UNIVERSITY OF SOUTHAMPTON

CORPORATE RESTRUCTURING, REGULATION AND COMPETITIVE SPACE:

The US Department Store in the 1990s

Steven Michael Wood BA (Hons)

Thesis submitted for degree of Doctor of Philosophy

Faculty of Science

Department of Geography

March 2001

UNIVERSITY OF SOUTHAMPTON

FACULTY OF SCIENCE

GEOGRAPHY

ABSTRACT

Doctor of Philosophy

CORPORATE RESTRUCTURING, REGULATION AND COMPETITIVE SPACE: The US Department Store in the 1990s

Steven Michael Wood

The US department store industry has undergone an important round of strategic corporate restructuring during the 1990s This thesis explores these geographies of retail restructuring through an in depth study of the sector, based partly on interviews with a number of leading industry executives, Wall Street analysts and commentators, triangulated with industry reports, press releases and the retail press.

The corporate reorganisation of the US department store industry is shown to have occurred through the mediums of financial, portfolio and organisational restructuring. Investigation of financial restructuring requires an examination of the geography of high leverage and divestiture, as well as the strategic restructuring effects of US bankruptcy legislation on the constituent firms. Investigation of portfolio restructuring within the sector requires an understanding of the regulatory constrained nature of merger and acquisition activity and how strategic consolidation is mediated by a variety of factors including geography, synergy realisation and the relatedness of firms. Investigation of organisational restructuring requires analysis of the geography of knowledge in corporate decision-making, as firms mediate between the tendencies of centralisation to reduce cost, and decentralisation to increase responsiveness. Beyond these three dimensions of corporate restructuring the thesis also explores the micro-scale – the reorganisation of the internal department store environment – and the new business models adopted by department store firms pursuing e-commerce strategies.

The thesis uses theory from a number of different disciplines to interrogate a complex geography of corporate change where restructuring can be characterised as an incremental process rather than a dramatic, single upheaval of the firm and constituent industry. In its turn, this corporate reorganisation is mediated by regulatory frameworks, market structure, competitive conditions, and broader consumption practices, providing the basis for a complex engagement with a number of prominent themes throughout economic geography.

CONTENTS

ACKNOWLEDGEMENTS xiii

PART ONE: INTRODUCTION

CHAPTER 1 – CORPORATE RESTRUCTURING, THE FIRM AND THE US DEPARTMENT STORE INDUSTRY 2

INTRODUCTION 2
GEOGRAPHIES OF CORPORATE RESTRUCTURING 2
The Unstable Competitive Environment 2
Scale 3
REFIGURING RESTRUCTURING 5
Defining 5
Refiguring Strategy 7
Structure and Strategy 8
Rationality and Strategy 9
'Real' Regulation and Restructuring 11
The Restructuring Process 12
CONCEPTUALISING CORPORATE RESTRUCTURING THROUGH ECONOMIC GEOGRAPHY 16
Cultural Turns, the Firm and Industry 16
New Geographies of Retailing 16
THE RELATIONSHIP BETWEEN 'THE ECONOMIC' AND 'THE CULTURAL' IN CONTEMPORARY ECONOMIC GEOGRAPHY 19
THE US DEPARTMENT STORE INDUSTRY AT THE END OF THE 20th CENTURY 20
Conceptualising the Contemporary Sector 21
THE THESIS OUTLINE 24

PART TWO: CONTEXT

CHAPTER 2 - REFIGURING HISTORIOGRAPHIES OF THE EARLY DEPARTMENT STORE 30

INTRODUCTION 30
URBANISM, MANUFACTURERS AND MERCHANTS 32
19th Century Urban Growth 32
Manufacturers and Merchants 34
Transportation and the Marketplace 37
Societal Changes 39
The Coalescence of Factors 40
THE EMERGENCE OF THE DEPARTMENT STORE 41
Definition – Practices Rather Than Form 42
New Marketing Concepts 42
Economies of Scale and Scope 43
Developing the Principle 46
Luxury as Standard 48
THE DEPARTMENT STORE AND URBAN SPACE 49
The Bourgeoisie and Urban Space – The Case of New York City 50
DECLINE OF THE BOURGEOIS SPHERE AND THE DEMOCRATISATION OF LUXURY. 54
Modernity and Class on the Street 54

The Rise of "Taste" 56
A Universal Education in Modernity? 59
FEMINISATION OF RETAIL SPACE AND CONTESTED CONSUMER CULTURE 62
CONCLUSIONS 65

CHAPTER 3 - RESTRUCTURING AS A PROCESS 1: 1900-1945 67

INTRODUCTION 67
UNPARALLED ASCENSION, 1880-1920 68
THE RISE OF THE 1920s/30s CHAIN STORE 69
The Rise of the Chain 69
DEPARTMENT STORE ORGANISATIONAL CHALLENGES OF THE 1920s 72
The Inefficient Organisation 72
Mazur's Organisational Reengineering 73
The Benefits of the Mazurian Organisational Form 75
Alternatives to Mazur's Configuration 76
DEPARTMENT STORE ORGANISATIONAL RESPONSES OF THE 1920s 78
The Logic of Informal Grouping 78
Formal Consolidation Imperatives 79
Consolidation Problems in Theory and Practice 80
THE 1930s DEPRESSION: REGULATORY AND ORGANISATIONAL REPSONSES 83
The Depression and Economic Ideology 84
The Depression as Regulatory Catalyst 84
The Depression as a Re-organisational Imperative 87
THE DEPARTMENT STORE AND WORLD WAR TWO 89
SUMMARY 90

CHAPTER 4 - RESTRUCTURING AS A PROCESS 2: 1945-1985 91

INTRODUCTION 91
INTRODUCING THE POST-WAR RETAIL ENVIRONMENT 91
CHANGES IN URBAN RETAIL STRUCTURE 93
Population Decentralisation 93
Suburban Retailing 94
The Geographical Challenge to the Department Store 96
THE NEW COMPETITIVE ENVIRONMENT OF THE 1950s AND 1960s 98
The Legacy of Poor Department Store Cost Control 98
Competition from 1960s Discounters and Chain Stores 99
Effects and Reactions to the Discounters 100
CONCEPTUALISING 1960s DEPARTMENT STORE STRATEGIC CHANGE 103
DEPARTMENT STORE INTERNAL ORGANISATIONAL RESPONSES OF THE 1950s AND 1960s: THE SUBURBAN DEPARTMENT STORE 105
The Branched Strategy: Macy's 1960s Organisational Restructuring 107
Conceptualising Locational and Internal Organisational Change 112
THE RISE OF THE BRAND: THE 1970s AND EARLY 1980s 113
EVALUATING THE US DEPARTMENT STORE SECTOR BY THE END OF THE 1980s 116
The Uncertain Future of the US Department Store Sector 117
CHALLENGES OF THE 1990s 119
Balancing Centralisation and Decentralisation 120
Private Label Prospects 122

E-Commerce..... 123
CONTINUOUS RESTRUCTURING AS THE KEY..... 123

PART THREE: METHODOLOGICAL CONSIDERATIONS

CHAPTER 5 - ELITE RESEARCH AND METHODOLOGICAL CONSIDERATIONS.... 126

INTRODUCTION..... 126
THE ARGUMENT FOR CLOSE DIALOGUE..... 127
The Elite Interview and Situated Knowledge..... 128
The Realist Philosophy of Close Dialogue..... 129
CLOSE DIALOGUE WITH CORPORATE ELITES..... 130
Why Interview Elites?..... 130
What is an Elite?..... 130
Locating Elites and the Role of Networks..... 131
THE ACCESS ISSUE..... 132
The Role of Gatekeepers..... 133
The Importance of the Introductory Letter..... 133
Opportunism and Access..... 135
Foreignness and Access..... 136
Access as a Determining Factor..... 137
ORGANISING THE ELITE INTERVIEW..... 138
Timing and Spacing the Elite Interviews..... 138
Power Relations and the Elite Interview – The Complex Balancing Act..... 139
Ethics and Power Relations..... 141
TACKLING SITUATED KNOWLEDGE..... 142
Triangulation..... 143
The Use of the Business Press..... 144
The Use of the Equity Analyst as a Research Resource..... 145
The Benefits of the Quality Equity Analyst..... 145
The Analyst and Corporate Governance..... 146
Recognising the Embedded Narrative in Space and Time..... 148
Leveraging Information from Equity Analysts..... 150
Abstraction and the Total Method Approach..... 151
CONCLUSION..... 152

PART FOUR: THE RESTRUCTURING OF THE U.S. DEPARTMENT STORE INDUSTRY

CHAPTER 6 - LEVERAGE, JUNK AND DEBT: THE 1980s FINANCIAL RESTRUCTURING AND ITS IMPLICATIONS..... 155

INTRODUCTION..... 155
THE THEORY OF HIGH LEVERAGE AND LBOs..... 156
HIGH LEVERAGE AND THE US DEPARTMENT STORE INDUSTRY..... 158
Easy Finance..... 158

Easy Targets 159
FEDERATED AND THE CAMPEAU CORPORATION 160
Financial Restructuring as Portfolio Restructuring 162
THE RH MACY LEVERAGED BUY-OUT 163
Explaining the LBO 163
The Corporate Governance Issue 164
The Chapter 11 Filing 165
LESSONS FROM THE FINANCIAL RESTRUCTURING PERIOD 166
Everything Has Its Price 166
Leverage and the Department Store 167
Maintain Market Focus 169
'Real' People and the Organisation 169
IMPLICATIONS OF THE FINANCIAL RESTRUCTURING PERIOD 171
A Prompt to Organisational Restructuring and the Role of Chapter 11 171
CONCLUSIONS 175

CHAPTER 7 - REGULATORY CONSTRAINED PORTFOLIO RESTRUCTURING 178

INTRODUCTION 178
FORMS OF PORTFOLIO RESTRUCTURING 179
PORTFOLIO RESTRUCTURING AND THE US DEPARTMENT STORE INDUSTRY 179
Strategic Asset-Based Portfolio Restructuring 180
Explaining the Acquisition-Based Restructuring of the 1990s 181
A BRIEF HISTORY OF US ANTITRUST REGULATION AND ITS IMPACT ON THE RETAIL INDUSTRY 185
From National Concentration to Local Analysis of Horizontal Market Overlap 188
Weakening of Enforcement and 1980s Financial Re-Engineering 189
The 'Fix-it-First' Regulatory Environment of the 1990s 190
REGULATORY CONSTRAINED PORTFOLIO RESTRUCTURING IN ACTION – THE DILLARD'S-MERCANTILE STORES ACQUISITION 193
Questioning the Logic of the Deal 193
Dillard's-Mercantile and 'Fix-it-First' 194
The Federal Trade Commission and Defining the Department Store Industry 195
RECENT DEVELOPMENTS IN ANTITRUST INTERPRETATION: A NEW PARADIGM OF FTC ENFORCEMENT? 200
Defining Markets: The Staples- Office Depot Precedent 200
Ineffective Divestiture: The Ahold-Pathmark Precedent 201
Interpreting the Evidence 201
IMPLICATIONS FOR FUTURE DEPARTMENT STORE CONSOLIDATIONS 203
CONCLUSION 204

CHAPTER 8 - THE LIMITS TO PORTFOLIO RESTUCTURING: THE CASE OF SAKS/PROFFITT'S 206

INTRODUCTION 206
A FRAMEWORK FOR ANALYSING PORTFOLIO RESTRUCTURING 207
Understanding Unrelated Acquisitions 208
THE PROFFITT'S STRATEGY 209
The Proffitt's Independence Model 213
The Carson Pirie Scott Example 215
THE SAKS FIFTH AVENUE ACQUISITION 216

The Background to the Saks Acquisition..... 217
Analysing the Saks Acquisition..... 218
EMERGENCY CENTRALISATION..... 223
THE DIVESTITURE DECISION..... 226
LESSONS FROM THE SAKS INC. EXPERIENCE: ANALYST RIGOUR, AGENCY THEORY AND UNRELATED ACQUISITIONS..... 228
POSTSCRIPT – FEBRUARY 2001..... 231

CHAPTER 9 - ORGANISATIONAL RESTRUCTURING, KNOWLEDGE AND SPATIAL SCALE..... 232

INTRODUCTION..... 232
GEOGRAPHIES OF KNOWLEDGE AND DISTANCE..... 232
ORGANISATIONAL RESTRUCTURING OF THE US DEPARTMENT STORE INDUSTRY... 233
The Need to Renegotiate Scale in the 1990s..... 235
THE STRATEGIC ROLE OF TECHNOLOGY IN RETAILING..... 236
The Role of Expert Systems..... 237
CASE 1 – THE EVOLUTION OF THE SAKS FIFTH AVENUE DISTRIBUTION SYSTEM.... 240
The Conflict of Knowledge: Codified or Tacit? 242
Vendor Intensification..... 243
Vendor Managed Inventory..... 244
Removing the Tacit Knowledge with Vendor Managed Inventory..... 244
CASE 2 – (RE) NEGOTATING SCALE AT FEDERATED DEPARTMENT STORES..... 245
The Uncharted Road to Centralisation..... 247
Upscale and Uniqueness – Exceptions to FMG..... 249
Centralising the Back Office Facilities 249
Re-emphasising Localisation..... 251
THE DECENTRALISATION – CENTRALISATION DEBATE IN CONTEXT..... 253
A Blend of Spatial Scales..... 254

CHAPTER 10 – REFOCUSING DEPARTMENT STORES: DESIGN, SPACE AND RETAILER-BRANDS..... 258

INTRODUCTION..... 258
INTERNAL SPACES, DESIGN AND IMAGE..... 259
THE CASE OF US DEPARTMENT STORES..... 261
The Need to Focus Merchandise Selection..... 261
Private Labels, Lifestyles and Retail Space..... 263
The Private Label Balance..... 268
A NEW PARADIGM OF US DEPARTMENT STORE SPACES?..... 269
Toward "Open Sell" Retail Spaces..... 271
Sight Lines and the Open Plan Department Store..... 272
Reintroducing "fun" to the Department Store..... 276
IMPLICATIONS FOR FUTURE RESEARCH..... 280

CHAPTER 11 – E-COMMERCE, NEW BUSINESS MODELS AND SPATIAL IMPLICATIONS..... 283

283
INTRODUCTION..... 283
THE EMERGENCE OF INTERNET RETAILING..... 285

DEPARTMENT STORES, ELECTRONIC COMMERCE AND PORTFOLIO RESTRUCTURING 287
The Acquisition or Internal Development Decision 288
Case Study: Federated's Acquisition of Fingerhut 292
a) Data Mining Potential 294
b) Fulfilment Expertise and Capacity 295
c) Link the Physical and the Virtual Stores 296
ELECTRONIC COMMERCE AND NEW BUSINESS MODELS 298
Theoretical Underpinnings 299
Organisational Redesign in Practice 301
VIRUTAL STORES SPACES: THREAT OR COMPLEMENT? 302
The Clicks and Mortar Approach and the Decline of "Pure Players" 303
The Limits to Virtual Store Space 307
CONCLUSION 309

PART FIVE: CONCLUSIONS

CHAPTER 12 – REFLECTIONS AND SPECULATIONS 313

REFLECTIONS – SEVEN CONTRIBUTIONS OF THE THESIS TO DEBATES IN ECONOMIC GEOGRAPHY 313
a) Refiguring Corporate Restructuring 313
b) Close Dialogue and the Potential Contribution of the Equity Analyst 317
c) Financial Leverage and the Firm 317
d) Organisational Restructuring, the Geography of Knowledge and Social Relations in Corporate Restructuring 318
e) Portfolio Restructuring, Real Regulation and Strategy 319
f) The Reconfiguration of Internal Spaces of Retailing and Retail-Brand Building 320
g) The "New Economy" and New Business Models 320
SPECUALATIONS – THE US DEPARTMENT STORE, THE NEW ECONOMY AND GLOBAL RETAILING 321
The "New Economy" and the US Department Store 321
The "New Economy" and US Department Internationalisation 324
POSTCRIPT 327

PART SIX: APPENDICIES

I SELECTED US DEPARTMENT STORE ACQUISITIONS, 1976-2001 329
II VOLUME OF LARGEST TRADITIONAL US DEPARTMENT STORE COMPANIES, 1984-1999 331
III US DEPARTMENT STORES AND THE INTERNET: STATE OF THE INDUSTRY END SEPTEMBER 2000 332
IV CORPORATE CONTACTS THROUGHOUT PHD 333
V REFERENCES 336
VI PUBLICATIONS DIRECTLY ARISING FROM THESIS 374

TABLES

No.	TABLE TITLE	Page
1.1	The US Department Store Typology	21
1.2	Selected Large US Department Store Firms and their Department Stores	22
1.3	The Conventional US Department Store Industry Sales & Market Shares For Fiscal 1997 and 1998	23
2.1	Urban Growth Relative to Population Growth, 1800-1890	33
2.2	19th Century US Retail Structure	35

2.3	Foundation Dates of Future US Department Stores	47
2.4	Early Department Store Services	49
2.5	The Specialisation of Retail Areas	50
3.1	Sears Mail Order vs. Store Based Sales, 1925-1935	70
3.2	Retail Challenges, 1929-1939	87
3.3	Filene's Model Stock Plan	88
4.1	Relative Percentages of Urban Population Growth, 1900-1970	94
4.2	Initial Shopping Centre Construction (all types), 1947-1960	95
4.3	Types of Shopping Centre Development	96
4.4	Retail Change, By City Size Class, 1954-1967	96
4.5	Branch Store Sales as a Percentage of Total Department Store Sales	97
4.6	Suburbanisation Rates of the Major Department Store Corporations	106
4.7	Life Cycle Characteristics of Five Retail Institutions	113
4.8	Diversification of Major Department Store Chains in the 1960s and 1970s	115
4.9	A Selection of Diversified Retailing Arms Owned By Department Stores, 1960-1990	116
4.10	Product Flow Comparison of Different Types of Apparel Store	121
4.11	Department Store Merchandising Typology	122
6.1	The Rise of the LBO	158
6.2	A Selection of pre-1990s Diversifications By Major Department Store Retailers	160
6.3	Major Department Store Rationalisation, 1985-1995	174
6.4	Department Store Bankruptcies Following the Financial Restructuring Period	175
6.5	Major Takeover Bids in Department Store Retailing, 1984-1988	176
7.1	Department Store Acquisitions of the 1990s	184
7.2	Major Department Store Retailers' Share of GAF Throughout the 1990s	182
7.3	Department Store Retailers v Discount Store Retailers' Share of GAF in the 1990s	183
7.4	Diversification of Major Department Store Chains in the 1960s and 1970s	189
7.5	Dillard's, Inc.'s Acquisition on Context	194
8.1	Acquisition Fundamentals in Horizontal Consolidations	207
8.2	Saks Inc. (formally Proffitt's) Consolidation Chronology	210
8.3	Proffitt's, Inc. Acquisition Multiples Against Industry Average	210
8.4	Proffitt's Inc. Balance Between Divisional and Corporate Responsibilities	214
8.5	Potential Regional Department Store Acquisitions for Proffitt's in 1998	217
8.6	Problems with the Saks 5th Avenue and Proffitt's Strategic Fit	220
8.7	Proffitt's Department Stores vs. Acquired Saks Fifth Avenue Stores	223
9.1	Merchandise and Knowledge Dependencies in the Supply Chain	242
9.2	Federated's Department Store Chains 1999	245
9.3	Federated Divisional Consolidations, 1982-1996	246
9.4	Stages in the Reconfiguration of Federated Logistics and Operations (FLO)	251
9.5	Centralised Functional Integration versus Decentralised Business Unit Integration	253
10.1	Federated Private Brands	265
10.2	Private Label Penetration By Department Store	268
11.1	Projections of US Online Purchasers	286
11.2	Department Store Strategic Investments to Support Direct-to-Consumer Initiatives	289
11.3	Department Store Retailers' Bridal Registry On-Line Partnerships	291
11.4	Fingerhut E-Commerce Businesses	293
11.5	Selected Pure-Player E-Commerce Failures, 1997-January 2001	305
12.1	A Characterisation of Approaches to Organisational Change	315
12.2	A Comparison of the Old and New Economy	322
12.3	The Department Store Entering the New Economy	323
12.4	US Department Stores: Gearing 1999 and Capex/Depreciation Ration 2000E-2001E	325

FIGURES

No.	FIGURE TITLE	Page
1.1	A Model of Corporate Restructuring	13
1.2	A Model of Organisational Change Strategic	14
1.3	Positioning in the 1990s US Retail Industry	24
2.1	Urbanisation in the United States, 1870	34
2.2	Urbanisation in the United States, 1910	34

2.3	Ward's Model of CBD Development	37
2.4	US Railway Mileage Growth, 1830-1890	37
2.5	Factors Underpinning Early Department Store Development	41
2.6	Original Principles of Department Store Economics	44
2.7	Department Store Change in Location, New York City 1823-1947	53
3.1	Mazur's (1927) Suggested General Organisation Chart of a Department Store	74
3.2	Generalised Four Divisional Structure for the larger Department Store in the 1920s	73
3.3	Kaufman's Suggested Corporate Organisational Structure	77
3.4	The Mazurian Argument for Department Store Consolidation	80
3.5	US Department Store Sector Average Net Operating Profit 1920-1940	83
3.6	Department Store % Markdown, Gross Margin, and Net Operating Profit, 1930-1950	89
4.1	Disposable Personal Income, 1946-1970	92
4.2	Historical transport mediums reducing the friction of distance	93
4.3	US Department Store Average Gross Margin and Total Expense, 1920-1950	99
4.4	Tactics Which Major Conventional Department Stores May Utilise to Compete with Low-Margin Retailers	103
4.5	A Model of Reactions to Discount Department Store Based on the Wheel of Retailing Theory	104
4.6	Pre-branched Buyer Centred Department Store Organisational Structure	110
4.7	The Divisional Organisational Structure Under the Orbit System/Branch Store Plan: post 1960s	111
4.8	A Model of US Department Store Organisational Change, 1870-1960	112
4.9	The Institutional Life Cycle of the Department Store	119
4.10	A Model of Department Store Restructuring, 1960-2000 (?)	124
5.1	Systems of Corporate Governance	147
5.2	Positioning the Equity Analyst	148
5.3	The Total Method Approach to Research into the Restructuring of the US Department Store Industry	153
7.1	A Comparison of the Performance of Conventional and Discount Department Stores, 1987-1999	182
7.2	A Decision Flow For a Retail Horizontal Acquisition Under the FTC 'fix-it-first' Policy	192
7.3	The Geography of the Dillard – Mercantile Stores Acquisition	198
7.4	The R. H. Macy and Broadway Stores Acquisitions By Federated Department Stores	199
8.1	Saks Inc. Store Locations, July 2000	211
8.2	Proffitt's, Inc. Consolidation Strategy of Regional Department Stores	216
8.3	Saks Incorporated Organisational Structure	222
8.4	The Consolidations of McRae's and Proffitt's Divisional Head Offices, February 2000	225
8.5	Saks Inc. Share Price Versus S&P 500, October 1998 – August 2000	227
9.1	The Trade Off Between Centralisation and Decentralisation	237
9.2	The Speeding Distribution System Under Quick Response	241
9.3	Federated Department Stores Centralised Support Functions	250
9.4	Geographies of Organisation of the Late 20th Century Department Store	257
10.1	Nordstrom Second Floor- Old Layout	273
10.2	Nordstrom Second Floor- New Layout	273
11.1	Technological Shaping Forces 1750-2000: Industrialization to Virtualization	287
11.2	The Wall Street Journal's Reporting of the Fingerhut "Problem"	298
11.3	Federated Direct Organisational Structure	302

PLATES

No.	PLATE TITLE	Page
2.1	Early Urban Congestion in Chicago	51
2.2	Stewart's Cast Iron Palace	54
8.1	Downtown Saks Fifth Avenue Flagship Exterior	220-221
8.2	Suburban Proffitt's owned Boston Store Exterior	220-221
10.1	The Alfani Private Label Department	267
10.2	The Sephora Open Sell Format	271
10.3a	Recent Improved Sight Line Spatial Design at Saks Fifth Avenue	274
10.3b	Plans for the New York Flagship Refit at Saks Fifth Avenue	275
10.3c	Plans for the New York Flagship Refit at Saks Fifth Avenue	275
10.4	The Macy Sport Department at Union Square, New York	277

10.5	The Macy's THISISIT Junior Department	279
10.6	The Need to Reconfigure Department Store Spaces	282

ACKNOWLEDGEMENTS

The PhD process is an extremely bumpy ride but there have been a number of people who have considerably smoothed the path. First, I would like to take this opportunity to gratefully acknowledge the funding from the Department of Geography's John Lewis Scholarship. Second, I would like to thank Neil Wrigley for guidance throughout the project and provided essential advice on how to develop a number of very vague ideas into (semi) readable chapters. Third, I appreciate the support of Alex Hughes who was always available on the other end of the phone when I despaired! Fourth, Sally, Gary, Andy and Richard in my office have put up with my tea consumption and excessive bad language.

Fifth, Howard and Suzanne Biederman remained interested and helpful throughout the researching and writing of the thesis and were so kind during my visit to New York City – sincere thanks. I will always remember Howard's advice before travelling to the US to carry out my interviews – "Always remember that the men always put on their pants the same way as you do. And then fantasize...they are on the potty and their pants (both sexes) are around their ankles. Not much difference than you, is it?...Good hunting" - I hope you agree that "the kill" was worth the effort.

Sixth, Sandy and Mick have been a source of unfailing support throughout the past 25 years, a debt I can never repay...although possibly with Rolling Rock. Seventh, Leroy, Scoops and Crystal deserve no thanks whatsoever.

Finally, it is difficult to overestimate the impact Lindsay has had on the PhD. Without her support (emotional and financial [!]) and patience I would not have even got over to the US, nevermind written a thesis. She now knows more about US retailing than selective serotonin reuptake inhibitors..

Part One

INTRODUCTION

"Retail capital, and its transformation, is a vital and relevant topic for research and demands urgent attention"

Ducatel, K. and Blomley, N. (1990) 'Rethinking Retail Capital', *International Journal of Urban and Regional Research*, 14, p 225.

Chapter One

Corporate Restructuring, the Firm and the US Department Store Industry

---

INTRODUCTION

Across time and space, firms and the industries of which they are part, are forced to reorganize their operations to adapt to new competitive environments. This practice of corporate restructuring is a complex process central to changing economic and social production and consumption systems and their spatial organisation. This thesis seeks to analyse corporate restructuring from an economic geography perspective using the example of the US department store industry in the 1990s based in part on two extensive periods of US fieldwork, consisting of over 30 interviews with leading industry executives and investment analysts, triangulated with industry reports, press releases and the retail press.

Clearly, there is a need, before analysing the US department store sector, to first interrogate the nature of current thinking regarding corporate restructuring within economic geography, and more broadly, across the management and business studies literatures. Second, it is prudent to briefly review the theoretical framework within which this thesis is embedded – economic geography, and more specifically, the emergent retail geography. Finally, it is essential to be explicit about the industry which provides the focus of the project - the contemporary US department store sector.

GEOGRAPHIES OF CORPORATE RESTRUCTURING

The Unstable Competitive Environment

The uncertainty endemic within the capitalist system has long been recognised and debated. Marx and Engels acknowledge the fact most clearly in their much quoted phrase from *The Communist Manifesto* (1848):

> The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form, was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real condition of life and his relations with his kind.

The economy is never passive or inactive, but constantly in a state of flux where capital continually moves over space and place, seeking capital fixes suitable for particular points in time and then transforming into alternative regimes of accumulation in the process of 'creative destruction' (cf. Harvey, 1982; 1985b; Schumpeter, 1942). The need to adapt, reorganise, and restructure in the midst of a world where 'all that is solid melts into air' is thus stark. The restructuring of economies and organisations can be seen as a response to changed conditions of accumulation induced by class struggle in the workplace, or transmitted through competitive situations endemic to capitalism[1]. The effects of these restructuring strategies may involve sectoral switches of capital across space producing geographical change and modifications in the organisation of production and consumption (see Lee, 1987; 1994).

Scale

Industrial and corporate restructuring occurs across, and between, a number of different scales and can thus be investigated at a number of different levels of analysis. At the macro scale, research has concentrated on how the economy at the aggregate level has restructured in response to changes in the regulation of global money, the shifting nature of consumer demand and the decline of the Fordist mass production-mass consumption nexus. Much of the literature concerning large scale restructuring of the economy has referred to a new regime of accumulation known variously as post-Fordism, neo-Fordism or flexible accumulation (cf. Amin, 1994; Harvey, 1989; Piore and Sabel, 1984). These works have charted the reorientation of production systems towards more organisationally inter-linked, flexible modes of operation where production is increasingly short-run, tailored to local needs on a just-in-time basis (see Best, 1990; Harrison, 1994). And this is set in the context of the decline of manufacturing bases of developed countries, associated job losses, and a shift toward consumer services (e.g. Bluestone and Harrison, 1982; Christopherson, 1989; Harrison and Bluestone, 1988).

---

[1] A third possible spur could come from regulatory changes – see Chapter 7.

From a geographical perspective, the newly restructured regions of the "post-Fordist" economy have been characterised by a number of terms which are now embedded within the economic geography literature. These include "industrial networks", "industrial districts", "new industrial spaces" and the "Silicon Valley Model", where the cultures and tacit knowledges in such areas are directed to new forms of trust, co-operation, innovation and reciprocity (see for example Gertler, 1997) - clearly, the affects of corporate restructuring slice through the dichotomy between economy and culture (Clark et al., 1992; Halford and Savage, 1995; 1997; Massey, 1983).

At the micro scale, it is the *firm* that is faced with the challenge of both driving and prospering within the increasing volatility of circulation in new competitive environments. It is the firm that must reorient market emphasis and organisational structure to a state suitable to new conditions of accumulation. Investigations into the firm are appropriate as 'the business organisation is the basic unit of the economy, the point of production, the crucible with which both macro and micro forces meet and are played out' (Taylor, 1984, cited by Dicken and Thrift, 1992, p 284). Indeed, there is a dialectic between the two scales of the macro level of the economy and the firm at the micro - although cause and effect cannot be read off each other, the two scales can be seen to interact, neither mutually exclusive in producing outcomes. Indeed there is no uniformity in restructuring strategies whereby 'in any one industry, the precise behaviour of...firms - their strategies, their organizational structures and their geographies - may be extremely varied' (Dicken and Thrift, 1992, p 287). It is essential to comprehend these relationships in execution of corporate restructuring.

There are a number of restructuring strategies open to firms. These include rationalisation, diversification, merger, acquisition and market exit. All have the same goal of improving the operating performance of the core firm. Bowman and Singh (1993) attempt to extrapolate these processes by drawing out three types of renewal (see also Bowman et al., 1999). First, they identify **portfolio restructuring**, where there are significant changes in the mix of assets owned by a firm. Second, **financial restructuring** which encompasses a significant change in the capital structure of the firm. Third, **organisational restructuring** which involves the reorganisation and rearrangement of these assets producing organisational change within the firm. Evidently corporate restructuring 'can encompass a broad range of transactions, including selling lines of businesses or making significant acquisitions, changing capital structure through infusion of high levels of debt and changing the internal organisation of the firm' (Bowman and Sing, 1993, p 6). All three of these strategies have been pursued during the history of the department store industry. But, first we must

turn to an interrogation of the processes of corporate restructuring as they are understood through the literatures of economic geography, finance and business organisation.

REFIGURING CORPORATE RESTRUCTURING

Defining

Much recent debate in economic geography has centred on the conceptualisation of corporate strategy and the restructuring process (e.g. Clark, 1993b; McGrath-Champ, 1999; Schoenberger, 1994a; 1994b; 1997). The aim has been to more effectively link theory and practice, providing a greater understanding of organisational change of the firm.

A major feature of this work has been debate regarding what restructuring actually consists of. As Chapman and Edmond argue, restructuring 'has become an almost ubiquitous term in academic discourses on economic and social change, losing precise analytical meaning in the process' (p 755). For Lovering (1989) restructuring entails qualitative change from one state or pattern of organisation to another arising from conscious decisions. Gordon Clark (1993a, p 5) similarly conceives of *industrial* restructuring as 'a process of deliberate or planned structural reconfiguration in response to changing market conditions' (p 5). He views the process as producing a clean break with the past involving a thorough reorientation of attitudes, institutions, capital, wages and prices with respect to the future. Restructuring is regarded therefore as an economic and social event with potentially wide ranging implications for economies and societies. At the level of the firm however, Clark acknowledges that the process of corporate restructuring is likely to be a continuous process and subject to the changing boundaries drawn by the market, state history, and space (Clark, 1993b). Hence, *corporate* restructuring is 'a strategy of corporate change that materially alters, sometimes with minor modifications and at other times fundamental transformations, the composition of the firms' asset portfolio and/or claims against those assets' (Weber, 1997).

Restructuring is conventionally viewed as something conceived ex-ante, where strategy is consciously chosen by rational economic actors and adopted with regard to the anticipated actions of competitors (Clark, 1994). Similarly Porter (1980; 1987) views strategy as a decision-making process where top level management devise a set of long term corporate objectives with which to defend against competitive forces. These elements of a restructuring process need to be contextualised and investigated to broaden our understanding of the concept for use throughout the

thesis. Factors, that must be considered, include the formation of strategy, concepts of agency, structure and the dialectical and interpretative aspects of the regulatory state.

Clark's (1993b) work is instructive in suggesting a number of characteristics of corporate restructuring which require consideration. First, Clark argues that **restructuring is not without cost, either socially or economically**. This may involve the negotiation of sunk costs for the firm either when entering a market or location, or alternatively, when divesting assets. Consequently, 'managers may recognize the desirability of change, but be unwilling to write off existing assets' (Chapman and Edmond, 2000, p 759; see Clark and Wrigley, 1995; 1997a; 1997b). Similarly, from a stakeholder perspective, it is argued that restructuring agendas often have important implications for industries, communities and locations. Restructuring may involve sectoral switches of capital which may blight whole industries (see Bluestone and Harrison, 1982), create geographical change through new patterns of investment promoting alternative spatial divisions of labour resulting in innumerable social costs (cf. Massey, 1995). As a result, the restructuring strategies employed by firms have a crucial spatial dimension that must not be ignored. Indeed, 'one must treat geography as integral to the matter of organisation, rather than an outcome of pre-existing organisational units that make location decisions (Walker, 1988, p 377, cited by Dicken, 1990).

Second, Clark (1993b) argues that **restructuring is a corporate strategy or response to competition normally occurring in markets that are in some way contestable**. Clearly, in a market that is contestable (i.e. where there are few barriers to entry and exit) restructuring will become a *continuous process* reflecting innovations and changing competitive conditions, technology, regulatory frameworks and entrepreneurial flair (see Clark, 1993b; Hurst, 1995). It is important to note however, that few markets are perfectly contestable and instead there may be considerable barriers to entry and exit whether this be through considerable start-up or exit sunk costs or regulatory barriers (e.g. patents preventing market intervention) (see also Clark and Wrigley, 1995; 1997a; 1997b).

Third, Clark (1993b) argues **restructuring is a management strategy designed to enhance the value (stock value, asset value and liquidity) of the corporation**. In this manner, it is suggested that management has the power to reorganise the firm to improve its position vis-à-vis these valuations. However, evidence in this thesis concerning financial restructuring (see Chapter 6) suggests that management may often reorganise the firm to maximise the personal stakes of managers and not necessarily in accordance with value-maximising objectives.

Finally, Clark (1993b) suggests that **restructuring is a dynamic process that necessarily reflects and affects the inherited geography or spatial structure of production**. No one restructuring strategy is universally appropriate or necessary as appropriateness is dependent on history, time and space. Factors which might affect the strategy adopted (and which can prohibit some courses of action) are extensively discussed later in this chapter.

Refiguring Strategy

In the economic geography literature, the strategy and execution of restructuring are often conceived as one event. Moreover, the formation of strategy is often viewed as a simple linear process addressing corporate objectives. Yet, as Sayer (1982) suggests, there is a need to unpack strategy, making it clear and more accessible. McGrath-Champ (1999) makes an essential point with regard to the relationship between restructuring and strategy, suggesting 'restructuring and strategy are neither equivalent nor necessarily overlapping' (p 237). The actuality of restructuring may be quite different to that planned and directed in the boardrooms of firms. This thesis argues that an analysis of restructuring needs to consider different concepts of strategy and acknowledge the possible impact of unintentional, unconscious strategies and subsequent outcomes. Consideration must be given to issues of industrial structure, with acknowledgement that restructuring can be catalysed by competition rather than being seen as exogenous to it. Strategy must be embedded in real world conditions, as the present conceptualisation of restructuring strategy is 'too exclusively mechanistic and undirectional' (Schoenberger, 1997, p 23).

Schoenberger's (1994a; 1994b; 1997) work on corporate culture underlines how strategy is produced not by economic profit maximisers, but by individuals located within the corporate culture of their organisation and situated within their own career structures and paths. As a result, 'the need to transform the firm in order to remain competitive may encounter its most serious obstacle in the social being, position, and perceptions of the people that run it' (Schoenberger, 1994a, p 448). Clearly, firms can be constrained by those managers who seek to defend their own personal asset structures, and as a result, foreclose certain kinds of corporate strategies regardless of whether they are necessary for firm survival (see also Wrigley, 1996). Schoenberger argues that this 'lock-in' can be potentially disastrous for the firm as 'massive resources can be mobilized in defense of an historical model of industrial practice whose ineffectiveness in changed circumstances has been so thoroughly and repeatedly demonstrated' (Schoenberger, 1997, p 227).

This aspect of agency within the workplace is built on by Christensen (1997) who underlines how middle managers, focussing on their own career paths, have been reluctant to approve dangerous, but potentially innovative and lucrative projects. This emphasises the 'value network' of the organisation in promoting familiar ideals whilst, at the same time, restricting innovative change and promoting wariness of new technology. This contextual element, moving against objectivity, is likely to be unconscious. Indeed, '(a)ction is externally constrained and *situationally determined.* Although individual actors may believe they are acting with purpose, their actions are constrained by the circumstances in which they find themselves' (Hurst, 1995, p 6, my emphasis). It is consequently clear that the analysis of corporate restructuring must analyse the social nature of the firm and analyse the construction of corporate restructuring as an *embedded strategy*:

> We need to take a closer look at the people who devise and implement corporate strategies...We need to understand something about them as social agents in a particular time and place, and we need to understand what aspects of their social being might tend systematically to produce appropriate corporate strategies as, for example, an inability to change when change is necessary (Schoenberger, 1994a, p 436).

Structure and Strategy

The relationship between structure and strategy is equally important to consider when investigating restructuring responses. Recent theoretical work has attempted to elaborate on this relationship. For Clark (1995), strategy 'refers to the chosen anticipated actions of corporate agents taken with respect to the anticipated action of others whose own actions may in turn affect the possible pay offs of all related agents' actions' (Clark, 1995, p 68). This is partially mediated by industry structure, conventionally regarded as market structure, and more generally, 'the antecedent circumstances and behavioral imperatives associated with the organization of markets' (Clark, 1995, p 69). In the short term it is assumed that it is beyond the capacity of any corporate agent to affect structure.

Clark (1994; 1995) develops three theoretical positions from which to characterize the relationship. First, a *structure-dependent strategic* perspective views that 'the nature and scope of strategy derives from structure' (Clark, 1995, p 70). Second, a perspective that gives greater credence to agency is the *structure-limited strategy*, where 'corporate executives have scope for independent action which is not strictly defined by structure' (Clark, 1994, p 12). Here, there is evidently more propensity for independent action and a greater variety in moves and counter moves, although within the context of the constraining nature of structure. Finally, Clark identifies *structure-focused strategies*, which are 'strategies that focus on the margins of the rules of the game; strategies that take advantage of the

special position of some players with respect to industry competition and regulation' (Clark, 1994, p 12). Here firms may embark on illegal or semi-illegal strategies to achieve their goals (Clark, 1990b).

Clearly, as Clark suggests, individual agents are constrained by the present configuration of production and the history and geography of the firm – they can only act within the constraints imposed by the environment in which they find themselves. As Hurst (1995) has attested, it is difficult to redesign systems from scratch.

The emphasis in economic geography is gradually shifting from regarding strategy as congruent to market interest and a passive, facilitating code. Strategy is being viewed increasingly as a plan formulated by value-laden individuals concerned with enhancing their social asset structures within an organisation which is itself imbued with its own cultural codes of conduct and constrained and embedded more widely by the environment in which it operates.

Rationality and Strategy

The difficulties in conceptualising restructuring are clear. Underlining the difficulties in theorising strategy is the premise that strategy devised by the firm is not necessarily rational, due to the situatedness of the firm and its strategy makers. Indeed, rationality 'is often constrained by structural conditions. A choice of strategy is not simply a choice between goals, but a choice between goals within the context of the means to secure them' (McGrath-Champ, 1999, p 243). Similarly, Hurst (1995) is blunt in acknowledging the cultural, social drivers behind strategy in placing a limit on rational restructuring as the 'apparent objectivity that these rational frameworks give their users undermines the very social dynamics that lead to really fundamental change' (p 8). In contrast, Peter Drucker (1986) suggests that strategy, renewal and restructuring are more linear, rational events:

> There are innovations...that are not developed in any organized, purposeful, systematic manner. There are innovators who are "kissed by the Muses", and whose innovations are the result of a "flash of genius" rather than hard, organised purposeful work. But such innovations cannot be replicated. They cannot be taught and they cannot be learned...*(P)urposeful innovation resulting from analysis, system, and hard work is all that can be discussed and presented as the practice of innovation* (Drucker, 1986, p 133-134, my emphasis)

Such dismissing of non-linear innovation - as merely unique accidents - is surely too simplistic. Drucker assumes that just because innovative thinking cannot be instructed, it is not relevant, nor

seriously worth considering. What Hurst's (1995) and Schoenberger's (1997) work underlines is the cultural and social aspects of restructuring that underpin organisational change – in the process opening up our conceptualisation of strategy and restructuring.

McGrath-Champ (1999) continues her analysis of strategy by confronting many of the assumptions inherent in the traditional conceptualisation of industrial and corporate restructuring. She argues for a broader understanding of restructuring strategy by drawing out a number of dichotomies, which have rarely been challenged and analysed by economic geographers. The first of these is the conflict between the strategy being an *individual* or a *collective initiative*. She acknowledges how

> ...corporate strategy is often the strategy of an individual, adapted collectively via negotiation to gain the support and commitment of other individuals either within the organisation, or connected with it (e.g. shareholders) thus becoming a collective (corporate) strategy (p 241).

This differs from the purely neo-Marxist political economy perspective which was adopted in economic geography in the 1980s and tended to regard strategy as a collective notion. The deconstruction of strategy advocated by McGrath-Champ, Schoenberger and others opens the concept as sensitive to human traits, cultures, personalities and knowledges.

Secondly, McGrath-Champ (1999) questions whether distinction can be drawn between *deliberate strategies*, where intentions are realised, and *emergent strategies*, where actualities occur *despite* absence of intention, often as a result of the imperatives of competition. She suggests that this has parallels in the contrast between *strategy formulation*, where strategy is intentionally conceived and planned, and *strategy formation*, where strategy is more evolutionary and perhaps accidental. She argues there is scope to include both deliberate and emergent strategy within the framework as they 'can be seen as twin concepts, both necessary for a robust group of individual and collective action' (McGrath-Champ, 1999, p 245). In this vein, O'Neil and Gibson-Graham (1999) conclude that there are multiple voices in the firm, revealing that individuals themselves can affect the actuality of corporate strategy in real life. They suggest

> ...a picture of a decentred entity, in which a cacophony of stories about what the corporation is, how it should operate and what is the most beneficial course of action are voiced. At any moment, claims and counterclaims are made in the name of corporate logic and company reproduction. When placed together, these contradictory claims appear to be little more than strategic power games played by individuals or divisions who marshal and direct resources, legitimating their actions which reference to any one of the authoritative enterprise discourses that circulate (O'Neil and Gibson-Graham, 1999, p 19).

If we accept these possible ad-hoc outcomes under the rubric of strategy, it is clear that a coalescence of different strategies may produce, in aggregate, unplanned restructuring outcomes. David Hurst's (1995) analysis of the motor industry emphasises this point. Toyota's famous Kanban system originated because of coping strategies employed by the Japanese in the post-war competitive environment. The palimpsest of coping strategies was the harbinger of the Kanban. The post-war Japanese economy was weak and could not afford to import American technology to produce parts. This placed a premium on fast die changes and set-ups. Consequently, production workers, who were idle during downtimes, made the changes themselves. As they modified the system, Toyota found the reduced scale of manufacture *had unexpected benefits* in the form of a major reduction in inventories and a faster time cycle. This enhanced their ability to improve the system on a continual basis as it minimised the time period between errors and their detection. Furthermore, it pushed the detection and correction of errors to the lowest unit of the organisation; the factory worker. Such ideals are seen throughout the western world in multi-skilling and lean organisations. Hurst's case study shows that strategy is not necessarily conscious and can develop over time to a suitable outcome.

'Real' Regulation and Restructuring

The term 'regulation' can have two distinct meanings. First, it can relate to regimes of accumulation as exemplified in the work of the French Regulation School which refers to the 'ensemble of structures that maintain and coordinate relations between departments (sectors) of a market economy, ensuring some balance between production and consumption, and thereby allowing for the reproduction of the existing mode of the economy' (Clark, 1993b, p 102). These themes have recently been developed by a number of leading economic geographers (see for example Tickell and Peck, 1992 and Barnes, 1997 for a review).

Second, regulation can relate to 'real' regulation (Clark, 1992) – that is to say 'an organised social practice, an institutional activity, and an administrative set of rules and requirements' (Clark, 1993b, p 124). An analysis of the effects of regulation reveals that laws and statues are 'not wholly determined by the economic imperatives of capitalism' (Clark, 1993b, p 102). Although the regulatory framework itself is made up solely of dry legal imperatives, its effect is only derived through the interplay between economics and political culture, mediated through institutional practices (Clark, 1992). Regulation is thus unique and specific to its geographical contexts (Christopherson, 1993; 1999). Clearly, it is necessary to investigate corporate restructuring initiatives

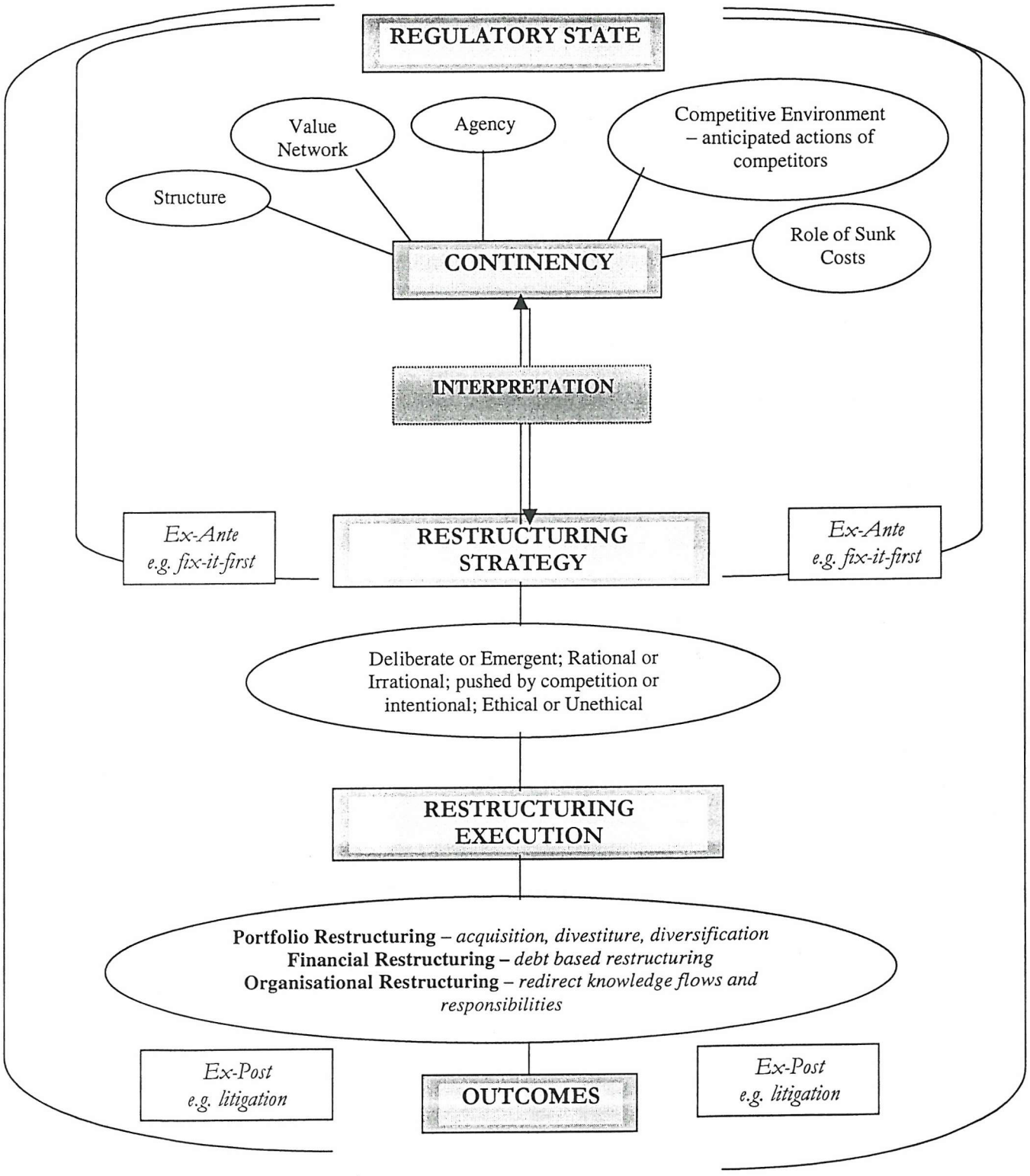
in the context of the effects of 'real' regulation - where the regulatory framework is played out, interpreted and mediated within its own geographical contexts (see Clark, 1992; Wrigley, 1992; 1999c and Chapter 7).

