subject of Analysis	Concepts
What type of retail alliance does it take part the retailer in?	Buying group Franchise Voluntary chain
What elements of marketing strategy are influenced by the alliance?	Price Merchandise assortment Store brand Advertising Service
What behavioural aspects are mentioned regarding the co-operation within the alliance?	Reliability, trust Autonomy Dependence Commitment Conflict
What performance measures are affected by the retail mix elements?	Turnover/sales Gross margin Revenue/profit ROI, ROA Efficiency Inventory turnover

Appendix 3

*Coding Scheme A*

Document ID: \_\_\_\_\_

Name of coder: \_\_\_\_\_

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Text, citation	Code of Concept	Comments

*Coding Scheme B*

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Name of coder: \_\_\_\_\_

Date coded: \_\_\_\_\_ page \_\_\_\_\_ of \_\_\_\_\_

Concept 1	Concept 2	Code of Association	Comments

## Appendix 4

### *The Association of Concepts*

#### Positive association

A	positively affects facilitates advances increases makes better helps promotes is necessary for	B
---	---	---

#### Negative association

A	negatively affects makes difficult hinders hurts impedes prevents inhibits changes for the worse	B
---	---	---

#### Non positive association

A	won't positively affect won't help won't promote is no benefit to (construct of negatives of positive association)	B
---	---	---

#### Non negative association

A	won't affect negatively won't hurt won't hinders (construct negatives of negative association)	B
---	--	---

#### small, but not zero effect

A	affects in some nonzero way somehow affects	B
---	--	---

#### No effect

A	has no effect on has no relation to does not matter for	B
---	---	---

#### Equivalent

A	is equivalent to is the same as is defined as	B
---	---	---

#### Non equivalent

A	is not the same as	B
---	--------------------	---

#### Example

A	is a member of is an example of belongs to set is not a member of	B
---	--	---

Source: Axelrod, R. [1976]: *Structure of Decision*. Princeton, New York

## Appendix 5

### *Adjacency Matrix*

	Cause																	
Effect	Joining the alliance	Competency	Supplier	Favourable purchasing conditions	Secondary conditions	Development	Assortment	Store brand	Price level	Corporate Identity	Turnover	Promotion	Warehousing	Effectiveness	Gross margin	Inventory turnover	Competitiveness	Total nr. of effects
Joining the alliance	1																	0
Competency		1																0
Suppliers		1	1															1
Favourable purchasing conditions	2			1														2
Secondary conditions					1													0
Development					1	1												1
Assortment	1	1					1											2
Store brand								1										0
Price level		1							1									1
Corporate Identity		1								1								1
Turnover	4		1	1	1	1	4	2	2	1	1	4						21
Promotion												1						0
Warehousing	1												1					1
Effectiveness	1							1					1	1				3
Gross margin								1							1			1
Inventory Turnover	2							1								1		3
Competitiveness	2			1													1	3
Total nr. of causes	13	4	1	2	2	1	4	5	2	1	0	4	1	0	0	0	0	

**INTERVIEW GUIDE**

- 1) What factors have motivated the creation of the alliance?
- 2) What type of activities are influenced by the co-operation? What part of retail activities should be harmonised between the member and the hub firm of the alliance?
- 3) What are the patterns of decision making within the alliance?
- 4) What are the most difficult areas to work with the allied retailers?
- 5) Are there any differences in the partnership with the member firms? Does the management apply any differentiation, or segmentation?
- 6) How are the performance of the allied retailers measured? Are there any significant differences in market performance and what factors are responsible for the differences?
- 7) Market potential of the alliance? Growth ratio of the alliance? Competition within and between retail alliances?

Respondents

Reál Hungária Rt.	Gálfi, Katalin	Marketing Director
Coop Hungary Rt.	Boros, Péter	Sales Executive
CBA Kereskedelmi Kft.	Neubauer, Katalin	Sales Executive
Honiker Kereskedelmi és Szolgáltató Kft.	Tóth, Tibor	Sales Executive

## Appendix 7

### *Scales Used in the Quantitative Research*

#### **Marketing Strategy Variables:**

- *Pricing*: average retail margin (%), average standard deviation of retail margin (%) in the most important merchandise groups (fresh food, prepackaged food, sweets, beverages, off-licence, tobacco products, health&beauty products, and general products)
- *Trade allowances*: dummy variables measuring different types of allowances (the length of the payment period, quantity discount, pay-backs for bounded assortment and prices, short term loan for financing inventory, other type of allowance)
- *Basic assortment*: number of SKUs in different merchandise groups (fresh food, prepackaged food, sweets, beverages, off-licence, tobacco products, health&beauty products, and general products)
- *Store brands*: number of SKUs of store brands in different merchandise groups (fresh food, prepackaged food, sweets, beverages, off-licence, tobacco products, health&beauty products, and general products)
- *Promotion intensity*: number of national, regional and individual promotions within a year, average number of SKUs included in a weekly or biweekly promotion, number of promotional games within a year
- *Advertising*: annual number of national, regional and individual paid impersonal advertising
- *Identity*: dummy variables for different identity elements (frontal design, logo, flyer, uniform, store layout, merchandise display, price featuring, other identity element)

#### **Performance Measures**

- Annual Sales (in Thousand HUF)
- Annual Gross Margin (in Thousand HUF)
- Annual Net Profit (in Thousand HUF)
- Sales Growth due to the alliance (%)
- Profit Growth due to the alliance

#### **Moderating Variables**

- *Size of the retailer* (total number of store employees, total number of the owned stores, total square meter of floorspace)
- *Location of the stores*: dummies of 4 types of settlements (county capital, settlements with a population of below or over 50 000, village)
- *Competition intensity*: store number of different type of competitors in the trade area (multinational chain, other domestic chain, other retailers belonging to the same alliance, independent retailers)

Appendix 7 (continued)

*Scales Used in the Quantitative Research*

**Scales for Describing the Relationship between the Allied Retailer and the Hub Firm of the Alliance**

*Dependence* (Kumar, Sheer, Steenkamp [1998], 5-point Likert-scale)

- Since I entered this alliance, the sales of my firm has increased.
- Since I entered this alliance, the profit of my firm has increased.
- There are other alliances, who could provide us with comparable benefits. (Reversed)
- Our total cost of switching to a competing alliance would be prohibitive.
- It would be difficult to replace the sales generated from this alliance.
- It would be difficult to replace the profit generated from this alliance.

*Trust* (Doney&Cannon [1997], 5-point Likert-scale)

- The hub firm is genuinely concerned that our business succeeds.
- We trust the hub firm keeps our best interest in mind.
- When making important decisions, the hub firm considers our welfare as well as its own.
- The hub firm keeps promises it makes to our firm
- The hub firm is not always honest with us. (Reversed)
- We do not always believe the information that the hub firm provides us. (Reversed)
- We find it necessary to be cautious with the hub firm. (Reversed)

*Competence* (Kumar et.a. [1992], Selnes [1998], 5-point Likert-scale)

- The hub firm of the alliance has the required business skills necessary to run a successful business.
- The hub firm of the alliance demonstrates a great deal of knowledge about retailing.
- The hub firm of the alliance have a good knowledge of competitors.
- The hub firm of the alliance knows the market well.
- The hub firm of the alliance has invested enough time and money in educating and training itself.
- The hub firm of the alliance provides me with advice about how to operate my business.

*Satisfaction*

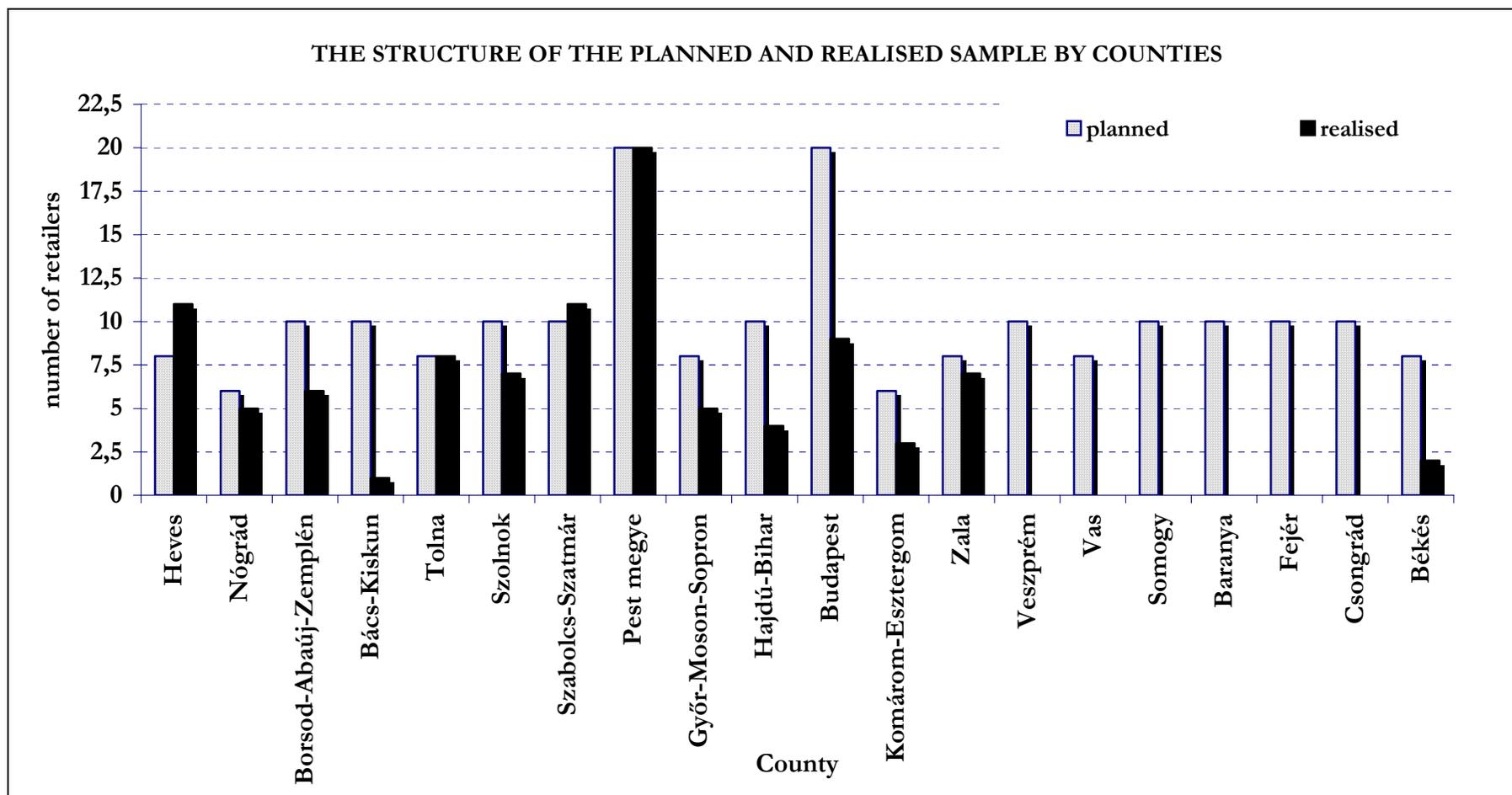
Overall satisfaction with the hub firm (7-point scale)

**Retailer's Profile**

- Year of foundation of the retail firm (year)
- Age of the owner/manager (year)
- Education level of the owner
- Experience: years spent in retail business

Appendix 8

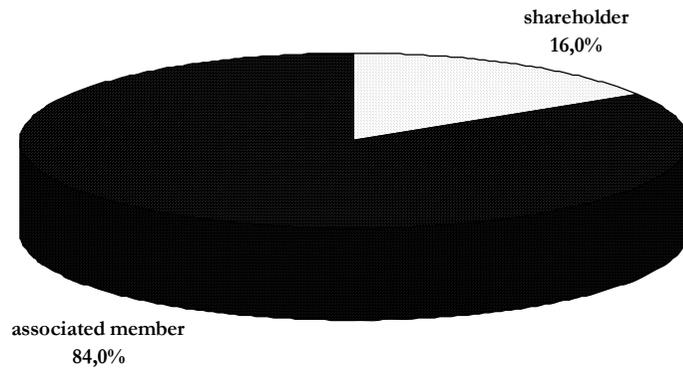
*The Structure of the Sample*



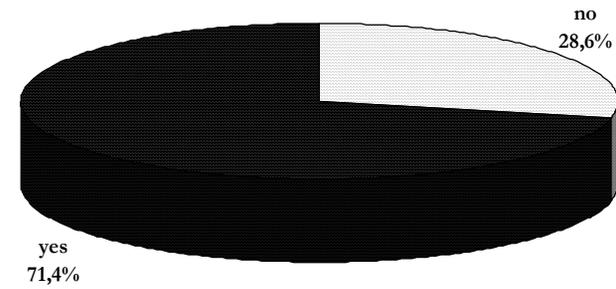
Appendix 9

*The Structure of the Sample*

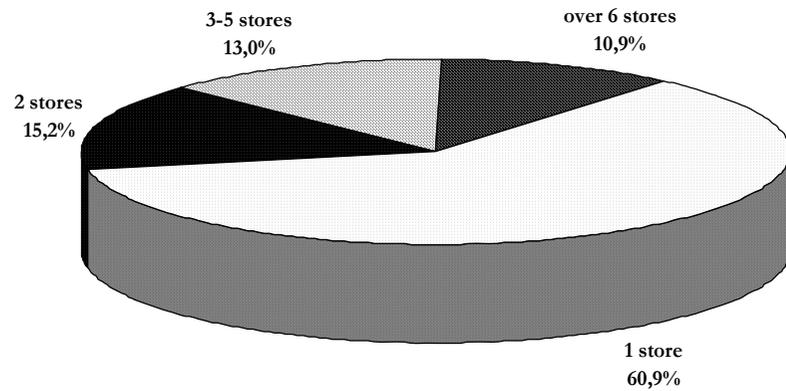
STATUS IN THE ALLIANCE



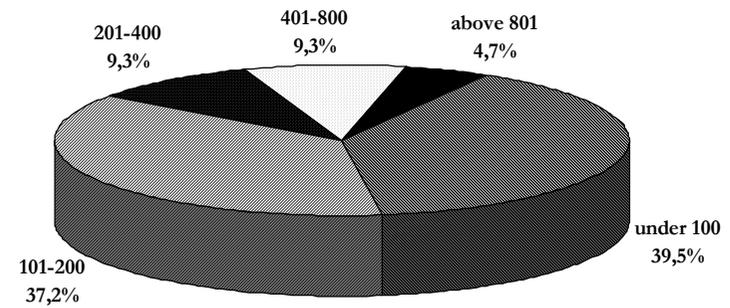
THE PRESENT ALLIANCE IS THE FIRST HORIZONTAL CO-OPERATION



TOTAL NUMBER OF STORES OWNED



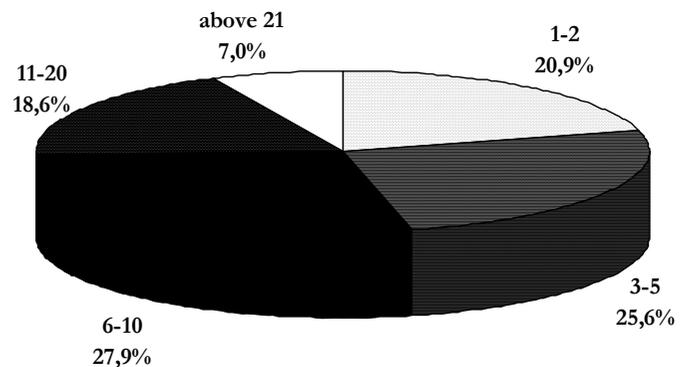
TOTAL FLOORSPACE OF THE OWNED STORES (square meter)



