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Organisational Rigidities and Marketing Theory

Examining the US Department Store c.1910-1965

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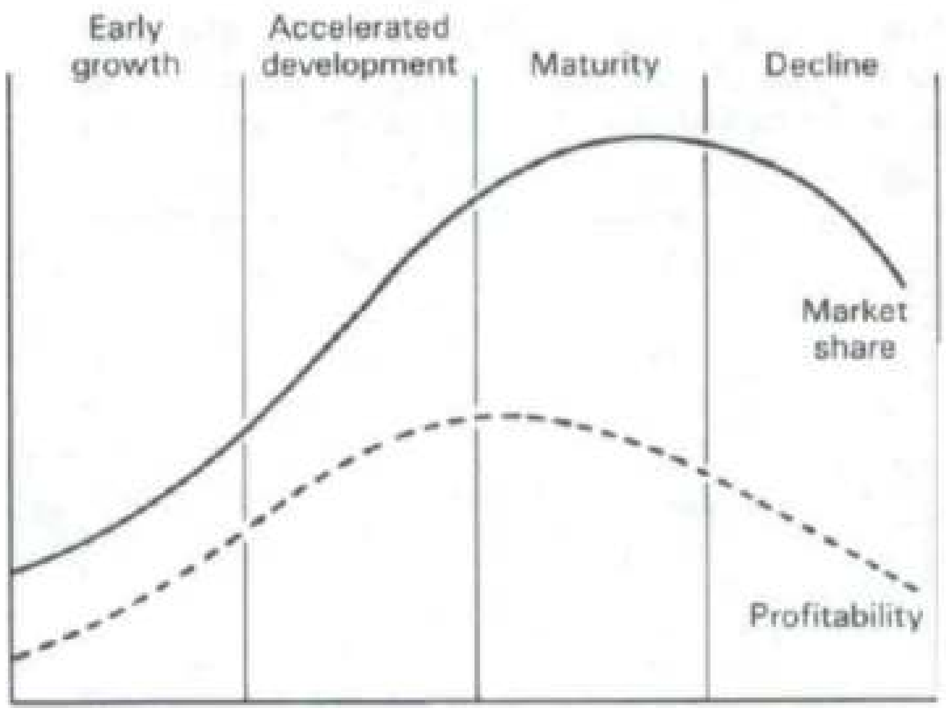
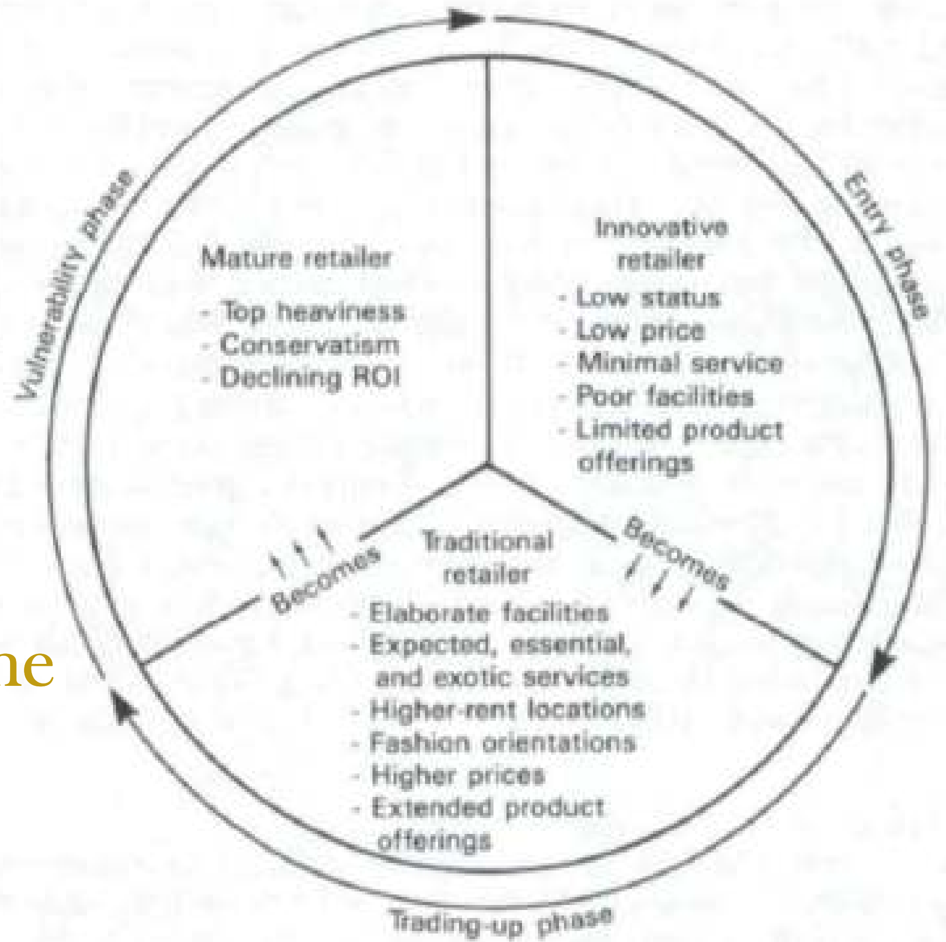
The Retail Life Cycle (Davidson et al., 1976)