Recent work in economic geography has responded to this theoretical gulf concerning the effects of 'real' regulation located by Clark (1992). Such work has considered, for example, the re-regulation of global monies historically and contemporarily (e.g. Clark et al., 2000; Corbridge et al., 1994; Leyshon, 1992; Leyshon and Thrift, 1997; Leyshon and Tickell, 1994), whilst the impact of national state regulation on particular industries restructuring strategies has recently been confronted. For example, this has been seen through analyses of the restructuring of the UK financial services industry, driven by the late 1980s deregulation of the sector (Gentle and Marshall, 1992a; 1992b; Leyshon and Thrift, 1993; 1995; Marshall et al., 1992). Furthermore, work by Clark (1993b; 2000) has explored the relationship between regulation, pension fund investment and corporate restructuring. Meanwhile, Wrigley's work (1992) has contrasted the US and UK retailing systems and understood retail organisational differentiation between the nations to be due to the influence of different regulatory mechanisms, where US anti-trust legislation was, until the early 1980s, resistant to the build up of 'big' capital. In addition, more recent work has emphasised the role of the so-called "fix it first" policy of the Federal Trade Commission (FTC) ensuring a divestiture of retail stores in the event of horizontal market overlaps in US grocery store consolidations (Wrigley, 1999a; 1999b; 1999c). More must be written about the interplay between the regulatory framework and corporate restructuring outcomes.

The Restructuring Process

Having considered these theoretical conceptualisations of restructuring and regulation, **Figure 1.1** summarises the processes involved in corporate change. It is an attempt to underline the fact that restructuring outcomes cannot necessarily be read off from the imperatives of industry structure, competitive situation, nor strategy *per se*. Instead there is a need for a broad conceptualisation of the restructuring process, which takes account of the mediations and negotiations between the regulatory state, contingency, strategy and execution. Moreover, **Figure 1.1** suggests that industry structure, value networks, agency, the competitive environment and the effect of 'real' regulation are contingencies to formulating and executing any restructuring strategy.

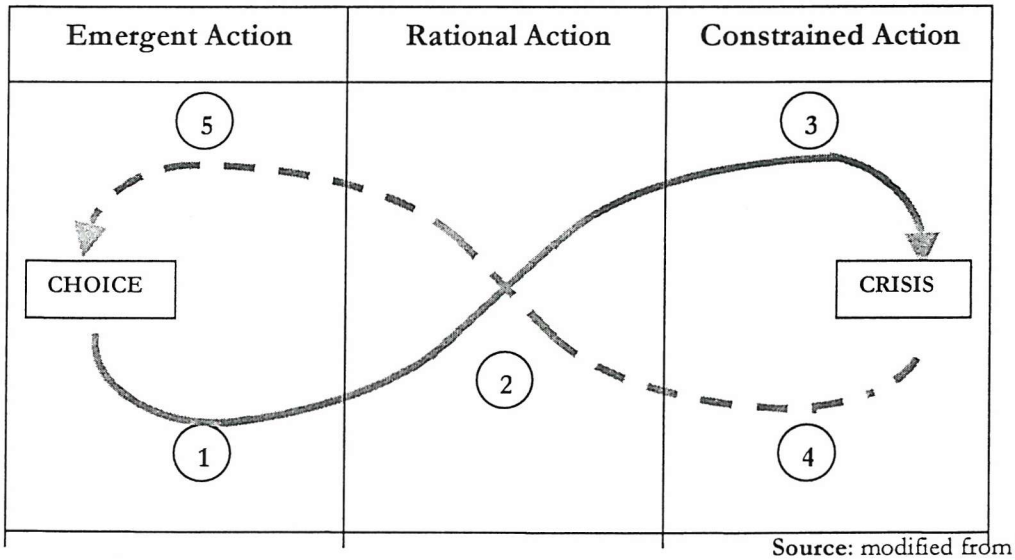
Figure 1.1 A Model of Corporate Restructuring



Clearly, corporate restructuring is a complex process mediated, in its turn, by a number of important factors which include agency, industry structure and individual value networks to name a few. Evidently, the firm is in a continual process of restructuring (Clark, 1993b) and as a result, corporate restructuring may not always represent a coherent clean break from the past. This is important as it contrasts with the term 'reengineering' which implies the holistic strategic overhaul of operations (cf. Hammer and Champy, 1993). This perspective has much currency with management theorists but is not congruent with my broader view of restructuring. As Hammer and Champy (1993) have suggested: 'Reengineering is not restructuring or downsizing. These are just fancy terms for reducing capacity to meet current lower demand' (p 48). On the contrary, reengineering is the more holistic, fundamental rethinking and radical redesign of the business process to achieve dramatic improvements in performance (cf. Hammer and Champy, 1993). This thesis takes issue with this view of change, insisting that restructuring does not always does not always occur in a swift universal process. Instead, 'renewal is not a one-stop affair but an ongoing process - a continual struggle' (Hurst, 1995, p 71).

David Hurst attempts to present this ongoing struggle of restructuring in a conceptual map of organisational change (see **Figure 1.2**).

Figure 1.2 A Model of Organisational Change



Source: modified from Hurst, 1995

In this diagram the restructuring process is viewed as a cycle, framing the challenges and choices faced by the firm. Initially (1), activities of the firm seem emergent rather than planned, encouraging the business to prosper and grow. Here it is likely that the firm is small but starting to experience

success and growth. However, over time a new logic is required to control and harness this period of expansion (2). This new logic is likely to be imposed through strategies of diversification or growth through acquisition and is a period characterised by a significant growth in revenues and income, accompanied by an increase in scale of the organisation. Eventually, however, this may lead to a loss of control on the part of the initial management, as the firm becomes attractive for predation by competitors or other companies wishing to pursue portfolio diversification. It is widely known that change – especially that of ownership - can prove problematic and cause significant problems to mount. Alternatively, the firm may be hit by the impact of an economic recession, an over-reliance on debt or the uncompetitiveness of the individual operations (3). Although the crisis – such as Chapter 11 Bankruptcy Protection – is catastrophic in many respects, it can have the effect of shattering the constraints on the firm, as the hierarchy is shattered, debt may be written off, leases excused, and hence, a new strategy pursued. During this period the operation may be downsized and take on an emergent character again (5).

From this perspective, restructuring can be seen more as a process, where continual restructuring and self-assessment is necessary to remain ahead in competitive markets. Indeed, as Daniel Raff and Peter Temin suggest;

> *(b)ecause environments change, the task is never complete.* Successful firms adapt in ways that sustain and enhance....New activities are undertaken aimed at entrenching the firm in emerging markets, activities that exploit and extend the companies' defensible strength. Less successful firms may blunt the face the force of competition in one market. But they do not adapt, and the value of their asymmetries wastes. Preventing such wastage is the trick of enduring success (Raff and Temin, 1997, p 3, my emphasis).

The preferred definition for corporate restructuring in this thesis comes from Weber (1997), drawing on Donaldson (1994) who see restructuring as

'a strategy of corporate change that materially alters, sometimes with minor modifications and at other times fundamental transformations, the composition of the firms' asset portfolio and/or claims against those assets'.

This view, as cited by Wrigley (1999c), provides a perspective which is rather different from that of reengineering. Restructuring need not always be a clean break. Instead it can involve experimentation, gradual adaptation and re-orientation over time. Rapid, quickly conceived and executed restructuring may be the sign of a desperate company, encountering considerably more risk than restructuring as an ongoing process.

CONCEPTUALISING CORPORATE RESTRUCTURING WITHIN ECONOMIC GEOGRAPHY

Recent innovations within economic geography have provided a framework within which to better analyse the formation, execution and affects of corporation restructuring. The cultural turn in human geography has acutely affected economic geography and economic geographers have grappled with balancing economic and cultural conceptualisations within their analyses. Increasingly, purely "productionist" views of the economy have become discredited as culture is seen as possessing an economic logic (see Bourdieu, 1984) – as Peet (1997, p 38) suggests, '(e)conomic rationalities are culturally created, take diverse forms and have distinct geographies'. Although, as Lash and Urry (1994, p 20) suggest, '(c)apitalism selects out cultures for commodification according to their economic rather than their cultural value', cultural values must be regarded as *informing* economic values[2]. Indeed, 'spaces, places and practices are never purely economic, and nor are the surpluses they produce' (Crang, 1997, p 15). The political economy approach is now superseded by a new wave of a more nuanced understanding of contemporary society – balancing the analysis of the relationship between culture and economy within analyses of business enterprises.

Cultural Turns, the Firm and Industry

The reconstitution of economic geography has had wide ranging implications for the manner in which the firm is understood - embedded within broader networks of power. Recent work – previously reviewed in terms of corporate restructuring - has underlined in particular how the firm is a socio-spatial construction embedded within broader discourses and practices underpinned by forms of trust, reciprocity and networks (see Yeung, 1994; 2000b and Yeung, 2000a for an excellent short summary). As such, the firm is not merely an economic facilitator but a social entity mediated by culture as well as competitive forces. These issues have recently been confronted, and been central in, the reconstitution of the geography of retailing – a burgeoning literature that this thesis also seeks to make considerable contributions to.

New Geographies of Retailing

Whilst the decentring of "the economic" has clearly led to the reconstitution of the discipline of economic geography, these revolutions have specifically been seen in the sub-discipline of retail

---

[2] Indeed, even renowned economist J. K. Galbraith (1991) acknowledges that most 'economists would now agree that consumption has gone into the realms of fashion and frivolity, that, generally, it is culturally based' (pxvii).

geography which was effectively "reinvented" during the 1990s. The evolution of, what Wrigley and Lowe (1996; 2001) christen the 'new' retail geography can be charted back to a vital contribution by Ducatel and Blomley in 1990 which led to the geography of retailing no longer being viewed as 'one of the most boring of fields' (Blomley, 1996, p 256) but instead being seen as offering a central contribution to debate in the discipline.

Ducatel and Blomley's (1990) paper considered retail capital as a subform of commercial capital in an explicitly Marxist framework. However, more broadly the article considered the ways in which cultural drivers underpinned this capital logic, as retailing is essentially understood as a social activity. Ducatel and Blomley argued that prior to the 1990s, geographies of retail change were 'wholly inadequate' (p 207; see also Lowe and Wrigley, 1996). The article therefore laid the task to develop 'a more detailed theoretically informed analysis of retail capital' (p 224) and to study both its economic and cultural geographical expression, although these two perspectives were only explicitly developed in the volume of Wrigley and Lowe (1996).

This work provided a strong theoretical framework to build a new geography of retailing, constructed around the transformation of retail capital and its geographical expression (see Lowe and Wrigley, 1996; 2001). Themes that have subsequently achieved prominence include the *reconfiguration of corporate structures* (Sparks, 1995; Wrigley, 1987; 1998a; 1999a; 1999b) and the consequent *restructuring of retailer-supplier interfaces* (Doel, 1996; 1999; Hughes, 1996; 1999a). Research incorporating these themes has increasingly taken the organisational and technological transformations of *retail distribution and logistics* seriously (Lynch, 1990; Fernie, 1994; Sparks, 1994) and frequently analysed the *social relations of production and labour relations* in retailing (Christopherson, 1996; Freathy, 2000; Freathy and Sparks, 1996; Perrons, 2000). Over time, this literature has reviewed the role of retail restructuring in prompting the *switching of retail capital*, whether it be to alternative formats of distribution (Burt and Sparks, 1993; Fernie and Fernie, 1997), or alternative spaces in a national or international context (Laulajainen, 1991; Shackleton, 1998; Wrigley, 2000a; 2000b). In its turn, the spatial switching of retail capital is recognised to be influenced by *regulation*, whether this is through state restrictions on store location (Guy, 1998; Wrigley, 1993b; 1998b), competition and consolidation (Wrigley, 1992; 2000c), or the role of the retailer in policing food safety (Marsden et al., 1998; 2000; Marsden and Wrigley, 1995; 1996).

More broadly the 'cultural turn' has seen the new retail geography inflected with knowledges from a wide array of disciplines. Linkages have been forged with scholars in anthropology, cultural studies,

sociology and cultural history (e.g. Jackson et al., 2000; Miller et al., 1998), as the subject has been positioned within the broader body of work in the humanities on consumption spaces and culture - both historical and contemporary (see Abelson, 1989; Mort, 1996; Miller, 1981; 1998; 2000; Nava, 1996; Nixon, 1996).

Historical accounts of retailing have often focused on late 19th Century and early 20th Century spaces of consumption – notably the department store (see for example Blomley's [1996] reading of Emile Zola's *Au Bonheur des Dames* and Domosh's [1996a] reading of the retail landscape of late 19th Century New York). More contemporary accounts have investigated particular consumption spaces and places such as the shopping mall and car boot sale (see Hopkins, 1990; Goss, 1993; 1999; Gregson et al., 1997; Shields, 1989; 1992; M. Smith, 1996). This perspective has been fuelled by the recognition of *new spaces, places and chains of consumption* worthy of analysis, with a proliferation of literature 'reading' these new landscapes of consumption. Indeed, as Louise Crewe recently argued, 'to see private urban malls as iconic of contemporary retailing is to simplify the complexity of consumption spaces and practices' (Crewe, 2000, p 277; see Jackson and Thrift 1994; Sorkin, 1992; Shields, 1989; 1992; Zukin, 1991; 1995).

The themes arising from contemporary consumption have been assessed through the theoretical analyses of the cultural politics of contemporary advertising (Jackson and Taylor, 1996) and analysis of associated gender identities (see Jackson, 1993; Jackson and Holbrook, 1995; Houssiaux, 1999). In addition, the commodity chain perspective has contributed to understanding the consumption process throughout the consumption continuum, whether this be originating in less developed countries (e.g. Hughes, 2000), or focused on home production in the developed world (e.g. Leslie and Reimer, 1999). It is this eclectic perspective of economic and cultural aspects of retailing that have widened the appeal and relevance of the sub-discipline.

The case study of the US department store industry which provides the focus of this thesis, offers considerable potential to explore many of the themes characteristic of this recent work in the new retail geography. These themes include the reconfiguration of corporate structures, the effects of regulation, and the mediation between knowledge and space in corporate reorganisation. In doing so, the thesis attempts to contribute more broadly to several debates within economic geography concerning the role and execution of corporate restructuring whether it be through financial, portfolio or organisational reorganisation. My perspective is that, despite the considerable literature on the topic of economic geography, 'empirical studies of corporate restructuring lack sufficient

depth to show *where decision-making information is located* and *who has access to it*, and *what is being centralized and decentralized*' (Prechel, 1994, p 724, original emphasis).

THE RELATIONSHIP BETWEEN 'THE ECONOMIC' AND 'THE CULTURAL' IN CONTEMPORARY ECONOMIC GEOGRAPHY

This thesis conceptualises and analyses the corporate restructuring of one industry in the United States in the context of recent developments in economic and retail geography. It is necessary however to be explicit about the approach the research takes with regard to cultural and economic aspects of geographical analysis. This subject has been a topic of considerable debate in economic geography during 2000 and 2001, principally as a result of the intervention by Amin and Thrift (2000) in the pages of *Antipode*. Whilst economic and retail geography is clearly informed by both economic and cultural conceptualisations, I would agree with Henry Yeung who recently took the view that cultural concerns have effectively subsumed the discipline of economic geography:

> I would go to the extent of arguing that economic geography today seems to lack both a precise intellectual focus...Economic geographers have basically swung the pendulum too far from a position dominated by neo classical economics and political economy to another significantly permeated by cultural studies and poststructuralist analysis (Yeung, 2001b, p 2).

Indeed, all too often the "culturally informed" rapidly becomes a "culturally driven" view that does not necessarily add to our understanding, but instead chokes on its own over-laden theories and theorists. This work seems to be more driven by fashion, with the trend being to import increasingly obscure European philosophers and to relate to that work a vaguely geographical issue (e.g. Dear and Flusty, 1998; Goss, 1999). As Harvey (1999) recently acknowledged, despite himself frequently capitalising on these philosophical figures:

> Each generation cultivates its particular set of intellectual heroines and heroes...there is a certain lemming-like fashionability these days...to embrace the likes of Derrida, Foucault, Deleuze and Guattari, Butler, Lacan et al (Harvey, 1999, p 557).

As a result, the perspective which underpins the thesis is that there is a need to retain and develop "the economic" emphasis of economic geography. This is not to discount the exciting work that understands the embedded, social nature of the firm and constituent production systems – but to appreciate the limitations of purely cultural analysis masquerading as economic geography. This agenda implies retaining our links to the disciplines of economics, management and business studies. As such, economic geographies should not lose sight of the core competencies of space and place (Yeung, 2001b). Whilst cultural readings can often extrapolate and illuminate our understanding of

contemporary economic spaces (see for example the wide range of work on learning regions, Gertler [1995] on the role of national cultures in multinational manufacturing, and Schoenberger on corporate culture and its relationship to restructuring), these have to be employed to further our understanding of the phenomenon and not merely an exercise in theory itself. This view is clearly in contrast to those expressed by Amin and Thrift (2000) who advocate a movement away from engagement with economists and instead utilise a greater number of theories from the social sciences.

Unlike Plummer and Sheppard (2001), my argument is not that economic geography should be principally quantitative. Indeed, this thesis demonstrates my personal commitment to develop qualitative methodologies which I believe are essential to utilise in accessing the decision making process of firms (see Chapter 5). Instead, like Martin and Sunley (2001), I am in favour of the 'broadening out of economic geography to incorporate consideration of the social, institutional and cultural', yet not to the extent of Amin and Thrift's suggestion that economic processes are best understood in social and cultural terms. Rather, I consider that 'economic geographers should not privilege any one field of knowledge (theory, concepts and method) over any other, be it "mainstream" economics or the alternative "new economic knowledges" favoured by Amin and Thrift' but instead use them appropriately whenever they have the potential to increase our understanding of process and outcomes (Martin and Sunley, 2001; Rodriguez-Pose, 2001). Nevertheless, like Sayer (1997, p 25) I certainly do not believe that primacy should be given to culture above economic perspectives – for '(t)o give the impression that economic logic has become subordinated to culture is to produce an idealised picture of an often brutal, economically dominated world'.

THE US DEPARTMENT STORE INDUSTRY AT THE END OF THE 20TH CENTURY

Having established the theoretical standpoint of the thesis, it is now necessary to consider its substantive focus. To this end, this section presents a typology of the US department store sector at the end of the 20th Century. This is essential as the department store industry is a sector widely referred to in the media yet rarely adequately conceptualised or defined. In its simplest form, the term 'department store' refers to large-sized retail establishments that organise merchandise into groups or departments for more collective management and control of merchandise, assets or sales' (Deloitte and Touche, 1998a, p 13). However, the sector has continually faced new challenges -

restructuring and repositioning itself in the marketplace. In turn, this has led to inconsistent conceptualisations regarding which firms are included in the conventional department store industry[3]. This issue is addressed here through the construction of an industry typology. It categorises the market emphasis of the different types of department store, makes clear which firms the thesis is concerned with, and provides a reference point for the rest of the discussion.

Conceptualising the Contemporary Sector

As **Table 1.1** demonstrates, three distinct segments of the contemporary department store industry emerge. The three segments: *traditional*, *speciality* and *chain* cover separate price points, marketing emphasis and store size although they are by no means completely immune to competition from each other as, to some degree, they compete for the same apparel dollar.

Traditional department stores are characterised by large store formats of at least 150,00 per sq. ft. and mid range sales per sq. ft. of $150-200. They have a product mix focused on moderate and higher price points, frequently offering bridge and designer goods in certain formats or locations. Traditional department stores also market home goods including cookware, tabletop, home textiles and furniture. *Speciality department stores*, on the other hand, are placed strategically more upscale in relation to traditional department stores, characterised by higher sales per sq. foot of $350 or over within medium sized stores of between 100,000 and 150,000 sq. ft.. The product mix is heavily oriented toward apparel, especially women's. They also differ from traditional department stores by limiting their range to apparel, accessories, and gift items, they therefore rarely offer well-developed home product ranges.

Table 1.1 The US Department Store Typology

		Sales per Sq Ft ($)	Store Size (Gross Sq. Ft.)	Price Points
The Conventional Department Store Sector	Traditional	150-200	150,000+	Mostly moderate and higher. Some bridge and designer in selected locations
	Speciality	350+	100,000-150,000	Mostly higher priced merchandise. Primarily bridge and designer.
	Chain	150-200	90,000-130,000	Budget and moderate. Increasing brand overlap with traditional department stores. Moderate prices.

Source: J. P. Morgan Securities 1998, with modifications

[3] As Arieh Goldman (1975) has suggested: 'A major discrepancy exists between the reality of retailing institutions and the terms available to describe this reality. Although concepts like "supermarket", "department store" and "discount store" are widely used in the marketing literature, and although formal definitions are available, these terms fall short of describing the variety and complexity of the real institutional phenomena' (p51).

Chain department stores typically operate smaller stores of 130,000 square feet or less, and focus on more moderate-income customers relative to the traditional and speciality department stores. Although they have upgraded their merchandise assortment in the 1990s, their primary competition is with discount oriented operators, as well as with speciality apparel stores and traditional department stores, focused on moderate and budget price point purchases. Part of their strength is in offering branded goods such as Nike and Levi's, allowing them to compete head on with traditional department stores. They invariably have a national presence, commonly operating more than 800 stores across the US.

Complicating the typology is the fact that the consolidation and capital centralisation experienced throughout the industry in recent years has meant that individual department store firms may contain department store divisions that compete in more than one of the cohorts. As **Table 1.2** displays, the large firms such as Saks Inc. and Federated contain department stores *across* the typology. For example, Saks Incorporated owns traditional department stores such as Proffitt's and McRae's, yet also owns the speciality department stores Parisian and Saks Fifth Avenue. The Target Corporation, on the other hand, owns traditional department stores but also owns the chain department store retailer, Mervyn's, plus the major discount retailer, Target. Indeed recent sociological research has underlined the social stratification between these department store types (Labor, 1997).

Table 1.2 Selected Large US Department Store Firms and their Department Stores

FIRM	DEPARTMENT STORE TYPE			OTHER RETAIL TYPE
	Conventional Sector			
	Traditional	*Speciality*	*Chain*	
Federated	Macy East/West	Bloomingdale's	Stern's	
	Bon Marché	Burdine's		
	Rich's/Lazarus/Goldsmith's			
Saks Inc.	Proffitt's	Saks 5th Avenue		Off 5th (Clearance)
	McRae's	Parisian		
	Younkers			
	Herberger's			
	Carson Pirie Scott			
Target	Dayton Hudson		Mervyn's	Target (Discount)
	Marshall Field			

Source: Company Reports, 10K's submitted to the US SEC

The department store universe is thus made up of three segments. However, as **Table 1.2** suggests, the 'conventional' department store industry is usually defined as being just the 'traditional' and 'speciality' department store sectors. 'Chain' department stores are not normally included in the

sector, as they offer more budget and moderate product ranges but are still in competition with the 'conventional' sector.

The 'conventional' department store sector has consolidated throughout the 1980s and 1990s, to such an extent, that by the end of the 20th Century the top two conventional department store operators had more sales than the next 7 firms sales put together. Overall, more than 95% of the industry sales came from the top ten firms (see **Table 1.3**).

Table 1.3 The Conventional US Department Store Industry Sales and Market Shares For Fiscal Years 1997 and 1998

Fiscal 1997				Fiscal 1998			
1997 Rank	Firm	1997 Sales ($ mill)	1997 Market Share (%)	1998 Rank	Firm	1998 Sales ($ mill)	1998 Market Share (%)
1	Federated	15,668	26.9	1	Federated	15,833	26.2
2	May	12,352	21.2	2	May	13,072	21.7
3	Dillard	6,632	11.4	3	Dillard (b)	9,185	15.2
4	Nordstrom	4,852	8.3	4	Saks Inc.(c)	6,220	10.3
5	Proffitt's	3,545	6.1	5	Nordstrom	5,028	8.3
6	Dayton Hudson (a)	3,162	5.4	6	Dayton Hudson (a)	3,285	5.4
7	Mercantile	3,055	5.2	7	Belk	2,091	3.5
8	Belk	2,042	3.5	8	Neiman Marcus (a)	2,090	3.5
9	Neiman Marcus (a)	1,951	3.3	9	Boscov's (d)	846	1.4
10	Saks Holdings	1,835	3.1	10	Bon-Ton	675	1.1

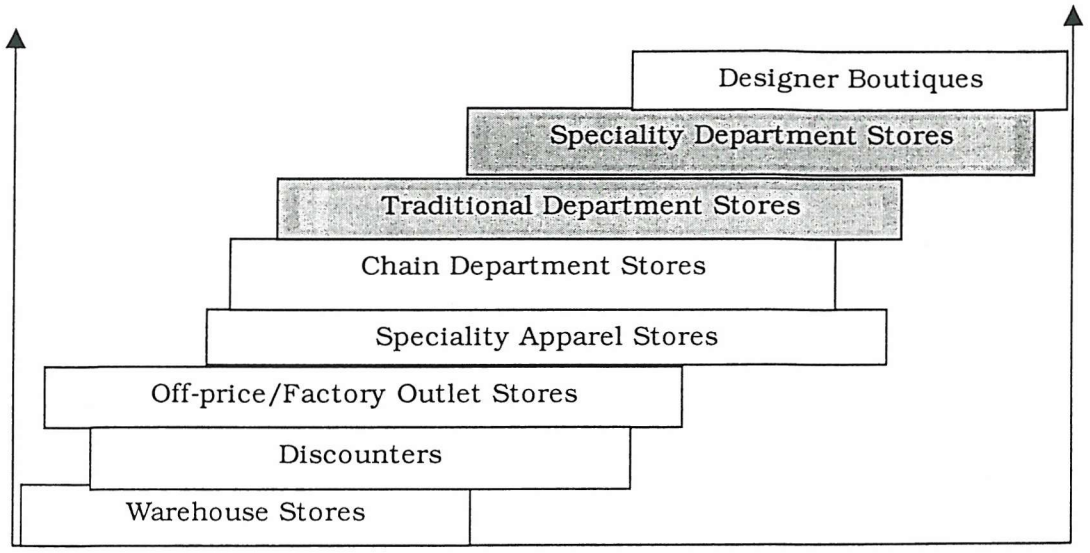
Total US conventional department store sales (e): **1997: $58,335 million**
1998: $60,469 million

N.B. Although the subject of considerable corporate restructuring, the US conventional department store industry only represents approximately 8.2% of GAF (general merchandise, apparel and furniture) sales in fiscal 1998.
(a) Sales include only department store business
(b) Dillard acquired Mercantile stores August 13 1998. Mercantile sales (pre-merger) until August 1 for fiscal 1998 ($1,388,027) are added to Dillard figure of $7.797 bn.
(c) Proffitt's, Inc. and Saks Holdings merged September 1998 to form Saks Inc.
(d) Includes sales from Boscov's TravelCenter, a travel agency
(e) This is a JP Morgan estimate and does not equate to the US Census Bureau's definition of a conventional department store. The US Census Bureau regard the high end department stores (including Saks Fifth Avenue, Bloomingdale's, Nordstrom and Lord and Taylor) to be outside the conventional department store industry because they do not sell enough furniture, appliances and household items. Despite this, these stores are still typically considered to be part of the sector by the public, and indeed by many within the industry itself (see Deloitte and Touche, 1998a, p 11).

Source: data from US Commerce Bureau; J. P. Morgan Securities; Company Reports and 10K Reports submitted to the US Securities and Exchange Commission.

Each of the department store formats is in competition with the other, but to consider the sector as a separate entity, aloof from the rest of the retail industry is misleading. Instead, it finds itself in the midst of competition from both upscale and downscale (market) retailing operations, as depicted by Figure 1.3 - a diagram of strategic positioning in the US retail industry. Competition comes from branded goods at discount stores, general apparel from the speciality apparel retailers and more upscale in orientation from designer boutiques.

Figure 1.3 Strategic Positioning in the 1990s US Retail Industry



Having analysed the theoretical framework of corporate restructuring, its relationship to economic geography, and outlined nature of the substantive focus of the research – the US department store industry - it is necessary to present a brief outline of the thesis.

THE THESIS OUTLINE

The thesis is divided into five parts of which the first consists of this introduction. Part 2 then provides a historical perspective on US department store development. Part 3 analyses the methodological approaches to the research for the thesis. Part 4 considers the contemporary restructuring of the industry from the late 1980s through the 1990s. Part 5 concludes the thesis by analysing the theoretical and empirical contributions of the work and highlighting future research perspectives.

Part 2 supplies context through an examination of more than a century of retail restructuring of the US department store industry. In particular, it clarifies the nature of the sector and how it has negotiated specific economic, social and regulatory environments over that century. The three chapters underline the importance of the industry economically, socially and historically, arguing that the industry is worthy of further academic enquiry. In addition, it highlights many themes that subsequently in Part 4 receive further attention in a contemporary context.

Chapter 2 analyses the emergence of the revolutionary department store form in the late 19th Century through the economic, management, history and cultural studies literature. It is necessary to use these wide ranges of sources to start to conceptualise the importance of this sector socially, economically and geographically - clearly, this chapter is consequently very much in keeping with the spirit of the new retail geography. These perspectives underline how the retail format emerged from a confluence of a number of environmental, societal and economic factors including the drive of the entrepreneurs themselves, changes in class-based stratifications and population distributions, as well as revolutions in the nature of transportation and production.

Chapters 3 and 4 analyse the challenges faced by the sector from the late 19th Century until the late 1980s - these include sectoral, format-based, geographical, cultural, societal and regulatory obstacles over time. The industry has consequently had to respond with restructuring strategies, reorganising organisational structures, locations and merchandising selections accordingly. This analysis concludes that corporate restructuring can be an emergent, as well as a planned strategy. In particular, a firm's strategy is very open to circumstance and can be changed dramatically in response to perceived and actual conditions of the time. This framework offers a more nuanced approach to corporate change which is further developed throughout the thesis and has considerable implications for future work in economic geography.

Chapter 5 makes up **Part 3** and focuses on methodological considerations in the research presented and in contemporary economic geography more generally. Although work has recently been published on interviewing elite executives and the power relations that are subsequently negotiated (see the editorials to journal special issues: Cormode and Hughes, 1999; Hughes and Cormode, 1998), these have often not actually been concerned with business elites (CEOs and CFOs) of large, influential firms, and furthermore, there has been little work analysing the process of negotiating *access* to these powerful actors. This chapter seeks to fill this niche by suggesting avenues for achieving access to these important corporate actors and reviews strategies that have been used in the primary research reported in this thesis. In particular, it is clear that corporate elites "useful" in constructing an economic geography do not reside only in the specific firm of interest. Important knowledges, rarely recognised in the literature of economic geography, can instead be constructed from equity analysts who occupy a unique position in the corporate governance structure of the constituent firm. Indeed, they are not explicitly part of "the firm" but are privy to access within it and thus offer a unique perspective that must be recognised.

Part 4 contains the substantive section of the thesis concerning the restructuring of the US department store industry throughout the late 1980s and 1990s. These 6 chapters seek to clearly analyse the effects and implications of the financial, portfolio and organisational restructuring of the contemporary sector.

Chapter 6 reviews the 1980s turbulent decade for the US department store industry – an era dominated by the highly leveraged transaction. This chapter analyses the effects of these deals to move beyond the traditional scorning of investment bankers who financed the transactions, to firstly, attempt to draw lessons from the period, and secondly, assess the implications of the financial restructuring in catalysing the organisational restructuring of the sector. It is argued that the traumatic effect of Chapter 11 bankruptcy protection effectively renewed the sector in the long term, adding to the viability of the retail format ultimately in the 1990s. As such, new periods of renewal occur often directly out of the remnants of another - as such, no strategy is removed in time and space from the next but instead builds on the progress (or not) of the previous ones.

Chapter 7 reviews the strategic acquisition based portfolio restructuring strategies that have characterised much of the activity of the US department store sector. This chapter analyses one such acquisition, studying how its geography is restructured in the pre-merger stage to conform to the FTC's 'fix-it-first' policy and to improve the strategic fit of the transaction. The chapter then investigates evidence, and analyses the effects, of a new era of stricter FTC enforcement, where divestiture may no longer be sufficient in cases of horizontal market overlap. Fundamentally, the chapter considers the nature of 'real' regulation in action, as rules partially dictate investment decisions.

Many of themes characteristic of portfolio restructuring are further explored in *Chapter 8* where the acquisition strategy of the 1990s most aggressive department store consolidator, Proffitt's, is investigated. The Proffitt's regional consolidation strategy is traced through the decade within a framework of 'acquisition fundamentals' until the firm's ill-fated purchase of Saks Fifth Avenue in 1998. An analysis of this particular consolidation then provides the focus of the chapter in an attempt to form a number of lessons regarding the characteristics of successful portfolio restructuring in the US department store sector.

Recent economic geography literature has underlined the role of tacit/local knowledge in embedding firms within their locales, characterised by the work on "learning regions", "territorial

embeddedness", "institutional thickness" and "new industrial spaces". *Chapter 9* contributes to this theoretical debate, using evidence from organisational restructuring of the US department store industry to argue that, in contrast, retailers are using codified/universal knowledge, supported by tacit/local knowledge to successfully operate their retail operations across a range of spatial scales. As such, no one form of knowledge is exclusively relied upon but rather a blend of knowledges reduces costs and increases responsiveness across space.

There is no doubt that the emergence of the eclectic nature of the new retail geography has renewed it with new perspectives and positioned it at the centre of debate in the discipline. However, *Chapter 10* argues that the micro-geographies of internal store spaces, and their subsequent strategically configured nature, has been strangely underemphasized in recent accounts of the contemporary retail environment. Instead, analysis of store spaces has taken a historical perspective focusing on the 19th Century department store (see Blomley, 1996). In contrast, this chapter analyses how, in the 1990s, conventional department store retailers have strategically configured their shopping environments and focused departments toward their target clientele's perception of themselves to induce further consumption. This is developed in association with the image building of the retailer through the proliferation of retailer-brands, or private labels. It is argued that there is a requirement to further assess the strategic nature of these under-researched micro-geographies of image, brand and spatial manipulation.

Chapter 11 assesses the department store industry's adaptation to the opportunities posed by e-commerce, the "new economy", and in particular, how this has catalysed the emergence of new organisational forms through asset based portfolio restructuring – effectively buying the expertise of specialist e-commerce operations. Drawing on Christensen's influential theories on "disruptive technologies", the chapter analyses the rationale for building direct to consumer operations under a separate division, apart from the conventional department store operation. In addition, the implications of e-commerce for department store retailers are studied. In particular, the brand equity established over many years is seen as underpinning the firms' ventures online – a factor so far underemphasized in the economic geography and management literature. The chapter concludes that the "clicks and mortar" or "bricks and clicks" approach will be the only strategy that can succeed and as such is a useful contrast to the reports of geography and space losing influence in a networked, interlinked "new economy".

Part 5 concludes the thesis with *Chapter 12* which reviews the theoretical contributions the work has made both to the literature of retail geography, and economic geography more generally. In addition, it summarises how the US department store industry has adapted to recent changes in the competitive environment, often encapsulated in the term the "new economy", and speculates about the nature of corporate restructuring and strategy and its organic nature. Clearly corporate restructuring is viewed as a constant battle to maintain a competitive advantage - it remains for the executives of the firms in the sector to continue these renewal initiatives if the department store format is to remain a fundamental component of the retail economy of the United States.

Part Two

CONTEXT

'Department stores...have a fascinating history in America worthy of a good novel or two, let alone a scholarly treatise...It is at once a story of rampant competition, the pyramiding and collapse of financial empires, the innovation of space age technology, and the reorganization of work and the labor process'

Bluestone, B., P. Hanna, S. Kuhn and L. Moore (1981) *The Retail Revolution. Market Transformation, Investment and Labor in the Modern Department Store*, Auburn House, Boston, page vi.

Chapter Two

Refiguring Historiographies of the Early Department Store

The 'store was meant to be a public institution in that it was to serve the masses by offering goods and services to a large populace. The building was not only a functionally designed merchandizing structure but also a cultural adornment to the city. A dome with its public associations would attract customers at the same time that it would add cultural legitimacy to the commercial impulse'
Mona Domosh, *Invented Cities*, 1996, Yale University Press, New Haven, p 55.

'It was a giant fairground display, as if the shop were bursting and throwing its surplus stock onto the street'
Emile Zola, 1883 [1998], *Au Bonheur des Dames - The Ladies Paradise*, Oxford University Press, p 4 -5.

INTRODUCTION

The emergence of the concept of the department store was a major economic and social event that captured the spirit of 19th Century urbanism and is reflected by a wide range of literature and historical comment (see for example Benson, 1986; Lancaster, 1995; Miller, 1981; Mumford, 1940; Zola, 1998). This chapter seeks to investigate the origins of the department store sector during this period. Its aim is to respond to the challenges posed by the cultural turn in human geography by integrating both an economic business history reading of the retailing revolution, with a more culturally informed, socially conscious reading of the effects of the changes. It is only when both aspects of the department store emergence are considered, that the impact and importance of the sector can be historically understood.

The chapter serves as an essential starting point for understanding the industry, as many of the environmental, geographical, economic and social factors which underpinned store development mutated in the 20th Century and challenged the viability of the sector. In many respects though the revolution department store retailing brought to the retail industry in the late 19th Century remain the key initiatives to merchandising success.

The previous chapter acknowledged the evolution of the new retail geography throughout the 1990s. Recently, consumption analyses have taken a historical perspective, fusing with narratives from social history, anthropology, gender studies, as well as, cultural studies. Within these accounts,

the department store has taken on an iconographic status as the first 'palace of consumption' - almost as a metaphor for the progress of modernity and harbinger of the mass market (see Chaney, 1983, Laermans, 1993). These culturally informed commentaries contrast with the few firm based studies, and even more scarce, industry analyses in the business literature which are often let down by a lack of focus (Samson, 1981).

Historical cultural analyses of the department store have blossomed (e.g. Blomley, 1996; Crossick and Jaumain, 1999a; Domosh, 1996a; 1996b; Reekie, 1993a; 1993b). They provide interesting and varied accounts of the impact of the retailing form of the department store format on the consuming classes. Yet whilst the cultural historiographies have blossomed, economic oriented conceptualisations have dwindled almost out of existence (see the exceptions including Ferry, 1960; Lancaster, 1995; Pasdermadjian, 1954; Resseguie, 1962; 1965). It is the argument of this second chapter that the cultural turn evident in the department store literature, has been to the detriment of an economic conceptualisation of the historical development of the sector. Instead of using the cultural, or the few economic accounts *in isolation*, the attempt is made here to write a narrative more in keeping with the spirit of the 'new' retail geography, shattering any dichotomy between economy and culture. As Nick Blomley (1996) suggests 'a retail geography worthy of its name...must take both its economic and cultural geographies seriously' (p 238). This chapter is a step to achieving this, not considering merely one side of the equation, but instead, recognising that there are dialectics between economy and culture such that the rise of the department store cannot be conceived through an analysis from only one perspective.

The department store did not simply emerge in the late 19th Century due solely to revolutions in the marketing structure of urban areas, increases in productive capacity, nor exclusively due to a sudden insatiable demand for consumer goods on the part of the expanding middle classes of the time. Instead, there is a need to conceptualise the sectors' emergence through a more holistic approach and to 'strip away some of the mythology which surrounds the supposedly revolutionary character of the department store by locating it within a larger framework of economic, social and cultural change' (Crossick and Jaumain, 1999b, p 9).

The suggestion here then is that we must place broader aspects of market, state, economy, space and culture in context, and view the development of the department store broadly to understand its significance and development in the past and today. We must recognise there is a constant dialectic between economy and culture, temporally mediating and producing social and spatial outcomes.

When we do this it is clear how the department store industry has been under-served by the 'new' retail geography thus far and the need to attempt a more rigorous and all-inclusive analysis is clear.

In summary, this chapter will seek to chart the emergence of the department store through economic and cultural narratives, adding to our understanding of the complex inter-relations between economy and culture in 'new' economic and retail geography. In the context of the overall structure of the thesis, it underlines the importance of the sector historically, socially and economically, before charting the emergence of the sector in the 20th Century, and then leading into the more substantive part of this thesis concerning the contemporary sector.

URBANISM, MANUFACTURERS AND MERCHANTS

The emergence of the US department store in the 19th Century must be understood to have occurred due a wide range of environmental, social, spatial and cultural facilitating factors. These wide ranges of influences include the development of urban areas, concentration of population, increases in productive capacity, changes in the relationships between manufacturing and merchants, and the rise of an urban middle class.

No one of the factors alone *caused* the emergence of the department store. Instead, factors in combination *facilitated* changes in early retail structure while adventurous merchants exploited conditions at the time (cf. Walsh, 1999). With this in mind, it is clear no one discipline alone can fully comprehend any industry history. Instead, there is a need to draw on a wider range of materials outside one's subject specialism (Alexander and Akehurst, 1998). As a result, this chapter attempts to merge texts from historical geography, history and business history into what Savitt (1989) and Hollander (1983) would regard as a 'synthetic history', weaving together various individuals, institutions, events, trends and themes.

19th Century US Urban Growth

The mid-late 19th Century in the USA saw a considerable rise in population immigration prompting a city building process and changes in marketing structures. The sheer growth in urban concentration of population is clear from the data used by Adna Weber in his classic study of 19th Century urbanism. **Table 2.1** sets aggregate US population growth as a constant 100, and then

indexes the growth in the other variables relative to this statistic. It underlines the urban nature of the population growth, and how this growth became concentrated in large cities.

Table 2.1 Urban Growth Relative to Population Growth, 1800-1890.

Years	United States	Urban population	124 large cities of 1890	Rural population
1800-1810	100	190	140	91
1810-1820	100	100	110	99
1820-1830	100	244	155	93
1830-1840	100	208	188	92
1840-1850	100	276	226	84
1850-1860	100	213	171	85
1860-1870	100	261	207	66
1870-1880	100	134	129	90
1880-1890	100	246	196	60

Source: Weber (1963) [1899], p 24.

The growth of the urban population was phenomenal. In 1790, of the 24 urban places in the US, only two - New York and Philadelphia - had a population of 25,000 or more. At that time only 200,000 persons, or approximately 5% of the total population were resident in urban areas[4]. By 1920, there were 2,722 urban places in the United States, containing over 54 million inhabitants - more than half the population of the country (Hauser and Taeuber, 1945).

This rapid growth had geographical implications with the rise of market areas spreading from the Eastern seaboard across the United States. As historical geographer, David Ward (1971) notes, there was a gradual emergence from the Eastern seaboard port cities and a spread of development as core areas were linked up with the rest of the periphery. Disparate areas became integrated into the national economy with the exploitation of trade in basic commodities, prompted by the spread of a national railroad network in the mid to late 19th Century (see **Figures 2.1** and **2.2**).

[4] As defined by the 16th Census of the United States, the urban area, in general, is made up of cities and other incorporated places having 2,500 inhabitants or more. Although this is no longer the measure of urbanism, it was the important measure in the past.

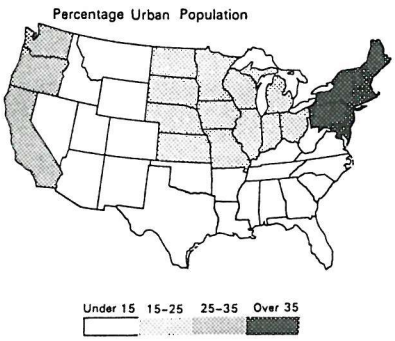


Fig 2.1. Urbanisation in the United States 1870

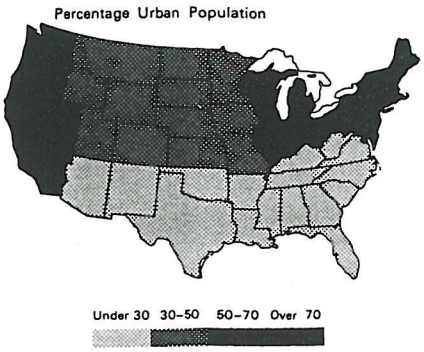


Fig 2.2. Urbanisation in the United States, 1910.

Source: Ward, 1971

There was an implosion of production and circulation in urban areas. Immigrants focussed on these areas for employment, providing cheap labour for manufacturers as they expanded productive capacity (Ward, 1971; 1981). The early success achieved by the Eastern Seaboard cities therefore often self-perpetuated further success (Pred, 1965). New York City, for example, which had a population of 60,000 in 1800, had spiralled to 1.1 million by 1880 (Blumin, 1984). Indeed, for Walker (1978), the early 19th Century was the pinnacle of urban development:

> Urban landscapes spread across the country as industrialization advanced; people were drawn into the urban-industrial centers, and waves of fixed capital in the form of factories, houses, and offices were laid down. This was the era of the rise of the great industrial cities and the creation of the basic urban network of the United States. The population growth of cities was marked, rising from 1,845,000 to 22,106,000 or from 10.8% of total population in 1840 to 35.1% in 1890. The number of great cities of over 100,000 persons jumped from two to seventeen. Rates of fixed capital formation were also extraordinarily high - higher than they would be in the twentieth century (Walker, 1978, p 185).

It was this dynamic urban structure that was to provide the fundamental basis for core downtown retailing districts and directly the rise of the department store.

Manufacturers and Merchants

Urban growth was a catalyst for changes in marketing structure, which, in turn, facilitated the development of retailing centres and the emergence of the department store. There are few texts charting the changes in the relationships between retailers, merchants and manufacturers across space during this period. Porter and Livesay's account (1989), originally published in 1971, is a rare exception. They suggest a three-stage development of the relationship between manufacturers and wholesalers or merchants.

This three-stage model, however simplistic, is reinforced by historical texts on the status of US retailing. **Table 2.2** seeks to merge the relationships between periods of wholesaler and manufacturer dominance, with changes in the structure of US retailing.

Table 2.2 19th Century US Retail Structure

Time Period	Relationship between Manufacturers and Wholesalers	Dominant Retail Form
pre 1815	All purpose merchant	General, unspecialised store
1815-1870	Rise of the wholesaler	Specialised Store
1870-1900	Decline of the merchant wholesaler. The rise of the manufacturer	Department store growth

Porter and Livesay (1989) regard the period up to 1815, as that of the all-purpose merchant where the structure of distribution in America was in a state of equilibrium. All products manufactured or otherwise, were distributed through a network of sedentary merchants, who were the dominant element in the economy. Between 1815 and 1870, they suggest the wholesaler then reigned supreme, as specialist wholesalers developed serving larger markets. The intermediaries cost advantage lay in the exploitation of economies of scale and scope. Such wholesalers handled the products of many manufacturers and were thus able to achieve a greater volume and lower costs per unit than did any one manufacturer in the marketing and distribution of any single line of products. Moreover, they increased this advantage through the broader scope of their operation by handling a number of related product lines through a single set of facilities (Chandler, 1990). Finally, between 1870 and 1900 Porter and Livesay suggest that there was a decline of the merchant wholesaler and a rise of the manufacturer. As Alfred Chandler (1990) suggested, the transition to larger scale retailing began to co-ordinate the flow of goods from manufacturer to consumer. In those industries where substantial economies of scale and scope did not exist in production, high volume flows came to be guided by the cost reductions achieved by buying departments of the larger retailers who handled a variety of products through their facilities. This efficiency reduced the economic viability of the wholesaler.

The retail history literature has charted these titanic shifts in marketing structure, which supported the shifts in the power relation between wholesalers and manufacturers. Ralph Hower's (1943) history of Macy's, for example, charts the changes in the specialisation of retailing, which was itself underpinned by changes in the relationships between manufacturers and merchants. In Porter and Livesay's first period of the all-purpose merchant, the retailing structure of America was dominated

by unspecialised retailers, involved in a variety of activities of general assortments. At this time the primitive character of American business and the lack of a concentrated market made it impossible for specialisation to develop (see Phillips, 1992; Tedlow, 1995). A gradual specialisation of retailing then occurred (Hower, 1943), as commerce moved towards Porter and Livesay's second stage of wholesaler domination;

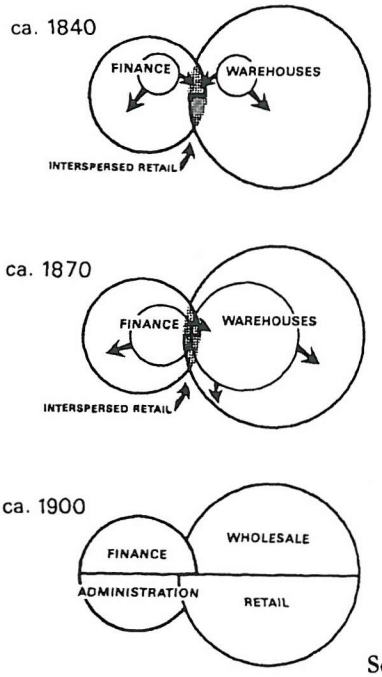
> It is practically impossible to find a specialized retail store in America around 1800, but by 1850 the cities were full of them. Trade at first tended to split into four general lines: groceries, dry goods, hardware, and house furnishings. But these were, in turn, rapidly divided into narrower classifications (Hower, 1943, p 82-3).