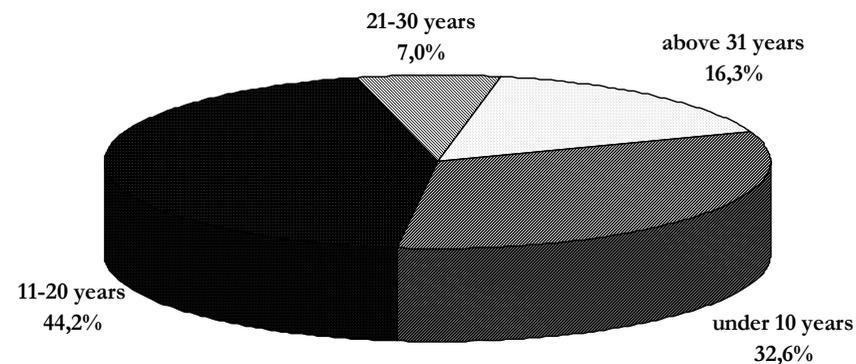
Appendix 9 (continued)

*The Structure of the Sample* **Hiba!**

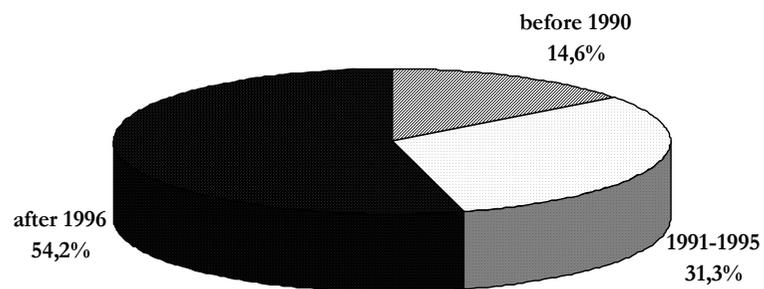
TOTAL NUMBER OF SALES PERSONNEL



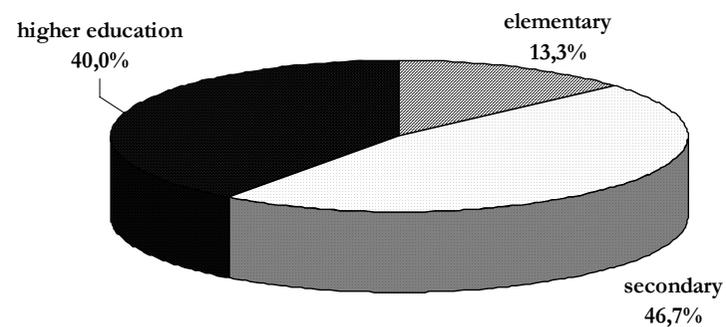
RETAIL EXPERIENCE OF THE OWNER  
(years)



FOUNDATION OF THE FIRM



THE OWNER'S EDUCATION



## Appendix 10

### *The Effect of the Size on the Relationship of Marketing Strategy and Performance of the Allied Retailers*

#### Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
Model					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,725	0,526	0,457	77367,74	0,53	7,59	6	41	1,62989E-05	
2	0,945	0,893	0,863	38788,81	0,37	31,53	4	37	1,84266E-11	2,182499774

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs)

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs), Nr. of stores, Total floorspace, Nr. of sales employees, Nr. of employees)

Dependent Variable: Total Sales in 2003

#### Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
Model					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,725	0,526	0,457	77367,74	0,53	7,59	6	41	1,62989E-05	
2	0,943	0,889	0,862	38945,79	0,36	41,27	3	38	4,90504E-12	2,294805222

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs)

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs), Nr. of stores, Az Total floorspace, Nr. of employees

Dependent Variable: Total Sales in 2003

#### Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
Model					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,725	0,526	0,457	77367,74	0,53	7,59	6	41	1,62989E-05	
2	0,937	0,878	0,853	40305,68	0,35	56,03	2	39	3,40347E-12	2,415292035

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs)

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs), Nr. of employees, Az Total floorspace

Dependent Variable: Total Sales in 2003

Appendix 10 (continued)

*The Effect of the Size on the Relationship of Marketing Strategy and Performance of the Allied Retailers*

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
Model					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,726	0,528	0,460	76490,39	0,53	7,82	6	42	1,10272E-05	
2	0,784	0,614	0,549	69941,43	0,09	9,23	1	41	0,004124068	1,946449084

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs)

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of promotions, Nr. of allowances, Basic assortment (nr. of SKUs), Az Total floorspace

Dependent Variable: Total Sales in 2003

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
Model					R Square Change	F Change	df1	df2	Sig. F Change	
1	0,782	0,612	0,559	99640,58	0,61	11,57	6	44	9,82212E-08	
2	0,946	0,896	0,879	52262,47	0,28	116,94	1	43	7,6198E-14	2,763841441

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of allowances, Nr. of promotions, Basic assortment (nr. of SKUs)

Predictors: (Constant), Nr. of chain identity elements, Average retail margin, Nr. of advertisements, Nr. of allowances, Nr. of promotions, Basic assortment (nr. of SKUs), Nr. of employees

Dependent Variable: Total Sales in 2003

Appendix 11

*Correlation Matrix of the Relationship between the Member Firms and Hub Firm*

		F1	F2	F3	F4	F5	F6	T1	T2	T3	T4	T5	T6	T7	C1	C2	C3	C4	C5	C6	S
D1	Pearson Correlation	1,000	0,861	-0,291	0,186	0,484	0,442	0,586	0,615	0,490	0,265	0,015	-0,135	-0,317	0,468	0,396	0,180	0,242	0,490	0,523	0,298
	Sig. (2-tailed)		, 0,000	0,043	0,200	0,000	0,001	0,000	0,000	0,000	0,066	0,919	0,361	0,026	0,001	0,005	0,221	0,097	0,000	0,000	0,040
	N	49	49	49	49	49	49	49	49	49	48	49	49	48	49	49	48	48	49	49	48
D2	Pearson Correlation	0,861	1,000	-0,251	0,139	0,349	0,308	0,576	0,558	0,475	0,221	0,007	-0,075	-0,268	0,398	0,372	0,042	0,132	0,484	0,413	0,307
	Sig. (2-tailed)	0,000		, 0,083	0,343	0,014	0,031	0,000	0,000	0,001	0,127	0,960	0,612	0,062	0,005	0,008	0,777	0,371	0,000	0,003	0,034
	N	49	49	49	49	49	49	49	49	49	48	49	49	48	49	49	48	48	49	49	48
D3	Pearson Correlation	-0,291	-0,251	1,000	-0,089	-0,324	-0,268	-0,171	-0,160	-0,213	0,032	-0,023	0,240	0,367	-0,277	-0,307	-0,121	-0,168	-0,258	-0,252	-0,210
	Sig. (2-tailed)	0,043	0,083		, 0,540	0,022	0,060	0,234	0,268	0,142	0,828	0,874	0,097	0,009	0,052	0,030	0,408	0,248	0,071	0,077	0,148
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
D4	Pearson Correlation	0,186	0,139	-0,089	1,000	0,518	0,494	0,181	0,061	-0,047	0,180	0,067	-0,059	-0,049	0,383	0,238	0,271	0,103	0,255	0,378	0,161
	Sig. (2-tailed)	0,200	0,343	0,540		, 0,000	0,000	0,209	0,672	0,747	0,210	0,643	0,685	0,737	0,006	0,096	0,059	0,481	0,073	0,007	0,270
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
D5	Pearson Correlation	0,484	0,349	-0,324	0,518	1,000	0,929	0,317	0,363	0,137	0,097	0,134	0,033	-0,084	0,449	0,208	0,292	0,134	0,241	0,504	0,249
	Sig. (2-tailed)	0,000	0,014	0,022	0,000		, 0,000	0,025	0,009	0,349	0,501	0,354	0,820	0,560	0,001	0,148	0,042	0,358	0,092	0,000	0,084
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
D6	Pearson Correlation	0,442	0,308	-0,268	0,494	0,929	1,000	0,392	0,435	0,197	0,076	0,076	0,018	-0,070	0,438	0,250	0,361	0,238	0,177	0,513	0,191
	Sig. (2-tailed)	0,001	0,031	0,060	0,000	0,000		, 0,005	0,002	0,176	0,599	0,600	0,901	0,627	0,001	0,080	0,011	0,099	0,219	0,000	0,189
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
T1	Pearson Correlation	0,586	0,576	-0,171	0,181	0,317	0,392	1,000	0,869	0,720	0,436	-0,039	-0,039	-0,243	0,568	0,582	0,351	0,397	0,242	0,555	0,594
	Sig. (2-tailed)	0,000	0,000	0,234	0,209	0,025	0,005		, 0,000	0,000	0,002	0,786	0,789	0,089	0,000	0,000	0,013	0,005	0,090	0,000	0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
T2	Pearson Correlation	0,615	0,558	-0,160	0,061	0,363	0,435	0,869	1,000	0,772	0,406	-0,127	-0,025	-0,266	0,522	0,536	0,332	0,406	0,185	0,619	0,513
	Sig. (2-tailed)	0,000	0,000	0,268	0,672	0,009	0,002	0,000		, 0,000	0,003	0,379	0,863	0,062	0,000	0,000	0,020	0,004	0,198	0,000	0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
T3	Pearson Correlation	0,490	0,475	-0,213	-0,047	0,137	0,197	0,720	0,772	1,000	0,496	-0,308	-0,312	-0,520	0,468	0,541	0,305	0,353	0,281	0,541	0,535
	Sig. (2-tailed)	0,000	0,001	0,142	0,747	0,349	0,176	0,000	0,000		, 0,000	0,031	0,031	0,000	0,001	0,000	0,033	0,013	0,050	0,000	0,000
	N	48	48	49	49	49	49	49	49	49	49	49	48	49	49	49	49	49	49	49	49

Appendix 11 (continued)

*Correlation Matrix of the Relationship between the Member Firms and Hub Firm*

		D1	D2	D3	D4	D5	D6	T1	T2	T3	T4	T5	T6	T7	C1	C2	C3	C4	C5	C6	S
T4	Pearson Correlation	0,265	0,221	0,032	0,180	0,097	0,076	0,436	0,406	0,496	1,000	-0,266	-0,236	-0,286	0,379	0,379	0,200	0,212	0,388	0,559	0,636
	Sig. (2-tailed)	0,066	0,127	0,828	0,210	0,501	0,599	0,002	0,003	0,000		0,061	0,102	0,044	0,007	0,007	0,168	0,144	0,005	0,000	0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
T5	Pearson Correlation	0,015	0,007	-0,023	0,067	0,134	0,076	-0,039	-0,127	-0,308	-0,266	1,000	0,422	0,486	-0,005	-0,135	-0,101	-0,167	-0,026	-0,170	-0,132
	Sig. (2-tailed)	0,919	0,960	0,874	0,643	0,354	0,600	0,786	0,379	0,031	0,061		0,003	0,000	0,974	0,349	0,489	0,251	0,859	0,237	0,367
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
T6	Pearson Correlation	-0,135	-0,075	0,240	-0,059	0,033	0,018	-0,039	-0,025	-0,312	-0,236	0,422	1,000	0,499	-0,075	-0,014	-0,093	-0,167	-0,385	-0,184	-0,023
	Sig. (2-tailed)	0,361	0,612	0,097	0,685	0,820	0,901	0,789	0,863	0,031	0,102	0,003		0,000	0,608	0,925	0,528	0,258	0,006	0,206	0,879
	N	48	48	49	49	49	49	49	49	48	49	49	49	49	49	49	48	48	49	49	48
T7	Pearson Correlation	-0,317	-0,268	0,367	-0,049	-0,084	-0,070	-0,243	-0,266	-0,520	-0,286	0,486	0,499	1,000	-0,152	-0,194	-0,098	-0,168	-0,117	-0,357	-0,169
	Sig. (2-tailed)	0,026	0,062	0,009	0,737	0,560	0,627	0,089	0,062	0,000	0,044	0,000	0,000		0,292	0,178	0,501	0,247	0,417	0,011	0,246
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
C1	Pearson Correlation	0,468	0,398	-0,277	0,383	0,449	0,438	0,568	0,522	0,468	0,379	-0,005	-0,075	-0,152	1,000	0,830	0,695	0,764	0,535	0,607	0,592
	Sig. (2-tailed)	0,001	0,005	0,052	0,006	0,001	0,001	0,000	0,000	0,001	0,007	0,974	0,608	0,292		0,000	0,000	0,000	0,000	0,000	0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
C2	Pearson Correlation	0,396	0,372	-0,307	0,238	0,208	0,250	0,582	0,536	0,541	0,379	-0,135	-0,014	-0,194	0,830	1,000	0,572	0,722	0,388	0,496	0,577
	Sig. (2-tailed)	0,005	0,008	0,030	0,096	0,148	0,080	0,000	0,000	0,000	0,007	0,349	0,925	0,178	0,000		0,000	0,000	0,005	0,000	0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
C3	Pearson Correlation	0,180	0,042	-0,121	0,271	0,292	0,361	0,351	0,332	0,305	0,200	-0,101	-0,093	-0,098	0,695	0,572	1,000	0,793	0,441	0,399	0,441
	Sig. (2-tailed)	0,221	0,777	0,408	0,059	0,042	0,011	0,013	0,020	0,033	0,168	0,489	0,528	0,501	0,000	0,000		0,000	0,001	0,004	0,002
	N	48	48	49	49	49	49	49	49	49	49	49	48	49	49	49	49	49	49	49	48
C4	Pearson Correlation	0,242	0,132	-0,168	0,103	0,134	0,238	0,397	0,406	0,353	0,212	-0,167	-0,167	-0,168	0,764	0,722	0,793	1,000	0,387	0,411	0,385
	Sig. (2-tailed)	0,097	0,371	0,248	0,481	0,358	0,099	0,005	0,004	0,013	0,144	0,251	0,258	0,247	0,000	0,000	0,000		0,006	0,003	0,007
	N	48	48	49	49	49	49	49	49	49	49	49	48	49	49	49	49	49	49	49	48
C5	Pearson Correlation	0,490	0,484	-0,258	0,255	0,241	0,177	0,242	0,185	0,281	0,388	-0,026	-0,385	-0,117	0,535	0,388	0,441	0,387	1,000	0,408	0,395
	Sig. (2-tailed)	0,000	0,000	0,071	0,073	0,092	0,219	0,090	0,198	0,050	0,005	0,859	0,006	0,417	0,000	0,005	0,001	0,006		0,003	0,005
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49

Appendix 11 (continued)

*Correlation Matrix of the Relationship between the Member Firms and Hub Firm*

		D1	D2	D3	D4	D5	D6	T1	T2	T3	T4	T5	T6	T7	C1	C2	C3	C4	C5	C6	S
C6	Pearson Correlation	0,523	0,413	-0,252	0,378	0,504	0,513	0,555	0,619	0,541	0,559	-0,170	-0,184	-0,357	0,607	0,496	0,399	0,411	0,408	1,000	0,500
	Sig. (2-tailed)	0,000	0,003	0,077	0,007	0,000	0,000	0,000	0,000	0,000	0,000	0,237	0,206	0,011	0,000	0,000	0,004	0,003	0,003		0,000
	N	49	49	50	50	50	50	50	50	49	50	50	49	50	50	50	49	49	50	50	49
S	Pearson Correlation	0,298	0,307	-0,210	0,161	0,249	0,191	0,594	0,513	0,535	0,636	-0,132	-0,023	-0,169	0,592	0,577	0,441	0,385	0,395	0,500	1,000
	Sig. (2-tailed)	0,040	0,034	0,148	0,270	0,084	0,189	0,000	0,000	0,000	0,000	0,367	0,879	0,246	0,000	0,000	0,002	0,007	0,005	0,000	
	N	48	48	49	49	49	49	49	49	48	49	49	48	49	49	49	48	48	49	49	49

D1: Since I entered this alliance, the sales of my firm has increased.