The Retail Wheel (McNair, 1931; 1958)



Enduring marketing theory on the growth & decline of retailers

Aims and Context

- Uses a case study of the US department store sector c. 1910-1965
    - ‘built in organizational rigidities, cumbersomeness, a slowness to act, a lack of receptivity to new ideas’ (May and McNair, 1977, 57)
- Employs a close reading of the key marketing, retail, economic and management writing of the period – see paper for more details
    - why department stores seemingly delayed wide-ranging suburban expansion
    - why department store cost structures increased and operating efficiency deteriorated

We need more explanation of retail theory

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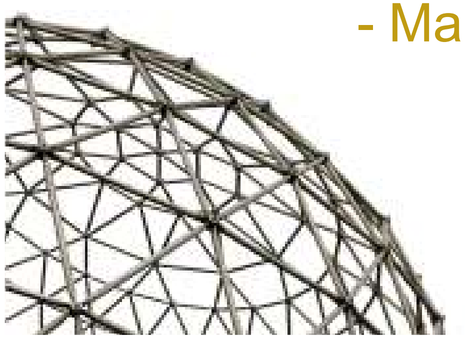
- 'Why should reasonably skilled businessmen make decisions that consistently lead their firms along seemingly profitable routes to positions of vulnerability?

    - Stanley Hollander (1960, 41)

- The theory '…underplays the pressures faced by executives during the turning or inflection points between the various stages….[furthermore]… there is little indication of how firms break through the life cycle inflection points, and whether such points are prolonged periods. Put differently, the retail life cycle does not indicate the processes by which the retailer will progress from one stage to another'.

    - Mark Palmer (2005, 719)



Plan

1. Examines the ‘department-manager plan’ – an operating structure designed for stand-alone downtown department stores
2. Analyses how traditional department stores struggled to replicate the centralised efficiency of chain stores even after extensive M&A activity in the 1920s
3. Explores the challenges associated with post-1945 suburban growth and interprets traditional department store organisational responses
4. Concludes by discussing the implications for marketing theory, retail change and the avoidance of retail failure

Paul Mazur (1925) – department-manager plan

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- Logical organisational structure for downtown department stores

Merchandising Division	Publicity of Sales Division	Store Management Division	Controlling Division

- Each department was ‘considered as a separate speciality store or shop. Its accounts are kept separate; and under normal conditions it must stand on its own feet’ (Nystrom, 1919, 256).