This increasing specialisation of retailing was significant in promoting the nature of wholesaling at the time, which in turn had important spatial implications in the city. Extensive warehousing districts developed within the urban structure, as much historical geographical literature has testified (e.g. Ward, 1966; 1971).

The third stage of Porter and Livesay's model described the decline of the wholesaler or merchant. As Walker (1978) suggests, the dominance of warehousing began to be challenged indirectly by increasing large-scale production in factories and directly by competition for centre-city land from retailing and financial-administrative functions. This was the time of intense downtown development, which in its turn provided the essential basis for the development of the unspecialised department store[5]. These changes in urban structure have been summarised in the work of David Ward (1971), who proposed a three stage temporal model of CBD development in which wholesale warehouses and specialised retail areas gradually emerged during the late 19th Century. Whilst Ward's model has many of the simplistic limitations of such a device, it is congruent with much of the urban history literature, providing a useful historical template of change (see **Figure 2.3**):

[5] I use the description *unspecialised* in a tentative manner. Although the department store is regarded as an unspecialised retailer, its numerous departments are, in themselves, often more focused, carrying a wider and more specialised range of commodities than a specialised shop. It could thus be regarded as numerous specialised shops in one.

Figure 2.3 Ward's Model of CBD Development

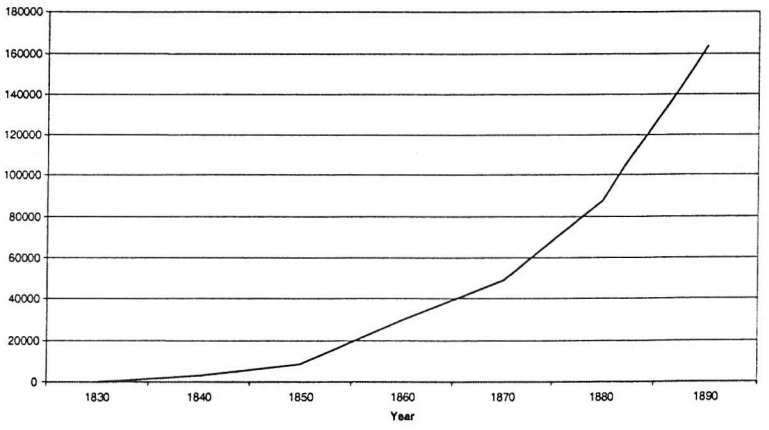


Source: Ward, 1971

Transportation and the Marketplace

A facilitating factor in the emerging urban nodes in 19th Century USA was the widespread development of transportation of commodities and people across national space. The development of an increasingly integrated national system facilitated the spatial spread of industry and commerce, changing the economic geography of the US from a set of regional economies with low levels of interchange, to a continental set of integrated regions (Cozen, 1977). The railroads were the primary early means of achieving this. From its introduction around 1830, rail mileage quickly overtook that of canals, and by 1850, had double the distance (Temin, 1975). Growth thus spiralled as seen in Figure 2.4.

Figure 2.4 US Railway Mileage Growth, 1830-1890.



Source Weber, 1963 [1899], p 25

David Meyer (1987) suggests that much of this national integration had occurred by 1890 due to such improvements in transportation and communication. Geographers have viewed these developments in terms of waves of time-space compression (see Harvey, 1989). In effect, the US was becoming smaller as the friction of distance reduced for commerce and individuals, affecting benefits to the urban nodes most able to take advantage of the expansion of marketing areas. Over time regions specialised in the production of resources in which they were abundant and manufacturers took advantage of the improved accessibility between disparate places and traded between them (Meyer, 1987). As a result, Vance (1970, p 50) contends that 'the localized economy would become only part of the total economy and, probably, a decreasing important segment'. This rise in market area for goods and services prompted further urban development.

At the finer spatial scale, the late 19th Century US city developed its own complex internal transportation systems which promoted the retailing sector as a distinct locale. Ward (1971) shows that inner-urban transportation improved dramatically during the late 19th Century with the movement away from horse-drawn carriages as the primary means of transportation towards the provision of electrified street railways in the 1880s. Indeed, by 1895 more than 850 towns and cities had installed street railways (Foster, 1979).

In the case of New York City, the period between 1880 and 1920 saw residents' relationship with public space change dramatically. The introduction of the city's elevated railways and subways broke down many of the physical barriers and social distances that middle class residents had fought so hard to establish during the 19th Century. The elevated railway reached Harlem River and the top of Manhattan in 1880. The city's first subway, *The Interborough*, entered service in 1904, and by the 1920s, the metropolis boasted the longest and most densely travelled subway system in the world (Hood, 1996). The new transport mediums quickened the pace of urban life, broadening access from outlying areas. Indeed, peaks in the retail construction cycle have been associated with the provision of electrified transportation services (Ward, 1971). In an earlier analysis of Boston, Ward suggests; '(t)he streetcar, in fact, made it possible not only for specialized showrooms to improve retail institutions but also for economies of scale in mass marketing to be achieved in the distribution of relatively ubiquitous items by means of the department store' (Ward, 1966, p 166).

The revolutions in transportation can be seen in part to underpin the changes in the nature of the waves of specialised and unspecialised retailing. Economies of scale in the agglomeration of commerce, people, production and presently consumption were becoming realised. For Weber

(1963, p 183), writing in 1899, 'The better the transportation, the higher the specialization and the greater the concentration'. The transportation system, at a number of spatial scales, therefore facilitated changes in the spatial and marketing structure of retailing within the mercantile city.

Societal Changes

Societal changes emerging in the mid-19th Century were equally as important to the retail systems emerging within the US CBD's. A wide range of historical literature has charted the rise of the middle class, as the period saw the development of clerical work, where office jobs emerged as an alternative to employment directly in the production process. As Stuart Blumin (1985) suggests; '(a)ll of these changes in the character and the physical and institutional environment of nonmanual work suggest an increasing divergence between nonmanual and manual work, not only as a day-to-day experience but also as a foundation for the development of more distinct social classes' (p 316).

More broadly, the increasing connectivity between spaces transformed the US from a series of island communities to a nation where cosmopolitan interests held sway. As these island communities disintegrated, some Americans sought to transcend, rather than preserve them. Particularly in the city, a variety of people grouped to share some kind of shared identity and value network in order to mediate between their everyday lives and the new impersonal setting (Wieber, 1967). Although the emergent middle class covered a wide spectrum, they could be divided into two categories. Firstly, there were those with strong professional aspirations in such fields as medicine, law and economics. Secondly, there were specialists in business, labour and agriculture. Wieber (1967) suggests the specialist needs of the urban-industrial system allowed these emergent classes to identify themselves by way of their skills. These were reinforced by formal entry requirements into their occupations, protecting their prestige through exclusiveness.

This newly affluent middle class was evolving, increasingly distinct from the opulent lifestyle of the very rich, and increasingly separate from the humble lives of the manual workers who continued to struggle with the bare necessities. In particular, immigrants of the ghetto who built their own working class cultures within separate enclaves became increasingly stranded within their closed societies as social mobility became increasingly restricted (Thernstrom, 1967; Ward, 1982; 1984; 1987). In effect, there was a 'sorting of the city by economic and social class; class and ethnic neighbourhoods characterised the residential landscape, white collar work concentrated in emerging downtowns and blue collar work moved increasingly to the periphery' (Bluestone, 1991, p 69).

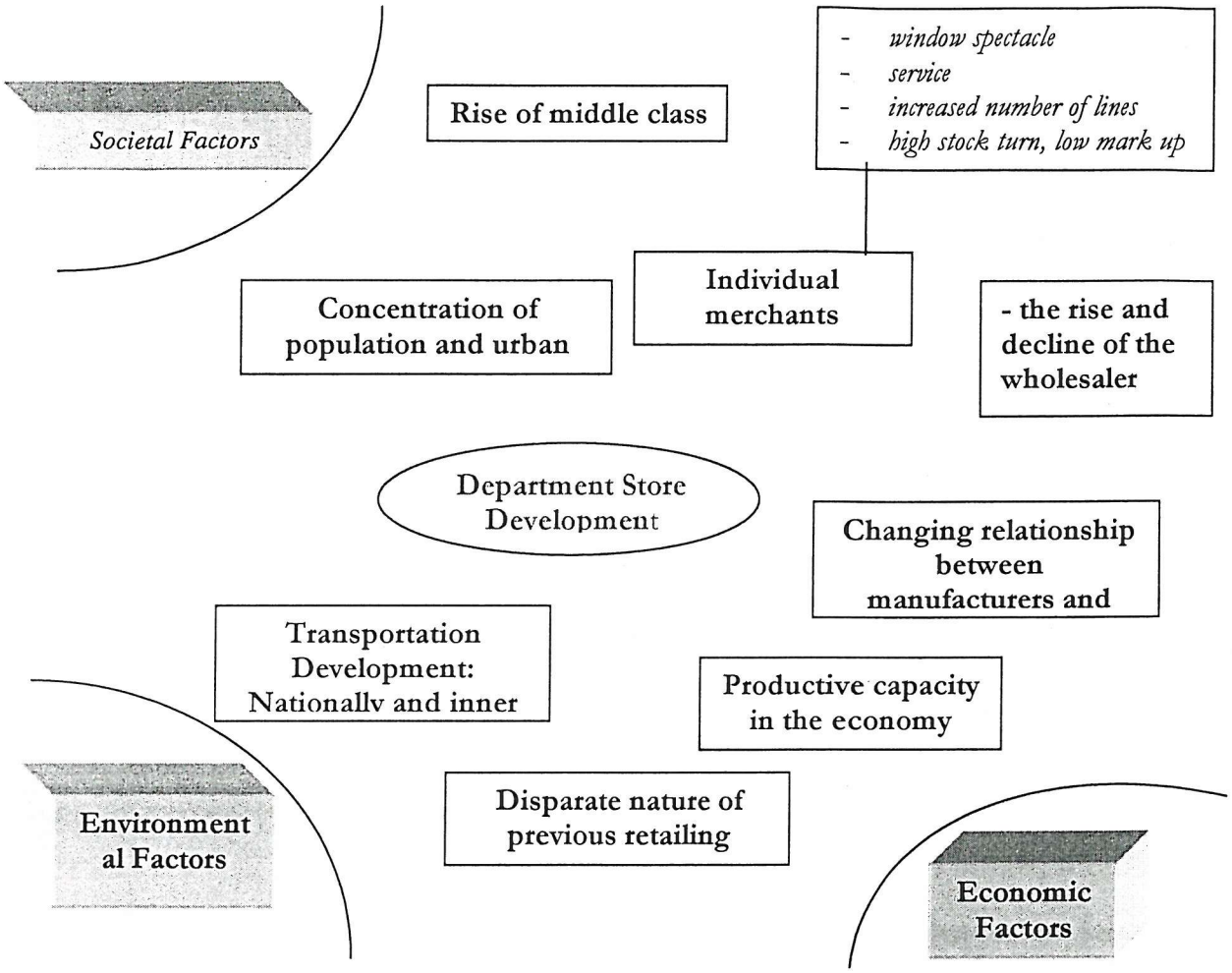
The emergent middle classes built their own institutions within the city, in an effort to develop a homogenous middle class culture through cultural codes of decency and upstanding character (see Archer and Blau, 1993). Mona Domosh (1998) has, for example, reviewed the 'intricate scripts of bourgeois behavior' during the late 19th Century. Institutions such as the department store provided a focus for the material consumption ethic that the emergent middle classes wished to capture as theirs (Barth, 1980; Miller, 1987). Raymond Williams (1961) used the phrase a new 'structure of feeling' to give expression to such self-legitimising behaviour of the new middle classes.

Societal changes of the late 19th Century are thus viewed as central in creating a middle class, which would provide a customer base for the emergence of the downtown department stores. Coupled with this, increases in immigration, which shocked and horrified this growing class also provided the foundation for the growth of this new consumer culture (cf. Domosh, 1998). Many of the entrepreneurs who serviced this new middle class were part of the seismic shift in urban social structure. Indeed, immigrants were often the entrepreneurs who founded these cathedrals of consumption - for example, Filene's, Strauss, Gimbel's, Rich's and Meier & Frank were founded by immigrant Jewish families (see Berkley, 1998; Harris, 1994; Sibley, 1990).

The Coalescence of Factors

The emergence of the department store as an identifiable icon in the retail geography of the late 19th Century city must be understood therefore to have been facilitated by a wide variety of factors which, in combination, permitted change. Such a coalescence of factors is expressed diagrammatically in **Figure 2.5**.

Figure 2.5 Factors Underpinning Early Department Store Development.



THE EMERGENCE OF THE DEPARTMENT STORE

Amid the background of the mercantile city, the department store emerged in the late 19th Century. Commentators remain undecided as to the first department store to emerge. Some critics believe A. T. Stewart, the New York merchant was the first, opening the first floor of Dry Goods Store in 1846 (e.g. Resseguie, 1962; 1965; Laermans, 1993), whereas the consensus points to Aristide Boucicaut who opened his Bon Marché in Paris in 1852, and between 1860 and 1870 saw sales expand from five to twenty million francs (Pasdermadjian, 1954, see also Lancaster, 1995; Miller, 1981). Traditional accounts suggest that the early department stores were led by brash businessmen who abolished, in a single stroke, traditional retailing methods. In contrast, Laermans (1991) points out that historical evidence indicates a much more gradual process of commercial enterprise

emergence - an 'organic' emergence of department stores throughout the late 19th Century. Instead of constructing ornate buildings of large size, capacity and cost, merchants instead would start, as R. H. Macy and A. T. Stewart did, often renting a small store and then expand that store by purchasing adjoining buildings, gradually forming what we have come to regard as the downtown department store (see Hower [1943] in the case of Macy's). As Asa Briggs (1956) has suggested, these institutions often sprang from humble beginnings and were never planned from blueprints, but grew in response to the pressures of the time. This is supported with evidence in the UK through the work of Gareth Shaw (1992), who sees the department store development pre-1860 as 'evolutionary', through the purchase of adjoining formats, and then 'revolutionary', post 1860, through the planned construction of grand, large-scale department stores.

Definition – Practices Rather Than Form

A factor further contributing to a rather blurred debate in the business history literature on the emergence of the department store has been the lack of a comprehensive definition of the format. This problem has been recognised by a number of analysts (e.g. International Association of Department Stores, 1999; Jeffrey, 1954; Nystrom, 1925). This thesis argues that there is a need to comprehend the distinctive features characteristic of the format and to define the 'department store' not through purely physical characteristics.

Indeed, the impact of the department store has always been rooted in the *practices* within the store as much as the building and the frequently stunning architecture. The real revolution that the department store brought was as much an upheaval in principle and practice of retailing, as of form. The competitive advantage the department store form enjoyed was considerable, and the primary factor in its successful emergence as the most impressive downtown retailing format until the mid-20th Century. The Bon Marché, the reputed first department store, demonstrated four essential principles of marketing, which set the standard for today's retail environment. Firstly, Boucicaut reduced his mark up on goods, and relied on a brisker stock turn, reducing the amount of time his capital was tied up in any one type of inventory. Secondly, he started the trend towards fixed, marked prices, instead of the previous barter practice of retailing. Thirdly, the Bon Marché pioneered the principle of free entry to the store, without the previous moral obligation to buy. Finally, the Bon Marché introduced the practice of returns to the store, giving customers the right to exchange the merchandise bought or to get a refund (Pasdermadjian, 1954).

The validity of Boucicaut as the inventor of these four principles is shrouded in mystery, as academics continue to argue over the true pioneer of modern retailing. Resseguie (1965), for example, regarded A. T. Stewart as having invented the marked price method, credited John Wanamaker as establishing it, whilst Stewart generated economies of scale through bulk buying and constructed the first multi-floored departmentalised retail store. Nystrom (1932) however, argued that Stewart, Wanamaker and Marshall Field all credited Boucicaut as the source of many of their ideas. The way forward is therefore to look at how the principles were *applied* to gain competitive advantage in the retailing environment and not pursue a fruitless argument concerning the actual originators of the concepts.

Economies of Scale and Scope

The founders of the individual department stores took advantage, and contributed to, the fall of the wholesalers, as described in the third stage of Porter and Livesay's model, by utilising the sheer scale of their stores. Indeed John Wanamaker of Philadelphia, writing a review of the rise of department store, in 1900, summarised the economies that could be gained through eliminating the wholesaler and rationalising the retail systems in the following way:

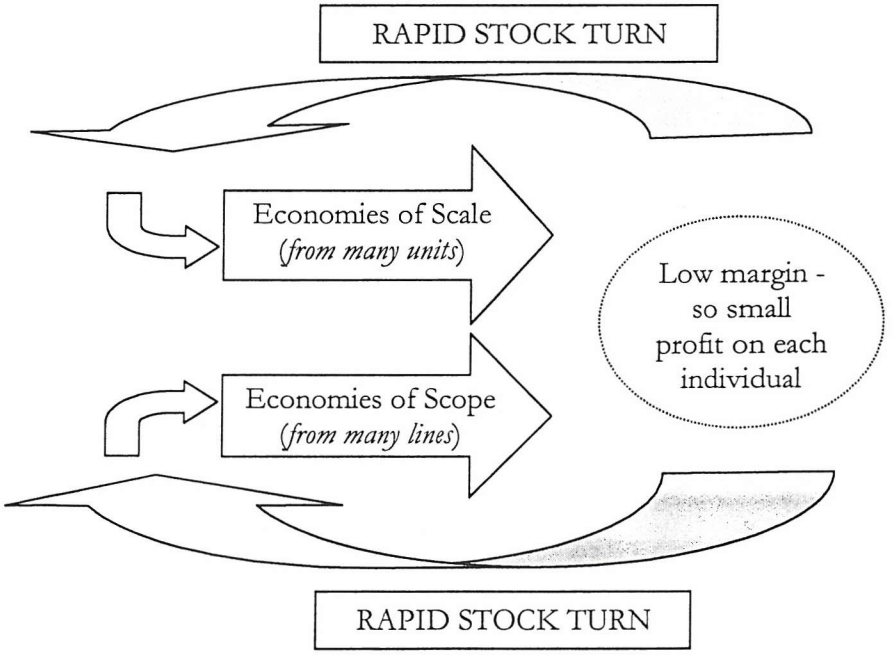
> The tendency of the age toward simplification of business systems and to remove unnecessary duplication of expenses, awakened throughout the United States a keen study of means to bring about a closer alliance with the producer and consumer. Almost simultaneously in a number of cities, long established stores gradually enlarged and new stores sprang up to group at one point masses of merchandise in more or less variety (Wanamaker, 1900, p 125).

The scale of purchasing previously enjoyed by the wholesaler was now passed onto the department store merchant facilitating lower prices through the elimination of the middleman's' mark up. As Porter and Livesay (1989, p 219) commented; 'if the jobber was to be eliminated, each sale had to be either large volume or high value in order to make freight and handling costs lower than those the middleman would set'. The department store purchases from manufacturers were indeed high volume and as a rule paid for in cash to further induce discounts - reducing costs and out-competing alternative retail forms. This system avoided large retailers having to endure the high interest rates associated with the purchase of manufacturers' commodities through the means of credit (Twyman, 1954).

The conditions governing the placing of goods in specialised retailers hands had previously been constrained by small amounts of capital, commonly borrowed on long credit and a larger profit or higher gross margin on each individual item (Wanamaker, 1900, p 124). Whilst the department

stores' scale changed these conditions, allowing bulk buying and the elimination of the wholesaler, it also provided a unique form of retailing for the public to experience. It was like a village store in outward form but very different in internal organisation, adhering to the specialisation characteristic of the second stage of Porter and Livesay's model. This allowed the department store to enjoy economies of scope as well as economies of scale[6], as its large capital base enabled it to offer a greater variety of each line of goods than the village store, and lower prices than the specialised store (Weber, 1963, p 190, see also Chandler, 1990). The low margin nature of the sales necessitated rapid stock turns so capital was not tied in unproductive inventory and could instead be reinvested in new commodities, circulating once again. This balance of specialisation and centralisation of buying gave the department store its competitive advantage throughout the late 19th Century. And it was this widening of the market through all of these developments which facilitated the use of the department store concept. Prior to the department store's emergence, the rules of retailing were that '(i)f a merchant wishes to specialise, he must broaden his geographical field. If he wishes to narrow his geographical field, he must broaden his lines of trade' (Vance, 1970, p 78). The department store was able to recombine these aspects of space and market to produce a revolutionary new marketing concept (see **Figure 2.6**).

Figure 2.6 Original Principles of Department Store Economics



[6] Economies of scale are defined as the result from the increased size of a single operating unit producing or distributing a single product that reduces the unit cost of production or distribution. Economies of scope are those advantages resulting from the use of processes within a single operating unit to produce or distribute more than one product (Chandler, 1990).

The economies of scale and scope owed much to the increase in productive capacity of manufacturers. Indeed, at the time of the emergence of the department store, there was considerable debate about overproduction within the US economy. This was especially focused around the 1870s when concerns were voiced about the increasing efficiency in manufacturing of products and the amounts of stock that lay unsold in warehouses (Leach, 1993, p 36). Indeed Leach (1993) notes that the production of cheap artificial jewellery doubled between 1890 and 1905, as did the amount of men's and women's ready to wear clothing. Production of glassware and lamps jumped from 84,000 tons in 1890 to 250,563 tons in 1914 (Leach, 1993, p 16). The productive capacity of the American manufacturing industries was therefore another essential facilitating factor in the development of such a retailing format on a scale never seen before.

The early department stores sometimes expanded their vertical integration beyond that of simply carrying out the wholesaling function themselves. Indeed, in many cases early stores pursued their own manufacturing until the early 20th Century when they had generated enough dominance in the marketplace to move away from the economic risks associated with such vertical integration[7]. Leach (1993, p 147) notes, 'in 1875, Alexander Stewart in New York still conducted manufacturing and selling in the same place, in full gaze of the customers [but] by 1910, such economic integration had all but disappeared'. Integration backwards into manufacturing was only pursued, however, when the department stores were unable to obtain a product to their requirements from established manufacturers (Chandler, 1990). In the case of Sears, therefore, which assumed financial interests in at least nine factories by 1906, and 16 by 1910, these goods rarely accounted for more than 10-15% of its total sales (Chandler, 1990; Tedlow, 1996).

The organisation of the retail organisation was based on large scale purchasing and sales. This provided the chance to specialise the internal division of labour, in the manner described by Adam Smith:

> As it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of that power, or in other words, by the extent of the market. When the market is very small, no person can have any encouragement to dedicate himself entirely to one employment (Smith,1776).

The department store employed specialist staff and designed a system of checks and balances within the emerging structure of the store concentrating on different aspects of the merchandising process

(see Mazur, 1925 and Chapter 3). The specialisation of roles within the retail structure allowed individuals to generate expertise in particular aspects of the merchandising process. Buyers became central, embedding themselves within the burgeoning national and international commodity networks, focussing on acquiring products for sale in the store. Such employment became so specialised and skilled that universities introduced retail and marketing courses from the early 20th Century for candidates to refine their skills in preparation for a marketing career.

Developing the Principle

With the new structure of retail organisation, the costs of slow stock turns were becoming increasingly clear. Capital caught up in slow moving inventory was unproductive and not available for use in generating further sales. Gradually merchants realised that it was better to speed the process by quickly eliminating such slow moving products (Pasdermadjian, 1954). Department store owners therefore produced 'mark-down' areas, where slow moving stock could be sold, albeit at little profit, and thus the capital reinvested in new products at a higher price and gross margin. John Wanamaker devised his 'Bargain Room' in 1880 and Lincoln Filene his 'Automatic Bargain Basement' where products were automatically reduced by 25% after 12 selling days, a further 25% after 18 selling days, and finally another 25% after 24 days (Barth, 1980; Ferry, 1960).

With the so-called 'organic' emergence of the sector, it is unclear as to when the first department stores were in place. Pasdermadjian (1954) suggests the Bon Marché became a conventional department store by the early 1860s followed by a spatial diffusion of the concept to the United States. The format is believed to have penetrated into Germany in the 1880s, Canada and Scandinavia in the 1890s, and by early 20th Century migrated to Australia (Pasdermadjian, 1954). In a US context, merchants such as A. T. Stewart, Marshall Field and John Wanamaker popularised the department store concept throughout the 1870s, although the foundation of their stores was often rooted considerably earlier (see **Table 2.3**). Lord and Taylor, for example, which can be dated to the 1880s, originated as an exclusive furniture retailer, and only later in the 19th Century transformed into a department store.

---

[7] Indeed, in 1925 Fraser suggests; 'The orders placed are so large that manufacturers are glad to make price concessions in order to secure this amount of business' (p 461).

Table 2.3 Foundation Dates of Future US Department Stores

Year of Foundation	Department Store
1826	Lord and Taylor
1850	Lazurus
1858	R. H. Macy
1861	John Wanamaker
1865	Altman
1866	Marshall Field

Source Pasdermadjian, 1954

Due to the organic form of emergence, most of the stores in **Table 2.3** only really achieved true department store status in the 1870s. During this process of maturity they acquired many of the services that we associate with the modern day retailing form - often these transformations involved capitalising on many of the numerous advances in technology to shock, excite and popularise consumption within the department store setting. Such innovations promoted the store as an experience out of the ordinary, with consumers being treated to a glimpse of luxury, distinct from their altogether more mundane existence. Initially, electric lighting caused great commotion and excitement - where Macy and Wanamaker, for example, installed theirs in 1878, the latter turning on 28 arc lights at one time (Ferry, 1960; Pasdermadjian, 1954). Indeed, Barth (1980) explains the wonderment of Wanamaker's show, as people came away from the setting, having seen the store 'lit as daytime'. Similarly, escalators, from their inception early in the 20th Century, quickly became the norm for department store shoppers. By 1927 Gimbels provided twenty-seven, with Bamberger's responding, to provide a stunning thirty-four in 1928 (Leach, 1993). Indeed, Bryson (1994) observes that escalators were regarded as so novel and giddying that some stores stationed nurses at the top to minister to those made light headed by the innovative experience. Similar fascination was evident with the provision of the electric lift, as Macy's, Wanamaker's and Strawbridge and Clothier all fitted the devices in the 1880s (Pasdermadjian, 1954)[8]. The institutions owners were also keen to keep a regular temperature throughout the store. In 1929 Macy installed the largest air-refrigeration system of any retailer, cooling its first and basement floors (Hower, 1943), and by the early 1930s stores throughout the country had picked up on the idea (Leach, 1993).

The progressive competition in terms of sight and spectacle assured the diffusion of technological innovations throughout this period. This is clearly seen in the changing use of glass in the department store with the rise of the store window. As Pasdermadjian (1954) notes, the maximum

size of glass windows which could be manufactured until the middle of the 19th Century was relatively small, however, the application of new processes of production in the late 19th Century allowed glass and the display window to be used in new ways; '(t)here were curved or straight glass doors or shelves, glass counters and containers, and, by 1905, forty-one different kinds of show cases' (Leach 1993, p 74). Indeed, by 1925, consumption of polished plate glass in the country, was almost 120 million sq. ft annually, nearly double the figure consumed 10 years before (ibid., 1993). It also provided a focus on the new department store window as it infiltrated onto the street and competition focused on producing spectacular displays and sights (see Leach, 1989). It is clear why Ewing and Ewing (1982, p 68) observe the early department store as 'more than a site for consumption, it was a "sight" of consumption; goods were graced in monumental splendour'.

Luxury as Standard

The focus of department store interiors became directed towards comfort and service, rather shrouding the economic logic of low margin and high turnover. Throughout the 1880s, department store merchants increasingly reconfigured their interiors to produce leisured spaces in which the female consumer would feel comfortable (see **Table 2.4**). This trend penetrated a wide range of downtown stores, creating an environment for women to meet, and socialise whilst spending money within the store. By 1895 organists were performing in many major US downtown department stores (Leach, 1993). This had an economic logic of maximising sales for the store owners, but cleverly took advantage of the undersold market of the female bourgeoisie and upper middle classes who had the money and the time to pursue leisured consumption. The direction of the focus of consumption was broader than merely women. The store strategists, for example, designed the stores so that they would attract children, capturing a consumption culture that was developing at the time (see Hatgis, 1996). In 1860 Macy's established its first toy department, whilst by 1927, John Wanamaker had developed an amusement park; 'The Enchanted Forest', in his store (Leach, 1993; Hatgis, 1996).

---

[8] The obsession of improved circulation bares much resemblance to that described by Le Corbusier in terms of the city in his plans for urban reorganisation (see Le Corbusier, 1987 [1925]), and earlier, the boulevard development through the rebuilding of Paris by Baron Haussmann, 1853–70 (see Harvey, 1985a).

Table 2.4 Early Department Store Services

Wanamaker's:
1881 Art Gallery
1882 Refreshment Bar
1884 Post and information Office
Macy's:
1878 Provides customers with writing tables and newspapers
1879 Luxurious lunch rooms
Selfridges
1909 Pergola roof garden
1912 for golf putting
1924 ice rink

Source: Various historical sources

Customer service was an initiative to induce further expenditure. Department stores frequently offered free delivery - a service that would later come to haunt them, as they tried to cut cost ratios later in their development. However, at its peak, free service was accepted within the industry. By 1889, Wanamaker's store possessed 68 wagons and trucks, and an amazing 121 horses, serving customers in and around the city of Philadelphia (Ferry, 1960). The 1920s saw the provision of credit accounts at department stores. Indeed, Leach (1993) suggests that by the end of the 1920s, Marshall Field's charge business had risen to 18,000 accounts and similar developments had occurred at other stores[9].

The department store became as much a theatrical as marketing institution, with merchants searching for new technologies and wonderment to entice shoppers into their store. This show-man-like vein is displayed rather well in the publicity stunt of Gordon Selfridge at the time of his store in London. After hearing of Louis Bleriot's groundbreaking first flight across the English Channel, he displayed the plane in his store for free to customers (Honeycombe, 1984). Such an example is typical of the publicity hungry nature of the department store owners who thrived on media coverage. Another example is Macy's Thanksgiving Day Parade through New York which serves as an active advert embedding the store within the American psyche.

THE DEPARTMENT STORE AND URBAN SPACE

Just as the emergence of the department store can be partly explained by changes in urban structure and societal changes, so its development caused considerable impact on the late 19th Century urban

structure. The department stores trod a thin line by mediating between the upper classes attachment to the commodity offerings, and their aversion to the horrors of the urban environment. The dialectic was complex and volatile, causing significant changes in residential and retail location in the city.

Retail locations must not be understood as static within time and space. Instead, they are produced, mediated through economic and societal structures. The restless urban landscape of late 19th Century New York provides a classic example. Both city and department store grew together, dependent on each other for survival and promotion:

> If the emergence of the new city with its mass market and its mass facilities made the department store possible, the store, in its turn, helped to determine the character of urban life. Around the store large shopping areas frequently developed...The distinct customers who patronised it were inevitable but welcome patrons of other city services also, even of other city shops. Store and city grew together: indeed the store became as much a part of the urban way of life as the rapid public transport which served it, the use of electricity which maintained it, or the daily newspaper which advertised it. Just as the old country store gave the small community a centre, heart and nerves, so the department store was the core of the central city (Briggs, 1956, p 118)

The fact that urban structure and department store progression is inextricably linked is obvious. The specialisation of urban retail space was first seen in department store development, with large numbers of streets or blocks becoming dedicated to large-scale retailing in many US cities, see **Table 2.5.**

Table 2.5 The Specialisation of Retail Areas

New York: Fifth Avenue, Herald Square
Chicago: State Street
Philadelphia: Market Street
San Francisco: Market Stockton and Geary intersections
Montreal: St. Catherine Street

Source: Ferry, 1960

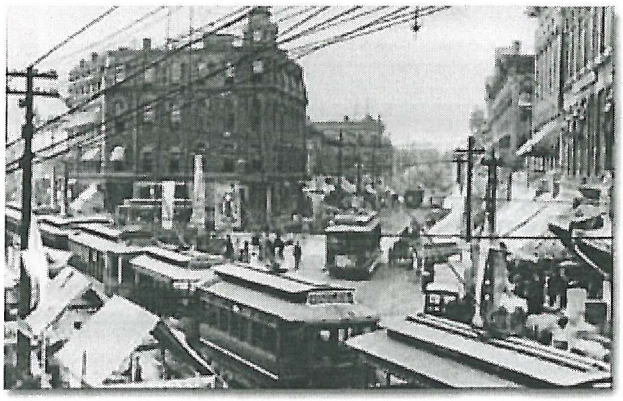
The Bourgeoisie and Urban Space – The Case of New York City

As the work by Bowden (1971) suggests, there was a gradual northward movement of department stores in New York City during the late 19th Century. In the course of a decade the entire downtown retailing district of New York City moved from 14th to 23rd Street, between Broadway and 6th Avenue, away from the area known as the Ladies Mile (Leach, 1993, p 31). The reason for

[9] In contrast however, some stores such as Macy's refused to provide credit until considerably later in their development (see Hower, 1943).

the movement away from the department store's previous heartland was the general deterioration in the 'quality' of the downtown - there had been a dramatic rise of immigrants, and clogging of the heart of the city by a rapidly expanded and overloaded transportation system (see **Plate 2.1**). This created an environment unsuitable for the 'consumption ethic' which retailers were trying to promote for the bourgeoisie and emergent middle classes.

Plate 2.1 Early Urban Congestion in Chicago



Source: Fox River Trolley Museum: http://www.foxtrolley.org/history.htm

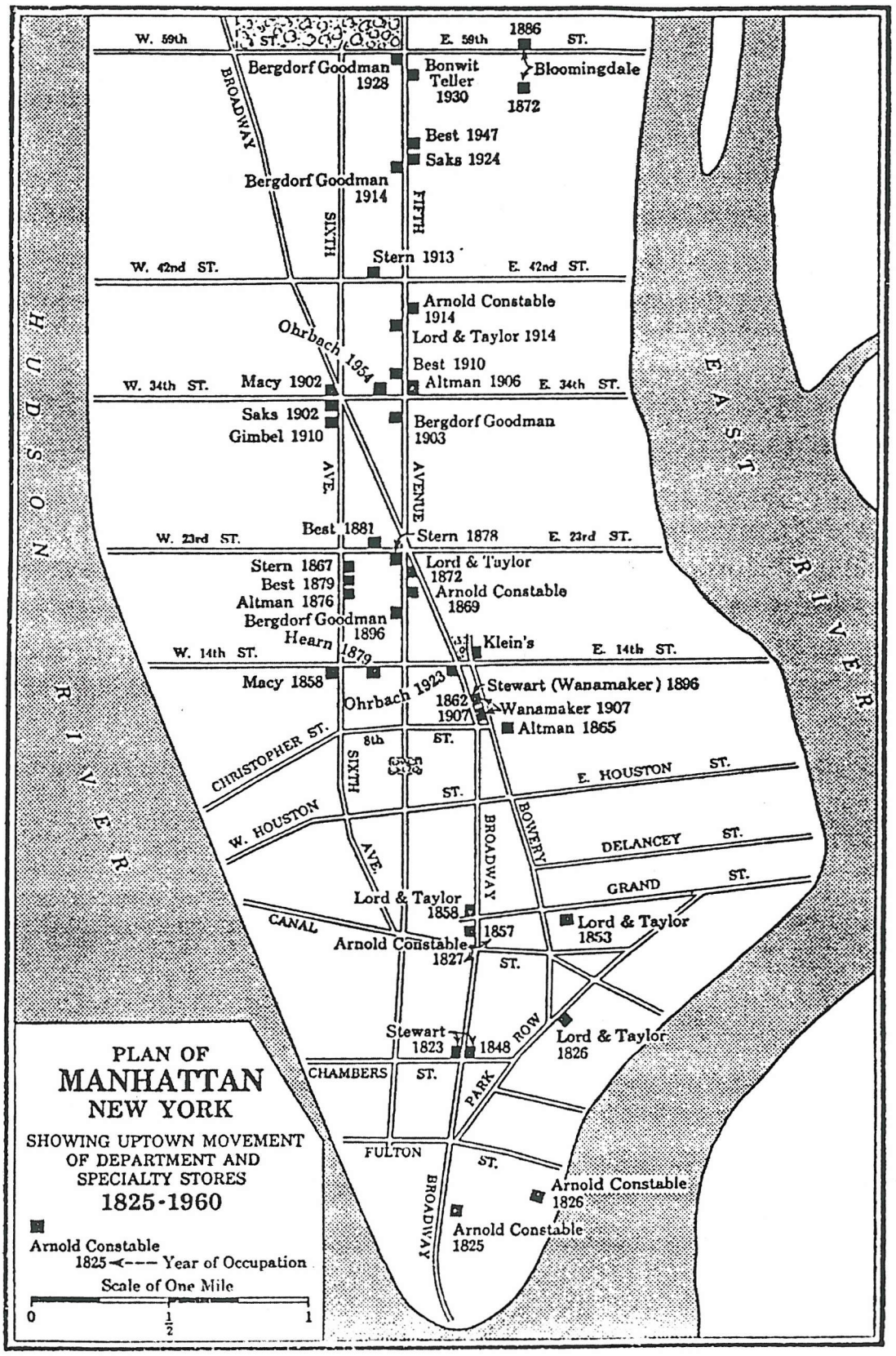
The middle classes and elites displayed a somewhat contradictory relationship with the city. On the one hand they were fascinated by the carnival, spectacle and extra services of the new urban development, but on the other, viewed it with horror. 'Cities represented social upheaval, moral collapse, and an undifferentiated, omnipresent menace. Beneath their showy facade lay traps ever ready to ensnare the unsuspecting; in their unholy glare, village innocence withered' (Boyer 1978, p 72). Indeed, 'the strangeness of the city was not simply a matter of size, physical expansion, or even of a shifting demographic profile. The very rhythm and pace of life differed in ways that were as unsettling as they were difficult to define' (Ibid., p 4).

The transformation of the downtown clearly did not go uncontested or undisputed. With the rise of the great department stores, the independent "pushcart" retailers were frowned upon and eventually outlawed (Bluestone, 1991). The new form of retailers depended upon the free flow of commerce to support their low margin, high turnover organisations. The battle between pushcart street commerce and department stores is indicative of the re-presenting and re-packaging of modernity as experienced on the street.

The department store had to demarcate itself from the open-air stalls for immigrants, the working classes, and bargain hunters of all classes (Leach, 1993). As Mona Domosh (1996a) has suggested, department stores not only depended on location and being near their clientele, but also their *association* with the fashionable classes. It was essential therefore that they created new landscapes associated with the domestic enclaves of those classes - both locationally within the city and also via the internal configuration of their retail space constructed to conform to a feminine, consumption-oriented perspective. In many respects, the middle and upper classes can be seen to have shaped the city as they initiated a staged decentralisation from the choking downtown. In New York, this implied, as Domosh (1996a) has suggested, a retail movement during the 1870s and 1880s up to Broadway, by the 1890s onto 6th Avenue, and by the turn of the century, to a new retail focus centred on 5th Avenue between Union and Madison Squares, and extending east to 6th Avenue and west to Broadway.

The changing locations of A. T. Stewart's stores illustrate these trends in the spatial structure of retailing in New York. Stewart first opened his 'Marble Palace' in 1846 located at Chambers Street and Broadway, regarded by Resseguie (1965) as the first specially designed, functioned, multi-floored retailing building. In 1862 Stewart opened a new store, known as his 'Cast Iron Palace' between 9th and 10th Streets (Barth, 1980; Hendrickson, 1979; see **Plate 2.2**). Abandoning the 'Marble Palace' for a location uptown was initially considered a rash plan. However, Stewart was able to anticipate the northward movement in the location in retailing and subsequently bought before the premium of demand was added to the price of the real estate (as shown in **Figure 2.7**).

Figure 2.7 Department Store Change in Location, New York City 1823-19 7



Source: Ferry, 1960

Plate 2.2 Stewart's Cast Iron Palace

Source: http://mcny.org/abbott/a074.htm

DECLINE OF THE BOURGEOIS SPHERE AND THE DEMOCRATISATION OF LUXURY

So far then we have considered the rise of the urban department store in the late 19th Century through the lens of business history and historical geography. However, if we are to be produce a retail geography, which as Blomley (1996) demands, takes both its economic and cultural geographies seriously, then the cultural impacts and facilitating factors of the changes in society and urban life permitted and promoted by the innovations in new consumption possibilities must be investigated.

Modernity and Class on the Street

The economist Paul Mazur suggested in his book *American Prosperity* (1928) that the US had shifted from a land concerned with satisfying need to one servicing desires[10]. Indeed Leach (1993) views the late 19th Century as encouraging a highly individualistic notion of democracy as consumption became the means to reach happiness and the 'cult of the new' reigned supreme. This

transformation was not universal however, as the lower middle classes and poor were left behind by this wave and left frustrated (see Sennett, 1969). The new urban society was polarised, as 'never before were the rich so rich. And never before were the poor so plentiful' (Blumin, 1969, p 206).

The progress of the new age of development and commerce in the urban environment seemed to know no bounds. The modernising process caused shock and horror as the urban structure impinged on human relationships and appeared in opposition to the small-scale community, becoming 'the main locale in which new impersonal social relationships, the money economy, and social disorganisation could be observed (Savage, 1995, p 204). The work of George Simmel (1967) suggests that this energy and rush of urban modernity led, to what he describes, as a blasé attitude, as people were faced with a constant onslaught of new individuals, faces, structures and concepts. Time was rapidly becoming structured as a world standard was adopted to facilitate the functioning of capitalism. Such developments 'eroded conventional views about the stability and objectivity of the material world and the mind's ability to comprehend it' (Kerns, 1983, p 314). Utopian writers such as Bradford Peck and Edward Bellamy argued against the speeding of the capitalist process, through the medium of anti-establishment novels. They expressed the horror of the individual as he negotiated the instability brought by the new economic and social conditions (Cary, 1977). Few writers have captured the spirit of the age as well as Marshall Berman (1982) who suggests:

> The life of the boulevards, more radiant and exciting than urban life had ever been, was also more risky and frightening for the multitudes of men and women who moved on foot...The burgeoning street boulevard traffic knows no spatial or temporal bounds, spills over into every urban space, imposes its tempo on everybody's time, transforms the whole modern environment into 'moving chaos (p 159).

The modernisation thesis was embedded in the urban structure in the form of the department store, as retailing embraced mechanisation, mass production and consumption. For many writers, the late 19th Century was the time of a decline of a cohesive public sphere, as the class based system segmented, and new forms of media diffused causing extreme sociological changes (see Gohen, 1998; Habermas, 1989; Sennett, 1977; Thomas, 1993). For Sennett (1977, p 141), the rise of the department store was 'in capsule form the very paradigm of how the public realm as in active interchange gave way in people's lives to an experience of how publicness (became) more intense and less sociable'. The rise of the middle classes complicated the issue, as the new urban petite bourgeoisie did not actually possess a distinctive culture, and instead created their own through the

---

[10] Indeed, for Mazur (1928), '(t)he community that can be trained....to want new things even before the old have been entirely consumed yields a market to be measured more by desires than by needs' (cited in Tolman, 1928, p754).

consumption ethic provided by the department store (Laermans, 1993)[11]. In response to the ever moving, dramatically changing urban physical and social environment, some of the older bourgeoisie retreated into their own traditions and codes of conduct to retain a unique identity (Domosh, 1998). As Domosh has noted, the commodity acquisition ethic of the new wave created deep contradictions:

> On the one hand, middle class life needed to separate the cultural and the commercial so that class could feel culturally legitimate and therefore superior to others, those without "taste". And yet the middle and upper classes also needed the economic support of those without taste, and so offered them a chance to acquire taste by shopping in appropriately ornamented stores and buying the correct items. This led to a mixing of the categories of culture and commerce. This contradiction was inherent to the functions of the bourgeois class in a democratic political system - a class dependent on economic wealth, and yet seeking economic legitimacy (Domosh, 1996a, p 60).

In the same manner, Kerns (1983) views the crowding of people in cities as creating a tangible drama of modern democracy. The rural setting of the aristocratic world gave way to new states of the urban setting of the bourgeoisie. Kerns argues that the bourgeoisie still aspired to get away from the crowd and retire to provincial estates, but that the urban populace remained, dictating values. Such new social forms are seen as flattening social hierarchies - the bourgeoisie were therefore in a position where they had to sell their culture to those who could increasingly afford it and yet also distinguish themselves from those same people.

The Rise of "Taste"

Despite the mixing of culture and commercialism - which so troubled the old urban bourgeoisie - the department store became a source of civic pride and viewed as an attraction in itself and a validation of the city's stature and cosmopolitanism (Benson, 1986). Central to this affection was the overall department store 'spectacle' which has impressed so many commentators. Lewis Mumford (1940) suggested that if 'the vitality of an institution may be gauged by its architecture, the department store was one of the most vital institutions in this metropolitan regime' (p 259). The department store owners used the spectacle of the store not only to induce consumption but also, more selfishly, as an icon of their own status on the environment - a symbolic node of their influence embedded in the cityscape. More broadly, such egotistical influence was seen in the profusion of skyscrapers embedded on the mercantile city (see Domosh, 1988).

---

[11] Instead of opposing the pecuniary values of the very rich, members of the middle class (now disengaged from deep religious involvement) immersed themselves in imitation of the rich. Consumerism became a means of status competition and a therapeutic quest for self-fulfilment and gratification (Lears, 1981)

The appeal of the retailing form came in its sheer spectacle and new display strategies (Crang, 1998). This presented the potential consumer with a 'panoramic perception' of a vast array of commodities to enjoy, dream and purchase (Chaney, 1983, p 27). Walter Benjamin initially viewed the developments in the arcades of 19th Century France as 'commodities are suspended and shoved together in such boundless confusion that (they appear) like images out of the most incoherent dreams' (Buck-Morss, p 254). Commodities were everywhere - in front of the consumer, as the shop came out from the building and faced the passer by - as a kind of self-advertisement (Fraser, 1981, p 133). The glass window can be seen as representative of the merchant's unilateral power in the capitalist economy, allowing the picture of the commodity to everyone, whilst at the same time closing real ownership to the few who could afford such goods (Leach, 1993). Often the windows themselves became as important as the goods within them, as they communicated the festivity, vitality and fantasy of the new emporiums (see Bronner, 1989b; Leach, 1984; Marcus, 1978; Zukin, 1998).

As the merchants capitalised on the latest display technologies, the extra attractions imbued the commodities, and the emporiums, with extra appeal as 'classist', sophisticated institutions:

> Like the exhibition palaces, they utilised new inventions in glass technology, making possible large expanses of transparent display windows. Visibility inside was improved both by the increase in window area and by better forms of artificial lighting, cumulating in electricity which was available from the 1880s. Glass and lighting also created a spectacular effect, a sense of (the) theatrical...coexisting with the simple availability of individual items for purchase. Commodities were put on show in an attractive guise, becoming unreal in that they were there to be bought and taken home to enhance the ordinary environment (Bowlby, 1985, p 2).

Such environments led Baudelaire to comment; 'Isn't all of life to be found there in miniature and so much more colorful, polished and sparkling than real life' (quoted in Nord, 1986, p 76). More recently, Jean Baudrillard (1981) explored the fictive feel of the commodity display in the 1980s. Indeed, Sennett (1977) regards this presentation effect as central to the capitalist ideal of creating a spectacle, which valorises the goods through aesthetic means. McCracken (1990) elaborates this by suggesting that whilst the spectacle promotes the goods, the meaning of the individual products is best expressed when they are surrounded by complementary goods that carry the same significance. If we accept this, the department store had additional qualities in presentation and sales promotion, which serve to promote demand through aesthetic means. This kind of promotion led to a distortion of traditional values in exchange, as goods could no longer be understood by reference to their intrinsic qualities or predetermined use values. Instead, they have became subjected to a continual process of symbolism and re-symbolism through strategies of display (Featherstone, 1983) – a practice of commodification where there is an ascendancy of exchange value over and above that

of use value. As Bowlby (1985, p 2) puts it, '(t)he commodity is a sign whose value is derived from its monetary price relative to other commodities, and not from any inherent properties of usefulness or necessity'.

These processes were at the root of the rise of 'taste' in late 19th Century society. Bronner (1989b) suggests 'taste' became seen within the grand emporiums, as something to be taught to the impressionable consumer. Indeed Dorothy Davis, in her *History of Shopping* (1966), suggests that the department stores were responsible for the way the middle classes became fashion conscious, as they helped create demand with 'their ever-changing windows and shop displays emphasising 'novelty' and 'up-to-dateness' and 'the latest from the manufacturers' (p 292)[12]. Stores helped produce a consumption society where customers 'were awed and flattered and before they knew it they were influenced and persuaded. Long before the cinema or broadcast existed the department stores were helping to mould the tastes of the rising middle classes' (p 292). There was a speeding of circulation in the retailing environment as production moved to meet the demand. Specific apparel production areas grew up in the metropolis, as demand for ready-to-wear items grew emphasising the dialectic between production and consumption (see Best, 1919). This speeding process boded well for the department stores as their need for high volume reinforced the new consumerism associated with a burgeoning fashion industry. Perpetual changes in consumption required changing displays, offering alternative styles to entice demand for additional commodities of very little functional difference (Domosh, 1996a)[13].