D2: Since I entered this alliance, the profit of my firm has increased.

D3: There are other alliances who could provide us with comparable benefits. (Reversed)

D4: Our total cost of switching to a competing alliance would be prohibitive.

D5: It would be difficult to replace the sales generated from this alliance.

D6: It would be difficult to replace the profit generated from this alliance.

T1: The hub firm is genuinely concerned that our business succeeds.

T2: We trust the hub firm keeps our best interest in mind.

T3: When making important decisions, the hub firm considers our welfare as well as its own.

T4: The hub firm keeps promises it makes to our firm

T5: The hub firm is not always honest with us. (Reversed)

T6: We do not always believe the information that the hub firm provides us. (Reversed)

T7: We find it necessary to be cautious with the hub firm. (Reversed)

C1: The hub firm of the alliance has the required business skills necessary to run a successful business.

C2: The hub firm of the alliance demonstrates a great deal of knowledge about retailing.

C3: The hub firm of the alliance have a good knowledge of competitors.

C4: The hub firm of the alliance knows the market well.

C5: The hub firm of the alliance has invested enough time and money in educating and training itself.

C6: The hub firm of the alliance provides me with advice about how to operate my business.

S: Overall satisfaction with the hub firm (7-point scale)

## Appendix 12

### Reliability Analysis of the Construct Perceived Dependence

\*\*\*\*\* Method 2 (covariance matrix) will be used for this analysis \*\*\*\*\*

#### DEPENDENCE

#### RELIABILITY ANALYSIS - SCALE (ALPHA)

1. D1 Since I entered this alliance, the sales of my firm has increased.
2. D2 Since I entered this alliance, the profit of my firm has increased.
3. D3 (R) There are other alliances who could provide us with comparable benefits.
4. D4 Our total cost of switching to a competing alliance would be prohibitive.
5. D5 It would be difficult to replace the sales generated from this alliance.
6. D6 It would be difficult to replace the profit generated from this alliance.

		Mean	Std Dev	Cases
1.	D1	3,4694	1,2926	49,0
2.	D2	3,3061	1,3103	49,0
3.	D3 (R)	2,7755	1,2292	49,0
4.	D4	2,9184	1,2884	49,0
5.	D5	2,5306	1,3245	49,0
6.	D6	2,5918	1,3982	49,0

N of Cases = 49,0

Statistics for Scale	Mean	Variance	Std Dev	N of Variables
	17,5918	30,9133	5,5600	6

Item Means	Mean	Minimum	Maximum	Range	Max/Min	Variance
	2,9320	2,5306	3,4694	,9388	1,3710	,1461

Item Variances	Mean	Minimum	Maximum	Range	Max/Min	Variance
	1,7113	1,5111	1,9549	,4439	1,2938	,0211

#### Item-total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
D1	14,1224	21,5264	,6433	,7814	,7508
D2	14,2857	22,6667	,5234	,7479	,7784
<b>D3(R)!</b>	<b>14,8163</b>	<b>25,4031</b>	<b>,3227</b>	<b>,1495</b>	<b>,8191</b>
<b>D4!</b>	<b>14,6735</b>	<b>24,3078</b>	<b>,3893</b>	<b>,2931</b>	<b>,8073</b>
D5	15,0612	19,9753	,7757	,8808	,7172
D6	15,0000	20,0417	,7123	,8655	,7315

#### RELIABILITY ANALYSIS - SCALE (ALPHA)

#### Analysis of Variance

Source of Variation	Sum of Sq.	DF	Mean Square	F	Prob.
Between People	247,3061	48	5,1522		
Within People	281,3333	245	1,1483		
Between Measures	35,7823	5	7,1565	6,9947	,0000
Residual	245,5510	240	1,0231		
Total	528,6395	293	1,8042		
Grand Mean	2,9320				

Hotelling's T-Squared = 30,9990      F = 5,6832      Prob. = ,0004  
 Degrees of Freedom:                      Numerator = 5      Denominator = 44

Reliability Coefficients      6 items

**Alpha = ,8014                      Standardized item alpha = ,7978**

Appendix 12 (continued)

Reliability Analysis of the Construct Trust

TRUST						
RELIABILITY ANALYSIS - SCALE (ALPHA)						
1.	T1	The hub firm is genuinely concerned that our business succeeds.				
2.	T2	We trust the hub firm keeps our best interest in mind.				
3.	T3	When making important decisions, the hub firm considers our welfare as well as its own.				
4.	T4	The hub firm keeps promises it makes to our firm.				
5.	T5(R)	The hub firm is not always honest with us. (Reversed)				
6.	T6(R)	We do not always believe the information that the hub firm provides us. (Reversed)				
7.	T7(R)	We find it necessary to be cautious with the hub firm. (Reversed)				
		Mean	Std Dev	Cases		
1.	T1	3,2292	1,2922	48,0		
2.	T2	3,2292	1,3407	48,0		
3.	T3	2,7708	1,3086	48,0		
4.	T4	3,7500	1,1013	48,0		
5.	T5(R)	3,6042	1,2332	48,0		
6.	T6(R)	3,3542	1,1938	48,0		
7.	T7(R)	3,7083	1,2876	48,0		
N of Cases =		48,0				
Statistics for Scale		Mean	Variance	Std Dev	N of Variables	
		23,6458	36,1485	6,0124	7	
Item Means		Mean	Minimum	Maximum	Range	Max/Min
		3,3780	2,7708	3,7500	,9792	1,3534
Item Variances		Mean	Minimum	Maximum	Range	Max/Min
		1,5709	1,2128	1,7974	,5847	1,4821
Item-total Statistics		Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted
T1		20,4167	26,5035	,5994	,7762	,7777
T2		20,4167	25,6099	,6442	,8055	,7690
T3		20,8750	24,1968	,7954	,7183	,7396
T4		19,8958	28,8187	,5173	,2910	,7926
<b>T5(R)!</b>		<b>20,0417</b>	<b>29,6578</b>	<b>,3700</b>	<b>,2883</b>	<b>,8166</b>
<b>T6(R)!</b>		<b>20,2917</b>	<b>29,9131</b>	<b>,3684</b>	<b>,3023</b>	<b>,8161</b>
T7(R)		19,9375	27,0386	,5565	,4011	,7856
RELIABILITY ANALYSIS - SCALE (ALPHA)						
Analysis of Variance						
Source of Variation	Sum of Sq.	DF	Mean Square	F	Prob.	
Between People	242,7113	47	5,1641			
Within People	308,2857	288	1,0704			
Between Measures	34,1845	6	5,6974	5,8616	,0000	
Residual	274,1012	282	,9720			
Total	550,9970	335	1,6448			
Grand Mean	3,3780					
Hotelling's T-Squared =	50,1782	F =	7,4734	Prob. =	,0000	
Degrees of Freedom:		Numerator =	6	Denominator =	42	
Reliability Coefficients	7 items					
<b>Alpha =</b>	<b>,8118</b>	<b>Standardized item alpha =</b>	<b>,8090</b>			

Appendix 12 (continued)

*Reliability Analysis of the Construct Perceived Competence*

COMPETENCE						
R E L I A B I L I T Y   A N A L Y S I S   -   S C A L E   ( A L P H A )						
1.	C1	The hub firm of the alliance has the required business skills necessary to run a successful business.				
2.	C2	The hub firm of the alliance demonstrates a great deal of knowledge about retailing.				
3.	C3	The hub firm of the alliance have a good knowledge of competitors.				
4.	C4	The hub firm of the alliance knows the market well.				
5.	C5	The hub firm of the alliance has invested enough time and money in educating and training itself.				
6.	C6	The hub firm of the alliance provides me with advice about how to operate my business.				
		Mean	Std Dev	Cases		
1.	C1	3,6531	1,0907	49,0		
2.	C2	3,6531	1,0907	49,0		
3.	C3	3,9796	1,0895	49,0		
4.	C4	4,1020	,9184	49,0		
5.	C5	3,4490	1,2758	49,0		
6.	C6	3,3673	1,1672	49,0		
N of Cases =		49,0				
Statistics for Scale		Mean	Variance	Std Dev	N of Variables	
		22,2041	27,4575	5,2400	6	
Item Means		Mean	Minimum	Maximum	Range	Max/Min
		3,7007	3,3673	4,1020	,7347	1,2182
Item Variances		Mean	Minimum	Maximum	Range	Max/Min
		1,2333	,8435	1,6276	,7840	1,9294
Item-total Statistics						
	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Alpha if Item Deleted	
C1	18,5510	18,1276	,8765	,8102	,8218	
C2	18,5510	19,2109	,7381	,7128	,8459	
C3	18,2245	19,4277	,7124	,6677	,8503	
C4	18,1020	20,2602	,7685	,7470	,8455	
<b>C5!</b>	<b>18,7551</b>	<b>19,9388</b>	<b>,5171</b>	<b>,3211</b>	<b>,8881</b>	
C6	18,8367	20,2645	,5549	,3665	,8776	
R E L I A B I L I T Y   A N A L Y S I S   -   S C A L E   ( A L P H A )						
Analysis of Variance						
Source of Variation	Sum of Sq.	DF	Mean Square	F	Prob.	
Between People	219,6599	48	4,5762			
Within People	156,0000	245	,6367			
Between Measures	20,4762	5	4,0952	7,2523	,0000	
Residual	135,5238	240	,5647			
Total	375,6599	293	1,2821			
Grand Mean	3,7007					
Hotelling's T-Squared =	31,8261	F =	5,8348	Prob. =	,0003	
Degrees of Freedom:		Numerator =	5	Denominator =	44	
Reliability Coefficients	6 items					
Alpha =	,8766		Standardized item alpha =	,8843		

Appendix 13

*Correlation Matrix of the Performance Measures of the Allied Retailers*

		SALES	GRMRG	PROFIT	SGROWTH	PGROWTH	INVTRN	SATISF
Pearson Correlation	SALES	1,000	<b>0,912</b>	<b>0,909</b>	<b>0,412</b>	-0,048	0,221	-0,093
Sig. (2-tailed)		,	<i>0,000</i>	<i>0,000</i>	<i>0,063</i>	0,836	0,299	0,652
N		27	27	23	21	21	24	26
Pearson Correlation	GRMRG	<b>0,912</b>	1,000	<b>0,907</b>	0,198	-0,066	0,089	-0,162
Sig. (2-tailed)		<i>0,000</i>	,	<i>0,000</i>	0,241	0,694	0,576	0,267
N		27	50	25	37	38	42	49
Pearson Correlation	PROFIT	<b>0,909</b>	<b>0,907</b>	1,000	<b>0,528</b>	0,062	0,223	-0,226
Sig. (2-tailed)		<i>0,000</i>	<i>0,000</i>	,	<i>0,014</i>	0,790	0,295	0,288
N		23	25	25	21	21	24	24
Pearson Correlation	SGROWTH	<b>0,412</b>	0,198	<b>0,528</b>	1,000	<b>0,766</b>	0,006	<b>0,393</b>
Sig. (2-tailed)		<i>0,063</i>	0,241	<i>0,014</i>	,	<i>0,000</i>	0,974	<i>0,018</i>
N		21	37	21	37	37	34	36
Pearson Correlation	PGROWTH	-0,048	-0,066	0,062	<b>0,766</b>	1,000	-0,195	<b>0,327</b>
Sig. (2-tailed)		0,836	0,694	0,790	<i>0,000</i>	,	0,263	<i>0,048</i>
N		21	38	21	37	38	35	37
Pearson Correlation	INVTRN	0,221	0,089	0,223	0,006	-0,195	1,000	0,155
Sig. (2-tailed)		0,299	0,576	0,295	0,974	0,263	,	0,332
N		24	42	24	34	35	42	41
Pearson Correlation	SATISF	-0,093	-0,162	-0,226	<b>0,393</b>	<b>0,327</b>	0,155	1,000
Sig. (2-tailed)		0,652	0,267	0,288	<i>0,018</i>	<i>0,048</i>	0,332	,
N		26	49	24	36	37	41	49

Abbreviations:

SALES = Sales in 2003 (in Thousand HUF)

GRMRG = Gross margin in 2003 (in Thousand HUF)

PROFIT = Net Profit (after tax) in 2003 (in Thousand HUF)

SGROWTH = Sales growth due to the alliance (%)

PGROWTH = Profit growth due to the alliance (%)

INVTRN = Average inventory turnover in 2003 (days)

SATISF = Overall satisfaction with the hub firm of the alliance (7-point scale)