- ‘in order that our large retail stores may do their buying efficiently, it is necessary that continuous representation takes place’ (Doubman and Whitaker, 1927, 117-118)

Early branched development – little challenge to organisational structure

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- Marshall Fields – first branches in the late 1920s
- Strawbridge and Clothier - by 1931 had two branches
- Goldblatt's – by 1936 it had nine large outlets outside of the Metropolitan area

- facilitated by the emergence of neighbourhood and community centres - intended to supply lower-order goods to growing populations outside of the downtown

- But generally:
  - Branch has much reduced product range
  - Administered by buyers and management at downtown store

The chain store challenge

- ‘Chain stores have matched the mass production of the modern manufacturer with mass distribution’ (Filene, 1924, 7)
- ‘[Chains] are armed with most of the advantages of the large department store, with the ubiquity of a whole group of retailers, They are like department stores mobilized and out for conquest’ (Clapp, 1920, 56)
- An emphasis on centralised scale economies in marketing and, more importantly, buying (Bradshaw, 1943)
- A new focus on scientific management and consolidated control (Hess, 1924)
    - Highly skilled buyers based in head offices analysed the performance of product lines, adjusting buying patterns and merchandise offers accordingly.

The chain store challenge

- Sears and JC Penney as an exception to traditional department stores. Buyers specialise in buying:
    - ‘Many department-store buyers confine their purchases largely to primary sources, well known and usually conveniently located, mainly because such buyers lack the knowledge, time, or willingness to look elsewhere, Sears’s buyers on the contrary, when they find primary sources unsatisfactory, examine secondary sources which, though less well known and perhaps off the beaten path, produce quality merchandise often available at lower prices than that of primary sources’ (Emmet and Jeuck, 1950, 398).

Consolidation and co-operation activity: decentralised 'holding companies'?

- Edward Filene's 1927 speech
  - departments would be highly specialised with the centralisation of buying supported by 'facts and scientific knowledge' (p 13)
  - allow the best buyers to serve in central offices tempered by 'decentralized operation and selling' (p 12)
  - purchasing from 'approved vendors' and, given the scale of orders, 'the manufacturer of vision, therefore, should be anxious to become a preferred source' (Converse et al., 1929, 44)
- Consolidation was necessary, along with changes in organisational structures

Consolidation and co-operation activity: decentralised ‘holding companies’?

- Some informal grouping in 1920s

- Previously independent department stores form holding companies:
  - May Department Stores (1910)
  - Associated Dry Goods Corporation (1913)
  - Hahn Department Store Inc (1928)
  - Federated Department Stores (1929)

But:

- ‘…most department store groups have been financial consolidations primarily. Until they add to that finance, enterprise, operating skill, knowledge and effectiveness, you won’t begin to see the real results of operating efficiency’ (Mazur, 1929, 16).

- ‘changing the ownership without changing the service, merely results in deflecting retail net profits…from private owners to co-operative owners’ (Clark et al., 1926, 257)

Consolidation and co-operation activity: decentralised ‘holding companies’?

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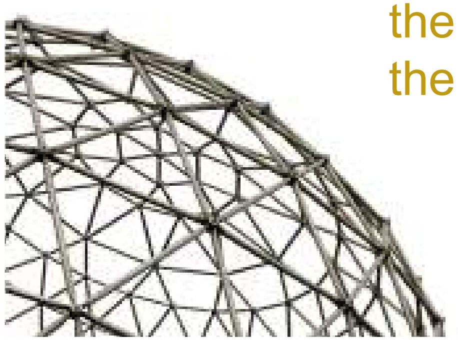
- The organisational structure remains a key hurdle:
  - ‘The main obstacle to the establishment of chains of department stores is the separation of the buying and selling functions. As long as it is considered necessary that merchandise shall be bought under the direction of the same person who is responsible for its sale, consolidated purchasing for a group of stores is impossible’ (HBR, 1929, 381).
- Change not necessarily to the advantage of the buyer:
  - ‘I am now part and parcel of a collective group of brains and the results I get are not credited to my individual ability. In other words, the system gets the credit and I come in for a very small share of the praise’ (New York Times, 1920).