Commodities were collected, accumulated and displayed as a means of expressing the social, economic and cultural identity of the owner (Hatgis, 1996; Hosgood, 1999). However, the process must be understood as considerably more complex than this. For Sennett (1977), goods were valorised by association with other goods, specific people and places. Indeed Laermans (1993) makes much of the manner in which the commodity aesthetics of display were used to produce meanings the commodities themselves usually did not express. The merchandise may have been relatively cheap but because of its imaginary associations with luxury and comfort, it *looked* otherwise (Laermans, 1993). Commodity fetishism was becoming a social hieroglyphic, as there was a spatial

[12] Fraser (1981) underlines this point suggesting that retailers were 'coming to realise that they had a function in not only satisfying demand, but also in stimulating it and, if necessary, altering taste and fashion' (p85).
[13] The fashion cycle brought challenges for department store buyers as well as manufacturing: 'The fear of style changes has also been important. For, in addition to the continued progress of seasonal style changes, rapid industrial development and extreme competition have accelerated the introduction of basic style changes in machinery and equipment as well as in consumers' goods. Increased leisure and increased purchasing power have aided the introduction of styles and as a result, buyers naturally buy carefully and in minimum quantities' (F. E. Clark - Griffen et al., 1928, p18).

separation from the areas of production and even wholesaling which had previously been associated together as an immutable whole (see Sennett, 1977; Ward, 1971). Indeed '(t)he separateness of the consumer world carried with it other related consequences: its presence tended to blot out the human contributions and sufferings involved in its creation...By 1910 more and more people were less and less aware about how things were made and who made them' (Leach, 1993, p 150).

Frequently this instruction on 'taste' led to associations with what has become known as 'Orientalism' following the pioneering work on Edward Said in 1978 (see Said, 1984 [1978]; 1993). Indeed, lacking a long history and tradition, affluent Americans have always looked to Europe and beyond for a surrogate lineage through cultural display (Silverman, 1986). Frequently, department stores advertised 'genuine' products from the Orient and focussed attention in other ways on Europe as the dictators of fashion. Indeed, Neiman Marcus continued, until recently, to have promotions where items from far-flung places of the world were sold as "authentic" during "China Week" or "Paris Week" for example (see Marcus, 1975). The early department store thus represented a 'dream marriage' by combining modernist bourgeois culture with commercial mass production (Weber, 1999).

A Universal Education in Modernity?

To transform the nature of demand, the department stores had to educate potential consumers. Fredricksson (1997), in his study of 'EPA', a Swedish department store in the 1930s, suggests it served as a 'classroom of consumption' whilst Alan Trachtenberg (1982, p 131) has viewed the early department store consumer as experiencing a 'pedagogy of modernity', becoming equipped for the new age of consumption. Indeed, for Edward Filene, owner of the Filene's Department Store, mass production demanded the education of the masses to consume. He required that the 'masses must learn to behave like human beings in a mass production world' (see Bronner, 1989a, p 2). This lesson was taught along the aisles of the store, through internal physical configuration and in the proliferation of mass advertising as it 'celebrated the complexities and interdependencies of modern society, seeking to further rationalise the operations of the marketplace, to lubricate its mechanisms, and to achieve greater control over its functioning' (Marchand, 1985, p 2). This advertising increasingly became more persuasive than informative, as merchants enlarged the size of their newspaper advertisements and experimented with the use of appealing catchwords and slogans (Laermans, 1993).

The success of this push by the grand emporiums to promote a mass market can be seen in the development of the 'throw away' culture, with the changes in design progressing towards an aesthetic rather than functional basis (Forty, 1986; Leach, 1993). Mass consumption conditions encouraged the development of 'off the shelf' clothing manufacturing encouraging, what Thorstein Veblen (1899) described as, 'conspicuous consumption'. For Veblen, the dress and shoes of elite women in particular epitomised the relationship between industrial exemption and conspicuous consumption - dress operated as an 'insignia of leisure', the proclamation of freedom from utility and function (Silverman, 1986).

Commentators have frequently suggested that the department store gave birth to an all-embracing, homogenous consumer culture as the commodification of everyday life commenced (e. g. Abelson, 1989, p 73). This is associated with Bourdieu's (1984) thesis concerning the rise of cultural capital as a means of defining oneself through possessions - a process for which the late 19th and early 20th Century department store must clearly take some degree of responsibility. At last consumers, for Leach (1993, p 3), were in a culture where the drivers were 'acquisition and consumption as a means of happiness; the cult of the new; the democratisation of desire; and money value as the predominant measure of all value in society'.

It is interesting to investigate, however, the degree to which this uniform consumption vision was democratic. Although the vision of consumption was available to all, the merchandise was much more exclusive (Williams, 1982), as the façade of ever expandable ranges of commodities were paraded before the consumers (Bronner, 1989a). No longer was a potential consumer coerced to become an actual purchaser, instead the right of free entry was available to all (Benson, 1986; Pasdermadjian, 1954). Despite the theoretical universal access, the department store was often conceived along narrow class lines - the Bon Marché in Paris focused on the bourgeoisie for its custom. Miller (1981) makes much of class relations within the store, suggesting that the institution was an operation in promoting bourgeois life, and consumption as a substitute, or a facilitator, to becoming a member of the superior classes[14]. Only in the early 20th Century did the department store attempt to cater for the wider mass market when it faced the challenge of the chain store.

[14] This perspective, viewing consumption as a method of buying into an identity is briefly reviewed by both Glennie and Thrift, 1996 and D. Clarke, 1998. Such tendencies have, in a contemporary context, been reinforced by the proliferation of 'lifestyle advertising' (see Leiss, 1983).

The shift to a modern, urban based form of consumption through the medium of the department store must not be seen as a universal, unchallenged 'whiggish' history'. The transition to this retailing format was actively contested and resented in some quarters (e.g. Rappaport, 1996). Most notable was the impact on the small shopkeeper who bore the brunt of the changing consumption habits - with the new large department stores regarded as 'all devouring monsters' during the retail wars of the 1890s (Leach, 1993, p 27; see Nord, 1986 for a detailed French perspective). Such sentiments were echoed in Zola's 19th Century French novel *Au Bonheur des Dames* (1883) [1998], when adjacent shopkeepers complained of the unwelcome consuming competition:

> In the old days, when trade was trade, drapery meant only the materials, and nothing else. Nowadays their only aim is to expand their business at the expense of their neighbours and to eat everything up...That's what the neighbourhoods complaining about, the little shops are beginning to suffer terribly (Zola, 1883 [1998], p 24)

Merchant, John Wanamaker, launched a fierce rebuke of such attacks in his paper of 1900, insisting that department stores had reduced the wastefulness of the previous disparate form of retailing, in the process reducing prices by retiring the wholesaling middleman, and providing better employment for employees within their 'commercial universities'. He defended against the accusation that the new format had led to a severe centralisation of retailing, arguing that the *number* of retailers had more than kept pace with population growth. Recent histories of the sector have given weight to Wanamaker's protestations. Crossick and Jaumain (1999) observe that some retailers welcomed the advent of the department store, as it attracted more shoppers to the commercial districts. For example, local traders adjacent to the Samaritaine of Paris petitioned that the store be allowed to open on Sunday's to benefit all merchants.

There was also considerable concern for the decline in religion and the hard held Protestant work ethic which was steadily becoming replaced by a consumption based 'utopian energy' (Leach, 1984). Although John Wanamaker, owner of the world famous department store, could not see any conflict, writers such as Emile Zola saw the consumerism experienced in the department store as the new religion (see McBride, 1978). In particular, there was a spirit of the new moral order in which Baudelaire 'saw the essential condition of Parisian city life as a kind of universal prostitution created by consumerism, circulating securely in the city's clogged heart' (Wilson, 1991). Indeed, Baudelaire's flaneur himself eventually became captivated by the consumption-temptation nexus (Ferguson, 1994)[15]. The new adoption of consumer discourse seemingly could only envelop society further.

---

[15] 'By abolishing the distance between the individual and the commodity, the feminization of flaneurie redefines it out of existence. The flaneur's dispassionate gaze dissipates under pressure from the shoppers' passionate

FEMINISATION OF RETAIL SPACE AND CONTESTED CONSUMER CULTURE

This review of the emergence of the department store in modern life may have provided a rather one-sided view of the rise of consumer capitalism - so far it has done little to challenge notions of the homogenous mass market and an all-embracing consumption culture, determined by the all-pervasive marketing strategies of retail institutions. An understanding of the relationship between gender identities, patriarchy and urban space is important to challenge notions of a mythical universal consumption culture in which everyone is 'superincluded' (Lawrence, 1992). Indeed consumer culture presents the marketplace and society with a number of polarised signals.

> The department store as a social and economic institution was enduringly contradictory, at once a vibrant center of the delights of consumption and arena of persisting class and gender conflict, a business that was highly profitable yet torn between its role as vendor of merchandise and purveyor of culture (Benson, 1986, p 286).

Many 'gender aware' historiographies provide an interesting illumination of the 'dark underside' of the new capitalist economic order (Abelson, 1989).

In recent years there has been an increase in feminist historical analysis of the urban environment (e.g. Bondi and Domosh, 1998; Vaiou, 1993). The 19th Century is generally regarded as an era where women's participation in the social sphere was restricted, although the department store went some way to revolutionise the prevailing patriarchal culture where visiting the metropolis by women was frowned upon (Leach, 1984; Nava, 1996; Wolff, 1985). Previously, in the 1850s, women used to visit the neighbourhood shop to meet friends and purchase, but 'these were social pleasures that had nothing to do with the act of buying itself or with the customer as such' (Laermans, 1991, p 87). The new department stores combined the consumption urge with the socialisation spaces enjoyed previously. The creation of a feminine landscape also helped mediate the tensions that were acknowledged to be occurring between the cultural and the commercial (Domosh, 1996a; 1996b).

The department store was configured spatially and aesthetically to uphold the 19th Century patriarchal view of women (see Hutter, 1987). This led to the store becoming shaped uniquely for the bourgeois female consumer, by masculine hands[16]. Emile Zola, around the time of the emergence of the Bon Marché, revealed the masculinised nature of the contemporary retail

---

engagement in the world of things to be purchased and possessed. The flaneur ends up going shopping after all. And retreat is no option' (Ferguson, 1994, p 35).

institution with the publishing of his quasi-fictitious text *Au Bonheur des Dames: The Ladies Paradise* (1883) [1998], where the store owner is seen as seducing the feminine clientele through opulent displays and heady selections. This text has been analysed through the lens of the 'new' retail geography by Nick Blomley (1996) who suggests the store identities of masculinisation and feminisation were represented and imposed through its spatial arrangement. Here lay the intersection of space and power that channelled relations between the consumer and producer, constructed to satisfy conceptions of the feminine personality. Indeed, at one point, the heroine of the tale, Denise, is seen as 'yielding to temptation (coming)....as far as the door without noticing the raindrops falling on her. At this time of night, the Ladies Paradise with its furnace-like glare, seduced her completely. In the great metropolis, dark and silent under the rain, in this Paris of which she knew nothing, it was burning like a beacon, it alone seemed to be the light and life of the city' (Zola, 1883 [1998], p 28).

In the new department stores there were places for women to meet friends, even libraries and cafes to enjoy the sociality of the consumption experience. The consumption-based nature of the department store was shrouded behind conceptions of the domestic sphere, rather than the chaotic urban form, and behind feminine pursuits instead of participation in blatant commercialism (see Domosh, 1996a; 1996b). In this vein, Gail Reekie (1993a, 1993b) regards the department store as testament to men's power over women, creating a gendered and sexed culture that encouraged consumption.

The department store had a dramatic effect on female experience of urban life. Rachel Bowlby (1985) regards the entry of a woman into the store as a process of emancipation against the 'masculinised' patriarchal regime, as women could escape dull domesticity in this fantasy place and become more of 'a queen' and 'treated like royalty' (p 4). Leach (1984), in contrast, viewed a woman's entry into the store as a symbolic act of 'emasculisation'. Women were bowing to the consumption religion of the male store-owners and left to consume, divorced from the productionist masculine sphere of life. This is reinforced by McBride's (1978) study, suggesting that women who entered the department store were able to find their *dictated place* in society within. To understand this perspective, it is useful to be mindful of Bondi and Domosh's (1998) comment regarding the spatial arrangement of the city in respect to urban women:

---

[16] Indeed the perception of women by department store owners was extremely low. Frequently store advertisements in trade journals regarded women as impressionable and irrational, dupe-like consumers (see Reekie, 1993a).

The new identity of the 19th century middle class woman, as consumer and upholder of cultural and religious norms, was *inscribed into the physical fabric of the city*, and that physical form reinforced the identity (my emphasis, p 279).

Abelson's 'dark underside' of capitalism is expressed in numerous ways during this period as many people resisted the consumption ethic preached by the marketing cathedrals. The contradictions of modern capitalism were played out widely in the department store. One of the most notable was the proliferation of theft by middle class women in stores (e.g. Abelson, 1989; Spiekerman, 1999; Tiersten, 1999). Elaine Abelson (1989) has analysed both class and gender based explanations and effects of this illegal activity. There was a genuine belief among bourgeois white males that middle class women were naturally prone to stealing, and somehow this was due to biological determinism. Such women were seen to become overwhelmed within the 'new world of goods', as popular understanding underscored medical 'fact' to connect many important characteristics of shoplifters with the female life cycle, particularly the onset of middle age and beginning of the menopause. Middle class women were protected by their class status, as the misdemeanours were put down to the impressionable female psyche:

The culture of the big store, the diverse stimuli within the shopping milieu, created the environment that affected the behaviour of so many women. Given the free entry, the 'freedom to pass unnoticed in the middle of a crowd' that constantly pressed on all sides, and the possibility of touching whatever she found pleasing – given all these factors and the virtual assurance that her class position protected her – it is entirely probable that the middle class women shoplifted without thinking seriously of the consequences (Abelson, 1989, p 172).

David Chaney (1983) usefully suggests that shoplifting was a symptom of the tensions which accompanied consumer wealth and were played out in a culture of consumerism, as the contradiction between looking and obtaining became evident (see also Bowlby, 1985). This tension was also expressed in the misuse of charge accounts. There were legal actions to try to enforce payment from unfortunate husbands whose wives had overspent on their charge accounts with no intention to pay (Leach, 1993)[17].

The use of female labour in the store contributed to the contradictions implicit in the consumer culture, between commodities, people, and gender. In a later study of 1950s consumption at Woodward's Department Store in Vancover, Robyn Dowling (1993) showed how women were encouraged to look feminine yet exert a masculine aura of authority and professionalism - a contradiction which struck at the heart of gender identity of workers in department stores. In addition, class based conflict for employees emerged as lower class women, working behind the

counters of stores, had to transform themselves into genteel and differential service providers in the late 19th Century (Benson, 1986)[18]. Furthermore, the training of saleswomen promoted the discourse of familialism, encouraged the fostering of the nuclear family and conformed to traditional patriarchal values (Dowling, 1993). In the early department stores there were efforts, as today, to present a universal corporate ideal of inclusion to workers in the institution (Chaney, 1983; Crossick and Jaumain, 1999). Whilst this often provided the pleasant face of department store employment, there were also altogether more sinister aspects of internal police forces where fear insured adherence to the codes of behaviour (Abelson, 1986; Miller, 1981).

Contradictions also impinged in interaction with customers. Whilst workers had to negotiate between the gender and class based ideals set for them, they also had to produce, what for Hochschild's (1983) is 'emotional labour'. This produced confusion for both the consumer as well as the worker:

> One knows the salesclerk not as a person but as a commercial mask, a stereo typed greeting and appreciation for patronage...kindliness and friendliness become aspects of personalised service or of public relations of big firms, rationalised to further the sale of something. With anonymous insincerity the successful person thus makes an instrument of his own appearance and personality (Mills, 1952, p 182).

This commodification of personality underpinned the success of the store as salespeople were the most identifiable icons on the landscape of consumption, other than the goods (Benson, 1986). Such gender aware readings of the store have underlined the diversity of experience of early consumption and its importance historically.

CONCLUSIONS

This chapter has sought to interrogate and expand the debates concerning the development of the department store in the late 19th Century through economic, sociological, historical, geographical, and cultural lenses. Prior to the cultural turns in human geography, such broad-reaching analysis was difficult to realise. This chapter has sought to confront those concerns.

---

[17] Leach (1993) reports on the case where John Wanamaker took a husband to court between 1901 and 1903 and eventually failed to enforce payment. Leach concludes that 'it testified to the new dangers posed for everyone by the merchants "education of desire" and by their servicing of easy acquisition' (p 130).

[18] Indeed Lawrence (1992) underlines the importance of the class-based impression of store personnel: 'Perception of a store's status derived not only from the kind and quality of merchandise sold, and the building's location, design and décor, but also *from the perceived socio-economic class of the establishment's salesclerks* and customers' (p 67, my emphasis).

Secondly, the chapter has attempted to conceptualise the department store as a sector of immense economic and cultural importance, worthy of further academic study. Although the thesis primarily concerns the contemporary restructuring of the US department store industry, it is important to comprehend and locate that industry more broadly within space and time. Having begun that task in this chapter, Chapters 3 and 4 pursue more specifically the US department store's turbulent story from the early 20th Century to the mid 1980s.

Chapter Three

Restructuring as a Process 1: The US Department Store Industry 1900 -1945

'The 20th century was a time of enormous growth and innovation in American retailing. Merchants took concepts that were born in the 19th century, like department stores, grocery stores and catalogs, and built them into national brands. Explosive population growth, demographic shifts, and the interstate road system spurred the rise of suburban shopping centers and malls. Technology enabled product scanning, sophisticated marketing technology, and Internet shopping' Ernst and Young LLP, 2000, 'One hundred years of retailing in America', *Retail News*, Winter 2000, p 4.

'Consolidation is inevitable if industrial evolution is still a force. The past 50 years have seen growth of the single department - store units; the next 50 years will see the consolidation of many units into large powerful groups' Paul Mazur, 1924, 'Future developments in retailing', *Harvard Business Review*, 2, p 446.

INTRODUCTION

The US department store sector has undergone considerable transformation from its initial inception and growth initially in the 1870s. The previous chapter outlined how the department store gained its competitive advantage during the late 19th Century, and developed due to a wide array of environmental, social and economic factors. It is essential to consider however, that just as conditions can be seen to have favoured the new distribution system, so they could mutate and challenge the viability of the sector.

This chapter seeks to address the strategic challenges the industry has faced throughout the century, attempting to place such changes within a broader conceptualisation of corporate restructuring. It is clear that to understand the contemporary sector, it is necessary to understand the historical context of the current challenges faced by the retail format. In addition, the chapter underlines the considerable historical importance of the department store sector, identifying it as worthy of sustained academic study.

UNPARALLED ASCENSION, 1880-1920

US department stores remained virtually unchallenged from their inception in the 1870s until the 1920s. The previous chapter described how they developed in an organic manner, adding many of the concepts and services commonplace today. During this long period of ascension, the department store was experiencing the benefits of many of the environmental, economic and societal factors underpinning retail growth - these included the continued urbanisation, improved transportation and rise of the middle classes. Gradually, the stores were able to offer electrical lighting and escalators that characterised the progressive ethic of the store. As Pasdermadjian (1954) has testified, the early 20th Century saw ample purchasing power available, yet to be exploited:

> Unused purchasing power was therefore present in the hands of the public. What was lacking was the habit of spending. And it was here that the department store with its methods, especially its technique of window and interior display, its concentration of the buying opportunities and its use of sales promotion, played a major role in inducing, one may almost say educating, the public to buy (p 29).

The department stores' elimination of the wholesaler allowed a policy of low mark up and high stock turn. At the turn of the century department store prices were 15-20% cheaper than the remainder of the retail trade, giving substantial competitive advantages (Pasdermadjian, 1954). Chain stores were not threatening until their growth after 1920, although they were starting to form at the start of the century (Mullen, 1924). There was, however, a gradual diffusion to the wider retail industry of many of the *principles* introduced by department store retailing – for example the suppression of barter through the introduction of fixed marked prices, the utilisation of store windows, and the formation of a more rapid stock-turn policy (Pasdermadjian, 1954). Areas of the wider industry immune to direct department store competition found their retailing *practices* directly influenced by the retail revolution introduced by these stores in store organisation, appearance and service.

During the early 20th Century however competition to the department stores gradually began to emerge from the trends initially instigated by the department stores themselves. The development of ready-to-wear clothing prompted a shift from piece goods and supported the growth of the speciality store. Such stores were often better placed to compete with the department stores than the former piece goods stores (Pasdermadjian, 1954). Over time they became larger, departmentalised speciality stores without a home furnishings division - for whilst the original

speciality stores had a competitive advantage in terms of personalised service they found it difficult to compete with the competitive size the department store possessed.

According to Pasdermadjian (1954), the First World War's impact on the department store industry can be seen to have been broadly positive. It was a period characterised by a sellers market brought about by the great increase of money in circulation, the continuous rise in prices and the scarcity of goods. The value of the stores inventory was literally appreciating over time due to the limited goods acquisition conditions of the market. The rise in prices was, however, tempered by the sudden and short world deflation between 1920-1921 when retailers, as in all sectors of the economy, saw a steep drop in values, and had to draw on the financial reserves accumulated over more favourable times. This short recession was in contrast to the steep price inflation which had immediately followed World War I. By 1922, however, the market had recovered and was followed by a period of sustained business growth and price stability (McNair and May, 1963).

THE RISE OF THE 1920s/30s CHAIN STORE

The 1920s and 1930s brought turbulent times for US retailing and saw the rise of the multi-site retailers – the chain stores – which threatened the department stores' domination of the distributive trades. In the midst of this threat and the 1930s depression, department stores scurried away from the competitive truth of the strategic challenges chain store organisation posed – instead, they huddled together to form buying organisations and holding companies but delayed solid organisational restructuring and thus lost much of their competitive advantage.

The Rise of the Chain

By 1925, economist Paul Nystrom (1925) reported that department stores possessed 16% of the total retail market and that chain stores had obtained 8%, mail order houses 4%[19] and commissionary/company owned stores (in mining, lumbering and industrial construction areas) 4%, leaving 68% of the total retail market for localised retail and general merchandise stores. By 1928 McNair (1931) suggested that the cumulative total of chain, mail order and commisionary/company owned market shares had overtaken department store sales.

The chain store revolution had its origins in the late 19th Century, but was considerably slower to mature compared to the department store. In 1886, only 2 chains in all businesses operated 5 stores, but by 1912, 177 companies operated 2,235 outlets. By 1929, this has risen to 1,500 firms operating 70,000 stores (Leach, 1993). Prior to the mid 1920s, chains had been confined to the food and grocery sector, and in the US, the drug store sphere, but after this time there was the increased penetration of chain stores selling clothing and home furnishings lines (see Pasdermadjian, 1954). The growth of ladies ready-to-wear proved particularly menacing to the department stores. Prior to this time, chains had not been regarded as a direct threat to department stores as they specialised in staple, rather than more luxury oriented merchandise (Phillips, 1937). The new chain stores rapidly expanded coverage both geographically and by product mix. In the UK this was seen in the rise of Marks and Spencer and Burton's (see Alexander, 1997; Briggs, 1984), and in the US, by the movement away from mail order towards the establishment of store branches by numerous retailers. The mail order industry declined as the rural client enjoyed greater mobility (Pasdermadjian, 1954). Stores such as Sears, Roebuck and Company and Montgomery Ward developed as store based concerns in the 1920s and profits rocketed (Raff and Temin, 1997). By 1927, under the stewardship of Charles M. Kittle, Sears saw sales increase to over $277 million and profits to more than $25 million from its declining mail order and expanding 27-unit retail chain (Tedlow, 1996). This trend towards retail stores at the expense of mail order continued throughout the 1920s and 1930s (see Table 3.1).

Table 3.1 Sears Mail Order vs. Store Based Sales, 1925-1935

Year	Mail-Order Sales	Retail Sales	Total Gross Sales	Store Based Sales as % of Total
1925	$246.5	$11.8	$258.3	4.5%
1926	249.3	23.0	272.3	8.5
1927	253.1	40.0	293.1	13.6
1928	240.1	107.2	347.3	30.9
1929	266.0	174.6	440.7	39.6
1930	209.6	180.8	390.4	46.3
1931	161.9	185.3	347.2	53.4
1932	116.7	159.0	275.7	57.7
1933	120.3	167.9	288.2	58.2
1934	133.1	204.1	337.2	60.5
1935	171.7	243.3	415.0	58.6

Source: Tedlow, 1996, p 291, with modifications.

[19] It should be noted that the mail order houses such as Sears, Roebuck and Company and Montgomery Ward eventually became chain department stores themselves, further compounding the competitive problems for conventional department stores.

The strength of the chain store lay in their economies of scale, previously the competitive advantage of the department stores. Chain stores bought in considerably greater volume than the isolated department store, and could thus eliminate the middleman, wholesaler, jobber and, in some cases, the manufacturer[20] (Mullen, 1924). The economies of scale were now the competitive advantage of the chain store that possessed multiple sales outlets (Chandler, 1990). For many commentators this represented the natural trend in distribution, whilst others saw the chains' rise as being due more to thrifty consumers being catered for (see Rinehart and Zizzo, 1995). To further compound the difficulties, chain based general merchandisers, such as Sears, began to acquire and sell household goods items such as refrigerators from the 1930s which further inflated profits, as they became the new definitive one-stop-shop (Tedlow, 1996). Such commodities were a growth market largely neglected by the department store industry yet took up an increasing amount of household expenditure.

The chain stores demanded a more advanced form of organisation than had previously been seen in the early 20th Century retail environment. To some extent, they utilised the scientific management techniques introduced by manufacturers at the turn of the century[21]. These developments were considerably more advanced than those of the downtown department store. Indeed, 'as regards the utilization of modern methods of merchandising....for example the rational planning of the assortment, the control of the stock, the adoption of the principle of price-lining, the speeding of stockturn, etc. - the chain stores have often showed themselves more advanced than department stores' (Pasdermadjian, 1954, p 48). The rise of the chain stores reflected a wider development in the economy. After 1917, a greater majority of enterprises became integrated, adopting a centrally functioned, departmentalised structure and the rise of salaried managers driving such centralised corporations forward (Chandler, 1977; 1990). The independent department stores were under threat for the first time in their existence. Direct organisational responses were clearly necessary.

[20] Although chain store organisation encouraged bulk buying from manufacturers, some own manufacturing persisted. This was usually restricted to products which could not be purchased direct from established manufactures (Chandler, 1990).

[21] See Allen and Massey (1988) for a review of early manufacturing scientific management and the rise of Fordist methods of production.

DEPARTMENT STORE ORGANISATIONAL CHALLENGES OF THE 1920s

The Inefficient Organisation

In an analysis of the department store predicament, in the midst of the challenge from the chain store, McNair (1931) outlined a number of challenges for the industry. The organisation of the department store was generally regarded, in the 1920s and 1930s, as inferior and in need of a degree of overhaul. McNair suggested management efforts were dispersed over too many departments, handling too wide a range of merchandise. He suggested that the segmented nature of the buying power of the organisation, when it was split into so many departments, did not compare favourably with that of the chain store. Furthermore, the cost ratio of the department store had been rising throughout the 1920s, from 26 cents to about 34 cents of each dollar of revenue. McNair viewed the increases in sales assisted service rising to such an extent that they were not contributing to the effectiveness of selling, when the expanding cost ratios were considered. His most severe criticism was that department stores were being organised as buying rather than selling institutions. These observations were paralleled by other academic and management commentaries throughout the period. Pasdermadjian (1954) suggests that department stores spent too much time watching each other and not enough time watching the public. This was often played out through competition for superior service, foregoing an adequate consideration of the net benefit of doing so:

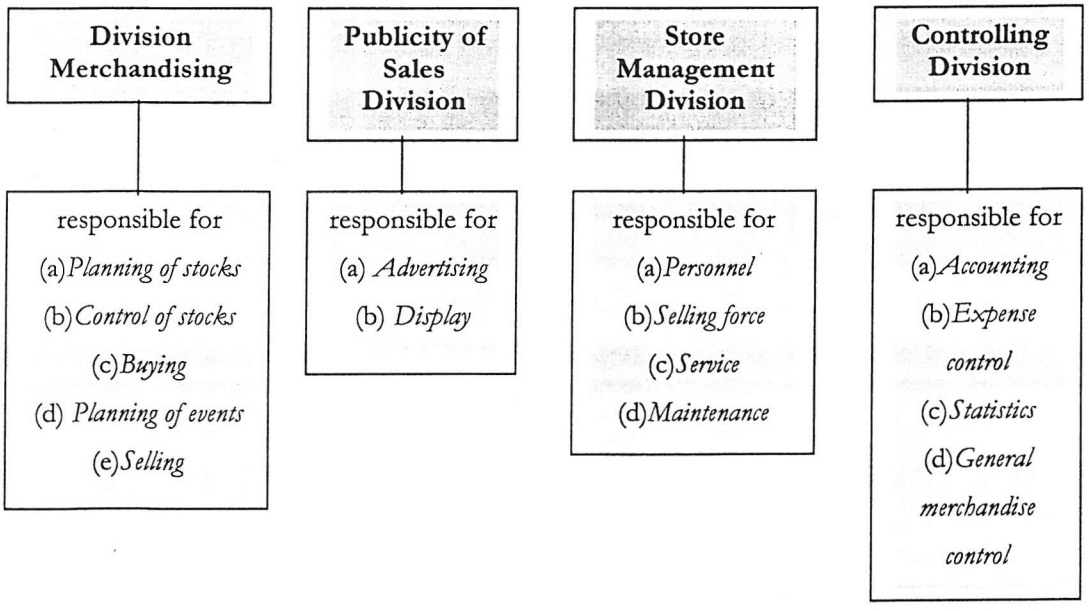
> As costs of service have risen, the policy of relying on service has itself been brought into question, since competitors, unhampered by the high costs of free delivery, rest rooms, subsidized cafes, credit and the rest, have pushed the price feature in their 'cash and carry' policy. Most of the department stores in the United States...were losing money during the 1930s (Lewis, 1945, p 91).

The rise in department store cost structures was widely discussed in the retail literature and this translated into an inflated gross margin and high expense per transaction (see the review by Lockley, 1942). The high cost structures, as Fraser (1925) suggests, had their origins in the past when department stores were not challenged, but the new competition could now exploit this aspect of their operation. Department stores were situated in downtown environments demanding the highest rentals (Burnham, 1940), although the difficulties were considerably deeper than simply a locational issue. The department stores' whole organisational structure required overhaul to bring out the efficiencies in size and utility available in divisions of labour.

Mazur's Organisational Reengineering

The rise of the department store had brought an organisational, as much as a cultural, revolution to the retailing industry. Indeed for Paul Mazur (1925), the influential investment banker, there was a 'logic' to store organisation. Such organisation, Mazur made clear, had to be appropriate for particular times and spaces; 'Organization is a method, not an end, and should be moulded to the needs and functions of the business' (p 288). Indeed, there was no *universal* blueprint of store organisation, but the consensus Mazur recognised at the time was centred around four main divisions of merchandising, publicity or sales, store management and a controlling division responsible for accounting (see **Figures 3.1** and **3.2**). This, Mazur argued in his revolutionary book, *Principles of Organization Applied to Modern Retailing* (1927), would provide the necessary division of labour available to the store and provide a more simplistic system of checks and balances between the separate departments, whereby; '(t)he responsibilities of departments and individuals should be arranged so that the function of one should on important matters be dependant on and necessary for the function of others. This will eliminate the necessity of a great deal of supervision, and will create perspective on important problems' (Mazur, 1925, p 295). Mazur regarded such a system as allowing specialists in each of the individual fields to head their departments, allowing their individual expertise to infiltrate into the organisation.

Figure 3.2 Generalised Four Divisional Structure for the larger Department Store in the 1920s



Source: Mazur, 1925; 1927, also Kaufman, 1932.

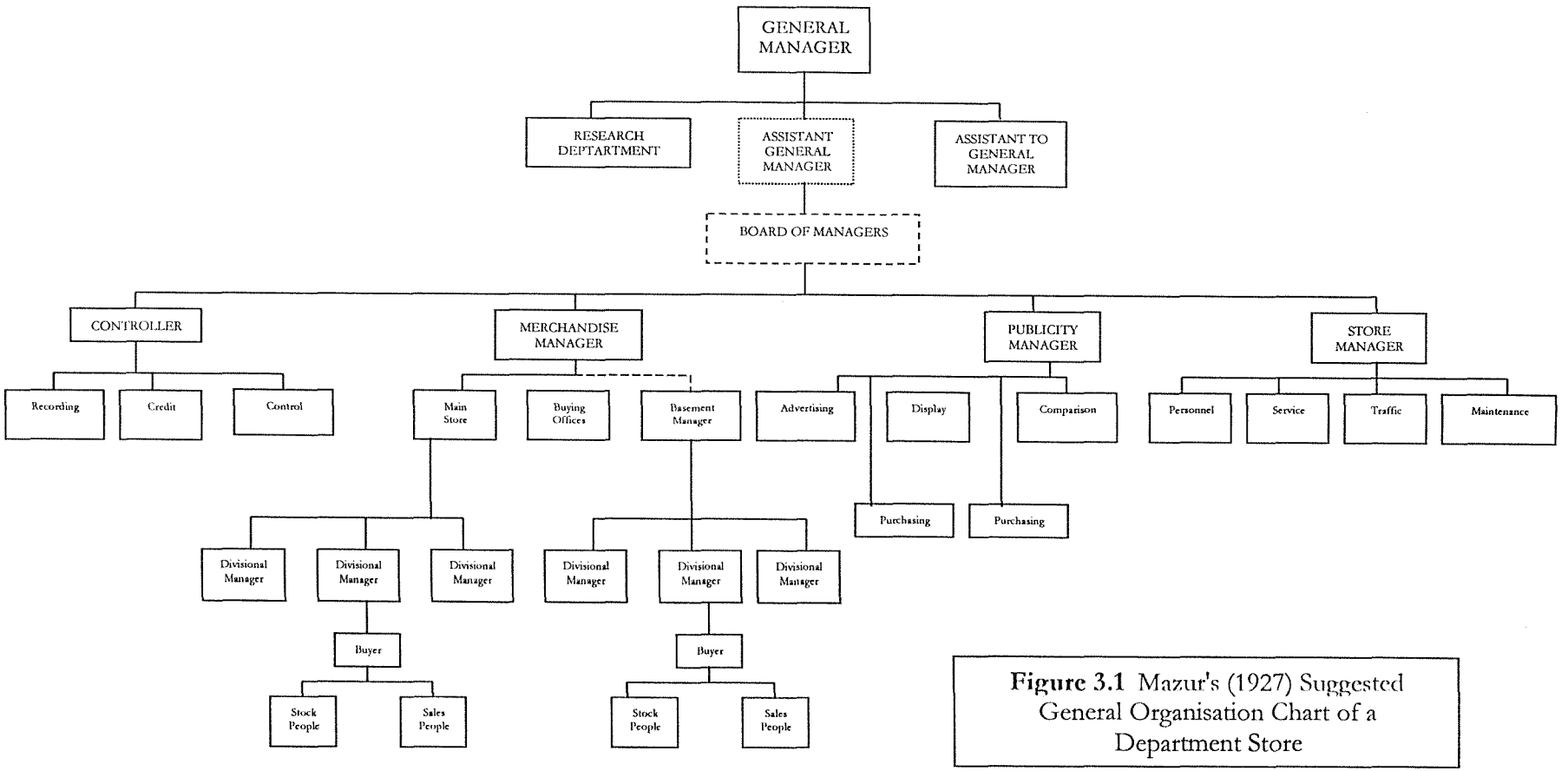


Figure 3.1 Mazur's (1927) Suggested General Organisation Chart of a Department Store

The Benefits of the Mazurian Organisational Form

The revolution Mazur's text brought to the internal configuration of the department store was considerable. The organisational make-up of the department store had traditionally been built around pyramids of responsibility, with no separation of selling and buying. As Bingham and Yunich (1965, p 130) succinctly put it, prior to Mazur, 'the natural division of labor seems to have always been on the general basis of "Joe, you take the ladies' wear, and I'll keep on with the men's wear"'. What Mazur's model did was to provide a template for the formal organisation of the early 20th Century department store.

The buyer remained the lynchpin of the store. The method was to seek or designate individuals with knowledge of the particular merchandise and its wholesale market. Thus the store was 'an assemblage of shops under one roof, with the division of responsibilities running by merchandise departments; and this came to be the all important merchandising pyramid of organisation' (Bingham and Yunich, 1965, p 130). As the volume increased and merchandise lines broadened, the division of labour widened (see Lowry and Wahler, 1993). Intermediaries appeared between the general merchandise manager and the departmental buyer, through the divisional merchandise manager, for example. Gradually specialised divisions developed, such as sales promotion. Early on, the buyer may have had some say regarding such promotion, but with specialisation and further divisions of labour these activities were incorporated in other pyramids of the organisation.

Prior to the Mazur contribution, the systems of responsibility and supervision became somewhat confused in complex networks of checks and balances and duplications of function. This is expressed in the words of Bingham and Yunich (1965) in a review of 1930s changes of organisational structure:

> In some of the versions of this functional form of department store organization, especially prior to the 1930's, a system of duplicating supervision was frequently found. Thus floorwalkers, or customer-service supervisors, watched over salespeople to ensure proper service to customers. Floorwalkers reported up through the store-operation pyramid, while salespeople discovered that the real boss was the buyer (Bingham and Yunich, 1965, p 131).

The section manager job therefore became more responsible, amid a sea of organisational confusion and grey areas[22] [23]. In contrast, the structure of organisation dictated by Mazur,

---

[22] 'In a substantial number of stores this check-balance concept led to an organizational setup where salespeople were made at least initially responsible to section managers and floor supervisors who reported to a customer-service manager, who in turn reported to the head of the operations pyramid. The section manager job became a more responsible one, in contrast to the floorwalker job from which it had developed; and section managers began reaching out for more authority over the selling function' (Bingham and Yunich, 1965, p 131).

became the so-called 'department manager plan' under which the department manager buyer had full control of the selling function and was held responsible for departmental expenses and profits. Salespeople were freed from any line of responsibility in the store-operation pyramid, and the former section managers became assistant department managers, responsible for day-to-day operation under the supervision of the management-buyer (Bingham and Yunich, 1965).

Alternatives to Mazur's Configuration

For some critics, Mazur's rationalisations were not regarded as having done enough to cut cost, rationalise internal organisation, and produce a more streamlined form. Maxwell Kaufman (1932), in particular, was damning of the stark divisional strategy Mazur (1925; 1927) suggested. In an analysis, which set a precedent for numerous others, Kaufman blamed the increasing cost ratios and the under-performing nature of the department store at the door of the rapidly adopted Mazurian divisional structure that had developed to provide some rational order, as the 'figures suggest that department stores have either overexpanded their forces or placed too many employees in relatively unproductive positions' (Kaufman, 1932, p 245). He scorned the stores where non-selling employees were making up over 60% of employees resulting in low productivity per employee. He placed the blame at the door of the *over-division* of labour employed by Mazur's models:

> It is true that, up to a certain point, division of labor results in economies, because the overall productivity is increased. Beyond a certain point, however, the overall productivity fails to increase in an amount proportional to the additional expenditures for employees (Kaufman, 1932, p 245)

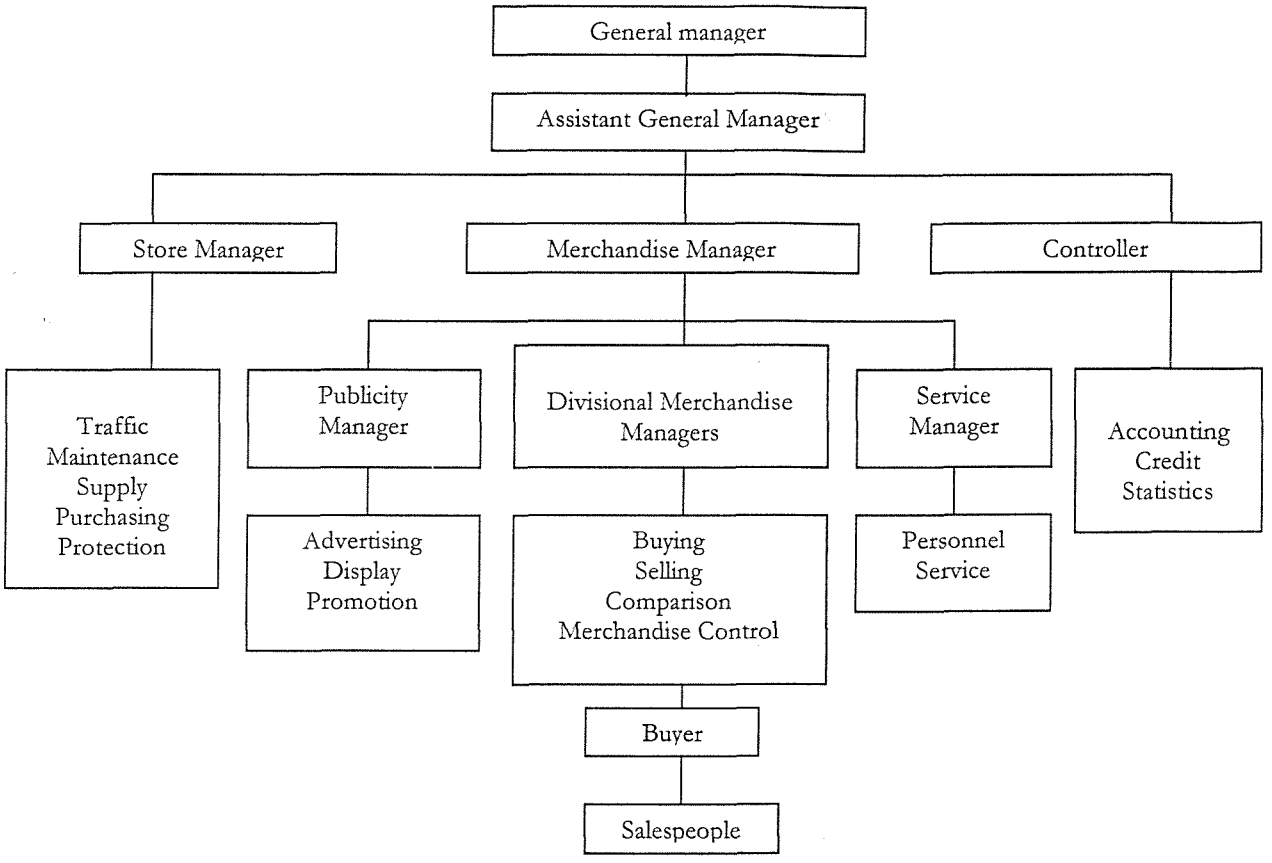
The department store, for Kaufman, carried the division of labour too far in its effort to specialise functions, for it was then necessary to create new positions to co-ordinate new positions to co-ordinate the activities of those engaged in the specialised functions! He regarded Mazur's model as undesirable because it '...introduces intricate lines of authority and interdepartmental relationships, results in top-heaviness, places too much emphasis on checks and balances, causes internal dissension, and fails to create a spirit of co-operation' (p 247). For Kaufman, the system of checks and balances inhibited the experimentation of new or radical ideas and only led to conflict between departments as they were expected to act as watchdog over the others. Kaufman (1932) consequently proposed an alternative model of organisation,

---

[23] Indeed the organisational inefficiencies of the department store were well known. Amasa Walker (1913), for example, inquired to what extent an improved scientific management technique could be applied to commercial enterprises, and department stores in particular, to improve selling efficiencies.

which placed the merchandising division at the centre of the institution[24]. Such a set up would therefore avoid the advertising department dictating to the merchandising department, but *be subordinate to it*, assisting in the preparation of advertisements promoting sales. The concentration of functions is seen in the structure suggested in **Figure 3.3.**

Figure 3.3 Kaufman's Suggested Corporate Organisational Structure



Source: Redrawn from Kaufman, 1932, 'Present Day Department Store Organization', *Harvard Business Review*, Volume 11, p 25.

Other misgivings concerning Mazur's model included the orientation of the system toward buying rather than selling, and that the utilities from the buying and wholesale-market structure caused the grouping of merchandise in departments, with inadequate consideration of the combinations of goods that might be the most effective in their commercial appeal. Furthermore, concern was expressed that selling leadership would be neglected, as an individual who was a successful buyer might not possess the qualities of a good sales manager (Bingham and Yunich, 1965). Despite this such arguments were ignored until considerably later into the 20th Century. Mazur's model was integrated into stores by the late 1930s and, according to

[24] 'These functions can best be performed by the merchandise division and, with the exception of certain specialized functions that are now performed by the other divisions should be but adjuncts to the merchandising division to assist it in buying and selling effectively' (Kaufman, 1932, p 249).

Bingham and Yunich (1965), gained dominance by the 1950s as cost ratios and organisational efficiency worsened.

DEPARTMENT STORE ORGANISATIONAL RESPONSES OF THE 1920s

The Logic of Informal Grouping

For Edward Filene writing in the late 1920s:

> Chain stores have shown how to remove many of the obstructions in the distribution stream. It is true that as yet department stores have not been hard pressed. But unless they organize so as to conform to the new trend in distribution methods, chain stores will so organize that they will combine the advantage of the department stores with the manifest advantages which the chains already have. In one way or another great chains of department stores are certain to develop. One way is for existing department stores to form themselves into chains (Griffen et al., 1928, p 19).

The greater scale economies available to chain stores had, Filene suggested, to be replicated in the department store organisation to prevent out-manoeuvre by their chain store competitors. Indeed, the need to reduce distribution costs was well known during this period. Paul Nystrom, an influential economist of the time, suggested the means to do this was to reduce expenses through more efficient organisational structures, by changing ownership of retail stores from private to co-operative, by developing away from independently owned retail stores to chains, and by organising retailing for co-operative purchasing direct from producers (Clark et al., 1926).

One of the methods to reduce distribution costs and increase economies of scale in purchasing, without jeopardising department store independence, was to adopt Nystrom's final suggestion of the creation of co-operative purchasing organisations (Clark et al., 1926). This allowed department stores to start to meet the challenge of centralised chain store buying by combining into non-competitive units to share statistics, exchange fashion and style information, selling tactics and practice group buying on a single contract. Such organisational initiatives provided some of the benefits of grouping, but maintained control over the character of individual stores' merchandise (Leach, 1993, see also Nystrom, 1933). Two bodies were set up to instigate these arrangements between stores; the National Retail Dry Goods Association originated as early as 1911, whilst the Retail Research Association formed in 1916. However, their influence was only really felt from 1920 (Pasdermadjian, 1954). More generally these developments were symptomatic of a new age when scientific, modern management methods where starting to be integrated into the distribution systems of retailers.

Formal Consolidation Imperatives

Co-operative purchasing arrangements were however, generally regarded as inadequate, with more formal means of consolidation proposed as more effective for the department stores' predicament. Mazur suggested there was potential for improved purchasing terms over and above that achieved through co-operative buying as 'many of the retail institutions which have branded themselves into voluntary groups for mutual aid and protection will find that their interests are even better served by transforming their volunteer associations into regular consolidated corporations' (Tolman, 1928, p 755). These strategies were employed widely in the department store industry in the 1920s, and were part, more broadly, of a period of "mergermania" in retailing generally. The food retailers underwent this transformation prior to the department stores, driven by investment bankers, such as Paul Mazur, who suggested they knew better than anyone how to organise new merchandising circuits of money and goods to secure profits for themselves and their clients (Leach, 1993).