## Appendix 14

### *Statistics Associated with the Imputation of Missing Data*

Variable	Descriptives of input variables					Descriptives of imputed variables		
	Valid	Missing	Missing %	Mean	Std. Dev.	Method	Mean	Std. Dev.
Basic assortment (nr. of SKUs)	34	16	32,0	1123,9	771,50	MVA, Regression	1029,7	922,9
Store brands (nr. of SKUs)	35	15	30,0	92,5	68,95	MVA, Regression	95,6	62,4
Average retail margin	43	7	14,0	18,5	4,96	MVA, Regression	18,1	4,9
Total number of promotion organised by the alliance (national and regional)	45	5	10,0	25,9	16,85	MVA, Regression	28,3	18,68
Total number of advertisements organised by the alliance (national and regional)	36	14	28,0	7,1	9,83	System Missing=0	8,1	8,96
Total number of chain identity elements used by the member firm	48	2	4	3,8	1,31	System Missing=0	3,7	1,49
Number of sales personnel (Pers.)	46	4	8,0	11,22	15,51	MVA, Regression	11,8	15,50
Total number of employees (Pers.)	46	4	8,0	12,6	17,04	MVA, Regression	12,1	16,46
Number of stores	46	4	8,0	2,8	3,91	MVA, Regression	2,7	3,78
Total floorspace (sq. meter)	43	7	14,0	228,6	283,02	MVA, Regression	213,4	264,78
Sales in 2003 (in Thousand HUF)	30	20	40,0	156431,8	178158,13	MVA, Regression	149912,7	171422,37
Net Profit (after tax) in 2003 (in Thousand HUF)	26	24	52,0	19010,5	25626,61	MVA, Regression	17163,7	17013,04
Gross margin in 2003 (in Thousand HUF)	28	22	44,0	33957,4	38815,9	MVA, Regression	27912,7	33044,14
Sales growth due to the alliance (%)	37	13	26,0	11,05	8,75	MVA, Regression	10,4	7,89
Profit growth due to the alliance (%)	38	12	24,0	8,18	9,22	MVA, Regression	8,9	9,28

Appendix 15

*Correlation Matrix of Marketing Strategy Variables and Performance Measures of the Allied Retailers*

		MARGIN	ALLOW	PROM	ADVERT	ASSORT	SBRAND	IDENT	SALES	GRMRG	PROFIT	SGROWTH	PGROWTH
Pearson Correlation	MARGIN	1,000	0,023	-0,004	-0,053	0,215	0,224	0,041	0,103	0,366	0,271	-0,038	0,023
Sig. (2-tailed)		,	0,874	0,975	0,714	0,134	0,118	0,777	0,475	0,009	0,057	0,794	0,875
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	ALLOW	0,023	1,000	0,374	0,319	0,365	0,115	0,348	0,331	0,336	0,354	0,279	-0,019
Sig. (2-tailed)		0,874	,	0,008	0,024	0,009	0,427	0,013	0,019	0,017	0,012	0,050	0,895
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	PROM	-0,004	0,374	1,000	0,477	0,383	0,289	0,433	0,178	0,170	0,207	0,135	-0,005
Sig. (2-tailed)		0,975	0,008	,	0,000	0,006	0,042	0,002	0,216	0,237	0,149	0,352	0,970
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	ADVERT	-0,053	0,319	0,477	1,000	0,147	0,297	0,434	0,055	0,068	0,309	0,228	0,087
Sig. (2-tailed)		0,714	0,024	0,000	,	0,308	0,036	0,002	0,705	0,639	0,029	0,111	0,547
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	ASSORT	0,215	0,365	0,383	0,147	1,000	0,328	0,412	0,261	0,375	0,325	0,202	0,151
Sig. (2-tailed)		0,134	0,009	0,006	0,308	,	0,020	0,003	0,067	0,007	0,021	0,159	0,294
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	SBRAND	0,224	0,115	0,289	0,297	0,328	1,000	0,104	0,485	0,514	0,507	0,254	0,142
Sig. (2-tailed)		0,118	0,427	0,042	0,036	0,020	,	0,474	0,000	0,000	0,000	0,075	0,324
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	IDENT	0,041	0,348	0,433	0,434	0,412	0,104	1,000	0,231	0,292	0,376	0,361	0,140
Sig. (2-tailed)		0,777	0,013	0,002	0,002	0,003	0,474	,	0,106	0,040	0,007	0,010	0,334
N		50	50	50	50	50	50	50	50	50	50	50	50

Appendix 15 (continued)

*Correlation Matrix of Marketing Strategy Variables and Performance Measures of the Allied Retailers*

		MARGIN	ALLOW	PROM	ADVERT	ASSORT	SBRAND	IDENT	SALES	GRMRG	PROFIT	SGRWOTH	PGROWT
Pearson Correlation	SALES	0,103	0,331	0,178	0,055	0,261	0,485	0,231	1,000	0,937	0,607	0,191	-0,140
Sig. (2-tailed)		0,475	0,019	0,216	0,705	0,067	0,000	0,106		0,000	0,000	0,184	0,333
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	GRMRG	0,366	0,336	0,170	0,068	0,375	0,514	0,292	0,937	1,000	0,669	0,156	-0,112
Sig. (2-tailed)		0,009	0,017	0,237	0,639	0,007	0,000	0,040	0,000		0,000	0,279	0,438
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	PROFIT	0,271	0,354	0,207	0,309	0,325	0,507	0,376	0,607	0,669	1,000	0,217	0,025
Sig. (2-tailed)		0,057	0,012	0,149	0,029	0,021	0,000	0,007	0,000	0,000		0,130	0,865
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	SGROWTH	-0,038	0,279	0,135	0,228	0,202	0,254	0,361	0,191	0,156	0,217	1,000	0,614
Sig. (2-tailed)		0,794	0,050	0,352	0,111	0,159	0,075	0,010	0,184	0,279	0,130		0,000
N		50	50	50	50	50	50	50	50	50	50	50	50
Pearson Correlation	PGROWTH	0,023	-0,019	-0,005	0,087	0,151	0,142	0,140	-0,140	-0,112	0,025	0,614	1,000
Sig. (2-tailed)		0,875	0,895	0,970	0,547	0,294	0,324	0,334	0,333	0,438	0,865	0,000	
N		50	50	50	50	50	50	50	50	50	50	50	50

Rövidítések jelentése:

MARGIN= Average retail margin applied by the member firm (%)

ALLOW= Number of trade allowances received

PROM= Number of national, and regional promotions in the stores of the member firm organised by the alliance within a year

ADVERT= Number of national, and regional chain advertisements organised by the alliance

ASSORT= Number of SKUs of the basic assortment (without promotional and seasonal offering)

SBRAND= Number of SKUs of store brands developed by the alliance

IDENT= Number of different chain identity elements

SALES = Sales in 2003 (in Thousand HUF)

GRMRG = Gross margin in 2003 (in Thousand HUF)

PROFIT = Net profit in 2003 (after tax) (in Thousand HUF)

SGROWTH = Sales growth due to the alliance (%)

PGROWTH = Profit growth due to the alliance (%)

## Appendix 16

### *Causal Analysis of Marketing Strategy Variables and the Annual Sales of Allied Retailers*

Your model contains the following variables

sales	observed	endogenous
ident	observed	exogenous
margin	observed	exogenous
assort	observed	exogenous
allow	observed	exogenous
prom	observed	exogenous
sbrand	observed	exogenous
multi	observed	exogenous
indpdt	observed	exogenous
floorsp	observed	exogenous
advert	observed	exogenous
employ	observed	exogenous
e12	unobserved	exogenous

Number of variables in your model:	13
Number of observed variables:	12
Number of unobserved variables:	1
Number of exogenous variables:	12
Number of endogenous variables:	1

#### Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed:	1	0	0	0	0	1
Labeled:	0	0	0	0	0	0
Unlabeled:	11	14	12	0	0	37
Total:	12	14	12	0	0	38

#### NOTE:

The model is recursive.

#### Assessment of normality

	min	max	skew	c.r.	kurtosis	c.r.
employ	-0,880	3,914	2,077	5,996	4,824	6,963
advert	-0,928	3,479	1,027	2,964	1,271	1,835
floorsp	-0,693	4,859	3,135	9,049	10,670	15,400
indpdt	-0,613	4,556	3,467	10,009	12,637	18,240
multi	-0,897	3,001	1,494	4,312	1,767	2,551
sbrand	-1,388	2,011	0,452	1,304	-0,848	-1,224
prom	-1,602	3,299	0,676	1,952	0,681	0,983
allow	-2,410	1,641	-0,561	-1,620	0,250	0,361
assort	-1,202	3,780	1,515	4,372	2,687	3,878
margin	-1,854	3,508	1,424	4,111	3,142	4,536
ident	-2,469	2,227	-0,111	-0,320	0,441	0,636
sales	-1,018	3,591	1,740	5,024	2,569	3,708
Multivariate					46,023	8,877

Computation of degrees of freedom

Number of distinct sample moments: 78  
 Number of distinct parameters to be estimated: 37

-----  
 Degrees of freedom: 41

0e	3	0,0e+000	-3,8772e-002	1,00e+004	1,93481817887e+002	0	1,00e+004
1e	0	3,6e+001	0,0000e+000	8,09e-001	1,25913751467e+002	18	1,01e+000
2e	0	2,1e+001	0,0000e+000	4,80e-001	1,11918089197e+002	3	0,00e+000
3e	0	2,1e+001	0,0000e+000	3,93e-001	1,02536968358e+002	1	1,08e+000
4e	0	2,8e+001	0,0000e+000	2,43e-001	1,00969623541e+002	1	1,13e+000
5e	0	3,3e+001	0,0000e+000	8,33e-002	1,00870475985e+002	1	1,06e+000
6e	0	3,3e+001	0,0000e+000	8,67e-003	1,00869597207e+002	1	1,01e+000
7e	0	3,3e+001	0,0000e+000	8,94e-005	1,00869597112e+002	1	1,00e+000

Minimum was achieved

Chi-square = 100,870  
 Degrees of freedom = 41  
 Probability level = 0,000

Maximum Likelihood Estimates

Regression Weights:	Estimate	S.E.	C.R.	Label
-----	-----	-----	-----	-----
sales <----- ident	0,167	0,125	1,329	
sales <----- margin	-0,055	0,100	-0,546	
sales <----- assort	-0,172	0,124	-1,394	
sales <----- allow	0,244	0,115	2,125	
sales <----- prom	-0,031	0,126	-0,245	
sales <----- sbrand	0,529	0,112	4,716	
sales <----- multi	0,259	0,100	2,583	
sales <----- indpdt	-0,381	0,100	-3,801	
sales <----- floorsp	0,250	0,104	2,412	
sales <----- employ	0,316	0,104	3,052	
sales <----- advert	-0,244	0,126	-1,939	

Standardized Regression Weights:	Estimate
-----	-----
sales <----- ident	0,151
sales <----- margin	-0,051
sales <----- assort	-0,157
sales <----- allow	0,223
sales <----- prom	-0,028
sales <----- sbrand	0,486
sales <----- multi	0,240
sales <----- indpdt	-0,353
sales <----- floorsp	0,231
sales <----- employ	0,292
sales <----- advert	-0,223

Covariances:		Estimate	S.E.	C.R.	Label		
-----		-----	-----	-----	-----		
allow <----->	prom	0,318	0,136	2,334			
prom <----->	advert	0,409	0,139	2,936			
assort <----->	allow	0,301	0,135	2,222			
ident <----->	allow	0,315	0,140	2,242			
assort <----->	prom	0,301	0,127	2,361			
prom <----->	sbrand	0,214	0,123	1,731			
ident <----->	prom	0,374	0,137	2,725			
allow <----->	advert	0,252	0,133	1,899			
sbrand <----->	advert	0,217	0,127	1,713			
assort <----->	sbrand	0,250	0,129	1,943			
ident <----->	assort	0,337	0,132	2,550			
multi <----->	indpdt	0,006	0,140	0,044			
floorsp <----->	employ	0,244	0,144	1,693			
ident <----->	advert	0,364	0,136	2,679			
Correlations:		Estimate					
-----		-----					
allow <----->	prom	0,338					
prom <----->	advert	0,433					
assort <----->	allow	0,314					
ident <----->	allow	0,330					
assort <----->	prom	0,320					
prom <----->	sbrand	0,226					
ident <----->	prom	0,399					
allow <----->	advert	0,262					
sbrand <----->	advert	0,226					
assort <----->	sbrand	0,260					
ident <----->	assort	0,353					
multi <----->	indpdt	0,006					
floorsp <----->	employ	0,249					
ident <----->	advert	0,381					
Variances:		Estimate	S.E.	C.R.	Label		
-----		-----	-----	-----	-----		
	ident	0,947	0,188	5,046			
	margin	0,980	0,198	4,950			
	assort	0,957	0,191	5,009			
	allow	0,960	0,193	4,985			
	prom	0,926	0,182	5,079			
	sbrand	0,965	0,194	4,968			
	multi	0,980	0,198	4,950			
	indpdt	0,980	0,198	4,950			
	floorsp	0,980	0,198	4,950			
	advert	0,961	0,193	4,994			
	employ	0,980	0,198	4,950			
	e12	0,484	0,098	4,950			
Squared Multiple Correlations:		Estimate					
-----		-----					
	sales	0,578					
Total Effects							
	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,316	-0,244	0,250	-0,381	0,259	0,529	-0,031
	allow	assort	margin	ident			
sales	0,244	-0,172	-0,055	0,167			

Standardized Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,292	-0,223	0,231	-0,353	0,240	0,486	-0,028

	allow	assort	margin	ident
sales	0,223	-0,157	-0,051	0,151

Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,316	-0,244	0,250	-0,381	0,259	0,529	-0,031

	allow	assort	margin	ident
sales	0,244	-0,172	-0,055	0,167

Standardized Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,292	-0,223	0,231	-0,353	0,240	0,486	-0,028

	allow	assort	margin	ident
sales	0,223	-0,157	-0,051	0,151

Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,000	0,000	0,000	0,000	0,000	0,000	0,000

	allow	assort	margin	ident
sales	0,000	0,000	0,000	0,000

Standardized Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sales	0,000	0,000	0,000	0,000	0,000	0,000	0,000

	allow	assort	margin	ident
sales	0,000	0,000	0,000	0,000

Summary of models

	Model	NPAR	CMIN	DF	P	CMIN/DF
	Default model	37	100,870	41	0,000	2,460
	Saturated model	78	0,000	0		
	Independence model	12	201,877	66	0,000	3,059

Model	RMR	GFI	AGFI	PGFI
Default model	0,196	0,778	0,578	0,409
Saturated model	0,000	1,000		
Independence model	0,253	0,536	0,451	0,453

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,500	0,196	0,628	0,291	0,559
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI
Default model	0,621	0,311	0,347
Saturated model	0,000	0,000	0,000
Independence model	1,000	0,000	0,000

Model	NCP	LO 90	HI 90
Default model	59,870	34,145	93,287
Saturated model	0,000	0,000	0,000
Independence model	135,877	96,883	182,499

Model	FMIN	F0	LO 90	HI 90
Default model	2,059	1,222	0,697	1,904
Saturated model	0,000	0,000	0,000	0,000
Independence model	4,120	2,773	1,977	3,724

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,173	0,130	0,215	0,000
Independence model	0,205	0,173	0,238	0,000

Model	AIC	BCC	BIC	CAIC
Default model	174,870	201,592	337,556	282,614
Saturated model	156,000	212,333	498,961	383,138
Independence model	225,877	234,544	278,640	260,822

Model	ECVI	LO 90	HI 90	MECVI
Default model	3,569	3,044	4,251	4,114
Saturated model	3,184	3,184	3,184	4,333
Independence model	4,610	3,814	5,561	4,787

Model	HOELTER .05	HOELTER .01
Default model	28	32
Independence model	21	24

Execution time summary:

Minimization: 0,090  
Miscellaneous: 0,881  
Bootstrap: 0,000  
Total: 0,971

Appendix 17

*Causal Analysis of Marketing Strategy Variables and the Annual Gross Margin (in Value) of Allied Retailers*

Your model contains the following variables

grmrg	observed	endogenous
ident	observed	exogenous
margin	observed	exogenous
assort	observed	exogenous
allow	observed	exogenous
prom	observed	exogenous
sbrand	observed	exogenous
multi	observed	exogenous
indpdt	observed	exogenous
floorsp	observed	exogenous
advert	observed	exogenous
employ	observed	exogenous
e12	unobserved	exogenous

Number of variables in your model: 13  
 Number of observed variables: 12  
 Number of unobserved variables: 1  
 Number of exogenous variables: 12  
 Number of endogenous variables: 1

Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
	-----	-----	-----	-----	-----	-----
Fixed:	1	0	0	0	0	1
Labeled:	0	0	0	0	0	0
Unlabeled:	11	14	12	0	0	37
Total:	12	14	12	0	0	38

NOTE:

The model is recursive.