Cost increases. Trading “up” as a defence

- Expense as a percentage of sales increasing from 29% in the mid 1920s to around 35% by the mid 1950s (HBS data)

- Decentralised department store holding companies are even less competitive:
    - ‘the total expense rates of ownership groups…some 20% of sales higher than that of true chains’ (McNair, 1950, 136).

- Service as a differentiator?
- Downtown costs

- Suffers from ‘elephantiasis’ that saw a lack of focus on costs, an emphasis on driving volume and an expansion of merchandise ‘far afield from their original business’ (Hypps, 1937, 73)

1950s Suburbanisation – Challenging established organisational structures

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- Department store holding companies resist until late 1950s

- But the pull of shopping centres is strong:

  - Fully being enclosed, away from the street and benefitting from a carefully controlled tenant mix (Palmer, 1953; Stedman, 1955)

- Initially avoided each other

- Some operators build their own centres:

  - J L Hudson's (Detroit)
  - May's (St. Louis)
  - Allied Stores (New York)
  - Dayton's (Minneapolis)
  - Dillard's (Arkansas)
  - R H Macy (New York)

Tackling organisational change

- The traditional structure became ‘increasingly poorly suited to the developing multiple-establishment system’ (Bucklin, 1964, 41)

- ‘Traditional department store organizational patterns…as the framework for a large-scale multiunit operation has been seriously questioned’ (Oaks, 1956, 255)

Tackling organisational change

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- At Macy's:
  - '… the downtown store was no longer to be thought of as the "mother hen with her branch-store chickens". Each store was to be regarded as having equal status, and no one store was in an way to have priority over another' (Bingham and Yunich, 1965, 138).

- At Allied Stores:
  - 'What evolved became somewhat difficult for the buyers to accept; that the branch store man at the top was responsible and had as much authority as the other four and you, as a buyer, could not go into a branch store and tell them to redo things because that was no longer your responsibility. Your responsibility was the merchandise selection' (Personal Interview).

1950s Suburbanisation – Challenging established organisational structures

- Merger wave
  - Between 1951 and 1965, the 20 largest department store companies had acquired 73 companies operating 168 establishments (Bucklin, 1972)

Branch Store Sales as a Percentage of Total Department Store Sales

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Year	No. of firms	No. of stores	% of branch store sales to total sales
1951	104	193	4
1952	107	206	6
1957	104	289	23
1958	104	316	28
1959	99	303	35

N.B. Only department stores with annual sales of $10 million or more were included

Source: Brown and May, 1961, p 2

Suburbanisation Rates of the Major Department Store Corporations

Corporation	Date when Sales from Branches Reach 50%
Allied	1970
Associated	1967
Macy’s	1963
Federated	1967
May’s	1962
Dayton Hudson	1969
Carter Hawley Hale	1950s

Source: adapted from Laulajainen, 1987, p 235.

Conclusions

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- The traditional department store became "locked in" to a locational and organisational structure
  - slow to adapt strategically, geographically and organisationally
  - 'the inertia of management arising from long experience with present methods – from habit and tradition' (HBR, 1929, 380)

- Mirrors other historical studies:
  - 'complacent and committed to established routines, processes and strategies' with management failing 'to assess the potential impact of these changes and develop appropriate strategies' (McGovern, 2007, 900).

Conclusions

- Marketing theory has explanatory limitations:
  - management inertia AND changing environmental circumstances

- ‘a company can never afford to get “locked in” to some particular approach or philosophy’ (Davidson et al., 1976, 95)
- Need to be “tight” in terms of executing efficiency, but also “loose” and adaptable to new circumstances (Peters and Waterman, 2004)

- Retail history can offer relevant insights to contemporary problems
  - all the more relevant amid an increasing academic focus on retail failure and divestiture (Burt et al., 2003; Etgar and Rachman-Moore, 2007)