Management specialists or bankers, blinded the industry with conceptual cost savings as they passed themselves off as representing the "good" of the industry, firm or consumer, when in truth, all they pursued were private rewards through financial structural re-engineering. Anthropologist Daniel Miller (2001) has understood such discourses through the lens of 'virtualism'. He suggests that the discourse of restructuring commonly becomes the practice of economic change 'rather than attempting a reconciliation with practice'. The 1920s consolidations are mirrored by the developments of financial restructuring of the US department store sector in the 1980s (see Chapter 6). In both cases, the deals were justified through the financial economists' discourses of synergy and operating efficiency. Miller (2001) takes a pessimistic view of this, arguing that the virtualistic employment of the economists' theoretical work is important to place in context:

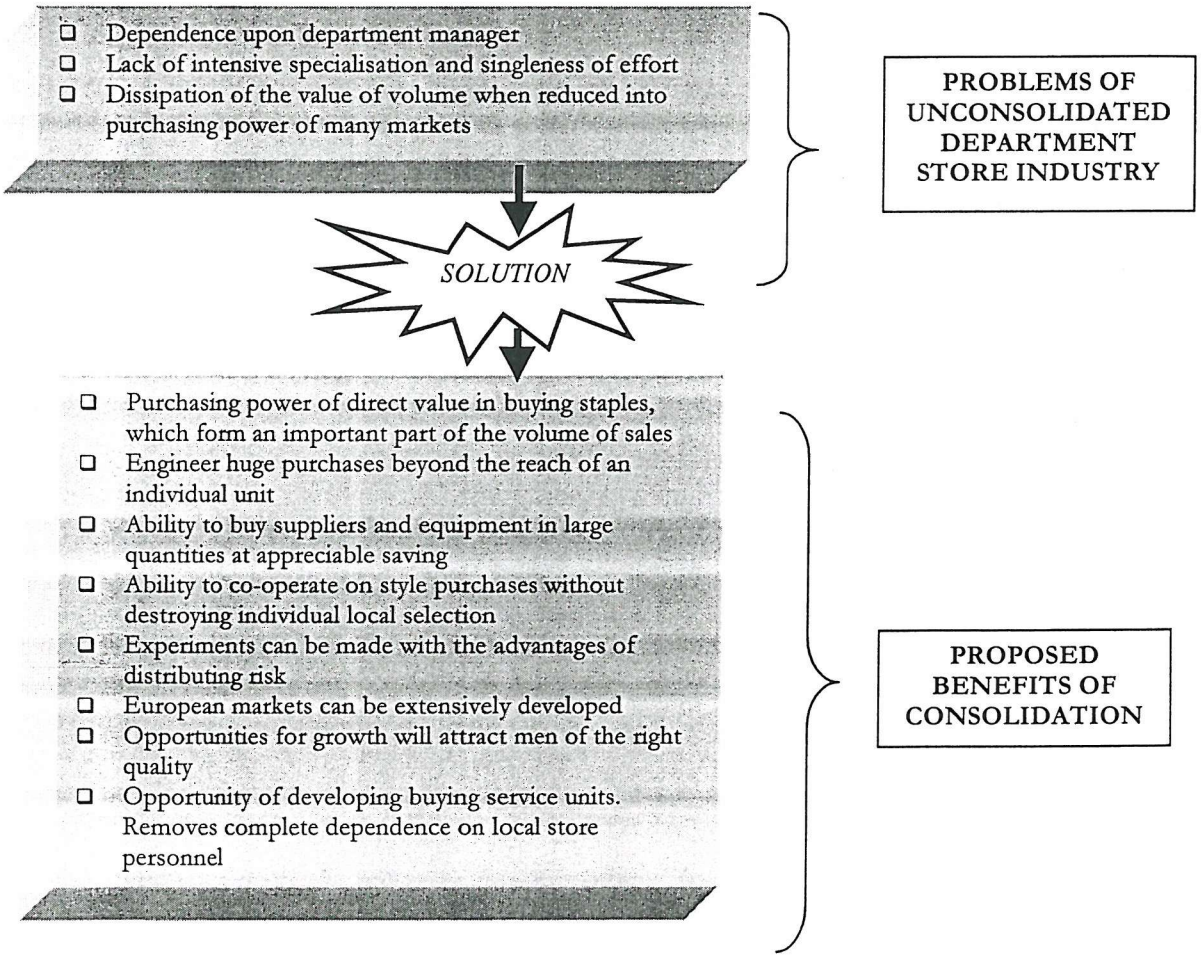
> Finance itself tends to work to an agenda closer to that of economists where in some ways the more abstract the model and the more de-contextualised the operation the higher the 'status' of the financier or the economist concerned, many of whom seem to have a penchant for almost aesthetic minimalism where idealised models of derivatives are preferred to the vulgarities of street nous and pragmatic or contextualised commerce such as retail (Miller, 2001)

Despite this contemporary perspective, the department store industry of the 1920s was extremely inefficient and the possibility of synergies in mergers was well known. Paul Mazur, writing in the *Harvard Business Review* in 1924, and later in 1928, suggested they offered managerial efficiency, overhead reduction and the economy of purchasing in large volumes as large scale operations become more effective through the consolidation of existing stores and chains. For Walter Warshawer, grouped buying associated with mergers and voluntary buying

groups, could combine the expertise of a number of buyers, moving away from a reliance on the isolated decision making of a single buyer (Converse et al., 1929).

Mazur (1924) provided the most comprehensive argument regarding the theoretical benefits of consolidation (see **Figure 3.4**). He suggested three principal difficulties with the early 20th Century department store. These included an over-dependence on the department manager, a lack of intensive specialisation, and a dissipation of volume when purchasing power was spread over many markets. These problems would become more important with the rise of the chain store to challenge the department store. His belief centred on consolidation as the cure to these overriding distributive problems.

Figure 3.4 The Mazurian Argument for Department Store Consolidation



Source: Developed from Mazur, 1924

Consolidation Problems in Theory and Practice

Despite the lofty claims of Mazur, there were considerable difficulties with such consolidation, which had previously been evident in the formation of voluntary buying groups and would remain hurdles for merger and acquisition activity, regardless of the economic rewards for

investors. Edward Filene acknowledged the problem of stores not being similar enough in product selection to give them full price advantage of large buying power across merchandise assortments. He cited the gulf in product range between an upper-scale speciality department store and a lower price oriented operation. Compounding this difficulty of centralising purchasing, was the regional differentiation across space as:

> The United States as a market for any one or all commodities is not an entity. Instead it is composed of a large number of small markets, each one differing from the other and for that matter having differences within themselves. A knowledge of the makeup of these markets is essential for the most efficient marketing procedure' (Clark et al., 1926, p 252).

There was consequently a utility in local market knowledge above that of the centralised economies of scale argument of the investment bankers.

Despite these obvious organisational difficulties the mergers occurred. The most notable was the formation of Federated Department Stores which brought together a number of famous family owned stores, including Abraham and Strauss, F & R Lazarus and Filene's, together in an ownership group in 1929, with Bloomingdale's joining one year later (Federated Department Stores, 1998). Paul Mazur himself was at the centre of these deals in his position as an investment banker (Leach, 1993) and these initiatives contrasted with the previous strong family ownership of the institutions. Often firms such as Macy's began pursuing an acquisition based strategy, taking a controlling interest in Lasalle and Kesh in Ohio in 1923, Davidson-Paxon-Strokes in Atlanta in 1925 and Bamberger's in Newark in 1929 (Ferry, 1960). Large store chains formed such as Hahn Department Stores, Allied Stores and National Department Stores in the 1920s and by 1929 Gimbels had developed a six-store chain through the acquisition of Saks Fifth Avenue in New York City in 1924 and Kaufman and Baer of Pittsburgh (Leach, 1993; Ferry, 1960). In addition, Marshall Field developed branches - three by the start of the 1930s with the acquisition of Fredrick and Nelson in Seattle and Washington in 1929.

Despite the mergers and consolidations, the operational and organisational inefficiencies were not confronted. As Carl Schmalz acknowledged; '(t)here are quite a few department store organizations which have unified ownership, but, for the most part, these seem to have gone but a small way toward achieving the advantages of group management' (Griffin et al., 1928, p 27). This was the central problem with the portfolio restructuring in the department store industry during this period.

Clearly department stores merged to form ownership groups and holding companies on the tenet that they would be able to take advantage of the cost savings of distribution that Nystrom and Mazur were so keen to evoke. However, instead of significantly reorganising the new

portfolios, the consolidations *seemed* to be 'caused more by investment bankers trying to create securities to absorb plentiful easy money than by the prospective economies of joint operation' (Anon., 1927, p 89). For Falk (1929), the consolidations and mergers all too rarely saw any actual organisational integration of function 'since each store usually continues to be operated separately in contrast to the central operation characteristic of the chains' (p 266). As Raff (1991) has suggested, 'almost all of the consolidations were merely financial and involved no major operating changes or alterations in job scope' (p 56). The formation of Federated, for example, led to little more than the statistic exchange between divisions becoming internalised rather than through a voluntary body. As Melvin Copeland (1920) warned, size in itself is not an adequate assurance of competitive advantage. Even Paul Mazur, the instigator of the mergers, warned;

> The retail business is likely to increase its strength not only through consolidation of stores into groups, *but also through internal development* (Mazur, 1925, p 296, my emphasis).

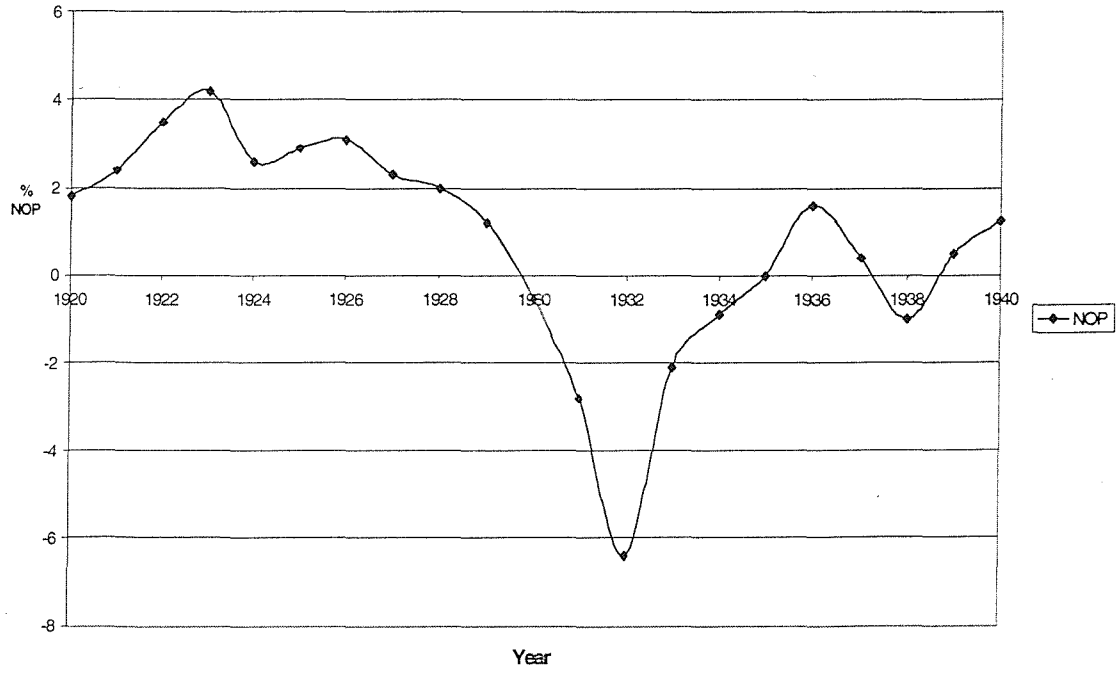
This is exactly what the department store mergers *failed* to achieve. Changes in ownership would only be accretive if there was organisational restructuring of the new configuration. As Paul Nystrom argued at the time, 'merely changing the ownership without changing the service, merely results in deflecting retail net profits, such as they are, from private owners to co-operative owners' (Clark et al., 1926, p 257). It seems that the consolidators of the late 1920s department store industry pursued personal fortunes, dressed in the rhetoric of improvements in distribution strategy, instead of taking advantage of the synergistic opportunities of merger and acquisition.

Daniel Raff (1991), in his review of the 1920s department store sector, analyses why there was a reluctance to take advantage of the possibilities of centralised buying at the time. From a contemporary perspective, the situation could be conceptualised in terms of what Schoenberger (1994a; 1994b; 1997) refers to as the 'cultural crisis' of the firm. However, the failure was not merely due to corporate inertia but partly because of the constraints imposed though the department stores' emphasis on fashion based retailing in the face of the staple oriented chains that were centred on bulk buying and economies of scale. As Filene acknowledged, the department store is not a retailer offering staple goods, and instead displays considerable variance across income ranges and merchandise selections. In addition, technological systems that predicted and responded to market demands, needs and wants across a number of spatial scales were not developed to the extent that control could be effectively pooled. These issues were only confronted in the mid-1990s through the realisation, of what Giddens labels, 'expert systems' (see Chapter 9).

THE 1930s DEPRESSION: REGULATORY AND ORGANISATIONAL RESPONSES

The economic depression, which affected so much of the western world in the early 1930s, can be seen to have had a considerable impact on department store performance. The fall in stock prices in October 1929 led to uncertainty and expectations of a Great Depression that consequently led to consumers foregoing purchases (see Romer, 1990). Total retail sales, as reported by the US Department of Commerce Census of Business, plummeted from $48.5 billion in 1929 to $24.5 billion in 1933. The 1929 level of output, sales, prices and employment had not even been reached when another downturn occurred in 1937 (McNair and May, 1963). During this period the department stores suffered considerably more than the chain stores due to the upscale orientation of their merchandise, in contrast to the staple merchandise offered by the chains (Phillips, 1937). Net operating profit plummeted, as department stores made significant losses throughout the early 1930s - sales for 1932 were an average of 40% below the sales for 1929 (Nystrom, 1933; see **Figure 3.5**). The downturn was predominantly a matter of price decline, with physical volume falling less spectacularly. Recovery of store sales continued up to a peak in 1936, albeit still below the best years of the 1920s. The dip in 1938 was caused by a short recession and reflected a change in physical volume more than in prices . For McNair, writing in 1931, however, department stores were heading for difficulties prior to the Depression due to their rises in gross margins and expense ratios throughout the 1920s (see section on cost ratios).

Figure 3.5 US Department Store Sector Average Net Operating Profit 1920-1940



NB. Harvard Bureau of Business Research Data. Average of all firms reporting to Harvard Bureau of Business Research in the respective years (McNair and May, 1963, p 22-25)

The Depression and Economic Ideology

The 1930s Depression catalysed a regulatory attack on large corporations in the US, as they were made the scapegoat for the economic ills of the decade. This had considerable implications for the department store industry of the time. The formation and affect of these institutional directives must be understood.

The 1930s was a period when institutional economics (in the classical sense) was increasingly becoming recognised by policy builders (see esp. Commons, 1931; 1936). Such theory revolved around the thesis that competitive markets depend specifically on institutions that are deliberately designed and organized, rather than arising from spontaneous, uncoordinated pursuit of profit. Indeed, 'whereas technology produced economic advancement, business concerned with profit, often constrained growth via its control over the productive process. That is, although "industry" bought forth production, "business" held it back when profit was in sight' (Rosenof, 1997, p 14). Institutional economists of the early Depression years insisted that the crisis was due to corporate decisions of large corporations. As large-scale business had replaced small-scale competition as the preponderant organisational feature of the economy, business concentration had created excessive private economic power that required offsetting by government (Lewis, 1935; Rosenof, 1997).

Structurally oriented economists shared this view to an extent. They argued that administered prices set by large corporations explained the severity of the Great Depression. *Market prices* (prices made in the market through the interaction of buyers and sellers) dropped as demand declined, but *administered prices* (price set by administrative action and held constant over a period of time usually by corporations) remained relatively rigid, with production and employment reduced instead. Had the traditional market mechanism operated and administered price inflexibility not occurred then the slump would have only been a temporary blip (see Means, 1935; Rosenof, 1997). Such sentiments, although falling out of favour during the post-war boom, gave ammunition to those demanding anti-trust legislation to counter-act the distorting influence of the large corporation. The state sought to correct the economic downturn through a number of measures.

The Depression as a Regulatory Catalyst

During this time of economic hardship, there was a period of intense regulation building throughout the US economy. The American public turned against the chain stores, which had

grown rapidly in the preceding decade, as Congress singled out retailers as the culprit of the economic woes of the times (Savitt, 1999). Consequently, legislation was imposed to confront the large-scale retailers' dominance over the individual merchant.

The impact of the regulatory construction had direct implications for the department store industry, but also more broadly, the whole US distribution system. Regulation became hostile to the build up of large, all embracing, commercial development through concentrated capital. Recent work has underlined how this has ensured US retailing remained more at the regional rather than national scale (see Wrigley, 1992; 1997). These measures were first put in place during the 1930s and 1940s, and consequently had implications for the state of department store retailing at the time and in the future. As Bluestone et al. (1981, p 120) suggest; 'economic and demographic trends (are) not solely responsible for the transition in retail mode dominance or the changes in investment and ownership patterns'.

It is important to view the developments in a wider context. Historically, all new retailing configurations have proved unpopular, as established units face competition and are forced to restructure in response (Tallman and Blomstrom, 1962). Department stores were originally unpopular for out-competing individual merchants (see Wanamaker, 1900 for the department stores' defence), and in the 1930s, the chain stores provoked concern (Nystrom, 1933). The response to these outcries was to legislate to 'level the playing field'.

There was considerable sympathy toward the individual merchants who were faced with the full might of the chains such as A&P. As Wrigley (1992) suggests in his analysis of this period, 'anti-chain store sentiment became virulent with chain store growth seen by many as a personification of the horrors of the Depression' (p 734). In 1933, some 225 anti-chain bills were introduced in 42 state legislatures; 13 of which were passed. Indeed, chain taxes had been passed in 27 states by 1939 although Tedlow (1996) argues that the taxes were relatively ineffectual as chain sales continued to rise. In 1936 the *Robinson-Patman Act* was introduced in response to the chain store, specifically A&P - the chain grocery store, which, by operating as such, centralised operation, bulked buying, eliminated delivery and was thus able to offer considerably reduced prices (Tedlow, 1996). The act responded to public pressure concerning the inequality in price between individual stores and chain stores in the purchase of goods. It sought to strengthen the *Clayton Act (1914)* by prohibiting price discrimination which might 'injure, destroy, or prevent competition'. The most threatening aspect of the regulation was the section prohibiting discounts in lieu of brokerage. Large chains had internalised their brokerage function rather than use independent merchants and brokers and had thus demanded reduced prices (Bluestone et al., 1981; Tedlow, 1996). Tedlow argues, however, that the laws were less powerful than expected

due to the use of face-to-face deals, in which the absence of brokerage fees were silently passed in lower prices. In addition, chains had the option of increasingly their reliance on their own manufacturing and consequently on private labels.

The legislation backfired as regards acting against the discrimination imposed on the small merchant. As chains engaged in centralised buying, they could negotiate directly with the manufacturer and thus not face a brokerage fee. Small stores purchased in smaller volumes and used a broker. As the manufacturer was obliged to offer the goods at the same price to all retailers, and the retailer and manufacturer shared the brokerage fee, the deals with the smaller, decentralised retailers proved more expensive for the manufacturer and thus discouraged them from doing so (Bluestone et al., 1981). Furthermore, while brokerage fees were mentioned, quantity discounts were not and therefore legal. Under the *Robinson-Patman Act*, a supplier may offer discounts 'as long as the same proportionate reduction is given to all competing comparable buyers' (Bluestone et al., 1981, p 123). However, the legislation did not define such terms as 'proportionate' and 'comparable' so that unfair advantage could accrue to certain firms (ibid., 1981, p 123).

The 1930s also saw the rise of the *Labor Standards Act (1938)* as part of the NRA in general[25]. This regulation had severe implications for department store operators, as they continued to struggle with their rising cost ratios. The legislation dictated a 40-hour working week and thus placed department stores in a problematic position, as average opening hours amounted to over 48 hours. This enforced the use of part time workers who were often regarded as having a 'careless attitude' (Burnham, 1949, p 499 see also Dameron, 1935).

The Depression saw the rise of greater forms of regulation in the retail industry. Clearly the *Robinson-Patman Act (1936)* was imposed to protect the small purchaser of goods against injurious price discrimination in favour of the large scale buyer, whilst the *Labor Standards Act (1938)* sought to protect the worker and Retail Price Maintenance protected manufactures (Burnham, 1938; 1949). Such objectives were not always achieved, and in some cases, had the opposite effect.

Importantly, this round of re-regulation of the retail industry represented an attempt to privilege and protect one sector of the industry over another. Wrigley (1992) emphasises how laws such as the *Robinson Patman Act* were therefore 'directly antagonistic to the policy of earlier and later

[25] The National Recovery Administration (NRA) sought to lead the way to recovery through intra-industry agreements or codes, that would set "fair" wage and hour standards, increase workers purchasing power and stimulate re-employment (Rosenof, 1997)

antitrust laws' (p 734). Clearly the legislation subsequently opened department stores to further chain competition and eventually to the discount department store in the 1960s. 'Real' regulation thus had grave effects for the future development of the department store and more widely the contemporary retail landscape.

The Depression as a Re-organisational Imperative

The Depression had wider implications for the retailers of the 1930s. There was, with the chains and department store, a need to reassess the retail organisation in the light of the harsh competitive environment. As Savitt (1999) has recently acknowledged; '(r)etailers began to realise that the innovative benefits of larger enterprises could easily be copied by competitors in most market conditions...More retail selling space without improvements in management did not work. There were dramatic effects on operating costs that resulted from the increasing inventories spread across a greater number of markets. Economies of large scale purchasing were often lost as a result of *inadequate inventory practices*' (my emphasis, p 309). Savitt (1999) summarised the challenges for the retail industry at this time (see **Table 3.2**)

Table 3.2 Retail Challenges, 1929-1939

Attracting more customers
1 Fresher and newer merchandise
2 Better matching of needs and wants with offerings
3 More effective selling activities - display, personal and promotional materials
Increasing productivity
1 Better use of assets
2 Better use of space
3 Increasing profits
Improving competitive positions
1 More effective product assortments
2 Improvement in use of space
3 Increasing promotional activities in obtaining customers

Source: Savitt, 1999, p 310

The chain stores specifically acted to review their competitiveness in the light of the Depression. Department stores, on the other hand, were reluctant to assess their structural make-up, as, '(t)he department store is greatly dependent upon the local manager for effective selling and interpretation of local demand' (Mazur, 1924, cited by Savitt, 1999, p 314). This is despite the *potential* for reorganisation with the holding company formation from the consolidations of the late 1920s.

Chain stores refined their organisation and operation throughout the 1930s as it became apparent that the initial advantage of size was no longer the major competitive advantage it had been earlier[26]. Chains were faced with the need to be sensitive to local demand as well as generate economies of scale in purchasing. They therefore experimented with some decentralisation of buying authority for local store managers (see Chandler, 1962 for Sears' strategies of the 1930s)[27].

The emphasis on self-assessment and inward reorganisation led to a review of how inventory should be managed within the industry. Edward Filene was the main proponent of the stock and inventory review, introducing improved structures of organisation in the 1930s. Indeed Savitt (1999) suggests Filene's 1930 *Stock Model Plan* established the dictum that inventory should be managed as a flow rather than merely stock. The plan encouraged variation among stores, based on market conditions, with marketing research on a broad series of factors supporting decision-making. Indeed the need to generate information on stores at a distance was recognised by Sears in the early 1930s, as Chairman General Wood testified:

> As a business becomes larger and has branches all over the country, it becomes impossible for the executive to follow it and control except by figures. These figures have to be carefully and rapidly compiled, available immediately, and the executive must be able to interpret them properly - read behind the figures' (cited by Chandler, 1962, p 263).

It was this formal link between variation in market conditions and inventory planning which made Filene's plan so innovative (Savitt, 1999). The foundations of the plan are laid out in **Table 3.3.**

Table 3.3 Filene's Model Stock Plan

A model stock plan is one which has the right goods at the right time, in the right quantities at the right prices. The model stock plan provides a means, by six distinct steps, all so closely related that they form an integrated whole. The procedures are:
1 To determine for any class of merchandise, and for all classes carried, the prices - low, medium and high - at which the largest quantity of this merchandise can be sold and the greatest profit earned for the business.
2 To concentrate probably 85 per cent of the stocks at those three price levels.
3 To provide a scientific basis for building up a stock that will most profitably meet and beat the competition
4 To build up in the full lines really complete stocks that will turn over rapidly
5 To regulate the sizes of stocks at any given time by seasonal calendar that shows in detail consumers' buying habits
6 To regulate buying by a calendar that shows in detail where resources are likely to be able to able to supply goods to one's best advantage

Source: Filene (1930, p 36-7), cited by Savitt (1999, p 316).

[26] Most importantly the food retailers embraced the larger format supermarket whereas previously chains had consisted of thousands of very small stores (see Tedlow, 1996; esp. Chapter 4).

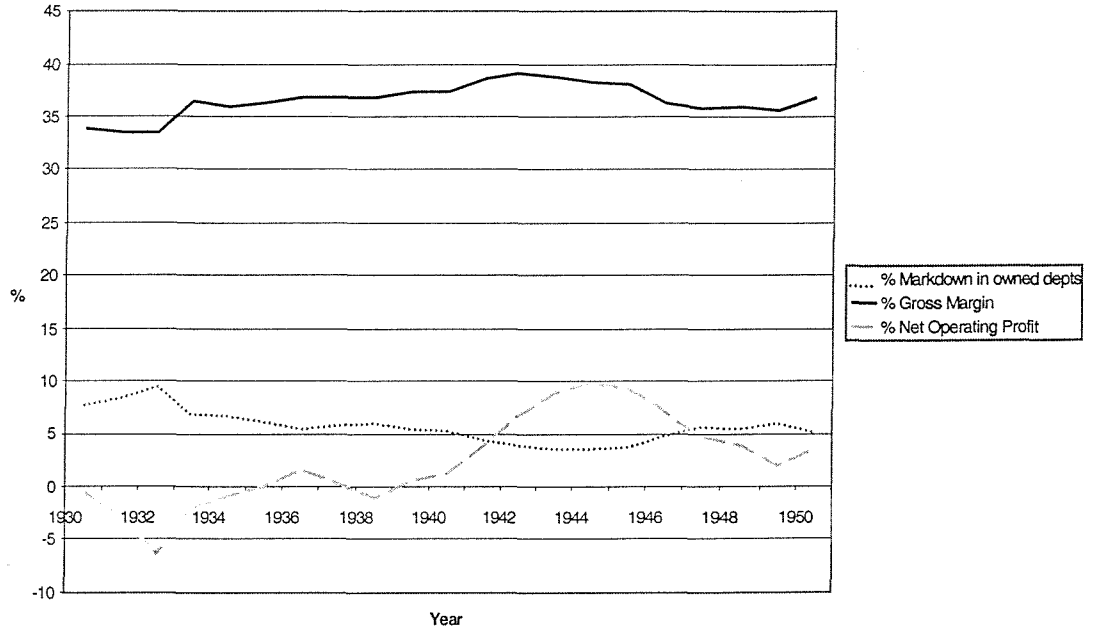
[27] Throughout the 1930s, Sears considered the options of decentralising control to store managers or retaining centralised administration. From 1934 the firm adopted a policy of decentralisation of control. The smaller stores, however, which required more guidance were organised into groups with centralised administrative

The plan was rapidly adopted by a wide variety of retailers in the late 1930s and early 1940s (Savitt, 1999). It stands out, however, as the chain stores' quick adaptation to handling multi-unit enterprises - whereas department stores were reluctant to innovate their organisation toward a branched structure where the full benefits of the Filene plan could be realised.

THE DEPARTMENT STORE AND WORLD WAR TWO

The experience of the Second World War contrasted with the early 1930s, as the industry saw its gross margin rise, percentage of mark-down reduce and profits recover, with net operating profit leaping to over 9% by 1944 (McNair and May, 1963, see **Figure 3.6**). The emphasis shifted from the actual sales promotion towards the procurement of merchandise, which proved difficult due to the stringent governmental regulations of the time (Pasdermadjian, 1954).

Figure 3.6 Department Store % Markdown, Gross Margin, and Net Operating Profit, 1930-1950



NB. Harvard Bureau of Business Research Data. Average of all firms reporting to Harvard Bureau of Business Research in the respective years (McNair and May, 1963, p 22-25)

The war absorbed the millions of unemployed workers and was a period with unprecedented government. The period was marked by a favourable swing toward apparel and soft goods, as many durable goods essentially went off the market. Consequently, the impact of the war was broadly positive, as 'department store dollar sales rose sharply, responding to higher prices, war-inflated pay envelopes, and wartime scarcities and controls which hampered or precluded the

management. By the late 1930s, Sears resorted to territorial organisation, where geographical areas were supervised by officers (Chander, 1962).

purchase of many hard goods, notably automobiles, and thus tended to create a higher concentration of consumer buying in the soft goods lines' (McNair and May, 1963, p 32).

The Second World War must thus be seen as an environment that insulated the department store from perfect market conditions and led to unrealistic assumptions of competitive advantage for the future.

SUMMARY

This chapter has outlined the department stores' emergence throughout the first half of the 20th Century. It described how it attempted to respond to the more organised functioning of capitalism, by undertaking consolidation activity in the 1920s, pressured by the advent of the chain store. It is evident, however, that such action was not adequate to exploit the economies of scale and scope that were *potentially* available with such a distribution system. Clearly, the first half of the 20th Century was an era of missed opportunities for the sector, as it delayed significant organisational restructuring to improve its operation in the light of alternative retail formats. However, the department store was yet to face the sternest tests - in the midst of the post-war boom, competing against new distribution strategies and geographical configurations. It is to these strategic challenges the next chapter turns.

Chapter Four

Restructuring as a Process 2: The US Department Store Industry, 1945-1990

'The department store is inherently one of the strongest links in the industrial and commercial chain. Much of that strength is yet a potentiality rather than a fact. There is much to be done to convert that potentiality into an actuality'

Paul Mazur, 1927, *Principles of Organization Applied to Modern Retailing*, p 10.

INTRODUCTION

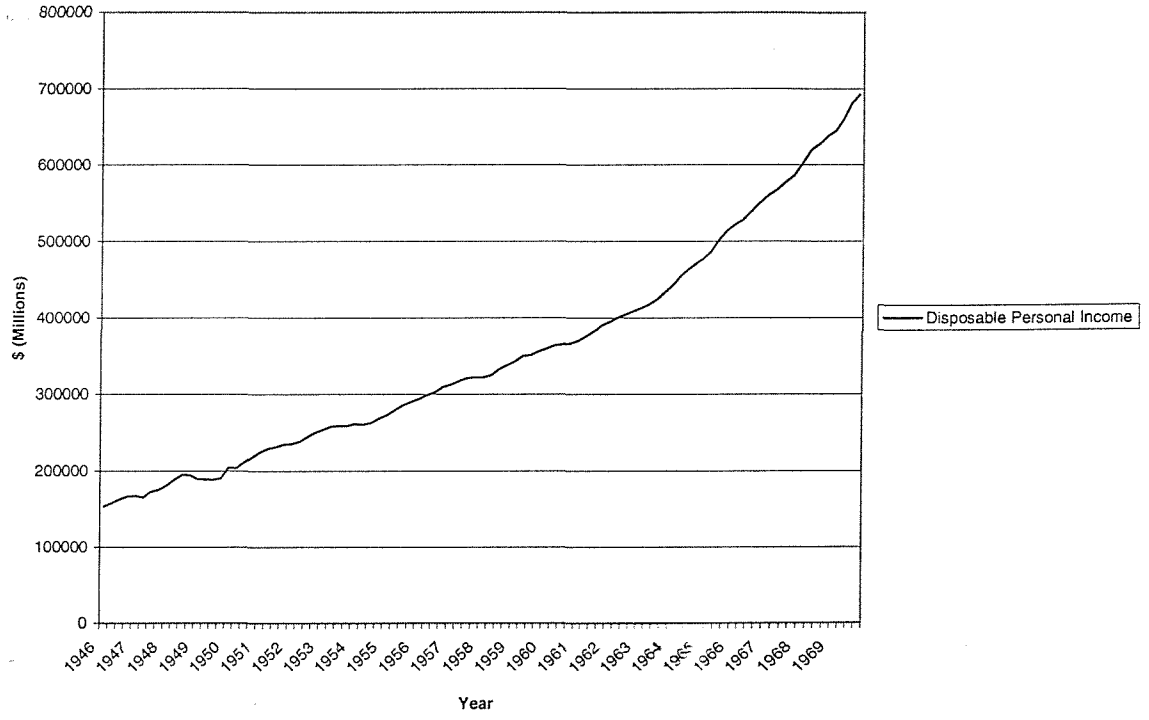
The previous chapter analysed the US department store industry's strategic responses to competitive challenges until the end of World War II. The post-war environment was one of considerable strategic challenge when the department store sector found itself in favourable economic conditions, yet struggled to realise full advantage. The decision to postpone the construction of branches and not to exploit the economies of scale evident from the 1920s consolidations would trouble the department store retailers later in the century. Over time they were forced to face up to the geographical challenges of suburbanisation, whilst also strategically responding to the threat from low margin retailers which were infiltrating their traditional market segment. The period cumulated in the leveraged buy-out period of the 1980s, where the large department stores were acquired in debt-financed transactions - over-leveraging themselves and eventually facing bankruptcy. Such events must be fully understood to comprehend the nature of the contemporary sector.

INTRODUCING THE POST-WAR RETAIL ENVIRONMENT

The end of conflict in 1945 saw the reconversion to the production of civilian goods. Whilst this occurred rapidly, it was not quick enough to meet spiralling demand due to the greatly depleted supply of goods in the hands of consumers and middlemen, the rapid growth of population, and pent up demand due to the deficiency of spending throughout the 1930s. This demand was further reinforced by the ample purchasing power in the hands of consumers and businessmen, arising from the huge savings generated by the government's wartime spending and financing policies (McNair and May, 1963).

The post-war retailing environment enjoyed the beneficiary effects of the New Deal (subsequently referred to as the 'Fordist era' – Harvey, 1989) - where Keynesian economics supported further growth in the economy and consumer expenditure. This growth had rapid effects as 'the two decades after the close of World War II probably witnessed the greatest growth of demand in history. Not only did population increase, but more important, so did per capita output and income' (Chandler, 1990, p 608,). Indeed, in 1946, department store sales, including mail order business, increased almost 30% (McNair and May, 1963). **Figure 4.1** displays the rise in personal disposable income from the mid 1940s through until 1970 that supported the aggregate retail sales growth throughout this period.

Figure 4.1 Disposable Personal Income, 1946-1970



Source: Quarterly data from US Department of Commerce, Bureau of Economic Analysis. Obtained at Federal Reserve Economic Data: http://www.stls.frb.org/fred/index.html

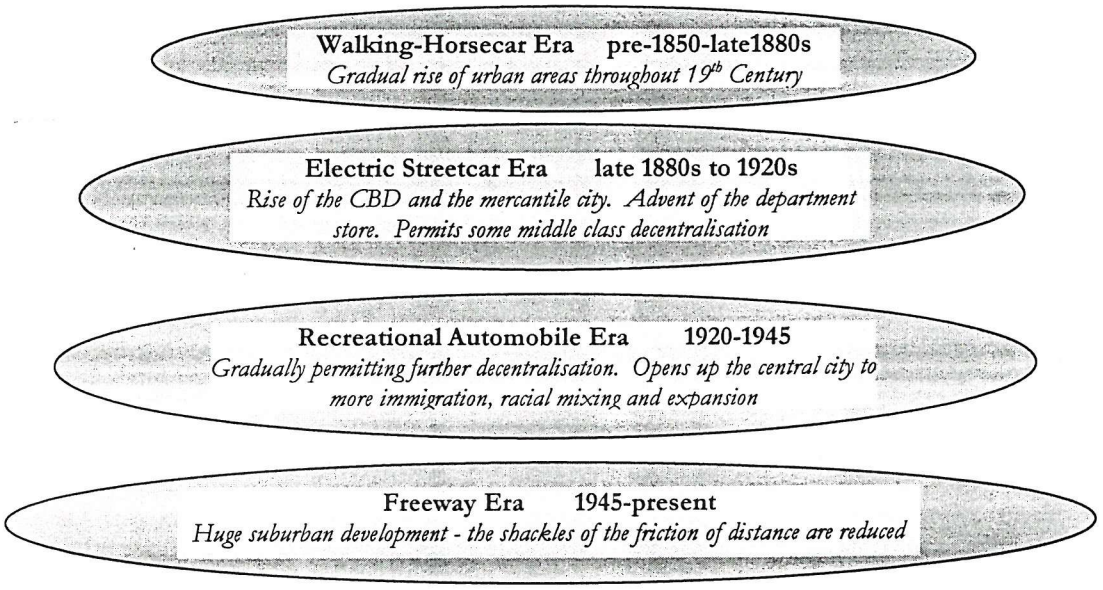
This period has evidently been linked to the rise in 'Americanisation' of the western world as the rise in consumer goods became dominant within contemporary society (Gramsci, 1971). For retailers the pace of change was quickening as new retail formats emerged which promised to better respond to the demands of consumers (McNair and May, 1978). The post-war decades were a time of turbulent challenge for the department store, as it was forced to respond to both sectoral and spatial pressures, which would change the geography of retailing forever.

This rise in prosperity was played out in a geographical manner, as the emergent 'new' middle class of blue-collar workers, bureaucrats and middle managers moved to the suburbs. The attraction of the suburban life was evident in the appeal of the lower density rural city plans publicised initially in the late 19th and early 20th Centuries by Utopianists such as Ebenezer Howard (Fishman, 1982; Ward, 1992). Indeed, the decentralisation of people had previously started in the late 19th century with the innovations in the streetcar and other transportation mediums (see Warner, 1978; Borchert, 1996; Ward, 1964). However, as Robert Fishman (1987) acknowledges, the triumph of suburbanisation only occurred after 1945 with the rise of the automobile and highway. In its rush to create a mass suburbia, America created a new kind of peripheral, low-density suburban city.

Population Decentralisation

The decentralisation of population from the Central Business District (CBD) has been a gradual process, speeding up after World War II. Such change could be placed in the paradigm formulated by David Harvey (1989), located within another wave of time-space compression. As Adams (1970) shows, the decentralisation is underpinned by revolutions in transportation mediums (see **Figure 4.2**).

Figure 4.2 Historical transport mediums reducing the friction of distance



Source: Developed from Adams, 1970

Indeed the 'automobile was a necessary element because it allowed an urban middle class to turn its collective back on city life without having to become a....day-in day-out farmer' (Vance, 1972, p 192). The speed of urban decentralisation is clear from **Table 4.1**:

Table 4.1 Relative percentages of urban population growth, 1900-1970

Decade	Population growth rate of cities	Population growth rate of suburbs	Percent total SMSA growth in cities	Percent total SMSA growth in suburbs	Suburban growth per 100 increase in central city
1900-1910	37.1	23.6	72.1	27.9	38.7
1910-1920	27.7	20.0	71.6	28.4	39.6
1920-1930	24.3	32.3	59.3	40.7	68.5
1930-1940	5.6	14.6	41.0	59.0	144.0
1940-1950	14.7	35.9	40.7	59.3	145.9
1950-1960	10.7	48.5	23.8	76.2	320.3
1960-1970	5.3	28.2	4.4	95.6	2153.1

Source: Muller, 1981, p 22

The scale of population decentralisation is spectacular. John Dawson (1974) acknowledges that between 1950-1960 total US population increased 18%, yet suburban population increased 40%. For the first five years of the 1950s, suburban populations increased more than seven times faster than central cities, as 80% of population growth during this period occurred in the Metropolitan areas outside of the central city (Tarver, 1957). In addition, by 1970, 80% of US families owned an automobile (Dawson, 1974).

Suburbia promised relief from congestion and an attractive environment in which to live (Kerster and Ross, 1968). Gradually, the vertical city of the 19th Century, which was compact and intense in its land use, was superseded by the horizontal, land-devouring suburbia (Manner, 1965). Such an environment promised to be based, at least initially, on the white middle classes who could pursue the 'American dream' of owning a single family detached home, aloof from immigrant outsiders who frequented the clogged inner city (Ashton, 1984; Harvey and Chatterjee, 1974).

Suburban Retailing

A substantial driver behind the middle class decentralisation was the possibility of a new lifestyle focused around new consumption opportunities (Ashton, 1984). Indeed, recent urban geography has characterised conventional city centres as good for production but bad for consumption possibilities (see Glaeser et al., 2001). In contrast, it is clear that suburbia is 'neither arbitrarily bounded nor a patch of color on a map, but it is rather a way of life'

(Stedman, 1955, p 12). This way of life was produced through the provision of a new landscape of leisure, as the decentralisation of retail activity contributed to the attractiveness of living in suburbia.

Initially, retail decentralisation from the urban core consisted of commercial facilities strung haphazardly along major transport arteries out of a city or on 'suburban freeway corridors' (Baerwald, 1978; Muller, 1981). This process gathered pace throughout the 1950s and 1960s, where shopping centre developers began to realise the economic potential of the expanding marketplace (Muller, 1981). As Victor Gruen, pioneer of the new form of retail development commented; 'Merchants have emigrated en masse from the CBD in new, shiny Lilliputian towns - regional shopping centres' (Gruen, 1963, p 108). The suburban shopping centre appeared in the 1950s and possessed many advantages in comparison to the downtown areas as enclosed, weather-protected spaces, away from the street (Stedman, 1955). Shoppers were finally able to shop in a purpose designed, temperature controlled environment, where all the major stores grouped together. The construction of these leisure retail spaces was rapid, as they benefited from favourable Federal Tax Policy[28] (see **Table 4.2**).

Table 4.2 Initial Shopping Centre Construction (all types), 1947-1960

Year	No. centres constructed that yr.	Total square feet (x 1,000,000) constructed that yr
1947	8	1
1948	11	1
1949	22	3
1950	27	4
1951	44	6
1952	39	8
1953	54	6
1954	96	16
1955	104	16
1956	156	31
1957	188	31
1958	186	28
1959	206	32
1960	140	29

Source: Hanchett-Thomas (1996)

The 1950s proved to be only the start of the shopping centre revolution. Carlson (1991), for example, estimates 19,000 centres were constructed from 1960 until 1980. With time, Gruen's two level centre model gave way to the larger regional shopping centre with a vast market catchment (Muller, 1981). Indeed the retail agglomerations must be seen to have adapted and applied to a range of spatial scales (see **Table 4.3**).

Table 4.3 Types of Shopping Centre Development

Type of Centre	Size (Sq. Ft.)	Description
A Neighbourhood Centre	30,000-100,000	The smallest is anchored by a food supermarket and provides for the day-to-day living needs of the immediate neighbourhood.
A Community Centre	100,000-450,000	An intermediate size providing a wider range of facilities with a greater variety of merchandise. Developed around a junior or discount department store in addition to a supermarket.
The Regional Centre	450,000	Provides for general merchandise, apparel and home furnishings - typical of a business district yet not as extensive as those of a super-regional centre.
The Super Regional Centre	850,000-1,500,000	Built around three or more full-line department stores, and, thus provides for extensive variety in shopping services and recreational facilities.

Source: adapted from Carlson (1991)

As the suburban retail environment flourished, the CBD was debilitated characterised by declining retail sales (Berry and Kasarda, 1977). As **Table 4.4** makes clear, the late 1950s and 1960s saw the advancement of the suburbs in both numbers of establishments and retail sales, at the expense of the CBD and those retailers concentrated therein.

Table 4.4 Retail change, by city size class, 1954-1967

	Population of metropolitan area (in thousands)			
	3,000+	1,000-3,000	500-1,000	250-500
a) Percentage change in sales: current dollars				
CBD	12.1	8.3	-3.7	-6.7
Central city	34.3	26.8	58.4	61.4
Suburbs	132.2	175.0	209.9	193.1
b) Percentage change in numbers of establishments				
CBD	-26.0	-26.9	-38.2	-37.6
Central city	-26.3	-23.7	-8.4	-8.4
Suburbs	29.9	30.3	51.3	48.0

Source: Berry and Kasarda, 1977, p 258.

The Geographical Challenge to the Department Store

The suburban retail development occurred at the expense of the downtown - the traditional home of the department store. Prior to the decentralisation, Malcolm McNair (1964) acknowledged that the traditional department store appeared almost invulnerable, 'sheltered

[28] As Hanchett-Thomas (1996) suggests, accelerated depreciation allowed developers rapidly to write off construction of new business buildings and even claim losses against unrelated income. As a result, shopping centre development became a lucrative tax shelter for investors.

behind its monolithic downtown fortress', as it enjoyed 'a species of monopoly'. However, as the suburban environment flourished, the downtown areas suffered from under-investment, and the inner city became worsened through decay (Gruen, 1963; Sturdivant, 1968). To compound the crisis facing the department store, the suburban shopping centre damaged the department stores' competitive advantage, equating a new definition of one-stop-shopping through multi-unit developments in a confined spatial environment. The geographical proximity of the retailers facilitated economies of agglomeration, in a landscape configured specifically for consumption. All this was occurring *outside* the heartland of the department store. The problem facing the downtown department store was simple: 'Migration to the suburbs has gone on steadily to the point where they are no longer an outlying district but rather the very heart of the retail market' (Alevizos and Beckwith, 1954, p 111).

The general merchandisers were quick to embrace the decentralised retail industry. Sears, especially in the 1960s, was a major player in the building of the suburban shopping centres. As Tedlow (1996) suggests, Sears employed a strategy of avoiding direct competition with conventional department stores, recognising that they were strong in their heartland of the downtown. Instead, Robert E. Wood, Chairman of Sears, encouraged a course of action based around the purchase of large parcels of land near highways, removed from central cities. The retailer could thus build stores that sprawled over the landscape, with adjoining car parking (Tedlow, 1996).

Conventional department stores, on the other hand, were not as flexible due to their heavy downtown investment and need for large volume under one roof. They resisted the temptation to develop suburban branches until the 1950s and 1960s, when the organisational structure of the organisations had to be revolutionised. This steady change in orientation is made clear from the data provided by Brown and May (1961) (see **Table 4.5**).

Table 4.5 Branch store sales as a percentage of total department store sales

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).

Even when the department stores reluctantly entered the new suburban retailing spaces, they cautiously avoided each other. It was only when the department stores saw that their competitors chose nearby locations which quickly divided business in the local market, did they congregate in large centres and compete head on and seek to anchor shopping centres (Muller, 1981; Porter, 1999).

There were, however, some exceptions to this trend of early suburban avoidance by department stores. In some pioneering cases, the department store firms themselves developed and owned shopping centres. Such innovative retailers included J L Hudson's in Detroit, Dayton's in Minneapolis, May's of St. Louis and R H Macy of New York (Carlson, 1991). These centres often endured longer than the department stores that founded them, as the turbulent 1980s pressurised the retailers into selling off their prized assets.

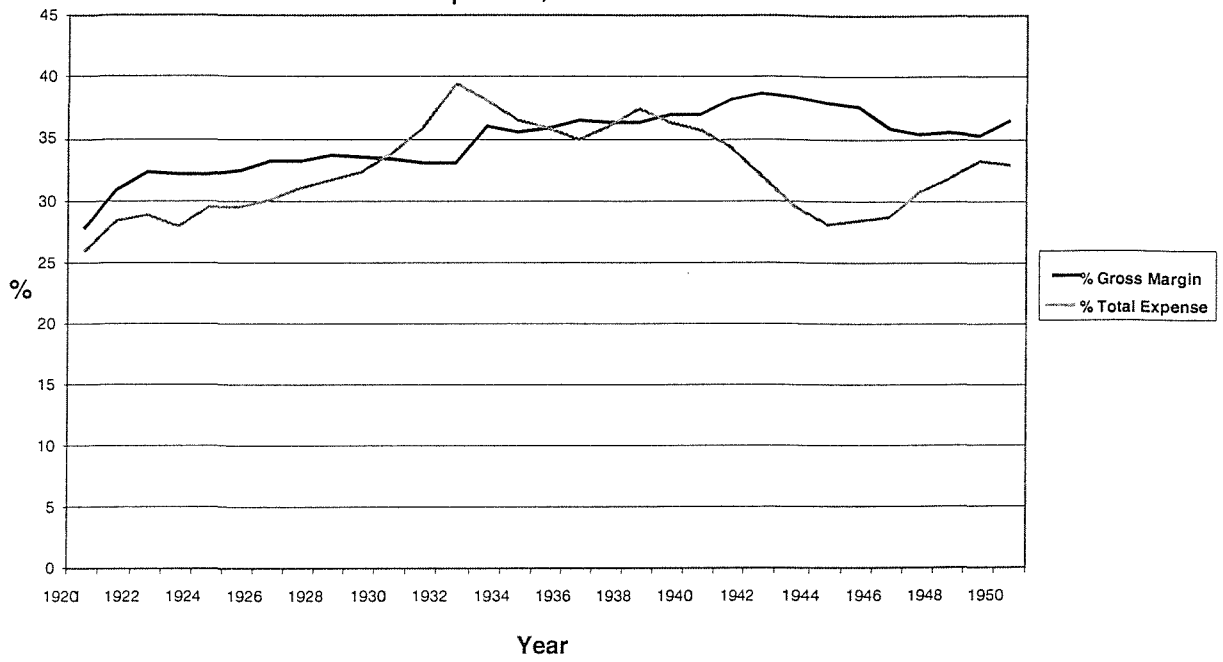
THE NEW COMPETITIVE ENVIRONMENT OF THE 1950s AND 1960s

The new post-war competitive environment of the 1950s and 1960s was one of spiralling standards of living, although the department store sector struggled to find a market niche in adapting from the competitive inertia of the early 1940s, to the post-war boom. These difficulties centred on issues of cost control as well as competition based factors appearing directly from the emergence of new retail formats. Clearly the new retail environment provided strategic challenges for all sectors, established and new, in the pursuit of harnessing the increasing consumer demand.

The Legacy of Poor Department Store Cost Control

The increase in post-war expenditure in department stores was not necessarily attributable to the good practice of the stores themselves. Instead, department store firms were not organisationally configured to take full advantage from the favourable economic conditions they found themselves in. They offered a service that was becoming increasingly uncompetitive and little was being done to challenge these deficiencies. McNair and May (1953) suggest the lack of attention to rising cost structures was not due to a lack of data, but instead, a *lack of focus.* Indeed, throughout the 1950s, productivity per employee was declining as workers were engaged in too many unproductive positions (Burnham, 1949). The implication seems to have been that there was also a lack of communication between departments as gross margin rose throughout the early and mid 20th century from under 28% in depressionary 1920 to 36.5% by 1950 (see Figure 4.3).

Figure 4.3 US Department Store Average Gross Margin and Total Expense, 1920-1950.



NB. Harvard Bureau of Business Research Data. Average of all firms reporting to Harvard Bureau of Business Research in the respective years (McNair and May, 1963, p 22-25)

The "trading up" of department stores was providing an environment where alternative retail structures could intervene on the department stores' traditional market area and offer an alternative service with a lower margin and reduced price. This is acknowledged in a contemporary context by Christensen (1997) who suggests that 'an important implication of...(the) rational upmarket movement is that it can create a vacuum in low-end value networks that draws entrants with technologies and cost structures better suited to competition' (p 87).

Competition from 1960s Discounters and Chain Stores

The spatial changes in retailing were also compounded by the changes in retail structure brought about by the post-war retailing revolution. This chapter has repeatedly underlined the increasing costs of doing business that department stores faced. Cost ratios, gross margins and labour productivity were all becoming unfavourable relative to that of the general merchandise chain store. This "trading up" of the department store had direct implications for market opportunities in new formats of retailing. The competitive structure, as it was, encouraged the growth of an alternative retail organisation, the discount department store (Stanback, 1989).