Assessment of normality

	min	max	skew	c.r.	kurtosis	c.r.
	-----	-----	-----	-----	-----	-----
employ	-0,880	3,914	2,077	5,996	4,824	6,963
advert	-0,928	3,479	1,027	2,964	1,271	1,835
floorsp	-0,693	4,859	3,135	9,049	10,670	15,400
indpdt	-0,613	4,556	3,467	10,009	12,637	18,240
multi	-0,897	3,001	1,494	4,312	1,767	2,551
sbrand	-1,388	2,011	0,452	1,304	-0,848	-1,224
prom	-1,602	3,299	0,676	1,952	0,681	0,983
allow	-2,410	1,641	-0,561	-1,620	0,250	0,361
assort	-1,202	3,780	1,515	4,372	2,687	3,878
margin	-1,854	3,508	1,424	4,111	3,142	4,536
ident	-2,469	2,227	-0,111	-0,320	0,441	0,636
grmrg	-0,980	3,127	1,771	5,114	2,450	3,537
Multivariate					46,824	9,031

Model: Default model

Computation of degrees of freedom

Number of distinct sample moments: 78  
 Number of distinct parameters to be estimated: 37  
 -----  
 Degrees of freedom: 41

0e 3 0,0e+000 -3,8772e-002 1,00e+004 1,94078277741e+002 0 1,00e+004

```

1e 0 2,8e+001 0,0000e+000 8,38e-001 1,23492444776e+002 18 9,99e-001
2e 0 2,1e+001 0,0000e+000 3,41e-001 1,11476002937e+002 3 0,00e+000
3e 0 2,1e+001 0,0000e+000 3,82e-001 1,02520728728e+002 1 1,07e+000
4e 0 3,0e+001 0,0000e+000 2,43e-001 1,00969556104e+002 1 1,14e+000
5e 0 3,7e+001 0,0000e+000 8,33e-002 1,00870475984e+002 1 1,06e+000
6e 0 3,8e+001 0,0000e+000 8,67e-003 1,00869597207e+002 1 1,01e+000
7e 0 3,8e+001 0,0000e+000 8,94e-005 1,00869597112e+002 1 1,00e+000

```

Minimum was achieved

Chi-square = 100,870  
Degrees of freedom = 41  
Probability level = 0,000

Maximum Likelihood Estimates

```

-----
Regression Weights:
-----

```

	Estimate	S.E.	C.R.	Label
grmrg <----- ident	0,229	0,119	1,918	
grmrg <----- margin	0,207	0,096	2,169	
grmrg <----- assort	-0,031	0,118	-0,264	
grmrg <----- allow	0,240	0,109	2,194	
grmrg <----- prom	-0,098	0,120	-0,815	
grmrg <----- sbrand	0,474	0,107	4,440	
grmrg <----- multi	0,199	0,096	2,081	
grmrg <----- indpdt	-0,278	0,096	-2,908	
grmrg <----- floorsp	0,213	0,099	2,157	
grmrg <----- employ	0,159	0,099	1,609	
grmrg <----- advert	-0,199	0,120	-1,663	

```

-----
Standardized Regression Weights:
-----

```

	Estimate
grmrg <----- ident	0,230
grmrg <----- margin	0,212
grmrg <----- assort	-0,031
grmrg <----- allow	0,243
grmrg <----- prom	-0,098
grmrg <----- sbrand	0,482
grmrg <----- multi	0,203
grmrg <----- indpdt	-0,284
grmrg <----- floorsp	0,218
grmrg <----- employ	0,162
grmrg <----- advert	-0,202

```

-----
Covariances:
-----

```

	Estimate	S.E.	C.R.	Label
allow <-----> prom	0,318	0,136	2,334	
prom <-----> advert	0,409	0,139	2,936	
assort <-----> allow	0,301	0,135	2,222	
ident <-----> allow	0,315	0,140	2,242	
assort <-----> prom	0,301	0,127	2,361	
prom <-----> sbrand	0,214	0,123	1,731	
ident <-----> prom	0,374	0,137	2,725	
allow <-----> advert	0,252	0,133	1,899	
sbrand <-----> advert	0,217	0,127	1,713	
assort <-----> sbrand	0,250	0,129	1,943	
ident <-----> assort	0,337	0,132	2,550	
multi <-----> indpdt	0,006	0,140	0,044	
floorsp <-----> employ	0,244	0,144	1,693	
ident <-----> advert	0,364	0,136	2,679	

```

-----
Correlations:
-----

```

```

allow <-----> prom      0,338
prom <-----> advert     0,433
assort <-----> allow    0,314
ident <-----> allow     0,330
assort <-----> prom     0,320
prom <-----> sbrand     0,226
ident <-----> prom     0,399
allow <-----> advert     0,262
sbrand <-----> advert   0,226
assort <-----> sbrand   0,260
ident <-----> assort    0,353
multi <-----> indpdt    0,006
floorsp <-----> employ  0,249
ident <-----> advert     0,381

```

Variances:		Estimate	S.E.	C.R.	Label
-----		-----	-----	-----	-----
	ident	0,947	0,188	5,046	
	margin	0,980	0,198	4,950	
	assort	0,957	0,191	5,009	
	allow	0,960	0,193	4,985	
	prom	0,926	0,182	5,079	
	sbrand	0,965	0,194	4,968	
	multi	0,980	0,198	4,950	
	indpdt	0,980	0,198	4,950	
	floorsp	0,980	0,198	4,950	
	advert	0,961	0,193	4,994	
	employ	0,980	0,198	4,950	
	e12	0,438	0,089	4,950	

Squared Multiple Correlations:		Estimate
-----		-----
	grmrg	0,532

Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
	-----	-----	-----	-----	-----	-----	-----
grmrg	0,159	-0,199	0,213	-0,278	0,199	0,474	-0,098
	allow	assort	margin	ident			
	-----	-----	-----	-----			
grmrg	0,240	-0,031	0,207	0,229			

Standardized Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
	-----	-----	-----	-----	-----	-----	-----
grmrg	0,162	-0,202	0,218	-0,284	0,203	0,482	-0,098
	allow	assort	margin	ident			
	-----	-----	-----	-----			
grmrg	0,243	-0,031	0,212	0,230			

Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
grmrg	0,159	-0,199	0,213	-0,278	0,199	0,474	-0,098
	allow	assort	margin	ident			
grmrg	0,240	-0,031	0,207	0,229			

Standardized Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
grmrg	0,162	-0,202	0,218	-0,284	0,203	0,482	-0,098
	allow	assort	margin	ident			
grmrg	0,243	-0,031	0,212	0,230			

Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
grmrg	0,000	0,000	0,000	0,000	0,000	0,000	0,000
	allow	assort	margin	ident			
grmrg	0,000	0,000	0,000	0,000			

Standardized Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
grmrg	0,000	0,000	0,000	0,000	0,000	0,000	0,000
	allow	assort	margin	ident			
grmrg	0,000	0,000	0,000	0,000			

Summary of models

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	37	100,870	41	0,000	2,460
Saturated model	78	0,000	0		
Independence model	12	206,715	66	0,000	3,132

Model	RMR	GFI	AGFI	PGFI
Default model	0,191	0,778	0,578	0,409
Saturated model	0,000	1,000		
Independence model	0,259	0,525	0,438	0,444

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,512	0,214	0,639	0,315	0,575
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI	
Default model	0,621	0,318	0,357	
Saturated model	0,000	0,000	0,000	
Independence model	1,000	0,000	0,000	

Model	NCP	LO 90	HI 90	
Default model	59,870	34,145	93,287	
Saturated model	0,000	0,000	0,000	
Independence model	140,715	101,111	187,941	

Model	FMIN	F0	LO 90	HI 90
Default model	2,059	1,222	0,697	1,904
Saturated model	0,000	0,000	0,000	0,000
Independence model	4,219	2,872	2,063	3,836

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,173	0,130	0,215	0,000
Independence model	0,209	0,177	0,241	0,000

Model	AIC	BCC	BIC	CAIC
Default model	174,870	201,592	337,556	282,614
Saturated model	156,000	212,333	498,961	383,138
Independence model	230,715	239,382	283,478	265,659

Model	ECVI	LO 90	HI 90	MECVI
Default model	3,569	3,044	4,251	4,114
Saturated model	3,184	3,184	3,184	4,333
Independence model	4,708	3,900	5,672	4,885

Model	HOELTER .05	HOELTER .01
Default model	28	32
Independence model	21	23

Execution time summary:

Minimization: 0,090  
Miscellaneous: 0,761  
Bootstrap: 0,000  
Total: 0,851

## Appendix 18

### *Causal Analysis of Marketing Strategy Variables and the Annual Profit of Allied Retailers*

Your model contains the following variables

profit	observed	endogenous
ident	observed	exogenous
margin	observed	exogenous
assort	observed	exogenous
allow	observed	exogenous
prom	observed	exogenous
sbrand	observed	exogenous
multi	observed	exogenous
indpdt	observed	exogenous
floorsp	observed	exogenous
advert	observed	exogenous
employ	observed	exogenous
e12	unobserved	exogenous

Number of variables in your model:	13
Number of observed variables:	12
Number of unobserved variables:	1
Number of exogenous variables:	12
Number of endogenous variables:	1

#### Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
	-----	-----	-----	-----	-----	-----
Fixed:	1	0	0	0	0	1
Labeled:	0	0	0	0	0	0
Unlabeled:	11	14	12	0	0	37
	-----	-----	-----	-----	-----	-----
Total:	12	14	12	0	0	38

#### NOTE:

The model is recursive.

#### Assessment of normality

	min	max	skew	c.r.	kurtosis	c.r.
	-----	-----	-----	-----	-----	-----
employ	-0,880	3,914	2,077	5,996	4,824	6,963
advert	-0,928	3,479	1,027	2,964	1,271	1,835
floorsp	-0,693	4,859	3,135	9,049	10,670	15,400
indpdt	-0,613	4,556	3,467	10,009	12,637	18,240
multi	-0,897	3,001	1,494	4,312	1,767	2,551
sbrand	-1,388	2,011	0,452	1,304	-0,848	-1,224
prom	-1,602	3,299	0,676	1,952	0,681	0,983
allow	-2,410	1,641	-0,561	-1,620	0,250	0,361
assort	-1,202	3,780	1,515	4,372	2,687	3,878
margin	-1,854	3,508	1,424	4,111	3,142	4,536
ident	-2,469	2,227	-0,111	-0,320	0,441	0,636
profit	-1,001	3,223	1,696	4,895	2,183	3,150
Multivariate					45,606	8,796

Computation of degrees of freedom

Number of distinct sample moments: 78  
 Number of distinct parameters to be estimated: 37  
 -----  
 Degrees of freedom: 41

0e	2	0,0e+000	-3,8772e-002	1,00e+004	1,83434074912e+002	0	1,00e+004
1e	0	2,3e+001	0,0000e+000	7,70e-001	1,21163637834e+002	18	1,01e+000
2e	0	2,1e+001	0,0000e+000	4,78e-001	1,07646189443e+002	2	0,00e+000
3e	0	2,1e+001	0,0000e+000	3,30e-001	1,01741879537e+002	1	1,18e+000
4e	0	2,7e+001	0,0000e+000	1,96e-001	1,00907457226e+002	1	1,12e+000
5e	0	3,0e+001	0,0000e+000	5,38e-002	1,00869737805e+002	1	1,04e+000
6e	0	3,1e+001	0,0000e+000	3,50e-003	1,00869597115e+002	1	1,00e+000
7e	0	3,1e+001	0,0000e+000	1,45e-005	1,00869597112e+002	1	1,00e+000

Minimum was achieved

Chi-square = 100,870  
 Degrees of freedom = 41  
 Probability level = 0,000

Maximum Likelihood Estimates

-----

Regression Weights:	Estimate	S.E.	C.R.	Label
-----	-----	-----	-----	-----
profit <----- ident	0,258	0,130	1,981	
profit <----- margin	0,143	0,104	1,371	
profit <----- assort	0,039	0,129	0,300	
profit <----- allow	0,241	0,120	2,013	
profit <----- prom	-0,191	0,132	-1,449	
profit <----- sbrand	0,450	0,117	3,850	
profit <----- multi	0,028	0,104	0,270	
profit <----- indpdt	0,184	0,104	1,761	
profit <----- floorsp	-0,126	0,108	-1,171	
profit <----- employ	-0,023	0,108	-0,209	
profit <----- advert	0,075	0,131	0,577	

Standardized Regression Weights: Estimate

-----

profit <----- ident	0,261
profit <----- margin	0,147
profit <----- assort	0,039
profit <----- allow	0,245
profit <----- prom	-0,190
profit <----- sbrand	0,459
profit <----- multi	0,029
profit <----- indpdt	0,189
profit <----- floorsp	-0,130
profit <----- employ	-0,023
profit <----- advert	0,077