The seeds of the birth of the discount department store are clear. Hess (1952), for example, concedes that the bargain basement provided the largest volume of business anywhere in the

store - there was clearly a growing market for bargains. Hawkins (1945, p 406), in a review of work on the sector, acknowledges that 'while a high level of sales in a department store is associated with a high expense ratio, a rapid increase in sales leads to a reduction in expense ratios'. The discount department store was a retailing format that would cater to this increase in sales and turnover. For Bluestone et al. (1981) the principle of the Filene bargain basement principle could be transferred to the whole store.

The discount department store originated in the early 1960s and was applied on a large scale thereafter (Bluestone et al., 1981; Noyelle, 1987; Sparicio, 1964; Stanback, 1989). The format was configured like a single storey department store - minus the service, frills and visual iconography of the former units. The stores were based more around high volume, turnover and lower gross margin, representing a marriage of three concepts: the department store, price discounting and the supermarket, self-service, checkout method of operation (McNair and May, 1963). The department store was losing its competitive advantage of service, as customers no longer seemed to have any appetite for sales assistance, becoming accustomed to self-service (Rich and Portis, 1963). With the decrease in service costs, discounters had a lower expense ratio that permitted many of the same products to be available at much reduced costs (e.g. gross margin in the range between 20%-30%) (Tallman and Blomstrom, 1960). This allowed consumers to see a demonstration at a conventional department store and buy the product at the discount department store!

The retail revolution must however be seen more broadly than merely the rise of the discount department store. There was a convergence on the suburban locations, as suddenly the general merchandise chains traded up, the variety chains widened their product selections, and food chains pushed into non-food lines. For Bingham and Yunich (1965), the department store principle, and the branched multi-unit form of organisation were being emphasised by almost all the important retailers, with cut-throat competition for desirable suburban locations. In addition, categorisation of general merchandiser and discount department store became blurred, as the period saw the rise of what was eventually to become the largest retailer in the world; Wal-Mart, and also SS Kresge competing on a 'stack 'em high, sell 'em cheap' platform.

Effects and Reactions to the Discounters

The discount department store caused great shock waves throughout the American retail industry. First, it pressurised conventional retailers to look critically at their gross margins that were being considerably undercut. Second, the discounters expanded the market for brand name

goods (see Rich and Portis, 1963)[29]. This inadvertently threatened to destabilise the manufacturers' dominance of the industry. Third, the discount department store successfully challenged the so-called Blue Laws, which banned Sunday trading in many states (Bluestone et al., 1981). This illustrated the continuing movement toward the leisure oriented retail environment emerging today, giving the consumer the opportunity of shopping at their convenience.

The situation for the conventional department store was grave in the late 1950s and 1960s. They were configured in an uneconomical manner, were experiencing declining market share and profits, whilst being out-competed by the general merchandiser and discount department store. Compounding the problem was that of store location, as downtown department stores were constrained by their physical situation, when previously location had been a significant competitive advantage. The driving force behind the rise of the discount department store was considerable. Rich and Portis (1963) viewed there to be a demographic driver behind the new retail development, as younger people, less used or demanding of service, were willing to forego it in order to purchase at a reduced price. Consequently, the elasticity of demand for soft goods was changing in a way unfavourable to the established department stores (Tallman and Blomstrom, 1962).

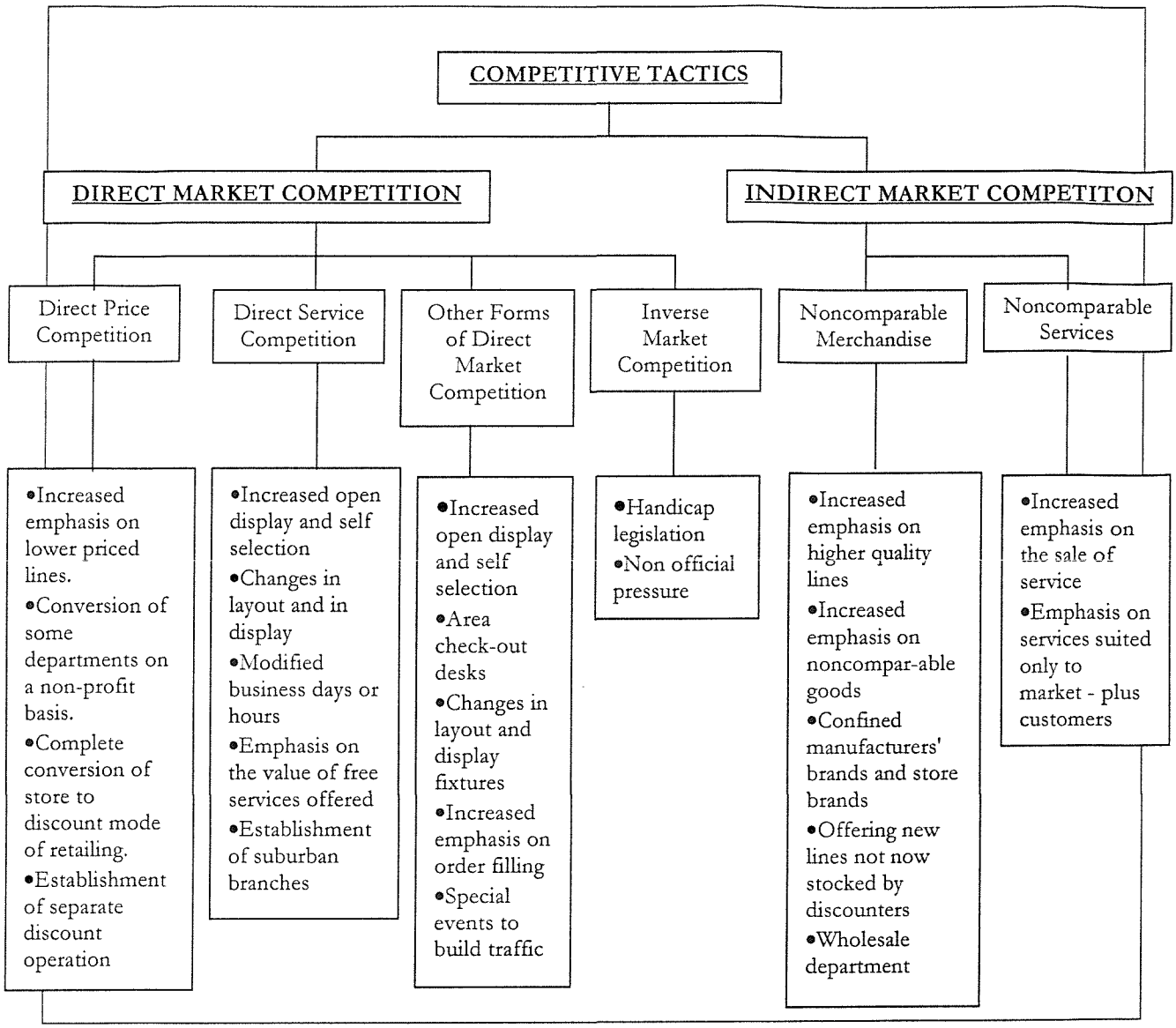
Conventional department stores were slow to restructure their operations until forced to do so. Walter Gross (1964), in a study of reactions to low margin retailers, suggested the immediate response from department stores was to reject any form of competition, as customers were regarded as a captive market, and any new concept would be ignored. This was followed, he suggested, by a period of fearfulness and harassment, as discounters made substantial inroads to the market. During this period, department stores were characterised as 'whistling in the dark', as they continued to believe they offered different lines of goods, a belief in the Blue Laws to protect them and a general impenetrability. There followed a period of direct value competition, as the department store, realised it was vulnerable to the threat posed. During this time, Gross (1964) suggests, the established retailer could not resist the discounter through the use of indirect methods, and resorted to meeting their opponents head-on. This is where the deficiencies in department stores institutional make-up became evident, as '(d)irect value competition is subject to an inherent weakness. A department store operating in traditional fashion rarely can afford continuously to be superior in all respects to the low margin retailer' (Gross, 1964, p 15). This prompted a period of readjustment, where the department store had to decide upon a tactic of

[29] Although the increase in the penetration of brand name goods did not really occur until the late 1970s and early 1980s with the rise of the so-called off-price store (Kaikati, 1985).

strategic positioning. There were many avenues open to the conventional department store, but the correct strategy was critical for the future of the individual firm (see **Figure 4.4**).

Department stores had to negotiate a strategic position in the marketplace to survive. There were three simple choices. Firstly, department stores could trade down and compete directly with the discounters. This has been acknowledged as extremely difficult due to the high cost structures associated with department store retailing. Secondly, they could trade up, move their assortment range upscale, shifting their market emphasis away from the class of consumer who would patronise the discount department store. Thirdly, the conventional department store could introduce parts of both of the two tactics, competing in both markets (Bucklin, 1983; Gross, 1964; Rich and Portis, 1963). The outcome of these dilemmas was extremely varied, as department stores employed hugely varied forms of action, with equally divergent results. The department stores', emphasising an upscale image, eliminated the bargain basement concept from their stores. The operation of such a department blurred the fashion-oriented perception of the retailer. The emphasis for department stores needed to shift away from catering for everyone, as the squeeze from the general merchandisers and discount department stores proved they were considerably more efficient in this market. Instead, department stores generally shifted their emphasis towards becoming, what Bucklin (1983), calls 'merchants of fashion' (see also Bogart, 1973) and less emphasised sales assisted service that was increasingly making up a significant proportion of expenses. Conventional department stores evidently went some way towards the discount self-service ethic, whilst, at the same time, maintaining a considerable shop floor service that retained the spirit of the department store format.

Figure 4.4 Tactics Which Major Conventional Department Stores May Utilise to Compete with Low-Margin Retailers



Source: Redrawn from Walter Gross (1964) 'Strategies Used by Major Department Stores to Compete with Low Margin Retailers', *Journal of Retailing*, 40, p 17.

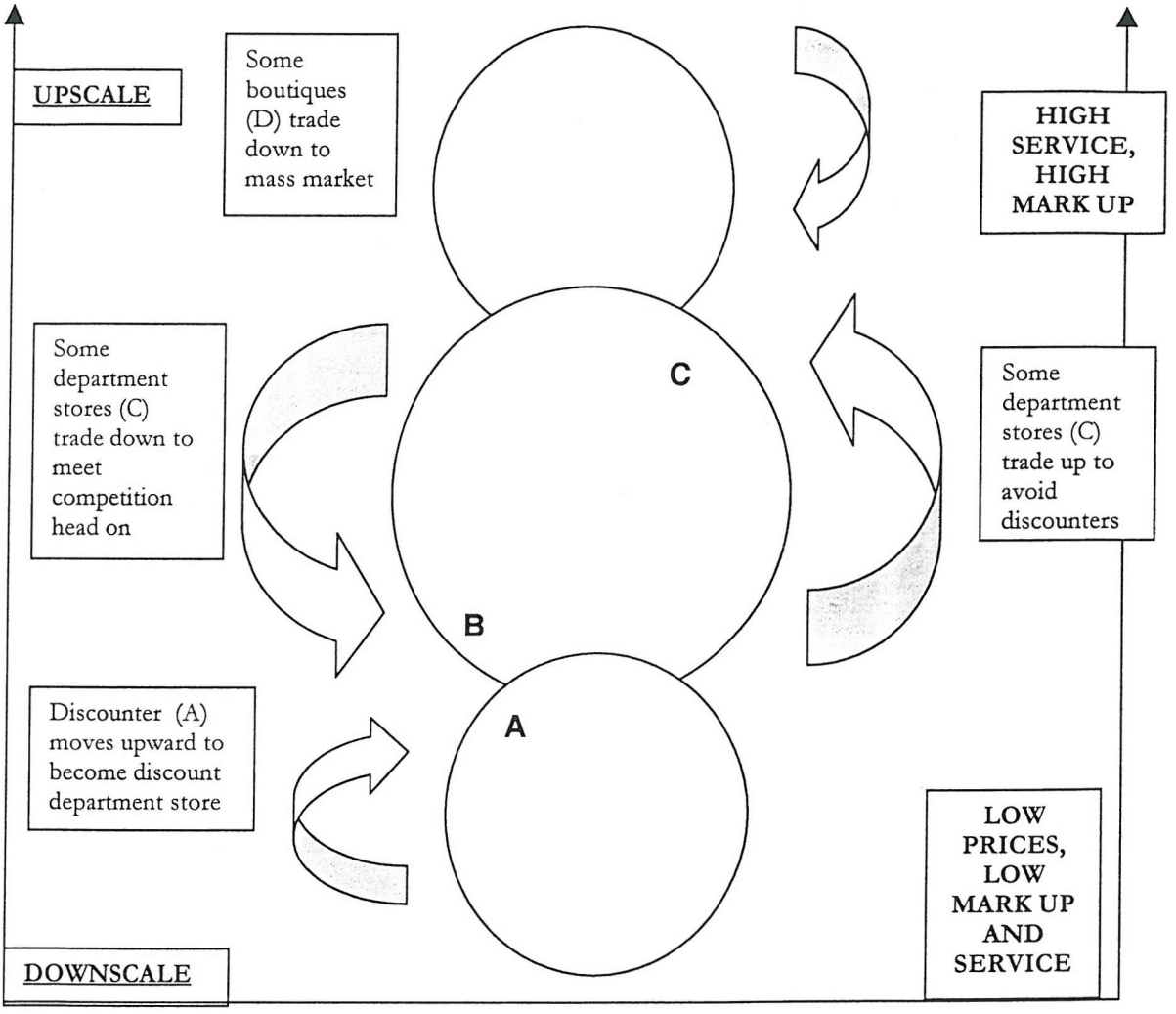
CONCEPTUALISING 1960s DEPARTMENT STORE STRATEGIC CHANGE

The reaction of the department store firms to this turbulent situation is expressed well through a model of retail change initially produced by Malcolm McNair (1958) – the 'wheel of retailing'. McNair accounted for the introduction of innovative forms of retailing and their subsequent development due to the established retailers' gradual upgrading of locations, premises, equipment and customer services, which in turn increases their operating costs and raises prices (see also Brown, 1987). This provides an opportunity for lower margin retailers to enter the market and undercut the established retailers. Izraeli (1973) builds on these underpinnings and develops McNair's model by adding further retail wheels to illustrate more dynamic retail

change. The model can, however, be modified to take account of the conventional department store response to the discount department store.

Figure 4.5 displays the dynamism inherent in the shake-up in the 1960s retail industry with conventional department stores facing the opportunity of moving up or downmarket, as the discounters traded upward to meet them (see Parker, 1968).

Figure 4.5 A Model of Reactions to Discount Department Store Based on the Wheel of Retailing Theory



Source: Model developed from the work of Izraeli, 1973 and McNair, 1958.

The rise of the discount oriented structure of 1960s retailing can also be partly explained by cultural changes which move in tandem with the economic measures of cost structures and labour productivity. R. E. Thomas, writing in 1970, viewed the changes partly attributable to cultural change in the public sphere of Western countries. Thomas argued that the rise of the mass market, as consumption diffused downwards to the lower classes, precipitated a movement away from defining goods as indicator of an all-embracing identity. Consequently, there were

the innovations of lower margin retailers, with lower levels of service. Identity formation spread to alternative *pursuits* in addition to specific *goods*. This, however, does not suggest that goods are no longer important in the construction of identities, instead the range of commodities was becoming diffused over space and socio-economic classes and thus demanded an alternative and more efficient distribution system.

DEPARTMENT STORE INTERNAL ORGANISATIONAL RESPONSES OF THE 1950s AND 1960s: THE SUBURBAN DEPARTMENT STORE

In addition to responding in terms of market positioning, US department store firms were also compelled to respond by restructuring their store portfolios in the light of the suburban migration of consumers. By the 1950s, '(m)igration to the suburbs has gone on steadily to the point where they are no longer an outlying district but rather the very heart of the retail market' (Alevizos and Beckwith, 1954, p 111). Department stores gradually developed chains through the building of branch units, first in their home markets, and subsequently in adjacent states and regions. The national retail holding companies grew larger through time as they acquired these growing chains, although they remained predominantly regional in nature and were operated under a loose corporate umbrella, each preserving its own identity and remaining in most respects autonomous (Noyelle, 1987). Even well into the 1950s, the conventional department store sector had taken only very tentative steps towards a branched network.

The 1960s can thus be viewed as the initiation of a new paradigm in department store retailing. Instead of the central downtown store being the core of the retailing operation, the branches became increasingly more important and there were major organisational implications of this change. Federated, for example, saw the volume of its branches exceed that of its downtown operations for the first time in December of 1966. In many respects, this occurred because of an earlier FTC decision that forbade it to undertake any acquisitions in the department store, furniture, apparel and related businesses for five years, following its acquisition of Bullocks in 1965. Federated, as a result, stepped up its organic growth efforts in expanding branch networks and increasing the presence of its existing divisions (Laulajainen, 1987, p 206). Indeed, the FTC frequently responded to acquisitions by department stores by prohibiting them from further purchases of other stores in the same GAF field for a given period of time. This effectively prompted the large department store firms to increase their emphasis on organic growth in suburban areas into the late 1950s, and especially, the 1960s (see **Table 4.6**).

Table 4.6 Suburbanisation Rates of the Major Department Store Corporations

Corporation	Date when Sales from Branches Reach 50%	FTC ban
Allied	1970	1965-1975
Associated	1967	1975 (divestment)
Macy's	1963	None
Federated	1967	1965-1970
May's	1962	1965-1975
Dayton Hudson	1969	None
CHH	1950s	1966-1974

Source: adapted from Laulajainen, 1987, p 235.

May Company's strategy was also focused on branched expansion, being, as Laulajainen (1987) suggests, the second department store after Broadway to receive more than 50% of revenue from branches in 1962. The May Company's strategy is viewed as more significant in its approach as it owned the real estate when expanding;

> The achievement is all the more noteworthy as the corporate policy was to own the malls where the stores were sited and that it had, therefore, to invest heavily...That was in sharp contrast to other retailers, who felt that they could obtain a better return on capital in retailing rather than real estate. May's reasoned that because their stores enhanced the market value of the malls substantially, the ownership provided a non-taxable cash flow and a hedge against inflation (Laulajainen, 1987, p 214).

Such an approach of owning the real estate is a strategy much wider than that only seen with the May Company's example. Instead department stores often led the increase in retail space through regional malls. Allied Stores, for example, opened one of the first regional shopping centres; Northgate Mall at Seattle. Although the Allied CEO Earl Puckett objected to suburban expansion, believing that the downtown department store would remain the central contributor, the firm inadvertently entered suburban retailing. This was due to the maverick President of The Bon Marche, Rex Allison who entered into the real estate market covertly in 1950, as ex-President of the International Division of Allied Stores, Howard Biederman explains;

> Well he got the idea that the world was changing and it was moving out and he was given the opportunity, he bought the land with the idea of bringing out a suburban development and he never told anybody until he had made all the deals. Then out of no place we were in the suburban business – one of the first in the business and it became extremely successful (Interview 22)

Allison's initiative therefore produced 'the nation's first "shopping city" to be anchored by a full-line department store (The Bon Marche), warmed by a central plant and serviced by an underground road' (Seattle Times, 1998). This example does however provide a case study of how a strategy can be viewed as considerable more organic and experimental and emergent rather than clearly stated, as discussed in Chapter 3.

The decentralisation of retail activity necessitated a speedy introduction of a branched strategy of organisation, which in turn, demanded a radical departure from the internal organisation the institutions had employed from the 1930s. There was a need to move away from the Mazurian (1927) organisational strategy, which developed around the department buyer-manager at the single site. As Bingham and Yunich (1965) suggest, the system of Mazur's worked so long as the business was all conducted under one roof. If the department store business had remained a single-unit type of enterprise there would have been little coercion to restructure organisationally. However, in NcNair's words; 'The whole terms of the retail contest were changed. Some department store management's intuitively perceived this potential disadvantage and dragged their feet on the establishment of suburban branches; but the social and economic trends of the times were too strong for them' (McNair, 1964).

The Branched Strategy: Macy's 1960s Organisational Restructuring

It is important to consider that the decision to develop suburban branches led to an immediate change in the organisational structure of department store firms. Bingham and Yunich (1965) provide an interesting review of Macy's organisational restructuring and reengineering response to branched development - one of the few accounts of such change. They acknowledge that until shortly after the Second World War, Macy's consisted of six large, downtown department stores, located throughout the country oriented toward the middle class consumer. Each of these stores was operated as a *separate entity*, sharing only with the other Macy stores the corporate image and target clientele[30]. The post-war retail environment however, encouraged the development of branches in suburban shopping centres. Initially, branches were set up as ancillary to the main downtown store, offering a differing merchandise assortment (see Anon, 1927). Management, however, around the mid 1950s, recognised the limitations of this strategy and eventually modified it to encompass the idea of establishing suburban operating units with enough independence to tailor their merchandise to meet the unique needs of the communities served (Bingham and Yunich, 1965). The whole industry was being revolutionised, as George Sternleib commented in 1962:

> The old dependence on a single, monolithic downtown establishment has vanished. No longer does management invest capital solely to make the one big store bigger and better. Rather, the more common case is for the department store to evolve into a modified chain, with the downtown store perhaps the chief unit, but declining in dominance (Sternleib, 1962, p 33).

Macy opened 39 suburban stores between 1946 and 1964. For the first ten years they were operated under the branch store concept and then given some independence from the

downtown store. There had to be however, a radical departure from the functional type of corporate organisation, that Mazur had encouraged. The failure of the 'Merchant Prince'/buyer-manager system of organisation was becoming evident, where the stores were organised as a group of departments, with buyers running them like small enterprises. Buyers were responsible for goods, procurement, promotion, sales and staffing (see **Figure 4.6**). As Macy opened branches, the buyers were now also in charge of the clone departments in the branches. The sheer build up of branches, made the buyers' job considerably more difficult (Noyelle, 1987). This difficulty was not unique for Macy's. In the case of Allied Stores, ex-divisional President, Howard Biederman commented:

> You have a central department store, and you now have satellites all over. Well alright, so you have one store and one store so the buyer in the main store can go visit the small store – for the first one that's fine. Then you have two and he can still do that. Then all of a sudden you wake up one day and instead of having two or three, you have ten or fifteen spread not only in your State but in other States. It is a physical impossibility for the buyer who had responsibility for the merchandise selection and the merchandise presentation in the old days to be able to do this... whereas the original concept, going back to the 1930s (had) more divisions in the retail business – you had operations, administration, merchandising and finance, now you had to have a new one – the branch store. 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 (Interview 22).

Indeed, Risto Laulajainen retrospectively commented in 1987:

> The prevailing philosophy in the industry was that each department in each store was a separate entity run by a buyer. The buyer did not only buy the merchandise for her/his department but was also responsible for the sale. In fact, she/he was a departmental manager with wide powers and responsibilities. This made for identity but simultaneously hampered spatial expansion, all the more so as the socio-economic segmentation of the city was given much emphasis. It was not thought possible that a buyer at the downtown flagship store could buy for her/his department and for a suburban branch with a different customer structure (Laulajainen, 1987, p 225).

The problem was simple, as Bingham and Yunich (1965) explain;

> On the one hand, the buyers needed complete control over their departments in order to have their total merchandising plans well implemented. On the other hand, they were not able to constantly supervise the salespeople, and they were generally too busy with vendor contacts to give adequate attention to the administrative details involved in training, scheduling, discipline, and so on (Bingham and Yunich, 1965, p 136-137).

Compounding this problem was the lack of leverage each individual buyer possessed in negotiations with vendors. To some extent, department stores had to pay for their inefficiencies of organisation as manufacturers and vendors would, in effect, ignore the fact the orders for Macy's New Haven and Macy 34th Street were both orders from R. H. Macy. The department store industry was forced to accept long delivery time lags which was disadvantageous for the fashion-oriented stores (Raff and Temin, 1997). Indeed, McNair commented in 1931, the challenge in producing a chain department store is to develop some central organisation such

---

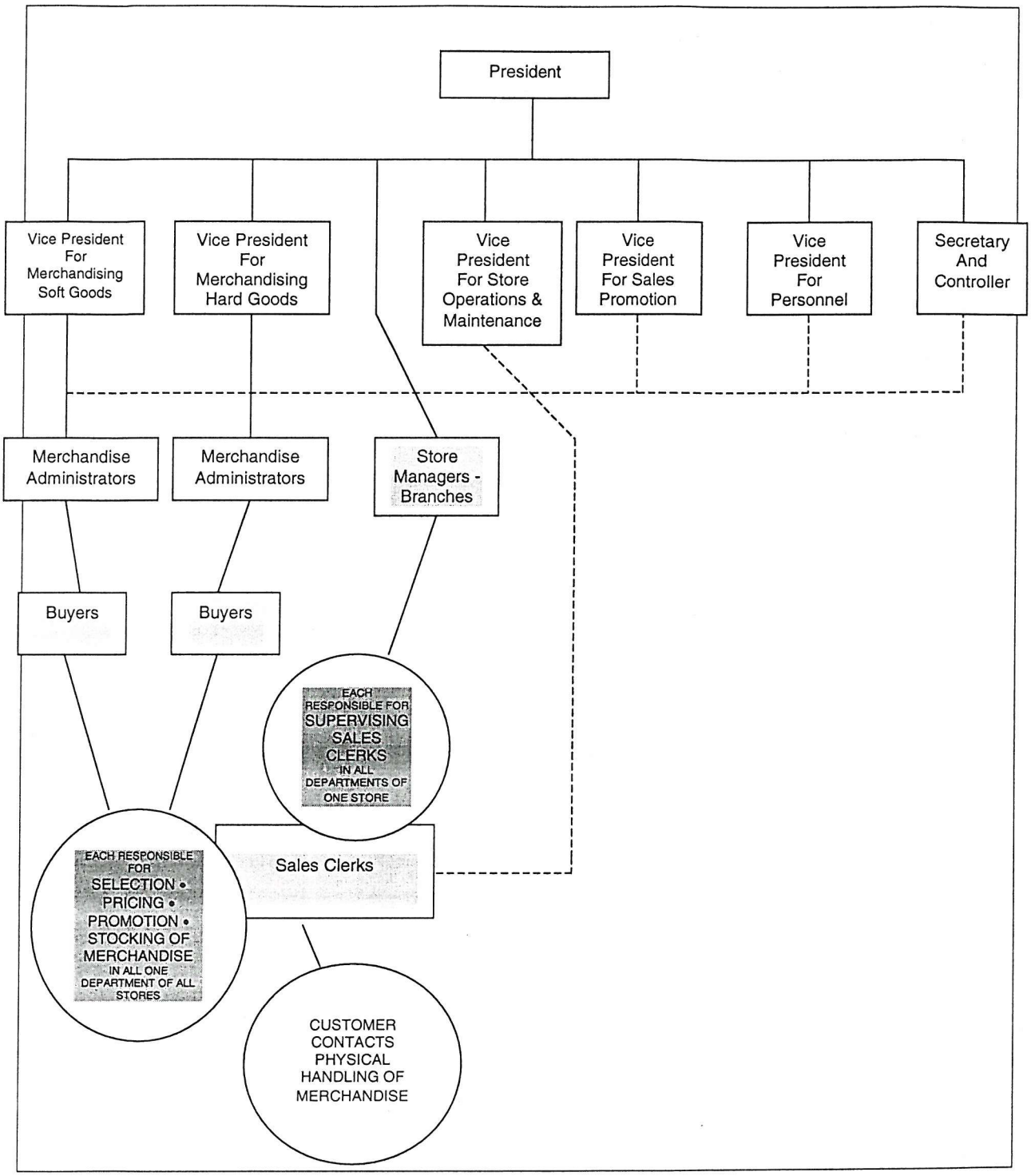
[30] All of these downtown stores had been purchased from individual merchants as ongoing concerns, with the

that it can be superimposed on the existing organisation of stores. The solution to this problem was to reduce the level of importance based on the buyer throughout the organisation and thus separate the buying and selling functions. The new structure saw the rise of the 'Orbit System' which split the old 'Merchant Prince' system into several clearly defined lines of responsibility, including merchandising, store management, sales promotion, to name only a few (Noyelle, 1987, see **Figure 4.7**). Historically, it was similar to Kaufman's 1932 suggestion for an appropriate corporate structure, away from the Mazur oriented model of the late 1920s (see **Figure 3.6**). The principal innovation in the new structure was the way it separated merchandising from store management responsibilities, which were historically the two main thrusts of the management effort. Merchandise was brought under the authority of divisional merchandise administrators who were placed in charge of managing the purchases made by buyers at the divisional level (Noyelle, 1987). As Laulajainen commented in the case of Carter Hawley Hale, during the mid-1960s; '(h)is buyers bought for the whole division, making it a chain of department stores. The buyer's responsibility to sell the merchandise was abolished. It was left for the departmental managers and the buyer responsibility was filtered through an averaging process' (Laulajainen, 1987, p 226).

---

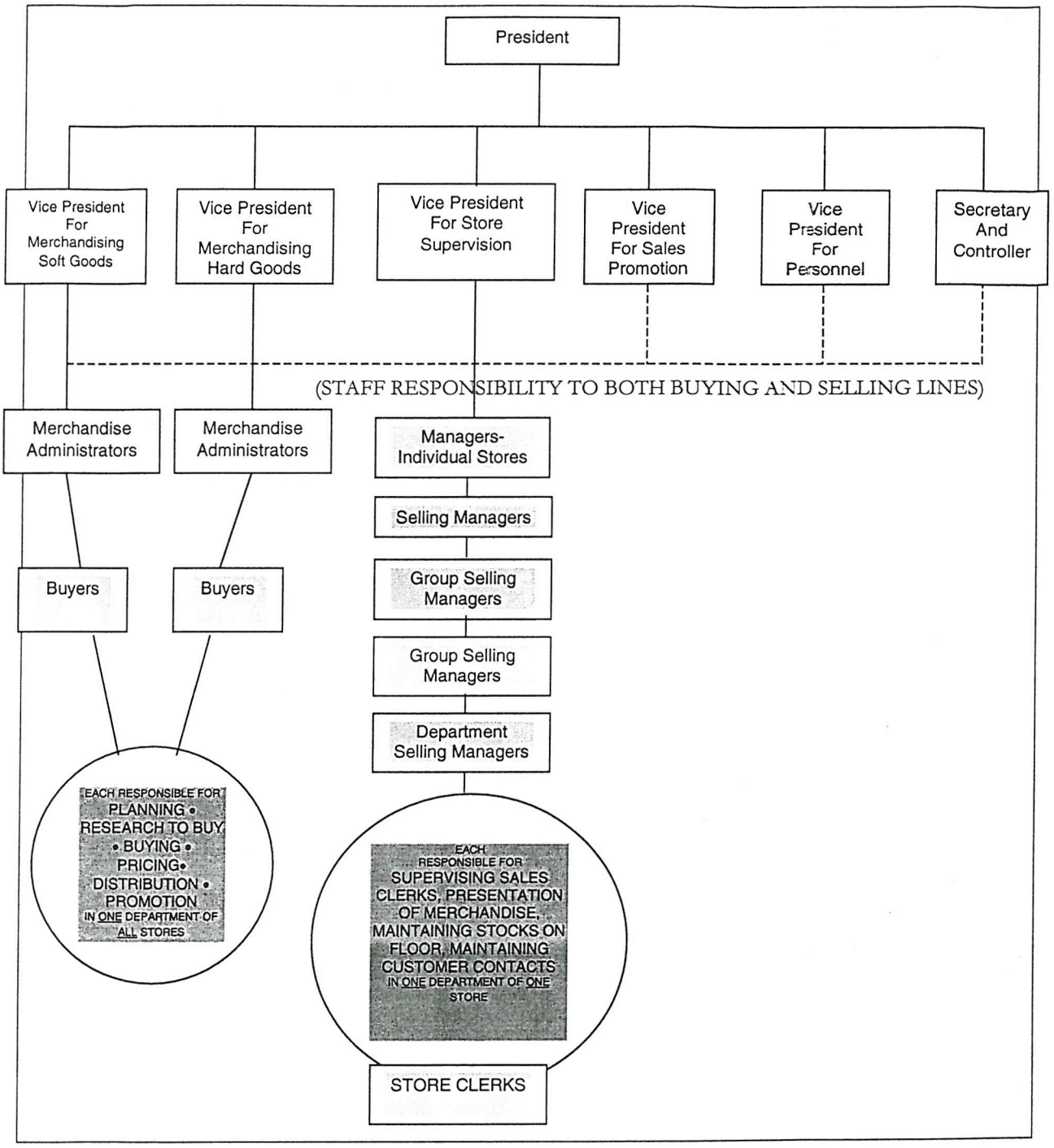
exception of the main New York store.

Figure 4.6 Pre-branched Buyer Centred Department Store Organisational Structure



Source: Bingham and Yunich, 1965, 'Retail Reorganization', *Harvard Business Review*, July-August 1965, p 136.

Figure 4.7 The Divisional Organisational Structure Under the Orbit System/Branch Store Plan: post 1960s.



Source: Bingham and Yunich, 1965, 'Retail Reorganization', *Harvard Business Review*, July-August 1965, p 139.

Of principal concern with the new model, Noyelle (1987) argues, was an emphasis on communication between the merchandising line and buying line to develop an understanding what each was doing. The efficiency of communication was improved through the exploitation of technological advances of electronic data processing improving knowledge of inventory control, ordering and stock turn. This reduced the labour required to obtain such knowledge

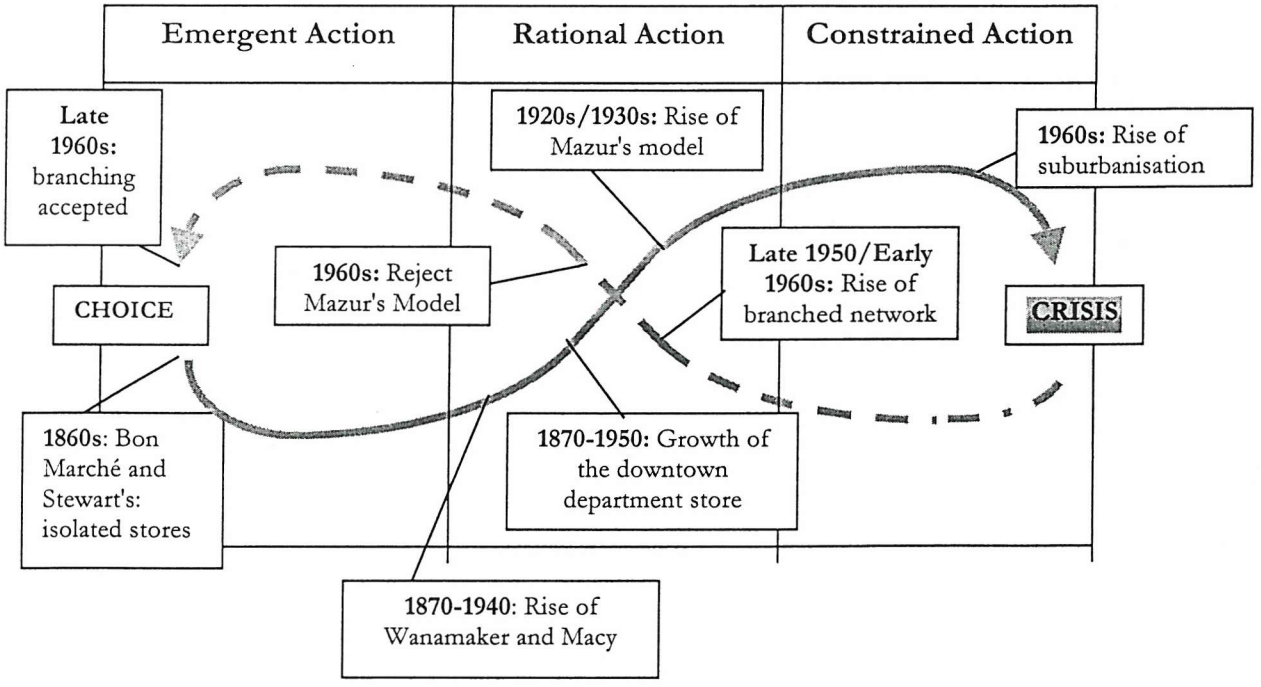
UNIVERSITY OF SOUTHAMPTON LIBRARY

and allowed such data to be made available throughout the company. Noyelle's emphasis in his work is on the career development through Macy's as a result of the changes on organisational structure. He suggests that the reconfiguration encouraged the promotion of good individuals through the system where at any one point there was a drop out rate. This sought to avoid the overloading of middle management and subsequent inefficiencies of labour productivity which had plagued the industry for so long (Noyelle, 1987).

Conceptualising Locational and Internal Organisational Change

The reconfiguration towards a branched network can be presented diagrammatically in **Figure 4.8** - following Hurst's (1995) model of organisational change initially introduced in Chapter 1. In this diagram, the major changes experienced by the department store format from the late 19th Century to the mid 20th Century are superimposed on this broader model of organisational change.

Figure 4.8 A Model of US Department Store Organisational Change, 1870-1960



The figure displays the growth of the department store through the late 19th and early 20th centuries, as it became increasingly structured and eventually constrained through the rise of suburbanisation, as chain stores responded rapidly to the possibilities inherent in the spatial changes in the nature of demand. The crisis of the lack of branching is realised and there is a subsequent break from the restrictive influences of the prior configuration toward the new

competitive environment with the industry trumpeting the merits of the branched system and rejecting the Mazurian single store model of organisation.

THE RISE OF THE BRAND: THE 1970s AND EARLY 1980s

Having developed a branch network and engineered an appropriate organisational structure, the 1970s unsurprisingly brought further challenges for the conventional department store sector. The pace of retail change, as McNair and May (1978) suggest, had quickened. Davidson et al. (1976) pursue this phenomenon, acknowledging how new retail concepts which were appearing on the retail landscape were quickly becoming a relic of the competitive environment, overtaken by alternative distribution strategies. The retail life cycle was speeding, as, for Kotler (1972), 'consumerism' was becoming the all-embracing ethic in the western world (see **Table 4.7**).

Table 4.7 Life Cycle Characteristics of Five Retail Institutions

Institution	Approx. date of innovation	Approx. date of maximum market share	Approx. no. of years required to reach maturity	Estimated max. market share
Downtown Department Store	1860	1940	80	8.5% of total retail sales
Variety Store	1910	1955	45	16.5% of general merchandise sales
Supermarket	1930	1965	35	70% of grocery store sales
Discount Department Store	1950	1970	20	6.5% of total retail sales
Home Improvement Center	1965	1985	15	35% of hardware and building materials sales

Source: Adapted from Davidson et al., 1976.

NB. Many of these dates now seem inaccurate. Neither the supermarket nor the discount department store saw their maximum market share at the times indicated. The table does, however, underline the turbulent state of US retailing at the time.

Increasingly there was recognition that US retailers had to find their own segment in which to compete. The adage 'become all things to all people' was becoming increasingly unrealistic. Such a development was evident in the rise of 'category-killer' stores. Retailers such as Toys-R-Us and Home Depot rose throughout the late 1970s and 1980s made inroads into general merchandiser and department store market share in their specialist lines (Rachman and Fabes, 1992). Such stores offered enormous category authority in terms of range in stock and product quality, clear cheap value/price positioning, and mainly as a consequence of these factors, were a hassle free and time efficient retail proposition (Wileman, 1993). The situation became considerably more severe with the advent of a retail industry driven by manufacturer *branded*

goods. The threat of manufacturers branded products providing competitive advantage to the manufacturer was predicted early in the 1920s;

> When a manufacturer places a trademark on his goods and advertises them to consumers, he is making his own business more stable and is placing the wholesaler, and perhaps the retailer too, in a different position from that which those merchants previously have held (C. E. Griffen - Griffen et al., 1928, p 17).

During the 1970s and 1980s the department store private label was increasingly seen as out of fashion. Clothing manufacturers produced nationally endorsed merchandise, striving for volume and market share, with names like Calvin Klein, Yves Saint Lauren and Ralph Lauren becoming ever more popular. High-brow labels benefited from national exposure on television and in newspapers, as manufacturers and designers put emphasis on national advertising. The kudos was not so much placed in the location where the good was sold, rather what the good actually was, and what it represented to the customer. This image was negotiated through the different media's of society. The late 1970s and early 1980s thus saw the rise of the 'off-price' store[31]. Kaikati (1985) viewed these developments as differing from the discount store and discount department store in their product emphasis through offering specifically *branded apparel.* Off-price retailing grew from sales of $3 billion in 1979 to more than $8 billion in 1986, representing 8% of total apparel sales (Salmon and Carr, 1987). For Kaikati, '(n)ame brands once exclusive to stores such as Saks Fifth Avenue, Neiman Marcus, and Bloomingdale's now appear in thousands of off price stores around the country' (Kaikati, 1985, p 88). Off-price stores took advantage of over-purchases by conventional department stores and acquired their surplus stock at a fraction of the price. The off price trend was inherent in the rise of the warehouse club stores, but also more broadly in the aggressive expansion of Wal-Mart and K Mart throughout the 1970s as they developed a large 'box' style superstore (Graff, 1998; Graff and Ashton, 1994; Vance and Scott, 1994). The off-price revolution was particularly threatening to established retailers because, unlike discount stores, it offered consumers department store quality apparel via the acquisition of major brands at savings of 20% or more (Salmon and Carr, 1987).

This period consequently saw the continued rise of discount merchandisers, congruent with the decline of market share experienced by the conventional department stores. From 1978 to 1988, department stores suffered a 2% reduction in inflation-adjusted sales per square foot, while discount stores' sales jumped 46.7%, adjusted for inflation (Vance and Scott, 1994). The challenge for the conventional department store was clear with the warning from Cohen and Jones (1978):

---

[31] Matthews (1980) refers to the off-price store as the 'upgraded discounter'.

> No matter how permanent a fixture these department stores may have been in their communities in the past, their dominance is now challenged by competitors, who trade above and below their market segment...Traditional department stores are vulnerable to both types of competitors. They have neither the command of their sources and marketing power of the value merchants, who can offer the consumer exceptional reliability in their private brands[32] and can promote both brand and store in a single advertising message, nor the distinctive image of the style merchants, who build their franchise on the ego-inflating visions of highly talented retailers (p 143).

Some chains responded to this demand for branded goods, by revising their merchandising selections. J. C. Penney, during the 1980s, was one such chain department store retailer. It re-orientated its merchandise assortment away from hard goods, and towards apparel and home furnishings, replacing much of its private label with brand names (Vance and Scott, 1994). Alternatively, department stores, recognising the market share off-price retailers could exploit, acquired such stores, making them part of their broader portfolio (Kaikati, 1985). This strategy was pursued by the Dayton Hudson Corporation, which started the Target discount chain in the early 1960s and acquired Mervyn's in the late 1970s. Similar approaches were also followed by Allied, Federated and May department store holding companies throughout this period (see **Tables 4.8 and 4.9**).

Whilst some department store firms were, during the mid-1980s, revising their market positioning, by far the most influential strategy during this period was financial restructuring which proved particularly damaging for the industry. Chapter 6 examines these developments in depth and consequently they are not reviewed here. In summary, the sector was caught in the highly leveraged takeover period that infiltrated all of American industry during the decade. The consequences of the debt burden for the department store industry was, almost without exception, Chapter 11 Bankruptcy Filing, as the cyclical cash flows of luxury retailing could not support the high gearing amassed. However, by the early 1990s, the large department stores had broken free from the constraints of high leveraging and were once again consolidating in an effort to become leaner and more responsive to consumer demand. During this post-bankruptcy period there were a number of challenges for the sector.

Table 4.8 Diversification of Major Department Store Chains in the 1960s and 1970s

Corporation	Non-department store per cent 1983	Major entry into	
		Discount retailing	Speciality retailing
Allied	15	1961-1978	1979-early 1990s
Associated	35	1972-1976	1916-
Macy's	0	1987- early 1990s	None
Federated	28	1968-early 1990s	1982-early 1990s
May's	29	1970-early 1990s	1979-early 1990s
Dayton Hudson	79	1962-present	1966-present
CHH	30	None	1969-acquired 1987

Source: adapted, with modifications from Laulajainen, 1987, p 235. Additional data from R. H. Macy, 1994 and various company reports.

[32] It should be noted that the power of leveraging the department store private brand was only fully realized in the 1990s (see Chapter 10).

Table 4.9 A Selection of Diversified Retailing Arms Owned By Department Stores, 1960-1990

Corporation	Speciality Store	Discounter	Supermarket
Allied	Bonwit Teller Brooks Brothers.		
Associated		Caldor Loehmann's	
Macy's	I Magnin Aeropostale Charter Club		
Federated	Children's Place	Gold Triangle (home furnishings) Gold Circle (off-price apparel) Main Street	Ralph's
May's	Venture (shoe chain)	Volume Shoe	
Dayton		Target	
Hudson		Mervyn's	
CHH	Contempo Casuals Holt Renfrew & Co. (Canada) Sunset House (mail order)		

Source: various source including Traub, 1994; Laulajainen, 1987; R. H. Macy, 1994

EVALUATING THE US DEPARTMENT STORE SECTOR BY THE END OF THE 1980s

The 1980s saw a boom in consumption expenditure throughout the Western world (Hallsworth, 1992). Although this was somewhat truncated by the economic slowdown in the late 1980s and early 1990s, the provision of retail sites, spaces and stores increased dramatically. In 1987 there were 7.5 square feet of retail space per capita in the US, yet by 1993 this had risen to 19 square feet (Sternquist, 1997). In addition, the number of shopping centres and malls increased by 13,000 from 28,494 in 1986 to 42,130 in 1996 (Price Waterhouse Coopers, 1997).

Clearly, the life cycle of new retail concepts and formats that spread quickly through the USA during the 1980s and 1990s significantly reduced in duration. The discounter, general merchandiser, off-price store, category killer and conventional department store were often left fighting for the same consumers dollar (Kumar, 1997; Morganosky, 1997a). As a result, traditional retailers such as department stores and speciality stores saw their relative influence decline. Through the ten year period 1982-1992, discount stores were able to increase their productivity in terms of sales per square foot from $130-$200, while department stores lingered at approximately $150 per square foot (Rousey and Morganosky, 1996, p 8). These factors led to what is often described as a saturated retail industry. More than ever, there were more retailers in more locations, with fewer isolated or 'safe' markets. No market was immune from the fierce competition that invaded all sectors, even in those identified as upscale and 'beyond

discounting'. The consequent rise in retail formats across once easily identifiable sectors of the industry revolutionised consumer choice. Consumers would thus shop less extensively in any one store and spread their shopping *across* formats and retailers (Rousey and Morganosky, 1996). As a response to these conditions, the emphasis throughout the 1990s has been on consolidation and reorganisation, rather than building new stores (Swinyard, 1997).

The prevailing opinion in the consumer studies/marketing literature is that by the late 1980s, customers were increasingly questioning the logic of brand loyalty (e.g. Dunne and Kahn, 1997). When it no longer represented good value, they changed their choices. The rise of the discount chain, Target, in particular, is viewed as marking a break from early 1980s ethic of paying more for brand kudos (see, for example, Silverman, 1986). The decline in loyalty toward upscale apparel saw its pinnacle at the Oscars in 1995, when Sharon Stone was scheduled to wear Valentino designed clothing, but instead arrived on stage in a $22 Gap turtleneck and a black skirt (Agins, 1999).

The Uncertain Future of the US Department Store Sector

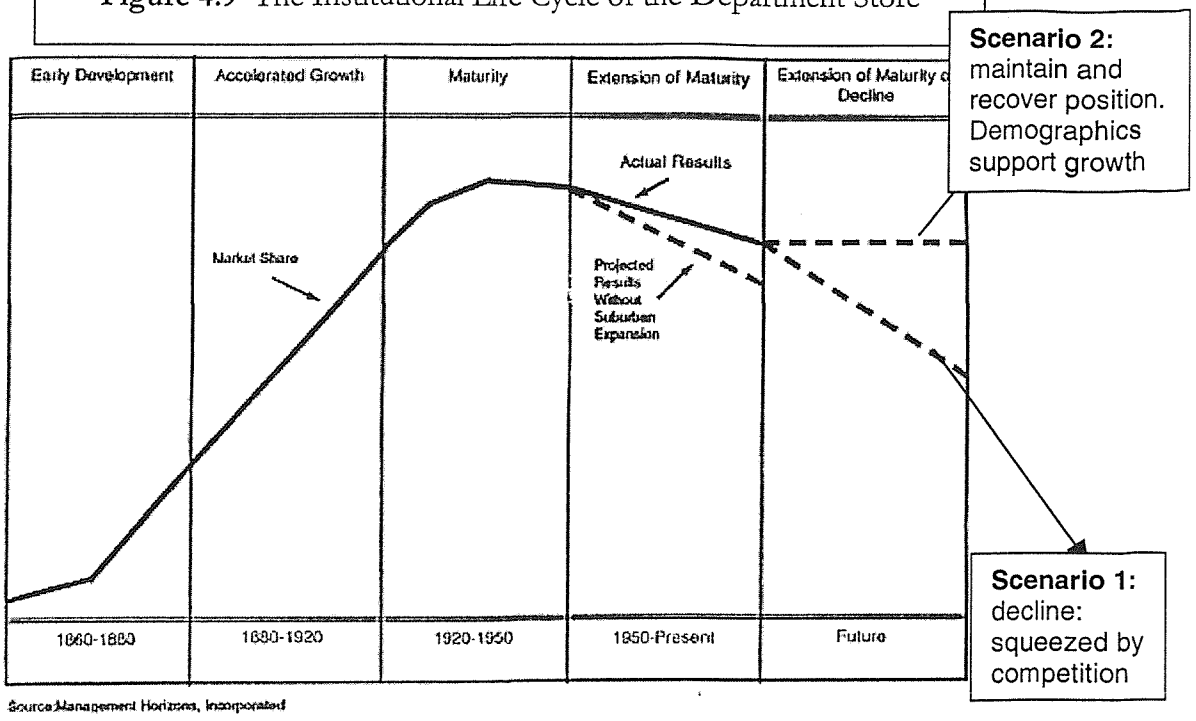
The conventional department store industry has been forced to strategically reconfigure, repositioning *vis-à-vis* alternative retail formats as a direct result of the broader consumption shifts described. As early as the late 1970s, commentators questioned the viability of the department store industry. Traditional department stores were being squeezed, on one hand, by the value general merchandisers (such as Sears) and discount department stores (such as Ames and Wal Mart) and, on the other, by the style merchants like Saks Fifth Avenue (Cohen and Jones, 1978). As Morganosky reflected in the mid 1990s, '(p)erhaps more disturbing for the department store format is the fact that it shares a substantial portion of customers with the newer formats such as off-price stores and manufacturer's outlets' (Morganosky, 1997a, p 270).

Compounding the problem was the rise of speciality apparel stores during the 1980s. Retailers such as Gap and Limited operated on a narrow focus, mid price points, fashionable non-leading edge orientation and importantly invested considerably in information systems allowing them to expand their chain infrastructure quickly and efficiently (Christopherson, 1996; Salmon and Cmar, 1987). The competitive advantage of the speciality store lay in offering customers selections of relatively fashionable goods and basing merchandise selections on extremely up-to-date information on the nature of consumer demand. The management information systems speciality stores introduced tracked local sales more easily, facilitating engagement in international procurement more skilfully and economically than department stores. They became able to refine their organisations, keeping a close relationship with their suppliers,

reducing their lead times and thus being considerably more responsive (Abernathy et al., 1999; Aufreiter, 1993; Christopherson, 1996).

With the cut-throat competitive nature of the early 1990s US retail industry, many analysts were questioning whether the department store had any future at all. There were two scenarios cited at the start of the final decade of the millennium (see **Figure 4.9**). The first one regarded the future of the industry as bleak. The largest department stores lay bankrupt from the 1980s highly leveraged transactions and stood as inefficient configurations compared to other retailers. Customers were becoming much more value conscious and realised they could buy good quality products from discount oriented operators. Stores such as the Dayton Hudson owned Target were growing rapidly, as were more general discounters such as Wal-Mart. Apparel products could be purchased for a lower price in speciality clothing stores such as Limited and Gap, as they reconfigured their supply chains lowering response times, reducing margins and becoming increasingly fashion conscious. Spatially, the department stores were still all too often concentrated in declining inner city areas (Sternlieb and Hughes, 1987). Department stores strategically lacked focus and were therefore suffering 'the gales of creative destruction', if considered in a Schumpeterian sense, as 'prices were too high, their selection too shallow and wide and looked about the same in every chain...At a department store you could buy both lingerie and lawn mowers' (Swinyard, 1997, p 251). Consumers were increasingly becoming time starved but would conversely be prepared to travel for bargains (Swinyard, 1997; Yoh and Gaskill, 1999). The public was increasingly diverse over different ethnic groups and the nuclear family was declining. Department stores lacked the adaptation to prosper with the increasing segmentation of the market. The view of department stores as an outdated retail format was not unique to the US - European department store chains were, and are continuing, to decline due to these macro industry pressures (Sternquist and Byoungho, 1999b).

Figure 4.9 The Institutional Life Cycle of the Department Store



Source: Management Horizons, Incorporated

The second scenario suggested a more optimistic situation. The ageing baby boomers were likely to provide a stable basis on which to reinvigorate the conventional department store sector. They had seen their children 'fly the nest' and therefore had increased disposable income (Carlson, 1991). There was potential to restructure the supply chain in response to the demands of the 1990s, having weathered the excessive debt burdens of the 1980s. Continuing suburban development would continue to increase in relative importance for department stores away from focus only on the downtown locations. If these challenges could be successfully confronted, and the merchandise selection refocused, the sector could consolidate its market share.

CHALLENGES OF THE 1990s

US department store firms of the 1990s faced the challenge of restructuring in order to compete with the new retail formats that provided such stiff competition throughout the previous two decades. They conducted this through the medium of portfolio and organisational restructuring. Portfolio restructuring was necessary to take advantage of the potential scale economies of large department store retailers and to achieve growth in what was a saturated sector (see Chapters 7 and 8). This vigorous merger and acquisition activity throughout the 1990s is evident in **Appendix I**. Meanwhile, organisational restructuring aimed to refine the structure of the newly enlarged firms, reduce the costs of distribution, and more efficiently predict and respond to consumer demand.

Balancing Centralisation and Decentralisation

The 1990s department store industry became more centralised, with increasing capital concentration, and associated improved organisational inter-linkage (see Biederman, 1991 for an early 1990s assessment). The challenge was to balance the principles of centralisation and decentralisation within the newly acquired and developing portfolios of stores that offered the potential of so many synergistic benefits. This demanded mediation between the localisation tendencies of regional knowledge of sales trends, and at the same time, centralisation of resources to achieve economies of scale.

The consolidation of divisions upon acquisition was only one half of the equation however. The generation, procurement and interpretation of information throughout the retailer-supplier interface was also revolutionised. This drew extensively on the Wal-Mart quick response, technology rich model throughout the firm, and backwards to suppliers that is well known and debated throughout the literature (e.g. Raff and Temin, 1997; Reid, 1995; Palmeri, 1997). This strategy has been characterised by an extremely efficient production process, where operations are linked in a continuous "just-in-time" chain. Such operations include buying products from manufacturers and vendors, distributing them to retail stores and selling to customers (Bernhardt, 1999). This model has subsequently been modified in its infiltration downward, throughout the speciality apparel industry where it has been a major contributory factor in the rise of chains such as The Limited and The Gap. Lead times have reduced and goods have been brought to market quicker and more efficiently (see Aufreiter et al., 1993; Christopherson, 1996; Crewe and Davenport, 1991; Dvorak and van Paasschen, 1996; George et al., 1994). The informational and technological infrastructure is central to achieve a reduction in lead times and improved market knowledge enabling a greater concentration of resources and flexibility in response. Indeed;

> Size will confer advantages in bargaining with upstream suppliers, but scale will not be the key to competitive success. It might have been otherwise; but the evidence through 1991 suggests that increasingly heterogeneous and fashion-consciousness customers will value selection over price and will reward stockholders accordingly. Decision making may or may not emerge more centralised. This will depend upon the extent to which data analyzed by computers supplants the on-site observations of buyers. However many people make decisions, the decisions will be much more provisional. Cheap information is central to this, but not perhaps the most obvious way. If distribution and manufacturing are becoming more closely linked and department stores are thus becoming more like factories, the factories in question are in Toyota City, and not the environs of the River Rouge (Raff, 1991, p 60).

For George et al. (1994), writing in the management journal *The McKinsey Quarterly*, there was a need to depart from the endless oscillation between centralising to increase control, ensure functional expertise, reduce costs, and decentralise to sharpen focus, improve responsiveness, and encourage entrepreneurialism. They argue that this trade off is no longer acceptable as

'companies must make simultaneous improvements in both directions - increasing functional expertise and economics and improving focus and agility at the business unit level' (George et al., 1994, p 55, original emphasis).

Within this framework, there is no single strategy suitable for all retailers. Instead different logistical arrangements are appropriate for alternative retail formats depending on location, clientele and nature of the product sold. Fashion leaders lay emphasis on reducing lead times and thus incur high transportation costs, whereas discounters are more cost conscious and would not consider flying goods from the Far East for speedy delivery as displayed in **Table 4.10** (Dvorak and van Paasschen, 1996).

Table 4.10 Product Flow Comparison of Different Types of Apparel Store

Three example strategies	Fast to market	Waves of fresh assortments	Low cost
Manufacturer cost	Trade off some cost for speed and flexibility	Live with longer lead times in order to drive lower purchase cost	Drive lowest purchase cost and off-load as much work as possible to manufactures
Transportation from manufacturer to distribution centre (DC)	Frequently use highest cost transportation mode (airfreight) to gain speed	Balance speed and cost using low cost transportation mode to small number of regional DCs	Maximise use of lowest cost transportation modes by establishing many local DCs close to stores
Distribution carrier cost	Look for speed	Balance speed and cost in handling new product waves	Operate DCs to minimise work done in stores
Transportation from distribution centre to store	Small, fast and expensive store deliveries	More cost effective small store deliveries	Most cost effective full truckload delivery to stores
Store Operation	Full service	Full service	Self service
Type of store	**Designer boutiques**	**Conventional department stores, speciality apparel stores**	**Discounters such as Wal-Mart, K-Mart, Target**

Source: adapted from Dvorak and van Paasschen, 1996, p 126.

Conventional department stores would likely be in the middle cohort where waves of fresh assortment are required. Emphasis is not necessarily on up to date, ground-breaking fashions, but dependable lines which will sell well. Conversely, the department store does not warrant the low cost, mass delivery of identical merchandise associated with the discounter.

The quandary for the department store was to produce a distribution strategy to tailor locally through centralisation, without losing sensitivity to local markets. In particular, Swinyard (1997) emphasises the increasing tendency toward "micromarketing", where focus is directed toward 'getting the right product in the right stores at the right time' (p 251). He suggests there is a need for a more sophisticated understanding of the demand differentiation between regions and stores through technological networks and communications. It is especially interesting to investigate these distribution issues in the context of the consolidators of regional chains who are left with a large portfolio of stores and a considerable range of synergies promised to investors. Again, this mix of spatial scales is more complex than for the conventional discounter that deals with more standardised items (see **Table 4.11**):

Table 4.11 Department Store Merchandising Typology

Leading retailers	Integrated assortment strategy	Responsiveness to Incremental local store needs	Sourcing scale	Appropriate initial allocation	Dynamic replenishment
Discounter	Centralised assortment planning using market profiles	Weekly store feedback; addition of some local items	Supplier management centralised	System-driven allocation using market profiles	Pull systems
National chain department store	Centralised assortment planning with some local additions	Store-driven selection from central menu	All supplier management centralised	Store-level management of allocation and flow	Pull systems

Source: Aufreiter et al., 1993.

The balance between centralisation and localisation remains one of the one interesting and challenging areas of department store retailing today.

Private Label Prospects

A further challenge facing the department store throughout the 1990s was that posed through potential offered by the department store private label (see Chapter 10). The rise of the private brands were seen throughout the 1980s as speciality apparel retailers such as The Gap and The Limited built market share based exclusively on their own name (Aufreiter et al., 1993). Department stores reacted in the late 1980s and 1990s through increasing penetration rates of their private labels. Much 1990s literature pointed to the potential for leveraging the 'brand' (aka Nike), and thus the potential for other firms to exploit their reputation with the public (see Court et al., 1997; 1999). Increasingly retailers realised they could leverage their brand equity through the sale of own-brand merchandise and substantially increase direct product profitability in the process. This is in contrast to the established manufacturer branded goods that have all

too often become captured in the portfolio of discounters, losing some measure of their exclusivity (Bolen et al., 1997).

Often these private labels have been directed at specific lifestyle cohorts, as retailers seek to become attractive to all classes of the population (Kremer, 1991). Increasingly, such private labels have been granted their own specific spaces within the store, in order to imbue the particular retail space with the image necessary to promote goods for that particular lifestyle segment (see Chapter 10).

E-Commerce

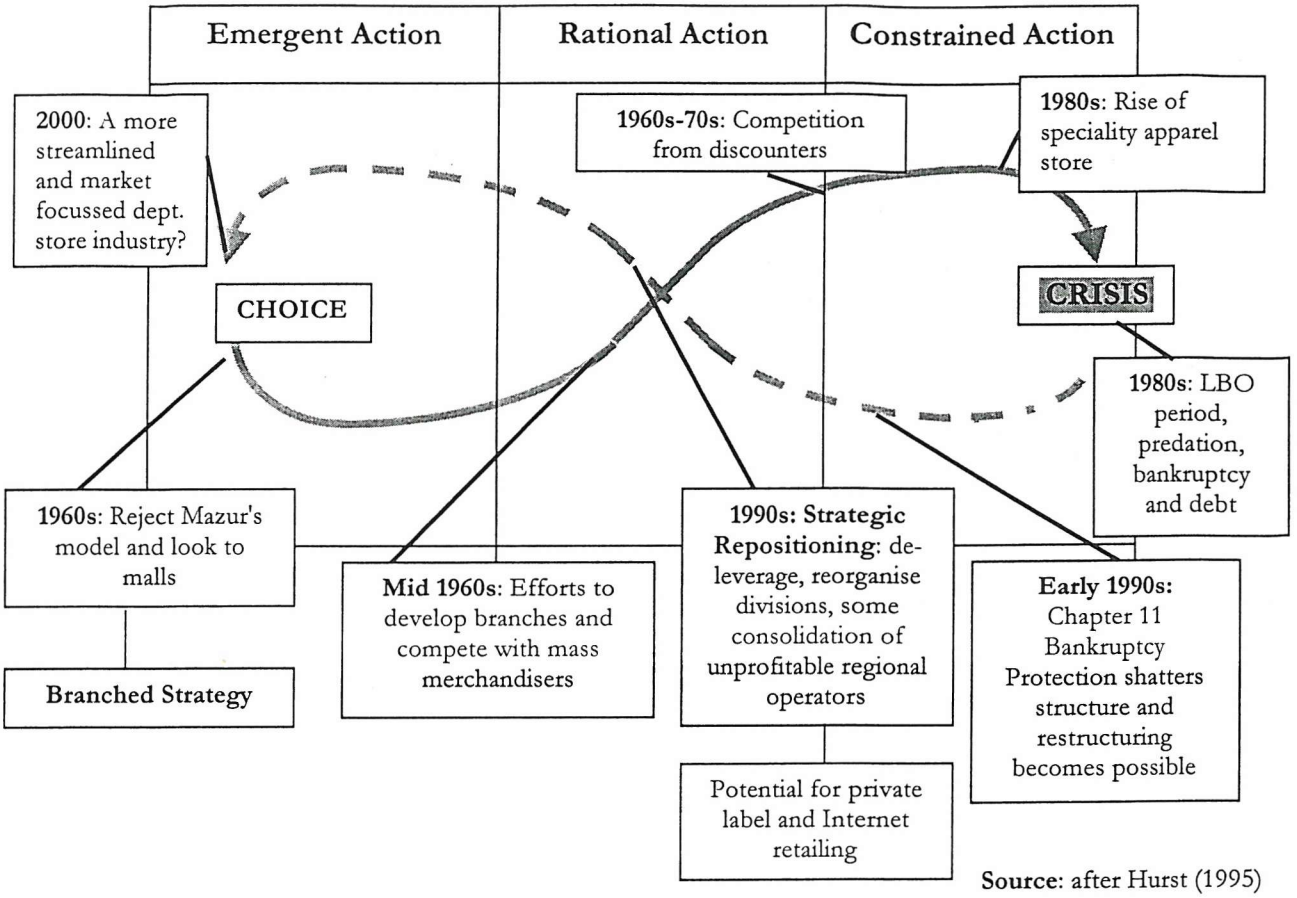
An additional challenge to the retail industry in general, and the department store sector specifically, can be seen in the opportunities posed by the Internet. The medium joins a long list of technological initiatives that have been paraded as the future of a store-less retail industry[33]. Indeed, at the start of the 1990s, the World Wide Web was little more than an exciting concept. Since then it has grown to the extent that many department stores have had to devise their own e-commerce strategy (see Chapter 11 for an extensive discussion).

CONTINUOUS RESTRUCTURING AS THE KEY

Throughout the 20th Century the US department store industry had to respond continuously to sectoral, technological and geographical challenges, as the retail life cycle sped up and formats became outdated and replaced with increasing rapidity. The department store industry's market share suffered, but the sector entered the 1990s as one of the most interesting areas of the US retail industry. The task for this decade was to re-orientate the industry – primarily through portfolio and organisational restructuring - an upheaval equal to that of the 1950s and 1960s when retailers confronted the challenge of the suburban environment. **Figure 4.10** displays the period of renewal for the US department store industry 1960-2000, drawing on the model developed by David Hurst (1995) in Chapter 1.

[33] The potential for a form of remote retailing has long been discussed in the literature. As early as the late 1960s, a form of computer commerce was conceived as possible (see Doody and Davidson, 1967; Bogart, 1973), and later, the potential for two-way cable television was discussed throughout the industry (Rosenberg and Hirschman, 1980).

Figure 4.10 A Model of Department Store Restructuring, 1960-2000 (?)



Source: after Hurst (1995)

The figure follows the changes from the 1960s, when a branched strategy was developed, through the 1960s/70s competition with discounters, 1980s confrontation with speciality retailers, culminating in the LBO period of financial reengineering which served as an eventual catalyst for department store restructuring during the 1990s as Chapter 11 Bankruptcy Protection shattered the previous structure, restructured the debt burden and removed some of the failing incumbent management (see Chapter 6). The challenge for the industry was to rationalise the operation, reorganise divisional portfolios, and exploit the potential for new technologies and strategic initiatives to promote a more market focussed and efficient department store sector.

The history of retail change in the 20th Century underlines the importance of the continual adaptation to new ideas, markets and concepts. As Burns et al. (1997) argue, there is more than ever, a constant need to renew the retailing concept continuously, where restructuring is regarded more as a *process* rather than as an *event* truncated by long periods of strategic inactivity. The challenge for the department stores into the 1990s was to continue this adaptation to consumer needs and wants whilst remaining open to new markets, possibilities and concepts. This thesis aims to expose and analyse many of these issues.

Part Three

METHODLOLOGICAL CONSIDERATIONS

'For whilst academic geographers are still very much the "organizers" of stories, readings and world views, there has been a clear attempt to expand the range of methods applied in order to better identify the array of stories of the economy "out there"'.

Bryson, J., Henry, N., Keeble, D. and Martin, R. (1999) 'Reading economic geography'. In Bryson, J., Henry, N., Keeble, D. and Martin, R. (eds.) (1999)*The Economic Geography Reader*, Wiley, Chichester, page 17.

Chapter Five

Researching Corporate Elites and Methodological Considerations

INTRODUCTION

Throughout the 1990s, economic geography has been revitalised with an increasing recognition of the dynamism of the socio-spatial economic landscape. This broad research, characterised by the term "new" economic geography, has produced a considerably more nuanced approach to the discipline (see the volumes of Lee and Wills, 1997; Bryson et al., 1998; and the excellent extended chapter by Harrington et al., 1999), away from metanarratives of Marxian political economy, toward emphasising politics, culture, agency and sociality, as well as so-called "hard" economic imperatives in driving a firm's and subsequently a region's geography (see esp. Schoenberger, 1997). As Hughes recently observed:

> Running through these varied challenges seems to be the motivation, first, to recognize the nature of the various metanarratives constructed through traditional economic geography, second, to break down these meta-narratives, and, third, replace them with approaches that recognize the social and cultural complexities of industrial organization and economic change (Hughes, 1999b, p 364).

In this manner, work has burgeoned that emphasises the multiplicity and plurality of social actors in explaining economic action, and destabilizes notions of the firm as rational, reproductive and progressive (see esp. O'Neil and Gibson-Graham, 1999). As Thrift and Olds (1996) comment in a landmark paper, 'the very idea of a singular story of an object denoted "economic" is now lost. It now follows that the idea of trying to focus a new economic geography around one concept or theoretical tradition, however broadly defined, cannot hold' (p 319). As such, there is a need to enter and access the actors within these organisations to understand their newly recognised complexity:

> Previously these organizations tended to be enclosed, seen as shells through which transactions with the outside world took place to a greater or lesser degree. Such organizations were also characterized by preset goals which they worked towards. But this contained and directed model is now seen to be at odds with what we know of the intensely practical and ad hoc character of most organizations (Thrift and Olds, 1996, p 319).

In many cases these exciting projects have been made possible by employing the elite interview, where the drivers behind changes in industrial organisation - Chief Executive Officers, and Chief Financial Officers, are intensively interviewed, and these findings triangulated with secondary material as well as interview material from less senior employees.

This chapter analyses the current economic geography literature on arranging, organising, and accomplishing dialogue with elite actors. Using experience from my doctoral research on the restructuring of the US department store industry, the chapter argues that strategies of gaining access to major elites has been thus far underemphasized. In particular, the current published research has rarely tackled the problems of arranging elite interviews with the most senior figures in firms (CEOs and CFOs) and has passed interviews with middle management and local politicians as 'elite research'. Clearly there is a need to draw the distinction between institutional and corporate elites. The chapter then reviews the critiques, particularly from feminist scholars, concerning validity and situated knowledge in research. It adopts the view that whilst any project of elite interviewing is unlikely to be perfect, these difficulties can be minimised through sufficient triangulation with the business press, and an important as yet underemphasized source - industry equity analysts. Analysts occupy a unique position - being in direct contact to the main industry actors - but situated outside the organisation and not positioned as a direct stakeholder who possesses clear interests in the success of the firm. The use of a multiplicity of actors and sources results in, what Yeung (2000c) regards as a *total method approach*. Access to these particular elites, however, presents its own kinds of methodological difficulties that must also be faced. Overall, this chapter makes an argument for a pragmatic approach to researching and accessing the knowledges possessed by these key drivers of economic change.

THE ARGUMENT FOR CLOSE DIALOGUE

The elite interview has recently been extensively used to understand the nature and politics of merger and acquisition (e.g. Tickell, 2000), corporate strategy (e.g. Schoenberger, 1997; Shackleton, 1998), the global financial system (e.g. Clark, 2000; Clark et al.,2000), labour markets (e.g. McDowell, 1997; McDowell and Court, 1994); retail restructuring (e.g. Hughes, 1999b; Wrigley, 2000a), the relationship between entrepreneurialism and regulation (e.g. Lowe, 1993; 1998), globalising transnational firms (e.g. Yeung, 2000d), employee ownership (e.g. Wills and Lincoln, 1999) and trade unionism (e.g. Herod, 1998; Wills, 1996) amongst others. Such work provides fine examples of the benefit of, what Gordon Clark regards as, 'close dialogue', which relies upon the intimacy of closeness of researchers to elite actors - 'a level of personal commitment quite at odds with conventional notions of scientific disassociation and objectivity' (Clark, 1998, p 73).

The close dialogue approach of investigating issues important to economic geography has only recently received attention, whilst the methodological literature specifically on interviewing elites remains scant (see though the editorials to the special issues of two recent journals: Cormode

and Hughes, 1999; Hughes and Cormode, 1998). These knowledges however are essential if researchers are to identify and understand any notion of the formation, organisation and execution of strategy within the firm in practical contexts. As Healy and Rawlinson (1993) acknowledged, 'the information and insights that economic geographers are seeking may only be obtained direct from people in the business being examined' (Healy and Rawlinson, 1993, p 341). The apparent unscientific nature of close dialogue contrasts with the nature of a wide array of critiques regarding the importance of truth and validity that must be addressed.

The Elite Interview and Situated Knowledge

Feminist commentators have argued vigorously for more recognition of the situatedness of research, and a wider questioning of the validity of research methods. Drawing on scholars such as Haraway (1991), Rose (1997) acknowledges that 'all knowledge is produced in specific circumstances and that those circumstances shape it in some way' (p 305), as 'knowledge thus positioned, or situated, can no longer claim universality' (p 308).

In particular, questioning the validity of knowledge gleaned from corporate interviews sparked debate in the early 1990s, when Schoenberger (1991), in a classic paper on the benefits of the research method, largely neglected to consider the influence of gender in corporate interviews. McDowell (1992) intervened in response, noting 'an interesting unresolved tension...between scientific notions of validity and replicability and her (Schoenberger's) recognition that interview techniques raise issues of interpretation, language, and meaning' (p 212). Other research has underlined the situatedness of knowledge collection within the research process. In a post-colonial feminist context, Radcliffe (1994) suggests that producing representations of Third World women is inextricably bound up with questions of authority, communication and representation and politics in general. As such, how you represent yourself and how your interviewee interprets that is central to the knowledges that are created. It is argued that the researcher needs to maintain a 'conscious awareness of position that if consciously appropriated can lead to, be part of, and inform collective oppositional practice' (Katz, 1992, p 505). Researchers 'must recognize and take account of our own position, as well as that of our research participants, and write this into our research practice' (McDowell, 1992, 409) - '"situating" is the crucial goal for all critical geographers' (Rose, 1997, p 306).

In response, Schoenberger (1992) adopted a pragmatic view - acknowledging the problems of the corporate interview, but recognising that no one form of knowledge is perfect, and instead a range of sources needs to be collected to build up a picture of the issue:

> Not having access to all relevant information, and not knowing with certainty what kinds of information one is missing, are problems common, I think, to all forms of research. My sense is that different methods tend to miss different things, and this is why access to a range of research strategies is useful (Schoenberger, 1992, p 216-7).

There is, amidst all of these perfectly valid points, a possibility of becoming embroiled in fruitless debates concerning validity and truth that does not prescribe or advise on possible solutions to methodological approaches. In short, theoretical debates can overtake any practical usefulness. Indeed, Rose (1997) ultimately questions whether there is any 'transparent self' that can be realised in interview performance. Instead, this chapter argues that if a researcher triangulates what s/he finds from elites, then many of these drawbacks can be minimised. In particular, consciousness of potential pitfalls, with recognition of oneself as a value laden individual who brings to the research process an ungiven number of prejudices and representations, is important to improve the potential for research success. In this context, I agree with Clark (1998) who suggests that 'many researchers are too idealistic about the possibility of truth in the social sciences' (Clark, 1998, p 73-4) – what this chapter suggests is that more literature on "doing" the practicalities of the research are the important things to learn in establishing elements of "best practice" in economic geography inquiry.

The Realist Philosophy of Close Dialogue

Essentially the close dialogue approach to economic geography investigation rests on a realist philosophy. Close dialogue with corporate elites can especially uncover the multiplicity and open-ended nature of events, strategies and outcomes. Qualitative research with these pro-active economic agents embedded in processes of value creation is necessary as 'reality does not appear as a neat set of successive events; rather reality is made up of deep enduring structures that possess causal powers to produce and reproduce empirically observable events and activities' and to explain this 'we need to probe into its underlying structures and causal mechanisms' (Yeung, 1995, p 334). As a direct consequence, statistical methods 'are not sufficient to accomplish the task of explaining reality. They are only useful in painting a broad picture of empirical patterns', as 'causal explanations do not originate from statistical correlation' (Yeung, 1995, p 334). What this broad brush approach neglects is 'the experiences at the individual social actor level' and 'if we take the economic action of these actors as socially embedded, the validity of quantitative data is even more questionable because indicators of economic action may not be compatible with measuring social and cultural behavior' (Yeung, 2000c, p 13). In this manner, Schoenberger (1991) argues that the qualitative personal interview 'may offer greater accuracy and validity because it allows a more comprehensive and detailed elucidation of the interplay among strategy, history, and circumstances. By contrast, the standardized survey instrument must necessarily standardize and simply a complex reality' (Schoenberger, 1991, p 184). This methodology can

represent a starting point for understanding the "open" and contingent nature of economic systems and actions that underline the role of context in shaping and understanding economic behaviour across space and time (Yeung, 2000c). Only by aligning ourselves near the decision making process that directly produce these geographical outcomes can researchers start to understand the contemporary economic, cultural and social environment.

CLOSE DIALOGUE WITH CORPORATE ELITES

In considering close dialogue with elites, a number of specific factors need to be regarded prior to making contact. This section analyses the justification and identification of elites to interview. It is essential to recognise such issues prior to discussing access difficulties and strategies of triangulation that aim to overcome the problems of situatedness of knowledge in research.

Why Interview Elites?

If we accept the theoretical justification for pursuing close dialogue in research as it offers the potential to unveil a contextually embedded real world, away from the stylized facts of theory, the question arises concerning whom to talk to. It is natural to assume that most utility can be gleaned from 'the people who are most influential in shaping these processes', and as such have a 'capacity to mobilise specialist knowledge' (Hughes and Cormode, 1998, p 2098). In its turn, elite research presents specific problems and issues that must be addressed. These include issues such as defining and locating them, even before considering the difficulties of gaining access.

What is an Elite?

The literature on elite interviewing has historically been somewhat vague regarding the definition of an elite (Woods, 1998). As such, "elite" research is often claimed to have occurred, although, on analysis, it is evident this only been with middle management in large corporations, or local politicians, rather than CEOs/CFOs of multinational firms or Ministers and Cabinet Officials.

Woods (1998) suggests that there are three characteristics that are indicative of classification as an elite. Firstly, an elite has privileged access to, or control over, particular resources, which may be mobilised in the exercise of power or influence. Secondly, a network of social or professional relations links these actors. Thirdly, elites are socially and discursively constructed as an elite either by themselves or by others (Woods, 1998, p 2108). It is difficult to dispute these qualities, but Woods then labels his work interviewing local politicians in Somerset as elite research – this, I find difficult to agree with. Parry (1998), in her study of global networks of elites in the genetic

industry, offers greater clarification, suggesting a more precise definition of a business elite. In particular, she draws a distinction between institutional elites and *corporate* elites – a definition more in fitting with elites from a business context. 'Corporate elites....exercise control over a particular aspect of commerce - are often characterised first as consisting *exclusively of those who hold senior positions within a particular industrial, financial, or commercial sector*; and second, can thus be unproblematically located within a particular industrial, financial, or commercial institution or set of like institutions – the managing directors or chairpersons of major...plants, banks, or public utilities for example' (Parry, 1998, p 2148, my emphasis). Clearly, although there has been a growing literature in economic geography on elite research, it is important to recognise that this has often been with institutional elites rather than corporate elites (see for example Cochrane, 1998; Sabot, 1999; Ward and Jones, 1999; Woods, 1998).

Locating Elites and the Role of Networks

Recent research has suggested that elites within a particular sector tend to locate themselves in networks *across* organisations, where tacit membership determines inclusion, rather than formal location and company boundaries define the limits of the network. Parry (1998), for example, acknowledges this in her research on the trade of genetic material where her network of elites was dispersed over space across several professions, including lawyers, businessmen and politicians. In this manner, she comments that 'although each individual would characterise himself or herself as holding an elite position within their particular agency, most are only now becoming aware of the fact that they constitute part of a wider elite of decision makers who together control the terms and conditions of exchange' (Parry, 1998, p 2151). Linking this network together was difficult as it was 'increasingly informal, hybridised, spatially fragmented, and hence largely "invisible"'(Parry, 1998, p 2148). Similarly, Woods (1998) comments that elite networks are 'almost by definition decentred and rhizomic, they do not have any central organiser or collective decision making structure, and as such may lack any identity as an elite' (Woods, 1998, p 2112).

For my doctoral research this was found to be the case. Although, the boundaries of the conventional US department store industry were relatively easy to locate, as the major actors were situated within the major five department store firms, the networks of specialist knowledge on the sector permeated somewhat wider. This web of knowledge was found across US academia - in major management and business schools where Professors had broad expertise on the sector - and US retailing in general. Furthermore, there was a wide array of Wall Street based investment analysts who, situated outside of the firms themselves, were nonetheless highly involved in the restructuring of the sector, as they in part determined the performance of the

retailers' stock through their recommendations in industry reports. In addition, as these actors were not directly involved with the running of the firms, they did not have as much of a vested interest in putting a "pro-company" perspective on events. Locating these individuals was essential for the triangulation process (see latter sections).

The role of networks was particularly important when researching events in the conventional department store industry that occurred in the mid-late 1980s. Individuals from this period were often long since departed from the corporate fray - frequently retired or operating their own consulting businesses. In this context it was necessary to attempt to access the network on arrival in the field and determine who were the appropriate actors to see. Once I had accessed the elites in the contemporary industry, and they had assured themselves of the validity of my research project, they were often happy to put me in contact with previous executives and/or equity analysts from the 1980s. In addition, of course, present day executives had their own views on the 1980s, as many were situated in junior management roles at the time, so themselves had unique perspectives of the situation "from the ground".

Although this wide array of actors within the knowledge network is essential to recognise, the practical considerations of research, with its limitations of time, and more importantly, finance, mean that with a spatially dispersed network, decisions have to be made regarding where one can feasibly locate oneself which, in turn, determines the actors the researcher is available to meet. In my fieldwork, it was prudent to select a location densely populated by members of the industry network. The obvious choice was New York City. As one of the world's major financial centres New York City has a considerable array of retail experts and equity analysts who analyse events across the whole of the US retail sector (cf. Sassen, 2000). The investment banks of Merrill Lynch, Goldman Sachs, Schroders, amongst others, eventually allowed me access to their company reports. In addition, Bloomingdale's, Saks Fifth Avenue and Lord & Taylor are situated in the city. For some important retailers it is necessary to make specific journeys - Federated were essential to the success of my research and consequently it was necessary to travel to Cincinnati on a specific visit. This was especially important, as I had been granted access to the elite actors within the corporation. The dispersed nature of elite networks, and their effect on the physical and financial constraints on situated research is essential to consider in elite close dialogue planning.

THE ACCESS ISSUE

A central concern of this chapter is how to actually access the network of corporate elites - a subject that has remained rather neglected in the methodological literature thus far. Indeed, as

Andy Herod comments '(w)hereas many standard texts on interviewing seem to assume that gaining access to institutions is relatively straightforward and thus they focus on the dynamics of the interview itself, in practice simply arranging an interview itself can be an extremely challenging ordeal, even when one is armed with such basic knowledge as contact addresses' (Herod, 1999, p 315). This is particularly acute in cases when researchers are attempting to access elites rather than other, less senior, respondents. Whilst good practice is likely to achieve adequate results, it is important not to dismiss the role that good fortune and informed intuition can have on gaining access to these corporate elites.

The Role of Gatekeepers

The key to accessing elites is often through the effective endorsement of a so-called "gatekeeper" who effectively vouches for the research and the researcher. The gatekeepers' own reputation can prove fundamental in persuading an elite that a meeting with the researcher is a serious proposition. In this manner, Herod (1999) acknowledges that it was essential to leverage his links with UK trade unions to access foreign trade union officials. The use of a gatekeeper varies from the conscious and explicit – in terms of the gatekeeper contacting the elite on the researchers' behalf – to the unconscious and implicit in terms of the researcher acknowledging that they have met with the gatekeeper in their initial contacts with the elite, in that way identifying themselves as already part of the network. To identify oneself as part of the elite network is crucial in this regard – 'partially elite power comes from their extended social networks and their ability to act as connectors' (Oinas, 1999, p 352).

In particular, if access can be granted at one level of the organisation, it is often easier to access other hierarchies of it. In my research, simply naming someone else I was speaking to within their firm, often opened doors at different levels of the corporation - '(t)hese intermediaries provide the social and institutional foundation upon which spaces of actor networks are prescribed and negotiated' (Yeung, 2000c, p 17-18)

The Importance of the Introductory Letter

It is important to note, as Mullings (1999) suggests, that how 'individuals represent themselves can make the difference between being granted an interview or not' (p 340). It is subsequently essential that the introductory letter to a corporate elite purvey a sense of professionalism. The introductory letter can construct a representation of the project as far more assured and implicitly organised than it is likely to be in these early stages. In my doctoral research, I had already been introduced to, and had discussions with, Dan Barry, a senior equity analyst at

Merrill Lynch, known to all of the executives in the industry. It was important that this was effectively "advertised" in the introductory letter. To the recipient, this was likely to suggest that the researcher was part of the broader network of corporate elites and was likely to persuade them to meet. It was a classic example of an *unconscious gatekeeper* where previous respondents leverage further access to other elites as "when one good senior contact has been made it is easier to make others within the same organization' (Healy and Rawlinson, 1993, p 346).

In these letters it is necessary to underestimate the amount of time likely to be taken up by the interviews. My research suggested 15 – 20 minutes would be required. Obviously, in practice this often resulted in interviews of over 45 minutes – *the important issue was actually getting access to these actors.* If they are interested in the research and discussion, they are frequently likely to continue discussion beyond the allotted time slot.

The representation of the researchers' status is especially important in the initial letter as "the positionality of the researcher will reflect (and be reflected in) the level of access obtained and the nature of responses' (Ward and Jones, 1999, p 309). This has been repeatedly commented on throughout the literature. As McDowell (1998) and Parry (1998) acknowledge in their corporate elite research, the use of University of Cambridge headed notepaper confirmed the executives 'perception of me as part of some brethren of elite groups' (Parry, 1998, p 2155). In my doctoral research this is unlikely to have contributed to my research access – instead the use of the unconscious gatekeeper in the initial contact letter proved crucial. Perhaps more difficult is the perceived notion of what the discipline of geography represents to the corporate elite on receiving this initial contact. As Herod (1999) suggests, potential respondents are less likely to talk to geographers as opposed to historians or political scientists or sociologists, because of the inferior way in which the discipline is regarded in the US. It could therefore be necessary to downplay the geographical link on the initial contact and attempt to use phrases more used in the particular sector being investigated.

A controversial strategy that can be used in the initial contact to gain access is to underplay the potentially sensitive nature of the research. It is important that the executive is interested but not threatened by the research project. As McDowell (1998) has admitted, she frequently desensitises initial research questions and only gently reveals her core issues once trust is established. This was an important strategy in the investigations for this doctoral thesis. In making contact with executives in a department store firm which had pursued an underperforming acquisition, my initial letter requested a meeting to understand the "general restructuring of the sector in the 1990s as (your company) has been a successful major driver in the consolidation wave of the decade", rather than "I wish to discuss and analyse your

acquisition", which would undoubtedly be perceived as a threat, because it was widely known in the business press that the consolidation was a strategic disaster.

In particular the introductory letter should convey a sense that the participation of the corporate elite in the project could represent a sense of "value added" *for them*. This opportunity of adding value is perhaps the most difficult to transmit on initial contact - the sense of excitement and possibility that the researcher has for the project must be condensed into one page. It is important to note that this first contact is likely to be the most important as, '(g)iven the strict security and time constraints that most elites operate under, researchers often find themselves with only a brief window of opportunity to convince those from whom they seek information that such an endeavour is worthwhile' (Mullings, 1999, p 339)[34].

Opportunism and Access

A good introductory letter, the leveraging of gatekeepers, and a follow up telephone call represents general good practice and has been fundamental to accessing and successfully carrying out my close dialogue with corporate elites. It important to note however, that "real life research" is a great deal more complex than this paper has so far suggested. In particular, a considerable amount of the extensive access to which I was privy during my research was due to luck, coupled with innovative techniques of contacting corporate elites. In this way, Parry (1998) comments on the 'much neglected role which chance and intuition play in the research process' (Parry, 1998, p 2148). For Yeung's PhD corporate elite close dialogue, he suggests that (i)n practice, *opportunism* is often the word of the day in organisational research' (Yeung, 1995, p 317, original emphasis).

There has been considerable change in the networked nature of information availability since Healy and Rawlinson, in 1993, argued that 'the quality of the information about businesses available to research workers is limited' (p 349). With the advent of the Internet, the access and availability to corporate information has dramatically improved. Practically all businesses now offer their own websites to publicise their services - this alone represents a democratising of (albeit biased) information for researchers. This can, in many cases, be utilised to obtain the e-mail addresses of actors within the firm. In my project, it was possible to "work out" the e-mail addresses to senior corporate elites. Essentially, the same model of address was the same across

[34] On the subject of security, it should be noted bullet proof glass doors protect the corporate offices of Macy's in New York City!

the firm in question[35]. In many instances this meant that I was able to directly e-mail the corporate elite without encountering the filtering effect of the secretaries. This occurred a number of times with senior figures in the industry and generally received a favourable reaction from the elites. What this underlines is the bureaucratic barrier that conventionally prevents contacting these corporate elite figures. Clearly, the impact of an introductory letter, however well worded and littered with references from gatekeepers, is useless when the elite does not seen it. The direct nature of e-mail offers the potential to overcome this problem.

In another instance of opportunism, I contacted an academic who had written a paper on the department store industry whilst employed as a tutor on an MBA course at the Institute of Retail Studies at the University of Stirling (Biederman, 1991). He was based in New York City so would potentially prove to be a useful interview. On contacting him however, he replied that he was in fact a retired former divisional president of Allied Stores during the 1980s. He was consequently a principal elite actor during the overleveraging of the sector during the late 1980s and thus a great help, taking a keen interest in the project and keeping in weekly contact about issues. Furthermore, he independently set up, interviews with other retired corporate elites from the period who were happy to discuss the industry's restructuring through the 1980s and 1990s.

These two examples display how, if the researcher is initiative and has luck on their side, access can be achieved, providing the opportunity to produce a wide-ranging close dialogue. There are however, other issues that affect the access issue and these must be examined.

Foreignness and Access

The essence of close dialogue is that the researcher is attempting to become essentially an insider within the firm, privy to the tacit knowledges that encompass key decision making. It has traditionally been assumed therefore that there has been a dichotomy between insider (good) and outsider (bad) when constructing our knowledges. This opinion is, though, undermined by recent research in foreign contexts where the researcher is alien to the country of investigation. Andy Herod (1999), in this context, that 'conducting interviews with members of foreign elites is, in many ways, qualitatively differently from that of conducting interviews with either elite members of one's own nationality or with non-elite foreign nationals, and thus that different issues must be problematized within the research process' (Herod, 1999, p 313).

[35] All of the e-mail addresses for Saks Fifth Avenue were the same other than the start where the name of the recipient was inputted. By simply adding the name of the executive to the known formula, direct access the corporate elite's mailbox became possible.

In one respect being foreign and thus an outsider, indicates disadvantage because the research is situated in a different cultural context that is likely to be troublesome to understand. In contrast however, Sabot (1999) argues that this fact actually permits the researcher greater flexibility in their questioning. She suggests, that, due to the language barrier, it was accepted that questions would be asked in a more blunt manner as '(m)uch leeway is given to the foreigner' (Sabot, 1999, p 333). In her research, she was not seen as a threat to exposing secrets as she was from afar, but instead an international visit 'heralded their international recognition and projected their image abroad' (p 333). In addition, Herod (1999) argues that he has often "played up his Britishness" as 'the simple fact that I was a foreign Western academic afforded me a warmer reception than had I been a local researcher' (p 317) and frequently acted as an ice breaker. In addition, he argues that 'the very fact I had travelled several thousand miles to talk' (p 317) meant that executives took him more seriously.

My doctoral research was situated completely in a US context. I would suggest that this played almost completely in my favour, with very few negative implications. There are a number of reasons for this. First, there was definitely an interest amongst industry executives and analysts alike interested in what "a Brit" was doing in investigating what fundamentally represents, a slowly dying industry - it is clear that the research was not initiated on a whim as I was travelling a considerable distance to meet with the major elites. Secondly, elites were often interested in where I was staying in the city and what I had seen for example – as Herod suggested, this acted as an icebreaker in conversation. Third, my foreignness allowed me to "play dumb" on a few occasions and allowed executives to wax lyrical on a subject on which I was somewhat vague. If I had been from the US, I believe this knowledge would have been expected. A drawback with regard to being foreign was the expenses associated with foreign fieldwork. In effect, the research visits had to be " a one-stop strategy" due to the financial constraints and high costs of situating myself in New York City for a number of weeks - this prevented meetings with a few senior executives who would otherwise have been willing to meet[36]. In these instances however, telephone interviews were organised.

Access as a Determining Factor

Despite all of the elements of best practice that this chapter has acknowledged, it is essential to conclude that there is no guarantee to gaining access to all of the firms one is expecting, thus producing the holistic, unbiased analysis anticipated. As McDowell (1998) acknowledges:

---

[36] It should be noted that I visited New York City twice on my principal research visit, truncated by visits to Cincinnati (Federated Department Stores Corporate Headquarters) and Pittsburgh (for the AAG). This provided the maximum opportunity to meet with the elites.

> Somehow you have to get in there, and although we often, in writing up our results, talk blandly of our samples or our case studies, letting the reader assume that the particular industry, location, site, and respondents were the optimal or ideal for investigating the particular issue in which we were interested, we all know the reality....is a lot messier (McDowell, 1998, p 2135).

Although Yeung agonises over the question whether 'we collect information from the headquarters of transnational corporations or their overseas subsidiaries and/or affiliates?' (Yeung, 1995, p 315), it is essential to understand that availability of finance for the project limits case study coverage and subsequent depth of analysis. This is particularly acute for researchers in Graduate Schools in UK universities who do not necessarily have access to vast funds, despite the validity of their research. Research must clearly be realistically considered "the art of the possible" where the academic can only react to the environment to which s/he is presented and the opportunities available. This is not to suggest though, that my close dialogue approach has been less than rigorous – the triangulation and total method approach seeks to minimise those distortions that result from an imperfect sample.

ORGANISING THE ELITE INTERVIEW

Timing and Spacing the Interviews

The timing of the research is long known to effect results – especially if the subject of interest revolves around temporal changes in firms (Bryson et al., 1999). With elite close dialogue however, timing is equally important and especially vital when research involves trips to foreign sites, as it is likely that funding constraints will necessitate a short time horizon through which to undertake the investigation.

In my research, the timing was imperative. There was little point in attempting to arrange a visit to the US during the Christmas season when retail executives are highly involved in their seasonal businesses fluctuations. Instead I chose the relatively quiet March/April period; a couple of weeks before the Easter seasonal pick up in trade. Had this time period not been selected, it is likely that access to industry elites could have been considerably more difficult than it subsequently turned out.

With regard to organising interviews and integrating them into the schedule of the research visit, there are additional issues to consider. When research is focused on a busy and congested "global city" such as New York, it is essential to recognise the limits to a researcher's mobility across the metropolis. Consequently, it is preferable to organise interviews that are adjacent to each other to minimise travel time between meeting. This was made considerably more difficult

due to the fact that the research was focusing on corporate elites. In particular this group are extremely busy and it is impossible to dictate dates and times – to an extent the researcher is at the mercy of the elites' timetable. This often results in situation where there are whole days where there is only one interview, and others where there is the daunting prospect of four interviews in one day! It is these conditions that are unavoidable when dealing with this exclusive strata of businessmen.

Power Relations and the Elite Interview – A Complex Balancing Act

The elite interview itself provides an interesting reversal of conventional power relations. Whilst with conventional research, academics may possess a privileged position - evidently university educated and "from the academy"[37], when undertaking close dialogue with elites this position is subverted as the interviewee is the powerful actor. This presents a difficult predicament for the researcher, as s/he has to present a robust, yet amiable personality to engage the elite – robust because, 'owing to the sheer power structure of interviews, there is always a tendency for the interviewee to impose his/her meta-communicative norms on the interviewer' (Yeung, 1995, p 322) and amiable because, as Cochrane (1998) suggests, '(t)he fear of veto or withdrawal remains (even if it is no longer dominant) and this may help to shape responses. The power relationship is different one; namely one in which the respondent, the researched, is in a position of power and may set the agenda' (p 2124).

It is clear that the manner in which the researcher represents him/herself can dramatically effect the answers given (Cochrane, 1998). A balancing act between dominating the conversation, where there is a fear of "leading the witness" to responses (see Schoenberger, 1991) and accepting everything the elite member suggests and not sufficiently questioning responses has traditionally been necessary. Methodological awareness has however, developed since the early 1990s, to understand that there need not always be this aggressive attack[38] versus passive response dichotomy. In particular, recent accounts suggest that there is a greater need for researchers to further engage elites as a means of establishing their valid positioning and promoting flowing and interesting conversation on the prescribed topic. As such, if elites are interested in you and your research, they are more likely to be at ease and thus prepared to

---

[37] Indeed, as Herbert (2000) recently suggested, it is often considered that '"natives" are passive and powerless; the scientists gaze is just one manifestation of the wider skein of dominance relations in which they are enwrapped' (p 562).

[38] Schoenberger is especially forthright is suggesting interviewers should "attack" to establish their position in the corporate interview: 'there is implicitly a negotiation or struggle about power and control in every interview. It is important that the interviewer win. The risk that one might in so doing, crush the respondent, seems to me a trivial one' (Schoenberger, 1992, p 2157).

contribute in debate. Consequently, a clear, exciting explanation of the research must be offered as it is very important to keenly explain the project initially, even though it may be for the "nth time" (Oinas, 1999, p 356). Enticing elite actors in this manner however remains the difficult hurdle to overcome.

It is essential that the researcher is knowledgeable across the subject in which s/he is examining. As Parry suggests 'interviews with elites might perhaps be best understood as a form of social interaction in which it is essential, and not merely desirable, for the interviewer to engage not only the professional but also the personal interest of the interviewee' (Parry, 1998, p 2157). It is difficult to be able, as a University researcher, to offer anything in return for the elite's time so this is doubly important. Instead dialogue must be conceived as a reciprocal relationship with 'an informal agreement to exchange information, sometimes involving an elaborate and highly choreographed process of sequential revelation that joins both sides of the dialogue' (Clark, 1998, p 80). This information flow-back to the "researched" can be regarded as an important agreement to encourage debate, but also broaden the flow of the sometimes very theoretical approaches economic geographers produce[39] (Cochrane, 1998, p 2130).