Covariances:		Estimate	S.E.	C.R.	Label
-----		-----	-----	-----	-----
allow <----->	prom	0,318	0,136	2,334	
prom <----->	advert	0,409	0,139	2,936	
assort <----->	allow	0,301	0,135	2,222	
ident <----->	allow	0,315	0,140	2,242	
assort <----->	prom	0,301	0,127	2,361	
prom <----->	sbrand	0,214	0,123	1,731	
ident <----->	prom	0,374	0,137	2,725	
allow <----->	advert	0,252	0,133	1,899	
sbrand <----->	advert	0,217	0,127	1,713	
assort <----->	sbrand	0,250	0,129	1,943	
ident <----->	assort	0,337	0,132	2,550	
multi <----->	indpdt	0,006	0,140	0,044	
floorsp <----->	employ	0,244	0,144	1,693	
ident <----->	advert	0,364	0,136	2,679	
Correlations:		Estimate			
-----		-----			
allow <----->	prom	0,338			
prom <----->	advert	0,433			
assort <----->	allow	0,314			
ident <----->	allow	0,330			
assort <----->	prom	0,320			
prom <----->	sbrand	0,226			
ident <----->	prom	0,399			
allow <----->	advert	0,262			
sbrand <----->	advert	0,226			
assort <----->	sbrand	0,260			
ident <----->	assort	0,353			
multi <----->	indpdt	0,006			
floorsp <----->	employ	0,249			
ident <----->	advert	0,381			
Variances:		Estimate	S.E.	C.R.	Label
-----		-----	-----	-----	-----
	ident	0,947	0,188	5,046	
	margin	0,980	0,198	4,950	
	assort	0,957	0,191	5,009	
	allow	0,960	0,193	4,985	
	prom	0,926	0,182	5,079	
	sbrand	0,965	0,194	4,968	
	multi	0,980	0,198	4,950	
	indpdt	0,980	0,198	4,950	
	floorsp	0,980	0,198	4,950	
	advert	0,961	0,193	4,994	
	employ	0,980	0,198	4,950	
	e12	0,524	0,106	4,950	
Squared Multiple Correlations:		Estimate			
-----		-----			
	profit	0,436			

Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	-0,023	0,075	-0,126	0,184	0,028	0,450	-0,191

	allow	assort	margin	ident
profit	0,241	0,039	0,143	0,258

Standardized Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	-0,023	0,077	-0,130	0,189	0,029	0,459	-0,190

	allow	assort	margin	ident
profit	0,245	0,039	0,147	0,261

Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	-0,023	0,075	-0,126	0,184	0,028	0,450	-0,191

	allow	assort	margin	ident
profit	0,241	0,039	0,143	0,258

Standardized Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	-0,023	0,077	-0,130	0,189	0,029	0,459	-0,190

	allow	assort	margin	ident
profit	0,245	0,039	0,147	0,261

Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	0,000	0,000	0,000	0,000	0,000	0,000	0,000

	allow	assort	margin	ident
profit	0,000	0,000	0,000	0,000

Standardized Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
profit	0,000	0,000	0,000	0,000	0,000	0,000	0,000

	allow	assort	margin	ident
profit	0,000	0,000	0,000	0,000

Summary of models

Model	NP	DF	P	CMIN/DF
Default model	37	41	0,000	2,460
Saturated model	78	0		
Independence model	12	66	0,000	2,999

Model	RMR	GFI	AGFI	PGFI
Default model	0,194	0,778	0,578	0,409
Saturated model	0,000	1,000		
Independence model	0,261	0,521	0,434	0,441

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,490	0,180	0,618	0,269	0,546
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI
Default model	0,621	0,305	0,339
Saturated model	0,000	0,000	0,000
Independence model	1,000	0,000	0,000

Model	NCP	LO 90	HI 90
Default model	59,870	34,145	93,287
Saturated model	0,000	0,000	0,000
Independence model	131,927	93,438	178,049

Model	FMIN	F0	LO 90	HI 90
Default model	2,059	1,222	0,697	1,904
Saturated model	0,000	0,000	0,000	0,000
Independence model	4,039	2,692	1,907	3,634

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,173	0,130	0,215	0,000
Independence model	0,202	0,170	0,235	0,000

Model	AIC	BCC	BIC	CAIC
Default model	174,870	201,592	337,556	282,614
Saturated model	156,000	212,333	498,961	383,138
Independence model	221,927	230,593	274,690	256,871

Model	ECVI	LO 90	HI 90	MECVI
Default model	3,569	3,044	4,251	4,114
Saturated model	3,184	3,184	3,184	4,333
Independence model	4,529	3,744	5,470	4,706

Model	HOELTER .05	HOELTER .01
Default model	28	32
Independence model	22	24

Execution time summary:

Minimization: 0,070  
 Miscellaneous: 0,821  
 Bootstrap: 0,000  
 Total: 0,891

## Appendix 19

### *Causal Analysis of Marketing Strategy Variables and the Sales Growth Induced by the Alliance*

Your model contains the following variables

sgrowth	observed	endogenous
ident	observed	exogenous
margin	observed	exogenous
assort	observed	exogenous
allow	observed	exogenous
prom	observed	exogenous
sbrand	observed	exogenous
multi	observed	exogenous
indpdt	observed	exogenous
floorsp	observed	exogenous
advert	observed	exogenous
employ	observed	exogenous
e12	unobserved	exogenous

Number of variables in your model: 13  
 Number of observed variables: 12  
 Number of unobserved variables: 1  
 Number of exogenous variables: 12  
 Number of endogenous variables: 1

#### Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
	-----	-----	-----	-----	-----	-----
Fixed:	1	0	0	0	0	1
Labeled:	0	0	0	0	0	0
Unlabeled:	11	14	12	0	0	37
	-----	-----	-----	-----	-----	-----
Total:	12	14	12	0	0	38

#### NOTE:

The model is recursive.

#### Assessment of normality

	min	max	skew	c.r.	kurtosis	c.r.
	-----	-----	-----	-----	-----	-----
employ	-0,880	3,914	2,077	5,996	4,824	6,963
advert	-0,928	3,479	1,027	2,964	1,271	1,835
floorsp	-0,693	4,859	3,135	9,049	10,670	15,400
indpdt	-0,613	4,556	3,467	10,009	12,637	18,240
multi	-0,897	3,001	1,494	4,312	1,767	2,551
sbrand	-1,388	2,011	0,452	1,304	-0,848	-1,224
prom	-1,602	3,299	0,676	1,952	0,681	0,983
allow	-2,410	1,641	-0,561	-1,620	0,250	0,361
assort	-1,202	3,780	1,515	4,372	2,687	3,878
margin	-1,854	3,508	1,424	4,111	3,142	4,536
ident	-2,469	2,227	-0,111	-0,320	0,441	0,636
sgrowth	-2,582	2,487	0,531	1,533	0,950	1,372
Multivariate					43,161	8,325

#### Computation of degrees of freedom

Number of distinct sample moments: 78  
 Number of distinct parameters to be estimated: 37  
 -----  
 Degrees of freedom: 41

```

0e 2 0,0e+000 -3,8772e-002 1,00e+004 1,88919922435e+002 0 1,00e+004
1e 0 2,5e+001 0,0000e+000 7,90e-001 1,22219975164e+002 18 1,01e+000
2e 0 2,1e+001 0,0000e+000 5,19e-001 1,07391842022e+002 2 0,00e+000
3e 0 2,1e+001 0,0000e+000 3,33e-001 1,01709855301e+002 1 1,18e+000
4e 0 2,4e+001 0,0000e+000 1,95e-001 1,00907108322e+002 1 1,12e+000
5e 0 2,8e+001 0,0000e+000 5,38e-002 1,00869737775e+002 1 1,04e+000
6e 0 2,8e+001 0,0000e+000 3,50e-003 1,00869597115e+002 1 1,00e+000
7e 0 2,8e+001 0,0000e+000 1,45e-005 1,00869597112e+002 1 1,00e+000

```

Minimum was achieved

Chi-square = 100,870  
Degrees of freedom = 41  
Probability level = 0,000

Maximum Likelihood Estimates

```

-----
Regression Weights:          Estimate      S.E.      C.R.      Label
-----
sgrowth <----- ident      0,257      0,138      1,857
sgrowth <----- margin    -0,139      0,111     -1,257
sgrowth <----- assort      0,017      0,137      0,125
sgrowth <----- allow       0,191      0,127      1,507
sgrowth <----- prom       -0,119      0,140     -0,850
sgrowth <----- sbrand      0,329      0,124      2,656
sgrowth <----- multi      -0,032      0,111     -0,293
sgrowth <----- indpdt      0,341      0,111      3,071
sgrowth <----- floorsp    -0,442      0,115     -3,862
sgrowth <----- employ      0,127      0,115      1,109
sgrowth <----- advert     -0,003      0,139     -0,022

```

```

-----
Standardized Regression Weights:  Estimate
-----
sgrowth <----- ident      0,238
sgrowth <----- margin    -0,131
sgrowth <----- assort      0,016
sgrowth <----- allow       0,178
sgrowth <----- prom       -0,109
sgrowth <----- sbrand      0,308
sgrowth <----- multi      -0,031
sgrowth <----- indpdt      0,321
sgrowth <----- floorsp    -0,417
sgrowth <----- employ      0,120
sgrowth <----- advert     -0,003

```

```

-----
Covariances:          Estimate      S.E.      C.R.      Label
-----
allow <-----> prom        0,318      0,136      2,334
prom <-----> advert       0,409      0,139      2,936
assort <-----> allow       0,301      0,135      2,222
ident <-----> allow        0,315      0,140      2,242
assort <-----> prom        0,301      0,127      2,361
prom <-----> sbrand        0,214      0,123      1,731
ident <-----> prom         0,374      0,137      2,725
allow <-----> advert       0,252      0,133      1,899
sbrand <-----> advert       0,217      0,127      1,713
assort <-----> sbrand      0,250      0,129      1,943
ident <-----> assort       0,337      0,132      2,550
multi <-----> indpdt       0,006      0,140      0,044
floorsp <-----> employ     0,244      0,144      1,693
ident <-----> advert       0,364      0,136      2,679

```

Correlations:	Estimate
-----	-----
allow <-----> prom	0,338
prom <-----> advert	0,433
assort <-----> allow	0,314
ident <-----> allow	0,330
assort <-----> prom	0,320
prom <-----> sbrand	0,226
ident <-----> prom	0,399
allow <-----> advert	0,262
sbrand <-----> advert	0,226
assort <-----> sbrand	0,260
ident <-----> assort	0,353
multi <-----> indpdt	0,006
floorsp <-----> employ	0,249
ident <-----> advert	0,381

Variances:	Estimate	S.E.	C.R.	Label
-----	-----	-----	-----	-----
ident	0,947	0,188	5,046	
margin	0,980	0,198	4,950	
assort	0,957	0,191	5,009	
allow	0,960	0,193	4,985	
prom	0,926	0,182	5,079	
sbrand	0,965	0,194	4,968	
multi	0,980	0,198	4,950	
indpdt	0,980	0,198	4,950	
floorsp	0,980	0,198	4,950	
advert	0,961	0,193	4,994	
employ	0,980	0,198	4,950	
e12	0,590	0,119	4,950	

Squared Multiple Correlations:	Estimate
-----	-----
sgrowth	0,464

Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
	-----	-----	-----	-----	-----	-----	-----
sgrowth	0,127	-0,003	-0,442	0,341	-0,032	0,329	-0,119

	allow	assort	margin	ident
	-----	-----	-----	-----
sgrowth	0,191	0,017	-0,139	0,257

Standardized Total Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
	-----	-----	-----	-----	-----	-----	-----
sgrowth	0,120	-0,003	-0,417	0,321	-0,031	0,308	-0,109

	allow	assort	margin	ident
	-----	-----	-----	-----
sgrowth	0,178	0,016	-0,131	0,238

Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sgrowth	0,127	-0,003	-0,442	0,341	-0,032	0,329	-0,119
	allow	assort	margin	ident			
sgrowth	0,191	0,017	-0,139	0,257			

Standardized Direct Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sgrowth	0,120	-0,003	-0,417	0,321	-0,031	0,308	-0,109
	allow	assort	margin	ident			
sgrowth	0,178	0,016	-0,131	0,238			

Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sgrowth	0,000	0,000	0,000	0,000	0,000	0,000	0,000
	allow	assort	margin	ident			
sgrowth	0,000	0,000	0,000	0,000			

Standardized Indirect Effects

	employ	advert	floorsp	indpdt	multi	sbrand	prom
sgrowth	0,000	0,000	0,000	0,000	0,000	0,000	0,000
	allow	assort	margin	ident			
sgrowth	0,000	0,000	0,000	0,000			

Summary of models

-----

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	37	100,870	41	0,000	2,460
Saturated model	78	0,000	0		
Independence model	12	192,097	66	0,000	2,911

Model	RMR	GFI	AGFI	PGFI
Default model	0,194	0,778	0,578	0,409
Saturated model	0,000	1,000		
Independence model	0,250	0,541	0,458	0,458

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,475	0,155	0,604	0,236	0,525
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI
Default model	0,621	0,295	0,326
Saturated model	0,000	0,000	0,000
Independence model	1,000	0,000	0,000

Model	NCP	LO 90	HI 90
Default model	59,870	34,145	93,287
Saturated model	0,000	0,000	0,000
Independence model	126,097	88,365	171,470

Model	FMIN	F0	LO 90	HI 90
Default model	2,059	1,222	0,697	1,904
Saturated model	0,000	0,000	0,000	0,000
Independence model	3,920	2,573	1,803	3,499

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,173	0,130	0,215	0,000
Independence model	0,197	0,165	0,230	0,000

Model	AIC	BCC	BIC	CAIC
Default model	174,870	201,592	337,556	282,614
Saturated model	156,000	212,333	498,961	383,138
Independence model	216,097	224,763	268,860	251,041

Model	ECVI	LO 90	HI 90	MECVI
Default model	3,569	3,044	4,251	4,114
Saturated model	3,184	3,184	3,184	4,333
Independence model	4,410	3,640	5,336	4,587

Model	HOELTER .05	HOELTER .01
Default model	28	32
Independence model	22	25

Execution time summary:

Minimization: 0,070  
 Miscellaneous: 0,781  
 Bootstrap: 0,000  
 Total: 0,851

Appendix 20

*Correlation Matrix of Performance Measures and Moderating Variables*

		SALES	GRMRG	PROFIT	SGROWTH	PGROWTH	COUNTY	SETTL<50	VILLAGE	SETTL>50	MULTI	DOM	OWN	INDPDT	EMPLOY
Correlation	SALES	1	0,937	0,607	0,191	-0,140	-0,013	0,137	-0,061	0,201	0,250	-0,024	-0,025	0,112	0,305
Sig. (2-tailed)			,000	0,000	0,184	0,333	0,930	0,341	0,674	0,161	0,080	0,868	0,862	0,437	0,031
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	GRMRG	0,937	1,000	0,669	0,156	-0,112	0,027	0,115	-0,082	0,173	0,222	-0,072	0,082	0,113	0,292
Sig. (2-tailed)		0,000		,000	0,279	0,438	0,850	0,425	0,571	0,229	0,121	0,618	0,570	0,434	0,040
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	PROFIT	0,607	0,669	1,000	0,217	0,025	0,185	0,040	-0,137	0,232	0,048	0,042	0,072	0,291	0,353
Sig. (2-tailed)		0,000	0,000		,0130	0,865	0,197	0,781	0,342	0,104	0,742	0,774	0,621	0,040	0,012
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	SGROWTH	0,191	0,156	0,217	1,000	0,614	0,045	0,053	-0,229	-0,012	-0,021	-0,036	-0,052	0,306	0,434
Sig. (2-tailed)		0,184	0,279	0,130		,0000	0,759	0,715	0,110	0,934	0,884	0,805	0,722	0,030	0,002
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	PGROWTH	-0,140	-0,112	0,025	0,614	1,000	0,055	-0,076	-0,119	-0,009	-0,156	-0,082	0,103	0,202	0,264
Sig. (2-tailed)		0,333	0,438	0,865	0,000		,0704	0,599	0,412	0,953	0,281	0,573	0,478	0,159	0,064
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	COUNTY	-0,013	0,027	0,185	0,045	0,055	1,000	-0,653	-0,306	0,138	-0,080	-0,206	0,000	-0,179	-0,156
Sig. (2-tailed)		0,930	0,850	0,197	0,759	0,704		,0000	0,031	0,341	0,579	0,152	1,000	0,213	0,280
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	SETTL<50	0,137	0,115	0,040	0,053	-0,076	-0,653	1,000	-0,100	-0,084	-0,087	0,220	0,091	0,153	0,046
Sig. (2-tailed)		0,341	0,425	0,781	0,715	0,599	0,000		,0490	0,561	0,550	0,124	0,530	0,288	0,753
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	VILLAGE	-0,061	-0,082	-0,137	-0,229	-0,119	-0,306	-0,100	1,000	0,084	0,374	-0,100	-0,182	-0,101	-0,017
Sig. (2-tailed)		0,674	0,571	0,342	0,110	0,412	0,031	0,490		,0561	0,007	0,491	0,206	0,485	0,906
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	SETTL>50	0,201	0,173	0,232	-0,012	-0,009	0,138	-0,084	0,084	1,000	0,169	-0,183	-0,207	-0,098	-0,177
Sig. (2-tailed)		0,161	0,229	0,104	0,934	0,953	0,341	0,561	0,561		,0240	0,204	0,150	0,499	0,220
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	MULTI	0,250	0,222	0,048	-0,021	-0,156	-0,080	-0,087	0,374	0,169	1,000	-0,003	-0,197	0,006	-0,028
Sig. (2-tailed)		0,080	0,121	0,742	0,884	0,281	0,579	0,550	0,007	0,240		,0984	0,171	0,965	0,849
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50

Appendix 20 (continued)

*Correlation Matrix of Performance Measures and Moderating Variables*

		SALES	GRMRG	PROFIT	SGROWTH	PGROWTH	COUNTY	SETTL<50	VILLAGE	SETTL>50	MULTI	DOM	OWN	INDPDT	EMPLOY
Correlation	DOM	-0,024	-0,072	0,042	-0,036	-0,082	-0,206	0,220	-0,100	-0,183	-0,003	1,000	0,142	0,348	-0,032
Sig. (2-tailed)		0,868	0,618	0,774	0,805	0,573	0,152	0,124	0,491	0,204	0,984	,	0,325	0,013	0,824
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	OWN	-0,025	0,082	0,072	-0,052	0,103	0,000	0,091	-0,182	-0,207	-0,197	0,142	1,000	-0,086	-0,020
Sig. (2-tailed)		0,862	0,570	0,621	0,722	0,478	1,000	0,530	0,206	0,150	0,171	0,325	,	0,552	0,889
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	INDPDT	0,112	0,113	0,291	0,306	0,202	-0,179	0,153	-0,101	-0,098	0,006	0,348	-0,086	1,000	0,572
Sig. (2-tailed)		0,437	0,434	0,040	0,030	0,159	0,213	0,288	0,485	0,499	0,965	0,013	0,552	,	0,000
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	EMPLOY	0,305	0,292	0,353	0,434	0,264	-0,156	0,046	-0,017	-0,177	-0,028	-0,032	-0,020	0,572	1,000
Sig. (2-tailed)		0,031	0,040	0,012	0,002	0,064	0,280	0,753	0,906	0,220	0,849	0,824	0,889	0,000	,
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50
Correlation	FLOORSP	0,326	0,323	0,219	-0,035	-0,080	-0,025	-0,056	0,045	0,045	-0,040	0,320	-0,041	0,563	0,249
Sig. (2-tailed)		0,021	0,022	0,127	0,809	0,580	0,866	0,700	0,756	0,757	0,785	0,023	0,777	0,000	0,081
N		50	50	50	50	50	50	50	50	50	50	50	50	50	50

Abbreviations:

SALES: Sales in 2003 (in Thousand HUF)

GRMRG: Gross margin in 2003 (in Thousand HUF)

PROFIT: Net profit in 2003 (after tax) (in Thousand HUF)

SGROWTH: Sales growth due to the alliance (%)

PRGROWTH: Profit growth due to the alliance (%)

COUNTY: County capital

SETTL<50: Settlement with less than 50 000 population

VILLAGE: village

SETTL>50: Settlement with more than 50 000 population

MULTI: stores of multinational chains

DOM: stores of other domestic chains

OWN: stores of the own chain being operated by other retailer

INDPDT: stores of independent retailers

EMPLOY: number of sales employee

FLOORSP: floorspace of the stores being operated by the member firm

## Appendix 21

### *Causal Analysis of the Relationship between the Allied Retailer and the Hub Firm of the Alliance*

Your model contains the following variables

d1	observed	endogenous
d2	observed	endogenous
d5	observed	endogenous
d6	observed	endogenous
t1	observed	endogenous
t2	observed	endogenous
t3	observed	endogenous
t4	observed	endogenous
t7_r	observed	endogenous
c1	observed	endogenous
c2	observed	endogenous
c3	observed	endogenous
c4	observed	endogenous
c6	observed	endogenous
satisf	observed	endogenous
dependence	unobserved	exogenous
e1	unobserved	exogenous
e2	unobserved	exogenous
e4	unobserved	exogenous
e5	unobserved	exogenous
trust	unobserved	exogenous
e6	unobserved	exogenous
e7	unobserved	exogenous
e8	unobserved	exogenous
e9	unobserved	exogenous
e11	unobserved	exogenous
competence	unobserved	exogenous
e12	unobserved	exogenous
e13	unobserved	exogenous
e14	unobserved	exogenous
e15	unobserved	exogenous
e18	unobserved	exogenous
e19	unobserved	exogenous

Number of variables in your model:	33
Number of observed variables:	15
Number of unobserved variables:	18
Number of exogenous variables:	18
Number of endogenous variables:	15

#### Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed:	18	0	0	0	0	18
Labeled:	0	0	0	0	0	0
Unlabeled:	14	3	18	0	0	35
Total:	32	3	18	0	0	53

NOTE: The model is recursive.

Assessment of normality

	min	max	skew	c.r.	kurtosis	c.r.
satisf	-2,318	1,571	-0,370	-1,068	-0,303	-0,437
c6	-2,037	1,358	-0,439	-1,267	-0,609	-0,879
c4	-3,410	0,990	-1,021	-2,946	1,190	1,717
c3	-2,763	0,946	-1,045	-3,017	0,569	0,822
c2	-2,445	1,204	-0,655	-1,890	0,083	0,119
c1	-2,445	1,204	-0,561	-1,619	0,020	0,030
t7_r	-1,957	1,031	-0,569	-1,643	-0,811	-1,171
t4	-2,443	1,124	-0,527	-1,522	-0,442	-0,638
t3	-1,368	1,741	0,165	0,478	-1,084	-1,564
t2	-1,661	1,305	-0,343	-0,991	-1,009	-1,456
t1	-1,670	1,339	-0,304	-0,879	-1,091	-1,574
d6	-1,155	1,733	0,419	1,209	-1,026	-1,481
d5	-1,173	1,874	0,404	1,168	-0,929	-1,341
d2	-1,773	1,310	-0,345	-0,997	-0,958	-1,383
d1	-1,935	1,186	-0,660	-1,906	-0,595	-0,859
Multivariate					35,791	5,603

Sample size: 50

Model: Default model

Computation of degrees of freedom

Number of distinct sample moments: 120  
 Number of distinct parameters to be estimated: 35  
 -----  
 Degrees of freedom: 85

0e	7	0,0e+000	-7,5353e-001	1,00e+004	6,81082289369e+002	0	1,00e+004
1e*	6	0,0e+000	-3,7225e-001	3,81e+000	4,01241211048e+002	20	2,89e-001
2e	3	0,0e+000	-3,5576e-001	5,57e-001	3,34276964396e+002	6	9,00e-001
3e	2	0,0e+000	-4,3211e-001	5,39e-001	2,90777117727e+002	5	8,12e-001
4e	0	2,5e+004	0,0000e+000	4,08e-001	2,63222563322e+002	5	8,39e-001
5e	0	2,2e+002	0,0000e+000	9,62e-001	2,58494198264e+002	7	0,00e+000
6e	0	1,4e+002	0,0000e+000	7,14e-001	2,51870847261e+002	2	0,00e+000
7e	0	8,7e+001	0,0000e+000	1,99e-001	2,47688941249e+002	1	1,10e+000
8e	0	8,1e+001	0,0000e+000	4,48e-002	2,47518620821e+002	1	1,04e+000
9e	0	8,3e+001	0,0000e+000	3,41e-003	2,47517767504e+002	1	1,00e+000
10e	0	8,3e+001	0,0000e+000	1,96e-005	2,47517767468e+002	1	1,00e+000

Minimum was achieved

Chi-square = 247,518  
 Degrees of freedom = 85  
 Probability level = 0,000

Maximum Likelihood Estimates

Regression Weights:	Estimate	S.E.	C.R.	Label
d1 <----- dependence	1,000			
d2 <----- dependence	0,887	0,099	8,996	
d5 <----- dependence	0,510	0,133	3,838	
d6 <----- dependence	0,474	0,135	3,502	
t1 <----- trust	1,000			
t2 <----- trust	1,010	0,093	10,862	
t3 <----- trust	0,878	0,111	7,899	
t4 <----- trust	0,540	0,143	3,770	
t7_r <----- trust	0,358	0,153	2,344	
c1 <----- competence	1,000			
c2 <----- competence	0,908	0,093	9,739	
c3 <----- competence	0,759	0,114	6,641	
c4 <----- competence	0,834	0,104	7,990	
c6 <----- competence	0,651	0,126	5,172	
satisf <----- dependence	-0,237	0,154	-1,535	
satisf <----- trust	0,537	0,196	2,738	
satisf <----- competence	0,427	0,155	2,753	

Standardized Regression Weights:	Estimate
d1 <----- dependence	0,980
d2 <----- dependence	0,869
d5 <----- dependence	0,500
d6 <----- dependence	0,464
t1 <----- trust	0,921
t2 <----- trust	0,931
t3 <----- trust	0,808
t4 <----- trust	0,498
t7_r <----- trust	0,330
c1 <----- competence	0,954
c2 <----- competence	0,866
c3 <----- competence	0,724
c4 <----- competence	0,796
c6 <----- competence	0,621
satisf <----- dependence	-0,232
satisf <----- trust	0,495
satisf <----- competence	0,407

Covariances:	Estimate	S.E.	C.R.	Label
dependence <-----> trust	0,584	0,160	3,647	
trust <-----> competence	0,546	0,156	3,497	
dependence <----> competence	0,424	0,151	2,815	

Correlations:	Estimate
dependence <-----> trust	0,660
trust <-----> competence	0,633
dependence <----> competence	0,463

Variances:	Estimate	S.E.	C.R.	Label
dependence	0,942	0,209	4,505	
trust	0,831	0,200	4,166	
competence	0,893	0,201	4,433	
e1	0,038	0,068	0,560	
e2	0,239	0,072	3,313	
e4	0,735	0,151	4,875	
e5	0,769	0,157	4,891	
e6	0,149	0,049	3,019	
e7	0,131	0,048	2,759	
e8	0,340	0,078	4,350	
e9	0,737	0,152	4,848	
e11	0,873	0,178	4,912	
e12	0,087	0,044	1,961	
e13	0,244	0,062	3,940	
e14	0,466	0,101	4,621	
e15	0,359	0,081	4,414	
e18	0,602	0,126	4,767	
e19	0,509	0,109	4,684	

Squared Multiple Correlations:	Estimate
satisf	0,481
c6	0,386
c4	0,634
c3	0,525
c2	0,751
c1	0,911
t7_r	0,109
t4	0,248
t3	0,653
t2	0,866
t1	0,848
d6	0,215
d5	0,250
d2	0,756
d1	0,961

Factor Score Weights

	satisf	c6	c4	c3	c2	c1	t7_r
competenc	0,0415	0,0517	0,1111	0,0779	0,1774	0,5478	0,0007
trust	0,0516	0,0018	0,0038	0,0026	0,0060	0,0185	0,0199
dependenc	-0,0116	0,0006	0,0014	0,0010	0,0022	0,0067	0,0009

	t4	t3	t2	t1	d6	d5	d2
competenc	0,0012	0,0042	0,0125	0,0109	0,0004	0,0004	0,0022
trust	0,0355	0,1254	0,3738	0,3263	0,0014	0,0016	0,0084
dependenc	0,0017	0,0058	0,0174	0,0152	0,0192	0,0217	0,1156

	d1
competenc	0,0153
trust	0,0592
dependenc	0,8185

Total Effects

	competen	trust	dependen
	-----	-----	-----
satisf	0,427	0,537	-0,237
c6	0,651	0,000	0,000
c4	0,834	0,000	0,000
c3	0,759	0,000	0,000
c2	0,908	0,000	0,000
c1	1,000	0,000	0,000
t7_r	0,000	0,358	0,000
t4	0,000	0,540	0,000
t3	0,000	0,878	0,000
t2	0,000	1,010	0,000
t1	0,000	1,000	0,000
d6	0,000	0,000	0,474
d5	0,000	0,000	0,510
d2	0,000	0,000	0,887
d1	0,000	0,000	1,000

Standardized Total Effects

	competen	trust	dependen
	-----	-----	-----
satisf	0,407	0,495	-0,232
c6	0,621	0,000	0,000
c4	0,796	0,000	0,000
c3	0,724	0,000	0,000
c2	0,866	0,000	0,000
c1	0,954	0,000	0,000
t7_r	0,000	0,330	0,000
t4	0,000	0,498	0,000
t3	0,000	0,808	0,000
t2	0,000	0,931	0,000
t1	0,000	0,921	0,000
d6	0,000	0,000	0,464
d5	0,000	0,000	0,500
d2	0,000	0,000	0,869
d1	0,000	0,000	0,980

Direct Effects

	competen	trust	dependen
	-----	-----	-----
satisf	0,427	0,537	-0,237
c6	0,651	0,000	0,000
c4	0,834	0,000	0,000
c3	0,759	0,000	0,000
c2	0,908	0,000	0,000
c1	1,000	0,000	0,000
t7_r	0,000	0,358	0,000
t4	0,000	0,540	0,000
t3	0,000	0,878	0,000
t2	0,000	1,010	0,000
t1	0,000	1,000	0,000
d6	0,000	0,000	0,474
d5	0,000	0,000	0,510
d2	0,000	0,000	0,887
d1	0,000	0,000	1,000

Standardized Direct Effects

	competen trust		dependen
	-----	-----	-----
satisf	0,407	0,495	-0,232
c6	0,621	0,000	0,000
c4	0,796	0,000	0,000
c3	0,724	0,000	0,000
c2	0,866	0,000	0,000
c1	0,954	0,000	0,000
t7_r	0,000	0,330	0,000
t4	0,000	0,498	0,000
t3	0,000	0,808	0,000
t2	0,000	0,931	0,000
t1	0,000	0,921	0,000
d6	0,000	0,000	0,464
d5	0,000	0,000	0,500
d2	0,000	0,000	0,869
d1	0,000	0,000	0,980

Indirect Effects

	competen trust		dependen
	-----	-----	-----
satisf	0,000	0,000	0,000
c6	0,000	0,000	0,000
c4	0,000	0,000	0,000
c3	0,000	0,000	0,000
c2	0,000	0,000	0,000
c1	0,000	0,000	0,000
t7_r	0,000	0,000	0,000
t4	0,000	0,000	0,000
t3	0,000	0,000	0,000
t2	0,000	0,000	0,000
t1	0,000	0,000	0,000
d6	0,000	0,000	0,000
d5	0,000	0,000	0,000
d2	0,000	0,000	0,000
d1	0,000	0,000	0,000

Standardized Indirect Effects

	competen trust		dependen
	-----	-----	-----
satisf	0,000	0,000	0,000
c6	0,000	0,000	0,000
c4	0,000	0,000	0,000
c3	0,000	0,000	0,000
c2	0,000	0,000	0,000
c1	0,000	0,000	0,000
t7_r	0,000	0,000	0,000
t4	0,000	0,000	0,000
t3	0,000	0,000	0,000
t2	0,000	0,000	0,000
t1	0,000	0,000	0,000
d6	0,000	0,000	0,000
d5	0,000	0,000	0,000
d2	0,000	0,000	0,000
d1	0,000	0,000	0,000

Summary of models

-----	Model	NPAR	CMIN	DF	P	CMIN/DF
-----	-----	-----	-----	-----	-----	-----
	Default model	35	247,518	85	0,000	2,912
	Saturated model	120	0,000	0		
	Independence model	15	695,999	105	0,000	6,629

Model	RMR	GFI	AGFI	PGFI
Default model	0,126	0,675	0,541	0,478
Saturated model	0,000	1,000		
Independence model	0,415	0,258	0,152	0,226

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,644	0,561	0,734	0,660	0,725
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI
Default model	0,810	0,522	0,587
Saturated model	0,000	0,000	0,000
Independence model	1,000	0,000	0,000

Model	NCP	LO 90	HI 90
Default model	162,518	119,183	213,494
Saturated model	0,000	0,000	0,000
Independence model	590,999	511,254	678,231

Model	FMIN	F0	LO 90	HI 90
Default model	5,051	3,317	2,432	4,357
Saturated model	0,000	0,000	0,000	0,000
Independence model	14,204	12,061	10,434	13,841

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,198	0,169	0,226	0,000
Independence model	0,339	0,315	0,363	0,000

Model	AIC	BCC	BIC	CAIC
Default model	317,518	351,457	479,220	419,439
Saturated model	240,000	356,364	794,409	589,443
Independence model	725,999	740,544	795,300	769,679

Model	ECVI	LO 90	HI 90	MECVI
Default model	6,480	5,596	7,520	7,173
Saturated model	4,898	4,898	4,898	7,273
Independence model	14,816	13,189	16,597	15,113

Model	HOELTER .05	HOELTER .01
Default model	22	24
Independence model	10	10

Execution time summary:

Minimization: 0,110  
Miscellaneous: 0,861  
Bootstrap: 0,000  
Total: 0,971

## Appendix 22

### *Causal Analysis of the Explaining Model*

Your model contains the following variables

d1	observed	endogenous
d2	observed	endogenous
d5	observed	endogenous
d6	observed	endogenous
t1	observed	endogenous
t2	observed	endogenous
t3	observed	endogenous
t4	observed	endogenous
t7	observed	endogenous
c1	observed	endogenous
c2	observed	endogenous
c3	observed	endogenous
c4	observed	endogenous
c6	observed	endogenous
satisf	observed	endogenous
sgrowth	observed	endogenous
ident	observed	exogenous
sbrand	observed	exogenous
assort	observed	exogenous
allow	observed	exogenous
prom	observed	exogenous
advert	observed	exogenous
multi	observed	exogenous
indpdt	observed	exogenous
floorsp	observed	exogenous
employ	observed	exogenous
margin	observed	exogenous
dependence	unobserved	exogenous
e1	unobserved	exogenous
e2	unobserved	exogenous
e3	unobserved	exogenous
e4	unobserved	exogenous
trust	unobserved	exogenous
e5	unobserved	exogenous
e6	unobserved	exogenous
e7	unobserved	exogenous
e8	unobserved	exogenous
e9	unobserved	exogenous
competence	unobserved	exogenous
e10	unobserved	exogenous
e11	unobserved	exogenous
e12	unobserved	exogenous
e13	unobserved	exogenous
e14	unobserved	exogenous
e15	unobserved	exogenous
e16	unobserved	exogenous

Number of variables in your model:	46
Number of observed variables:	27
Number of unobserved variables:	19
Number of exogenous variables:	30
Number of endogenous variables:	16

#### Summary of Parameters

	Weights	Covariances	Variances	Means	Intercepts	Total
Fixed:	19	0	0	0	0	19
Labeled:	0	0	0	0	0	0
Unlabeled:	26	17	30	0	0	73
Total:	45	17	30	0	0	92

NOTE:

The model is recursive.

Sample size: 50

Model: Default model

Computation of degrees of freedom

Number of distinct sample moments: 378  
 Number of distinct parameters to be estimated: 73

-----  
 Degrees of freedom: 305

0e	10	0,0e+000	-8,1546e-001	1,00e+004	1,12963868479e+003	0	1,00e+004
1e	7	0,0e+000	-4,6126e-001	3,57e+000	8,07678196088e+002	20	3,51e-001
2e*	2	0,0e+000	-5,8931e-001	9,18e-001	7,01537367047e+002	5	7,89e-001
3e*	1	0,0e+000	-2,5047e-002	8,76e-001	6,18440358844e+002	5	9,24e-001
4e	0	6,2e+002	0,0000e+000	8,47e-001	5,93576762093e+002	6	9,20e-001
5e	0	2,3e+002	0,0000e+000	8,17e-001	5,92099069055e+002	1	2,73e-001
6e	0	3,2e+002	0,0000e+000	1,92e-001	5,89127514149e+002	1	1,18e+000
7e	0	3,2e+002	0,0000e+000	1,34e-001	5,88655451723e+002	1	1,14e+000
8e	0	3,2e+002	0,0000e+000	4,25e-002	5,88626456928e+002	1	1,05e+000
9e	0	3,3e+002	0,0000e+000	3,43e-003	5,88626292426e+002	1	1,00e+000
10e	0	3,3e+002	0,0000e+000	2,21e-005	5,88626292419e+002	1	1,00e+000

Minimum was achieved

Chi-square = 588,626

Degrees of freedom = 305

Probability level = 0,000

Maximum Likelihood Estimates

Regression Weights:	Estimate	S.E.	C.R.	Label
-----	-----	-----	-----	-----
sgrowth <----- ident	0,257	0,138	1,857	
sgrowth <----- sbrand	0,329	0,124	2,656	
sgrowth <----- assort	0,017	0,137	0,125	
sgrowth <----- allow	0,191	0,127	1,507	
sgrowth <----- prom	-0,119	0,140	-0,850	
sgrowth <----- advert	-0,003	0,139	-0,022	
sgrowth <----- multi	-0,032	0,111	-0,293	
sgrowth <----- indpdt	0,341	0,111	3,071	
sgrowth <----- floorsp	-0,442	0,115	-3,862	
sgrowth <----- employ	0,127	0,115	1,109	
sgrowth <----- margin	-0,139	0,111	-1,257	
d1 <----- dependence	0,522	0,134	3,907	
d2 <----- dependence	0,379	0,142	2,667	
d5 <----- dependence	1,000			
d6 <----- dependence	1,001	0,085	11,737	
t1 <----- trust	1,140	0,145	7,843	
t2 <----- trust	1,155	0,145	7,967	
t3 <----- trust	1,000			
t4 <----- trust	0,613	0,172	3,558	
t7 <----- trust	-0,399	0,178	-2,240	
c1 <----- competence	1,321	0,197	6,707	
c2 <----- competence	1,186	0,195	6,072	
c3 <----- competence	1,000			
c4 <----- competence	1,090	0,196	5,555	
c6 <----- competence	0,862	0,198	4,345	
satisf <----- dependence	-0,139	0,130	-1,068	
satisf <----- competence	0,582	0,224	2,601	
satisf <----- trust	0,447	0,191	2,335	
satisf <----- sgrowth	0,082	0,100	0,821	

Standardized Regression Weights: Estimate

	Estimate
sgrowth <----- ident	0,238
sgrowth <----- sbrand	0,308
sgrowth <----- assort	0,016
sgrowth <----- allow	0,178
sgrowth <----- prom	-0,109
sgrowth <----- advert	-0,003
sgrowth <----- multi	-0,031
sgrowth <----- indpdt	0,321
sgrowth <----- floorsp	-0,417
sgrowth <----- employ	0,120
sgrowth <----- margin	-0,131
d1 <----- dependence	0,502
d2 <----- dependence	0,365
d5 <----- dependence	0,962
d6 <----- dependence	0,963
t1 <----- trust	0,920
t2 <----- trust	0,933
t3 <----- trust	0,808
t4 <----- trust	0,495
t7 <----- trust	-0,322
c1 <----- competence	0,959
c2 <----- competence	0,861
c3 <----- competence	0,726
c4 <----- competence	0,791
c6 <----- competence	0,626
satisf <----- dependence	-0,135
satisf <----- competence	0,428
satisf <----- trust	0,366
satisf <----- sgrowth	0,089

Covariances:

	Estimate	S.E.	C.R.	Label
dependence <-----> trust	0,312	0,128	2,445	
trust <-----> competence	0,362	0,119	3,051	
ident <-----> assort	0,337	0,132	2,550	
ident <-----> allow	0,315	0,140	2,242	
ident <-----> prom	0,374	0,137	2,725	
sbrand <-----> prom	0,214	0,123	1,731	
sbrand <-----> assort	0,250	0,129	1,943	
assort <-----> allow	0,301	0,135	2,222	
assort <-----> prom	0,301	0,127	2,361	
allow <-----> prom	0,318	0,136	2,334	
prom <-----> advert	0,409	0,139	2,936	
dependence <----> competence	0,305	0,120	2,548	
multi <-----> indpdt	0,006	0,140	0,044	
floorsp <-----> employ	0,244	0,144	1,693	
allow <-----> advert	0,252	0,133	1,899	
sbrand <-----> advert	0,217	0,127	1,713	
ident <-----> advert	0,364	0,136	2,679	

Correlations:

	Estimate
dependence <-----> trust	0,410
trust <-----> competence	0,630
ident <-----> assort	0,353
ident <-----> allow	0,330
ident <-----> prom	0,399
sbrand <-----> prom	0,226
sbrand <-----> assort	0,260
assort <-----> allow	0,314
assort <-----> prom	0,320
allow <-----> prom	0,338
prom <-----> advert	0,433
dependence <----> competence	0,445
multi <-----> indpdt	0,006
floorsp <-----> employ	0,249
allow <-----> advert	0,262
sbrand <-----> advert	0,226
ident <-----> advert	0,381

Variiances:

	Estimate	S.E.	C.R.	Label
dependence	0,908	0,206	4,406	
trust	0,639	0,190	3,372	
competence	0,516	0,178	2,902	
ident	0,947	0,188	5,046	
sbrand	0,965	0,194	4,968	
assort	0,957	0,191	5,009	
allow	0,960	0,193	4,985	
prom	0,926	0,182	5,079	
advert	0,961	0,193	4,994	
multi	0,980	0,198	4,950	
indpdt	0,980	0,198	4,950	
floorsp	0,980	0,198	4,950	
employ	0,980	0,198	4,950	
margin	0,980	0,198	4,950	
e15	0,590	0,119	4,950	
e1	0,733	0,150	4,886	
e2	0,849	0,173	4,921	
e3	0,072	0,060	1,200	
e4	0,071	0,060	1,168	
e5	0,150	0,052	2,877	
e6	0,127	0,050	2,529	
e7	0,341	0,079	4,325	
e8	0,740	0,153	4,846	
e9	0,878	0,179	4,913	
e10	0,079	0,043	1,826	
e11	0,254	0,063	4,028	
e12	0,464	0,100	4,632	
e13	0,366	0,082	4,454	
e14	0,596	0,125	4,772	
e16	0,525	0,110	4,772	

Summary of models

Model	NPAR	CMIN	DF	P	CMIN/DF
Default model	73	588,626	305	0,000	1,930
Saturated model	378	0,000	0		
Independence model	27	1141,720	351	0,000	3,253

Model	RMR	GFI	AGFI	PGFI
Default model	0,170	0,586	0,487	0,473
Saturated model	0,000	1,000		
Independence model	0,285	0,297	0,243	0,276

Model	DELTA1 NFI	RHO1 RFI	DELTA2 IFI	RHO2 TLI	CFI
Default model	0,484	0,407	0,661	0,587	0,641
Saturated model	1,000		1,000		1,000
Independence model	0,000	0,000	0,000	0,000	0,000

Model	PRATIO	PNFI	PCFI
Default model	0,869	0,421	0,557
Saturated model	0,000	0,000	0,000
Independence model	1,000	0,000	0,000

Model	NCP	LO 90	HI 90
Default model	283,626	218,789	356,262
Saturated model	0,000	0,000	0,000
Independence model	790,720	692,222	896,808

Model	FMIN	F0	LO 90	HI 90
Default model	12,013	5,788	4,465	7,271
Saturated model	0,000	0,000	0,000	0,000
Independence model	23,300	16,137	14,127	18,302

Model	RMSEA	LO 90	HI 90	PCLOSE
Default model	0,138	0,121	0,154	0,000
Independence model	0,214	0,201	0,228	0,000

Model	AIC	BCC	BIC	CAIC
Default model	734,626	929,293	1114,800	947,204
Saturated model	756,000	1764,000	2724,571	1856,745
Independence model	1195,720	1267,720	1336,333	1274,345

Model	ECVI	LO 90	HI 90	MECVI
Default model	14,992	13,669	16,475	18,965
Saturated model	15,429	15,429	15,429	36,000
Independence model	24,402	22,392	26,568	25,872

Model	HOELTER .05	HOELTER .01
Default model	29	31
Independence model	17	18

Execution time summary:

Minimization: 0,281  
Miscellaneous: 2,002  
Bootstrap: 0,000  
Total: 2,283