During my elite fieldwork, I always gave a copy of a recently written paper on the department store sector gleaned from the extensive period of secondary data research. This certainly established myself as a "serious" researcher and worthy of considerable periods of the elite's time. The paper had been sent to Jim Zimmerman, CEO of Federated Department Stores, the largest global department store retailer, prior to the interview. Interestingly, Zimmerman had actually read the paper and during the interview related many of the concepts we were discussing to a diagram in the paper – essentially translating the concepts to academic theory. Such interest from a senior industry figure is, however, rare and unusual[40].

When negotiating elite dialogue it is important to relate to the language of the corporate world rather than that of the academy (Herod, 1999; Schoenberger, 1991). This avoids confusion and a loss of interest from the elite, but equally importantly establishes an understanding of how the elite perceives of the issues rather than from a theory laden, economic geography perspective. This occurred in a number of instances during my period of interviews. In particular when discussing the impact of the regulatory framework on retail consolidation, it quickly became evident that industry practitioners had never heard of the 'fix it first' approach of dealing with the FTC, even though the term was widely in use across antitrust economics and economic

[39] It is my view that we must still be able to relate to the subjects of the research despite the protocols and language of the academy.

geography (see Chapter 7; Cotterill, 1999a; Wrigley, 2000c). As a result it was essential then to backtrack and ask for their understandings of the FTC's policy. In effect, I had presumed too much knowledge on their part.

Ethics and Power Relations

In negotiating close dialogue there are numerous strategies to reduce the researcher's perceived threat to the corporate elite, yet still glean the required information. This is common and generally regarded as a necessary deception in corporate geography research. For example, McDowell (1998) admits to desensitising core questions and instead emphasising peripheral issues, tenuously related to the research project rather than the primary questions. In addition, Parry (1998) suggests that it is necessary to create oneself as innocuous and "apolitical", despite the very political implications of her work on the biotech industry. Indeed, in my research, I often desensitised issues of corporate failure when discussing with elites, despite my research demanding answers to "why things went wrong". Instead, it was necessary to gently probe around the subject rather than "diving in". This tactic increased the broad knowledge of the subject, opening new avenues of knowledge that was not initially evident and eventually provided a framework in which to ask more sensitive questions later.

These strategies of accessing information raise considerable ethical issues that must be considered. If one adapts the extreme position, Keith (1992) suggests that 'there is an internal relationship between researcher and researched that makes all ethnographic writing, in part, an act of betrayal'. It must be considered however, that all of the corporate elites are media trained and deal daily with equity analysts, the media and the business press - all of whom have a considerable impact on the share price and thus the value of their firm to a greater measure than any academic paper would. In addition, the research economic geographers conduct is not designed to "trap" senior executives and "trick" them into revealing information on controversial issues. As McDowell (1998) suggests, it is necessary to treat your research subjects as you would expect to be treated yourself. In this context, I have no hesitation in "naming names" in reporting my research in this thesis (unless the executives expressly requested that I do not do so). In particular, this is important to unveil the value of my work with the small number of corporate elites in a sector as centralised as the US department store business as, on some occasions, 'it is necessary for the sake of the validity of the research to "name names" and to give authorial possession to particular comments or pieces of information' (Herod, 1999, p 324). Although I offered all elite subjects the opportunity to receive a copy of completed

[40] It should be noted that the paper was only really used as a strategy of establishing my own valid position in

publications, I was hesitant to offer an opportunity for the respondents to revise their contributions to the work as 'if they had the chance to review what they have said they may well decide that the material is too sensitive for publication and feel compelled to ask me to withdraw it. It is certainly not in my interests to allow them access to a prepublication text, for precisely that reason' (Parry, 1998, p 2159). It is this common sense approach to ethical considerations with corporate elites that is necessary. It is crucial to recognise that corporate elites are the powerful agents in the researcher – researched relationship, in contrast to other geographical investigations which involve power*less* groups that are not aware of the influence of their statements. It is difficult enough to access the elites, nevermind double checking that what they said is suitable for publication. A journalist would never do this – why should economic geographers?

TACKLING SITUATED KNOWLEDGE

Close dialogue is clearly a powerful tool in economic geographers' armoury, allowing an understanding of the complex nature of a firm's decision making and restructuring actions. In addition it is also evident that elite research presents' very different methodological and ethical challenges from studying "down"' (Cormode and Hughes, 1999, p 299). These appear in the form of gaining access, negotiating power relations in the interview and being explicit about your own situatedness. A central factor compounding this is how the researcher distils and interprets these knowledges in a fashion to write a narrative that is unbiased and true to events. Indeed, recent literature has criticised the 'fuzzy' nature of many of the findings from qualitative methodologies which are inadequate to apply across the whole industry, or even firm, in question (see for example Martin and Sunley, 2001; Markusen, 1999)[41]. In this manner, it is clear that although engaging in close dialogue and exchanging information with the key corporate elites in the sector is considerably enlightening, it is also the case that 'the "stock of knowledge" of any one individual is limited' (Ward and Jones, 1999, p 309). As Clark suggests, academics, exposed to the elite world are 'vulnerable to seduction and cooption' (Clark, 1998, p 80). It is understandable that academics could come away from the corporate interview and subsequently 'end up believing that whatever happens, it is all the result of deliberate decisions – an intentional rational strategy' (Cochrane, 1998, p 2129)[42]. It is in this context that it is acknowledged that close dialogue:

---

the eyes of the elites.

[41] Indeed, Rodriguez-Pose (2001) argues that 'if there is one thing that has characterised many "mainstream" economic journals in recent years it is an excess of theory, too little empirical evidence, and empirical evidence too selectively drawn and narrowly analysed'.

[42] Indeed, this is widely regarded as a problem. Pratt (2000) has recently commented in his work on e-commerce, that '(m)ost economic and cultural geographers display unquestioning confidence that their respondents know what they are doing' (p 430).

> ...can indulgent, even isolating, given the special knowledge suggested by shared confidences. Worse, close dialogue may promise unique insights into the closed world of industry organization and relationships but, actually, only ever deliver information tainted by suspect motives. How can we avoid indulgent isolation? (Clark, 1998, p 78).

As such 'it is imperative that corporate narratives are also triangulated with other existing data and theoretical perspectives on the issues being researched' (Hughes, 1999, p 372). In this fashion it is prudent to cross check against control questions to test the veracity of respondents (Clark, 1998), reask the same question to many people to broaden perspectives on issues (McDowell, 1998) and possibly interact with a knowledgeable research team aware of the wider topic (Cochrane, 1998). A more comprehensive strategy is required to test the validity of acquired knowledges from a wide range of sources.

Triangulation

In considering the strategies regarding how to negotiate between the knowledges gleaned in interviews and a so-called truth "out there", Yeung (2000c) argues for what he describes as a 'total method approach' in which researchers 'employ multi-methods and triangulation not only to explore the microfoundations of economic action' (p 4). Agreeing with the fundamental qualities of close dialogue, as it may be more valid in 'understanding better the actual practice of decision making (Clark, 1998, p 82), Yeung (2000c) acknowledges that it is important to note the 'fallibility of any single measure or representation of social phenomena and psychological construct...What is necessary in the process of triangulation is to compare and contrast different sources of findings if they are addressing the same phenomena' (Yeung, 2000c, p 24-5). This can be overcome by a rigorous triangulation with material collected from the equity analyst knowledge networks, the business press and through discussing issues with a *range* of industry executives and academics (see **Figure 5.3** for the approach of this thesis in this regard).

In particular, employing triangulation can reduce the possibility of selective quoting of elites. As Hughes (1999) recently acknowledged, the politics of listening is, of itself, a political process, loaded with values and bias as 'it is the editorial decision making that is crucial in maintaining a critical stance. While it is beneficial to incorporate the voices of corporate agents...the politics of listening of listening to and representing these voices in academic work must not be ignored' (Hughes, 1999, p 372). In response, McDowell (1998) suggests that the transcription should be listened to in comparison with others repeatedly to allow the researcher to pay attention to

'validity, representativeness, voice and ownership' (p 2141)[43]. In this manner, Oinas (1999) notes the difference between the elite speaking *for the firm* or him/her speaking *about the firm*. As such, the elite displays a fundamental 'multivoicedness' (p 359). All of these factors are essential to tackle during the abstraction and distillation process.

The Use of the Business Press

The business press has been particularly useful in firstly providing information to develop ideas in the pre-interview stage and help to determine issues that may be of interest, and second, as a reference point upon which to compare knowledges gleaned in corporate elite close dialogue. The business press, in this case consisted of such publications as *Chain Store Age*, *Fortune*, *Forbes*, *Business Week*, *Barron's* magazines, as well as newspapers such as *The Wall Street Journal* and the *New York* and *Financial Times*. All of these publications provide up to date reports by journalists who themselves enjoy close audiences with the industry elites. In particular, the use of the Internet has considerably increased access to many of these publications. Everyday I am able to read these newspapers on my desktop. Equally, many of the retail sector reports by accountancy and consultancy firms such as Ernst & Young, Arthur Anderson, Deloitte and Touche and KPMG are now readily available for access through the Net, as are press releases of the major department store firms. In recent months, ever conscious of a global investment community and due to legislative changes imposed by the Securities and Exchange Commission, firms have broadcast their analyst conference calls live through the medium of the Internet (see C. Hughes, 2000). All of these resources have proved incredibly useful in contextualising and aiding the formation of a balanced narrative. It is clear, in this manner, that:

> All of these data and information may be reliably obtained from existing intellectual and popular publications, public speeches, and policy statements. This kind of data may be "unconventional" in the traditional realm of economic geography, but they promise to unravel the underlying power structures and social relations in the (re)production of our knowledge of economic geographies (Yeung, 2000c, p 14-15).

To an extent such resources alleviate the difficulties in conducting research from such a considerable distance on the firms of interest.

The reports produced by equity analysts concerning the retail sector have been a fundamental resource used to inform my understanding of the industry, construct my research inquiry and to triangulate with knowledge from close dialogue. It is to these specific knowledges that the chapter now turns.

---

[43] McDowell, in particular, advocates the usefulness of taking notes after the interview to note opinions regarding the exchange as this will aid in deconstructing the conversation later during analysis.

The Equity Analyst as a Research Resource

Equity analysts hold a unique position within the retail industry which is necessary to understand in writing economic geographies. It is important to note that equity research comes from a source not universally situated within the constituent firms themselves although these actors are important agents within the corporate governance process and enjoy unprecedented levels of access to the corporate elites. The benefit of accessing these industry actors is rarely recognised, or capitalised on, in economic geography. Indeed, analysts constitute corporate elites themselves and can prove to be extremely difficult to access - equally as difficult, in my experience, as the senior executives within the department store firms.

Yeung (2000c) contends that using these knowledges presents a methodological approach which he terms '*in situ* research...done on the researchers behalf by other interested parties' (p 21, original emphasis). Yeung clearly makes the argument for accessing and harvesting the information from Wall Street analysts, as he is 'thinking of people from research houses of stock broking firms, investment banks, credit rating agencies and so on, and other institutions...who may have vested interests in unpacking certain firms and corporations'. This, essentially non-geographical literature is ongoing and is likely to draw on 'personal interviews, focus group discussion, gossip talks over lunches and dinners with executives...and reading company files and records' (Yeung, 2000c, p 21). In addition to maintaining a close dialogue with the equity analysts to capitalise on these knowledges, equity reports issued by the major investment banks can prove an essential ongoing resource as these 'sometimes contain vast amount(s) of data obtained through their *in situ* research' and represent 'an important source of oral and written data (that) can be profitably exploited by economic geographers' (Yeung, 2000c, p 21).

The Benefits of the Quality Equity Analyst

Clearly the use of the expertise of the equity analyst has the potential to considerably enhance our understanding of corporate restructuring – they are actors embedded within the broader industry discourses and have considerable access to the corporate elites of the constituent firms themselves. However, as Marsh (1994) has acknowledged, it is really the elite analysts that primarily dictate investment patterns, as institutional investors 'behave as though they were influenced only by the top analysts'. The importance of these elite analysts is considerable for constructing economic geographies, as Treadgold acknowledged at the start of the 1990s:

> The best of the retail analysts are acutely informed and insightful commentators with a deep knowledge of the companies they track, the sectors in which they operate, and the wider economic, political and consumer environments shaping their present performance and their future prospects. Analysts have an important voice in

reporting on and indeed influencing the performance and perception of retail companies and retail sectors (Treadgold, 1991, p 5, cited by Sparks, 1996, p 169).

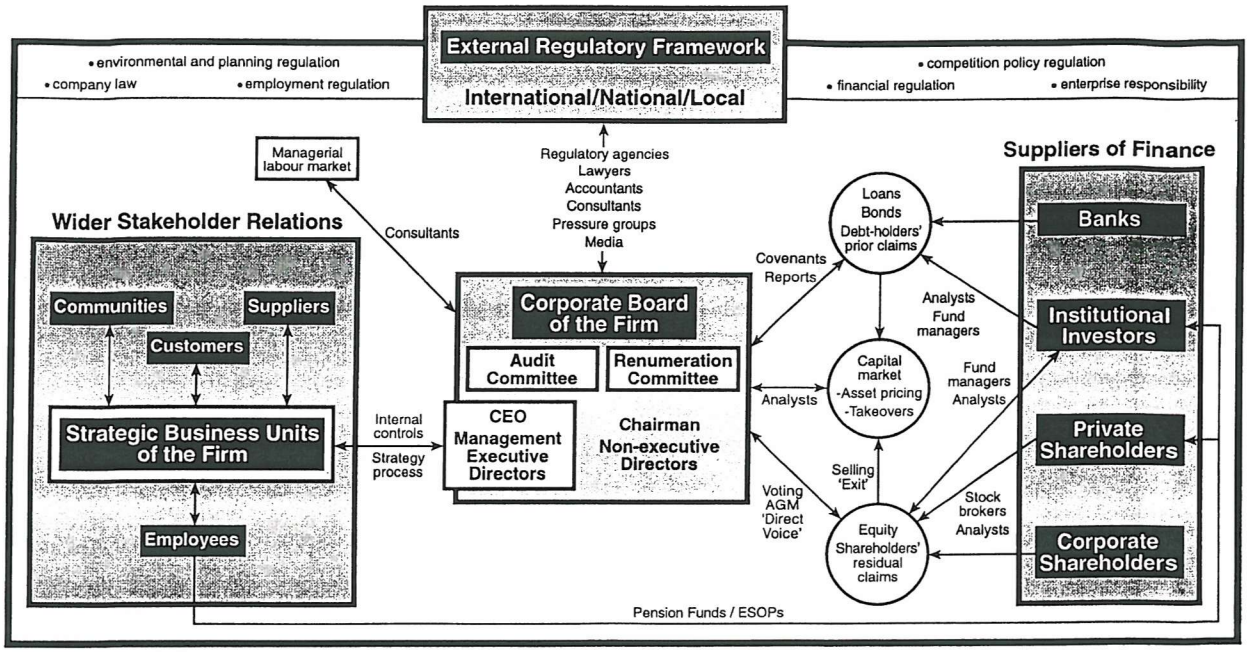
It is clear also that although analysts are not necessarily employed directly by the firms of interest – they play a vital role in the corporate governance process, sell a service for investment clients and are more broadly affected by the prevailing opinions across the financial community. It is essential to locate such sources of knowledge within the wider relations of corporate monitoring and organisation in order to understand how economic geographers can interpret the narratives from these elite actors.

The Analyst and Corporate Governance

The role and advantage of using the equity analyst as a research resource must be clearly identified. As Jensen and Meckling (1976) and Moyer et al. (1989) suggest, securities analysts play the role of monitors of managerial performance as a means of reducing the agency costs of debt and equity. The other major role analysts play is that of making security markets more informationally efficient. Indeed, as Monks (1998) acknowledges, the corporate system works best when it conforms most closely to the theoretical ideal of management effectively being accountable to ownership. However, when corporations are owned by hundreds of thousands of shareholders, the diseconomy of any single owner undertaking the costs and risks of monitoring has impeded and, to an extent, foreclosed fulfilment of theory. This is where the role of the securities analyst is located.

Sparks (1996) outlines the principal responsibilities of this position. First, the analyst is expected to understand, forecast and comment with authority on all the factors affecting an industry and its corporate constituents. Second s/he turns this knowledge into estimates of corporate (or sector) profits, usually expressed in earnings per share. Such statistics are related to the current share price to consider whether the shares are under or over-valued. Evidently, the analyst resides outside the confines of the formal firm. That said, s/he lies within the broader corporate governance framework (see **Figure 5.1**).

Figure 5.1 Systems of Corporate Governance



Source: Wrigley and Lowe, 2001

In addition to its relationship to the investment community, the analyst may also have discreet ties with the firm itself. Indeed, the investment banks, of which the analyst is part, also operate on behalf of individual companies, advising them about share floatations, and possible mergers and acquisitions for example (see Sparks, 1996).

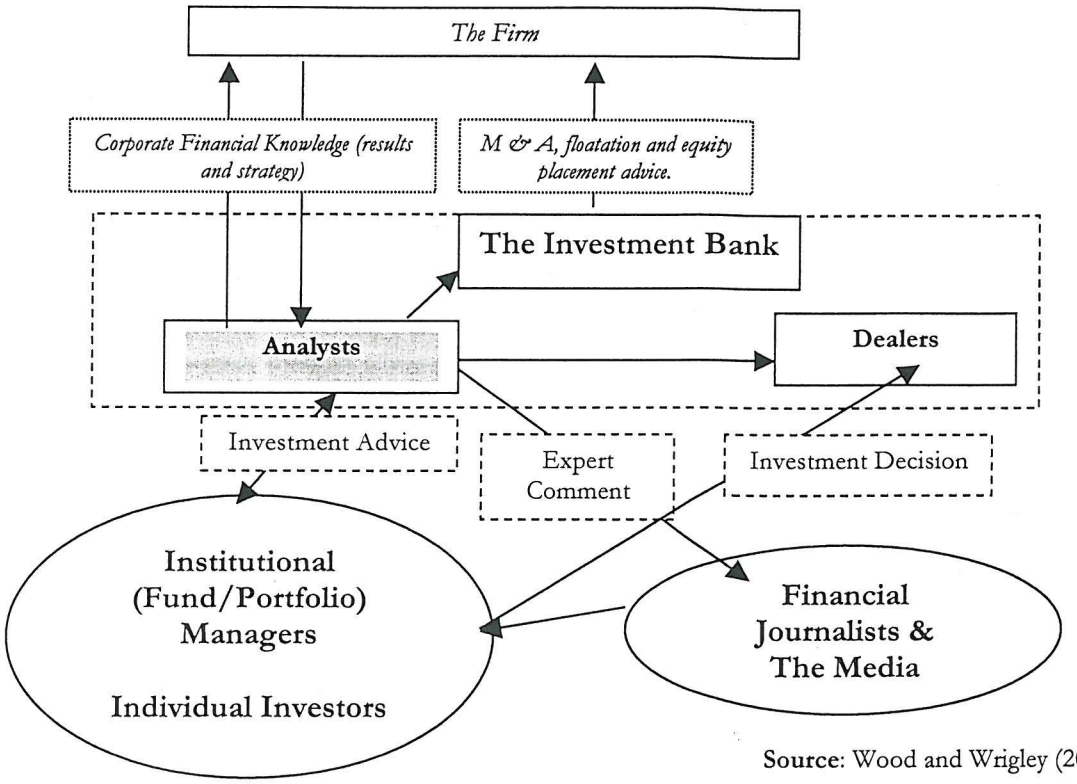
Furthermore, analysts contribute to media portrayals of events through their connections with journalists (see **Figure 5.2**).

The role of equity analysts' investment opinions within corporate governance is widely recognised. Indeed, small changes in the elite analysts' outlooks can have considerable implications for the buying behaviour of the stockholders and portfolio managers and ultimately the net worth of the firm. As Bernstein (1998) recently acknowledged in an issue of the *Financial Analyst Journal*:

> ...analysts usually stick their necks out about how they expect particular stocks to behave as a group and how the stocks will behave individually. Portfolio managers may or may not accept these judgements, but portfolio managers' decisions are usually constrained in some manner by the analysts' recommendations. Few portfolio managers would dare buy, or even hold, an item that has drawn an unqualifiedly negative rating from the analyst: most portfolio managers rise steadily to the bait when analysts are rhapsodic about one of their companies (Bernstein, 1998, p 4).

At first glance it would be reasonable to assume that the analyst offers a detached, untainted perspective that can be relied upon to provide clear "facts" regarding corporate change. Whilst this, in many respects is the case, a number of caveats should be acknowledged.

Figure 5.2 Positioning the Equity Analyst



Source: Wood and Wrigley (2001)

Recognising the Embedded Narrative in Space and Time

Financial narratives, which are effectively what the analyst produces, are embedded and bound up in the moment - the content of their views is very much situated in space and time – they are not necessarily detached and analytical as they may seem. This view of studying the financial narrative in its context has been analysed by Hopwood in the 1980s and reviewed recently be O'Neil (2001). As the former, in terms of the discipline of accounting, suggested:

> Accounting, to the organizational theorist, cannot be isolated from the processes which give rise to its presence or to its present significance, be those within or without the particular setting or even organization in which it plays a role (Hopwood, 1983, p 288).

Drawing on such opinions, O'Neil recently acknowledged that:

> ...any financial narrative, as a discourse which constitutes and is constituted by a field of power relations, produces the preconditions for its contestation. A financial narrative is constructed for the purposes of producing a set of power relations which will deliver a particular set of accumulation outcomes' (O'Neil, 2001, p 12).

Clearly, therefore '(f)inancial discourses are thus, like all discourses being comprised of a multitude of stories continuously in the process of formation and competition for dominance' (O'Neil, 2001, p 12). Evidently there is a need to situate the equity analysts within their context in a similar manner to understand their strategic employment within contemporary economic

geography enquiry. It is important to recognise that the analyst may not be situationally detached from either the firm nor the dominant fashions and trends as one may think.

First, in understanding the nature of the knowledge produced by equity analysts, it is essential to recognise the complex relationship between the analyst and the firm. The investment bank, in which the analyst is employed, may have been retained to provide expert analysis and guidance – in the case of mergers or acquisitions for example. In addition, both the analyst, and the firm on which s/he is reporting, are dependant on each other. As Sparks suggests, '(t)o a considerable extent analysts are dependent on the companies to allow access to management and provide detailed information about company operations and plans. Without such access, analysts may ignore the company or in the company's terms "misrepresent" it (Sparks, 1996, p 170). Clearly, this means that it is in the analysts' interest to maintain a good relationship with the constituent firms, and this is likely to affect recommendations. Harsh, negative opinions are likely to cause the firms to restrict access, making it difficult to develop an accurate investment outlook. It has widely believed that this has caused analysts not as be as thorough as they should be in their questioning of the firms - as Morgenson (2000) wrote in an open letter to analysts in the *New York Times*:

> What we don't understand is why you think equity analysis consists of dialling up company management and smiling when they tell you how great things are (Morgenson, 2000, p 1).

The tenuous relationship was recently evoked by analyst reactions in the case of Amazon.com that was so hesitant to reveal the true picture of their finances to analysts that the New York Society of Security Analysts operated a workshop whereby analysts could ask tough questions about the firm's financials anonymously, without retribution from management (Veverka, 2000).

Second, there is a likelihood that it will be in the analysts' interests to remain more upbeat about the sector they are covering than is realistic. As the work of Schoenberger (1994a; 1994b; 1997) repeatedly underlines, the individual has a vested interest in securing their worth and position within the firm. Analysts may feel the need to promote a vested interest in a particular stock as '(t)he profile of analysts is important because they have a vested interest in encouraging business both on the market generally and for their own company. "Talking" the market up or down may generate such interest' (Sparks, 1996, p 170).

Third, the context in which the analyst is commenting must be considered. Possibly the best recent example is the shifting opinions between 1997– late 2000 regarding the potential for B2C (business to consumer) electronic commerce. Clearly, analysts are affected by the prevailing

undercurrent of opinion of the time. Indeed, many analysts have been forced to reassess their optimistic opinions regarding the spiralling possibilities of the New Economy as a result:

> The idea of a new economy, or an "information economy" was manufactured by stockmarket promoters and sales people to rationalise very high prices for some stocks, but now that the telecommunications and internet investment mania is in the process of ending, perhaps we can dispense with the idea (Kohler, 2000, p 50).

Fourth, it is clear that although analysts are not necessarily formally linked to the firms in the sectors they cover, they can be regarded clearly as a stakeholder in the sector, which may affect the partiality of their responses. Having made their opinions known to the industry at large, they effectively tie up a great deal of other people's money in stock of particular firms – clearly analysts have considerable sunk costs of social capital in their previous investment advice – they may be hesitant to readily depart from these views.

Leveraging Information from Equity Analysts

Although a major benefit of utilising analyst's knowledge is that they have unprecedented access to the major industry executives, it is in the investment bank's interest to maintain cordial relations to the sector's constituent firms. Consequently, analysts may appear somewhat cagey when they discuss certain individual executives - especially their mistakes – in short, they do not want derogatory comments uttered in interview to be relayed to the firm at a later date. As acknowledged, to a degree, analysts need the firm just as the firm needs the analysts. To overcome these issues it may be prudent to assure anonymity and/or offer to turn any recording equipment off when discussing sensitive subjects.

Of more concern for researchers, is that the very reason equity analysts can constitute a potential major resource for economic geography - their considerable knowledge of the current trends in the sector - means that they become corporate elites themselves. Indeed they are in tremendous demand and consequently investor clients are prepared pay considerable amounts of money for their services. Understandably such agents are extremely difficult to access, especially as academics desire free access to this expertise. This remains a considerable difficulty for economic geography practitioners. Unfortunately there is no direct point of entry to securities analysts other than to employ the strategies of entry previously discussed in this chapter.

The case has clearly been made for utilising the knowledge of equity analysts in constructing economic geographies of corporate change. Despite this, it has evidently been essential to recognise the situated nature of the narrative that they offer and as such, it is unwise to accept analyst comments without considerable triangulation against other sources from alternative

locations. In particular, the manner in which the analysis is constructed or abstracted when considering all of these different perspectives is important to consider.

Abstraction and the Total Method Approach

In my reading of Yeung's total method approach (which draws extensively on the work of Sayer [1992]), all of the data sources on the topic in hand are integrated and a narrative is constructed through creating an abstraction from a blend of these sources. In this manner, it is clear that an understanding of 'process do(es) not emerge directly from empirical observations. In other words, data do not speak for themselves. We need abstraction to distil these multiple logic(s) and mechanisms' (Yeung, 2000c, p 33). Yeung argues that this total method approach 'transcends methodological dualism (e.g. quantitative-quantitative divide) in much of social science, it is open because through the criteria of triangulation...(it) enables different methods to be employed to recognize different voices and vocabularies by social actors' (Yeung, 2000c, p 34). The triangulation approach does not however forego robustness because it assesses data from a number of different sources on the same issue.

Obviously, whilst the distilling of these knowledges can be viewed as a political act, widening the number of sources is likely to reduce the inaccuracies that this process of interpretation is likely to entail. There is little one can put in terms of formal governance practices to prevent bias, but there is good practice that can minimise inaccurate research conclusions. It is essential that the researcher remains open minded and questions not only the knowledges produced in the close dialogue, but equally the secondary material from the business press and, as suggested, the equity analysts. It is often the case that the press will seek to "talk up" a certain industry or concept (B2C Internet retailing is a classic case in point during the late 1990s), and then turn the tide and harshly criticise it. It is consequently essential that we view our sources from a situated perspective in time as well as space.

The process of abstraction and distillation of knowledges to produce a narrative proved less difficult than I had anticipated in my research. The analyst reports and business press proved a valuable means of comparing and contrasting the responses received during the period of close dialogue. As a direct result of these secondary data sources being commonly distributed across the investment community, it was difficult for executives to argue against them – this provides considerable ammunition during semi-structured interviews.

CONCLUSION

This chapter has attempted to address a number of concerns in relation to my doctoral research on the restructuring of the US department store industry. First, it has argued the case for using the knowledge of corporate elites in constructing economic geographies of corporate restructuring. Although recent work has analysed the processes of elite research, this has often been directed toward institutional elites, rather than the corporate elites of influential firms. Close dialogue, as defined by Clark (1998), provides a useful tool in capturing these highly individual specific knowledges from key actors in their business-based settings.

Second, the process of gaining access to these unique knowledges has strangely been regarded as unproblematic in the methodological literature to date. As McDowell (1998) has acknowledged, the process of research is "messy" and gaining access to these busy corporate elites is probably the messiest part of the research process. In particular, the role of representation of the self in the initial points of contact proves especially important, as the use of gatekeepers, whether they be conscious or not, can prove a pivotal factor in success. In the event of formal procedures failing, the role of intuition and luck should not be discounted and often aids researcher entry.

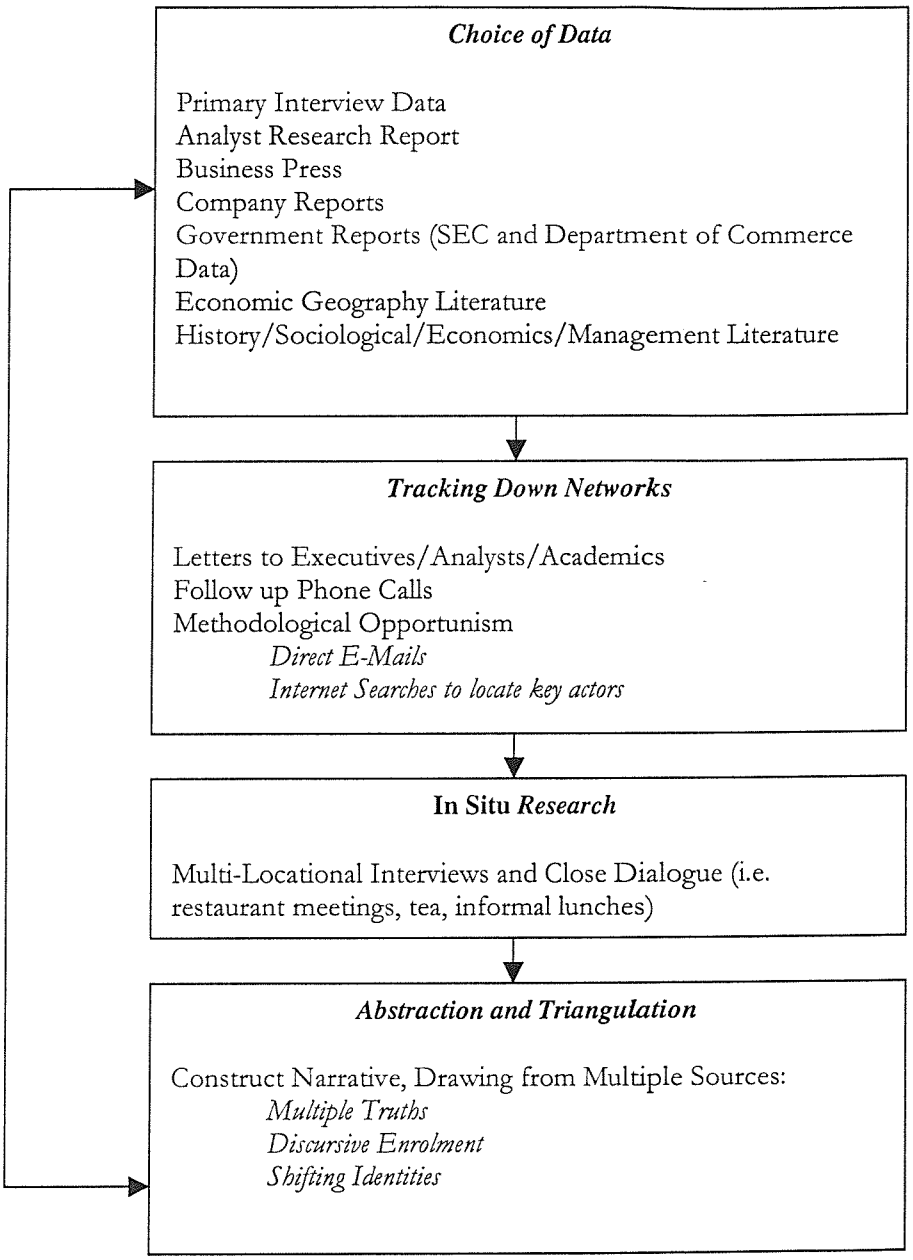
Third, when conducting close dialogue and/or the semi-structured interview, the manner in which the researcher represents themselves – whether this be consciously (e.g. through dress) or unconsciously (through ethnicity), how s/he dominates the dialogue and presents their research are all essential to consider at the outset and effect the results and success of the inquiry. As such 'close dialogue is an art as it is a science' (Clark, 1998, p 79).

Four, it is essential to recognise that although the close dialogue approach produces a form of knowledge unavailable elsewhere, it is very much a situated exchange and must be regarded as such. The importance of triangulating this material with alternative sources assessing the same issues clearly becomes evident. The employment of, what Yeung (2000c) labels the total method approach, seeks to overcome the problems of gathering material from only one research context. In particular, the chapter argues that the dialogues produced by equity analysts produces a unique and underemphasized form of knowledge that, when weaved with the narratives constructed by the business press, is potentially extremely profitable in constructing a wide ranging and thought provoking economic geography.

It is important that methodological perspectives on corporate elite research continue to be produced. With Amin and Thrift's (2000) recent call for a greater understanding of 'open systems, appreciation of context, and qualitative techniques' (p 5) to further unravel the 'micro-

practices of firms' (p 6) these approaches are likely to achieve greater currency in the new economic geography. This fledgling analysis of "doing" elite close dialogue should therefore only represent a starting point to a possible new research agenda.

Figure 5.3 The Total Method Approach to Research into the Restructuring of the US Department Store Industry



Source: after Yeung (2000c, p 51).

Part Four

THE RESTRUCTURING OF THE U.S. DEPARTMENT STORE INDUSTRY

'Facing more competitive markets, more demanding shareholders, and more challenging workforces, company executives may ask whether it is time to reorganize the company' (p 33).

Bowman, E. H., Singh, H., Useem, M. and Bhadury, R. (1999) 'When does restructuring improve economic performance?',*California Management Review*, 41 (2), 33-54.

US retailing has traditionally been 'neglected in the writing of the economic geographies of industrial restructuring, the particular form that corporate restructuring took, and its relations with regulation of competition and investment, (which could) serve to focus attention on a range of issues central to conceptual debate within economic geography'.

Wrigley, N. (1999) 'Market rules and spatial outcomes: Insights from the corporate restructuring of US food retailing',*Geographical Analysis*, 31 (3), 288-309.

Chapter Six

Leverage, Junk and Debt: The 1980s Financial Restructuring and its Implications

---

'Looking back on that time, you have to wonder how the corporate community engaged in such madness; it is difficult to understand how companies were bought, sold, and ruined, how bankers and lawyers became rich in one flimsily financed deal after another'

Marvin Traub 1994, *Like No Other Store...The Bloomingdale's Legend and the Revolution in Marketing*, Times Books, New York, p 263.

INTRODUCTION

Bowman et al., writing recently in *California Management Review*, define financial restructuring as 'significant changes in the capital structure of the firm, including leveraged buyouts, leveraged recapitalisations and debt for equity swaps' (Bowman et al., 1999, p 35, see also Bowman and Singh, 1993). This type of restructuring underpinned the major developments in the US department store industry during the mid-late 1980s, resulting in a number of high profile bankruptcies that devastated the sector by the early 1990s. Casualties included the Allied/Federated conglomerate, which was acquired and consolidated by the Campeau Corporation, and the world renowned, RH Macy, which, unable to pay its debt burden, entered Chapter 11 bankruptcy protection in 1992.

This chapter seeks to analyse these transactions in more detail, attempting to go beyond the popular critique of events, to first, establish a number of lessons from the period, and second, relate the restructuring to developments in the 1990s department store industry, arguing that this turbulent episode, in many respects, resulted in a more efficient industry. This contrasts with media portrayals of events where adjectives such as "madness" and "crazy" were commonplace. As such, the chapter provides an example of how strategy in corporate restructuring is not merely a rulebook and static scheme of planned events, but as an open system that develops organically with the firm reacting to endogenous and exogenous circumstances.

THE THEORY OF HIGH LEVERAGE AND LBOs

The 1980s were an epochal decade for the US department store industry – a time that can only be compared in its upheaval to the consolidation activity of the 1920s (Raff, 1991; see also Chapter 2). More broadly, the period brought considerable financial restructuring of many industries in, what Gordon Clark (1989), refers to as the 'arbitrage economy'. A new era beckoned where

> ...whole corporations are brought and sold for their asset value, whereas in the past corporate managers bought and sold businesses, plants and even communities as parts of production networks....What we are witnessing is the emergence of a new form of corporate capitalism which may be described by the notion of arbitrage – the conversion of corporate assets into financial capital and the redevelopment of those assets into other sectors, businesses, and other corporate entities. The arbitrage economy in this sense is an economy fuelled by the processes of converting productive assets into financial assets and other corporate forms (Clark, 1989, p 997).

The period gave rise to a plethora of highly leveraged transactions (principally leveraged buy-outs (LBOs) and leveraged recapitalisations), and more generally, an astounding number of mergers and acquisitions throughout the US economy (see **Table 6.1**). LBOs and leveraged recapitalisations were considered a method of overcoming the 'corporate control failure' common in large firms. Financial leverage was seen as encouraging an organisational change that would offer the potential for improved shareholder returns and operating efficiency. Specifically, debt was thought to open the management of large public companies to monitoring and discipline from capital markets, and to force them to make harsh decisions, eliminate excess capacity, and direct cash flow to the most productive uses (see Wrigley, 1999a, p 185). Such financial restructuring rested on the premise that many businesses sub-optimised their return for equity investors by over-conservative gearing. Hence, pressures created by the need to service high debt levels would concentrate management on cash flow to pay down the debt burden. Financial economists, most notably Michael Jensen (1986; 1989a), argued that traditional public companies used free cash flow in excess of that required to fund all positive net present value projects, causing conflicts of interest between managers and shareholders. In contrast, managers who acted in the interests of shareholders were viewed as returning this free cash flow to shareholders (Jensen, 1986), whilst managers in non-leveraged public companies were characterised as pursuing strategies of growth rather than enhancing shareholder value (Jensen, 1989a). Increased gearing was seen as the way to eliminate this unproductive investment (Wileman and Jary, 1997, see also Jensen, 1986; 1989a; 1989b). The pro-leverage school believed that the benefits for shareholders in harnessing free cash flow would be substantial in the form of a more efficient, shareholder-focused firm that would benefit from greater tax incentives (Jensen, 1986; Miller, 1991) and these benefits would surpass any costs associated with financial distress (see Opler and Titman, 1993).

The highly leveraged transactions were realised through the evolution of a new type of financial instrument - so-called 'junk' bonds. These were high yield, noninvestment-grade securities, pioneered by the investment bank, Drexel Burnham Lambert, reflecting more risk borne by shareholders than in a typical public company (Jensen, 1989a). In effect, this capital market innovation had the effect of eliminating mere size as a takeover deterrent (Jensen, 1988a) – as Wrigley (1999b) suggests, 'the development of this market allowed non-investment-grade firms, previously shut out of the corporate bond market, access to capital (particularly vital fixed-rate funding) without the risks associated with costly and dilutive equity offerings' (p 291). Firms such as Kohlberg Kravis Roberts (KKR) formed, specialising as third party organisations to instigate the LBOs, that would capitalise on the increased value generated from the efficiency gains after a number of years of ownership (Baker and Smith, 1998; Bartlett, 2000). More broadly, Jensen (1989b) viewed this as congruent with the rise of 'active investors' in corporations, away from being passive shareholders who protested little as their wealth was inefficiently managed.

In definitional term, the leveraged buy-out occurs when third party investors and/or managers of a firm offer to pay a premium over the prevailing market price of the firm and finance the exchange of corporate control by taking on a significant amount of debt (Wrigley, 1999b). Similarly, the leveraged recapitalisation occurs where a firm borrows in order to pay a large dividend to shareholders of at least 50 per cent of the former equity value of the firm (Chevalier, 1995a). Similar efficiency generating arguments, as those espoused in LBOs, operate in the case of leverage recaps, but there are some important differences between the two in terms of ownership structure. As Wrigley (1999a; 1999b) points out, LBOs are characterised by larger increases in managerial ownership and commonly involve active third-party investment specialists (e.g. KKR) who gain control of the firm and often take the firm private for a time. It is during this period that the firm will be rationalised, where important changes are imposed on the corporate governance of the corporation.

Table 6.1 The Rise of the LBO

Public Company Buyouts			Divisional Buyouts		
Year	Number	Average Value (in millions of 1988 $)	Number	Average Value (in millions of 1988 $)	Total Value of Buyouts (in billions of 1988 $)
1979	16	$64.9	59	$5.4	$1.4
1980	13	106.0	47	34.5	3.0
1981	17	179.1	83	21.0	4.8
1982	31	112.2	115	40.7	8.2
1983	36	235.8	139	58.2	16.6
1984	57	473.6	122	104.0	39.7
1985	76	349.4	132	110.1	41.0
1986	76	303.3	144	180.7	49.0
1987	47	466.7	90	144.2	36.0
1988	125	487.7	89	181.3	77.0

Source: Jensen, 1989a

HIGH LEVERAGE AND THE US DEPARTMENT STORE INDUSTRY

There were two principal factors that provided an environment conducive to the highly leveraged financial restructuring of the US department store industry through the 1980s. Neither of these compelled financial restructuring but instead proved to be facilitating factors. The pressures were interlinked and mutually reinforced each other, promoting the creation of high debt burdens.

Easy Finance

During the mid to late 1980s, there was a culture of high debt and lending with relaxed (easy) finance conditions was available. The stock market was experiencing substantial growth, consumer expenditure was strong and highly leveraged buy-outs and recapitalisations were proving successful. Investment banks were generating huge fees from such work and were therefore receptive to supplying finance for deals by selling "junk" bonds to support them, as large amounts of equity were becoming less important in underpinning deals.

Wrigley (1999b) views this tendency towards financial restructuring as being underpinned by the regulatory framework. First, there was non-enforcement in antitrust actions against horizontal mergers during the Reagan administration (Shugart, 1998; Wrigley, 1992; see Chapter 7). Second, regulatory conditions became conducive to high-yield bond rather than bank financing during the mid 1980s - private pension fund investment, for example, was freed from historic regulatory constraints and managers pursued high yield investments (Clark, 1993b; Wrigley, 1999b).

Numerous leveraged buy-outs were proving successful in other industries. In the food sector third-party industrial groups and retailers were initiating highly leveraged transactions and successfully reconfiguring their organisations under the auspicious of large amounts of leverage. Indeed, Wrigley (1999a) suggests that during this period the sector assumed more than US$20 billion of aggregate debt and financial leverage. Most notable was the Safeway leveraged buy-out by the specialist LBO firm KKR in 1986 for $4.3 billion, supported by only $130 million of KKR's own equity – which resulted in substantial realised profits from the deal accruing to KKR (see Denis, 1994; Loomis, 1997). In addition, Kroger, the second largest US grocer, undertook a successful $4.1 billion leveraged recapitalisation in 1988 (Chevalier, 1995a).

Easy Targets

The second pivotal environmental factor facilitating high leveraging in the department store sector was the wide availability of target department store retailers. By the mid 1980s conventional department store companies were becoming increasingly viewed as easy targets for financial restructuring – characterised as the "dinosaurs" of retailing given the competition of discount and speciality stores that were substantially increasing their market shares of GAF (general merchandise, furniture and apparel sales) at the department stores expense (see for example Cohen and Jones, 1978; McNair and May, 1978). Although, making up a relatively centralised industry, department store holding companies possessed divisions that were remarkably independent in operation and considerably inefficient in comparison to the discount retailers of the Wal-Mart generation (see Abernathy et al., 1999; Aufreiter et al., 1993; Dvorak and Paasschen, 1996). As Hal Kahn, Chairman of Macy's East commented on the period:

> ...in the 1980s, for the first time, department stores started to experience single digit growth and malls were not being opening as aggressively as they once...and department stores had to come to grips with how you run a business with single digit growth because before that, the volume would absorb all the expenses...department stores had to become much more financially (astute) (Interview 9).

Clearly, therefore, it was an industry potentially able to absorb a moderate level of debt and financial restructuring. In this decade of single digit department store growth, the stock market placed a low valuation on historically trusted department store companies that traditionally provided reliable, if rarely surprising returns for investors. Such low valuations allowed potential predators to unlock the often considerable real estate values inherent within the department store conglomerates and acquire the retailers at relatively low prices.

An additional factor that had diluted shareholder value in the industry was that instead of concentrating on the core business, the department store firms had typically, pursued growth in

other retailing sectors (see **Table 6.2**). As Jensen (1989a) suggests, managers all too often pursue growth rather than shareholder value – two very different goals. This diversification was often ill-judged and received poor returns, as one department store CEO acknowledged:

> ...in some cases the management of Federated felt that the department store was a problem and that they would focus on other strategies – they would focus on speciality stores, they would focus on supermarkets, they would focus on discount stores and, with the exception of the supermarket, most of the strategies they were trying to develop never really materialised. They were never really that successful. And meanwhile they weren't putting the attention on the department store concept (Interview 1).

This provided the potential environment in which to reorganise and realise synergies to pay down debt and restore shareholder value.

Table 6.2 A Selection of pre-1990s Diversifications By Major Department Store Retailers

Corporation	Speciality Store	Discounter	Supermarket
Allied	Bonwit Teller Brooks Bros.		
Associated		Caldor; Loehmann's	
Macy's	I Magnin Aeropostale Charter Club		
Federated	Children's Place	Gold Triangle (home furnishings) Gold Circle (apparel) Main Street	Ralph's
May's Dayton Hudson	Venture (shoe chain)	Volume Shoe Target; Mervyn's	
CHH	Contempo Casuals Holt Renfrew & Co. (Canada) Sunset House (mail order)		

Source: various source including Traub, 1994; Laulajainen, 1987; RH Macy, 1994

FEDERATED AND THE CAMPEAU CORPORATION

Federated and Allied, two of the largest and most high profile department store holding companies in the United States, was central to the financial reengineering of the sector during the 1980s. The saga centred on just one real estate developer, Canadian Robert Campeau, who used very little of his own money. First, Campeau purchased Allied Stores Corporation in October 1986 for $3.6 billion, plus assumed debt and fees - $4.4 billion in all. As this was at the height of the junk boom, it was financed almost exclusively through Citibank and First Boston, with Campeau only providing $150 million himself (Hallsworth, 1991). The timing of Campeau's attempt could not have been better because the market was receptive to high leveraging and reluctant to question the logic of deals that involved high banking and lawyers commissions:

> Wall Street was uncovering one undervalued solution after another, as its investment bankers plotted a succession of corporate raids over hundred dollar lunches at Manhattan's swankiest restaurants....Restaurants had taken over locker rooms as the incubator of deals (Rothchild, 1991, p 36).

As Clark (1989) suggested, the arbitrage economy results in a geography of divesture, as firms, constrained by their crippling debt burdens, have to dispose of their most unproductive assets, or divisions not central to their core business operations. This process raises capital but equally importantly, eliminates the exit sunk costs the seller would otherwise encounter, as divestiture 'effectively transfers any future exit costs to the acquirer whilst at the same time releasing the seller from its obligations to former employees and, on a broader scale, to the communities in which they are based' (Chapman and Edmond, 2000, p 760). Indeed, 'it might still appear to some that corporate restructuring of a firm's labour force and financial restructuring of its balance sheet are two totally different developments in contemporary political economy. They are not. They are two sides of the same coin' (Harrison and Bluestone, 1988, p 64). In this manner Allied, in 1987, sold 16 of its smaller units for $1.16 billion. The analysts applauded Campeau's acquisition - long term debt was reduced, and Allied still held divisions such as Brooks Brothers which was widely regarded the jewel in Allied's crown (Hallsworth, 1991).

The problem occurred for Campeau when he turned his attention to acquiring Federated Department Stores. As Hallsworth (1991) suggested, the logic of the acquisition made sense, as Campeau would, in theory, be able to open new malls and, as the owner of the key anchor department stores, pick and choose his mall designs to exclude stores he did not own. However, a year and a half after the acquisition of Allied, Campeau was still reorganising Allied into a stable enterprise. Federated's stock had been trading at a mere $33 following the 1987 stock market crash, so Campeau opened the bidding at $47 a share. In response Federated's investment bankers shopped for bidders and an auction followed against RH Macy. This caused Federated's shares to spiral. By the time Campeau won the race for Federated, the price had increased to $73.50 a share (Raff, 1991). Market confidence was crucial to both transactions in keeping the Campeau Corporation afloat in the sea of debt – in particular, the retention of Brooks Brothers in the Allied portfolio gave his backers confidence (Hallsworth, 1991). However, the divestiture of Brooks to finance the Federated deal led Allied backers to conclude that their assets were being sold off to fund the Federated shareholders, who had seen their company double in value over four months. The rising valuation sparked concern over what else would need to be sold to fund the costly acquisition, and confidence fell as Federated "junk" bonds became even more difficult to market.

Campeau responded by divesting further chains - this time from newly acquired Federated - with I. Magnin and Bullock's being sold to Macy for $1.1 billion, and Foley's and Filene's offloaded to

May Department Stores for $1.5 billion in July 1988. In the process short-term debt was reduced. However, despite these measures, the price for which Federated was purchased was simply too high and the crippling debt burden finally caught up with the Campeau Corporation when it filed for Chapter 11 bankruptcy protection in January 1990 (Hallsworth, 1991; Loomis, 1997; Serwer, 1996). The lunacy of the deal is clear from the following statistics: Campeau paid $8.17 billion for the stock of a company with a pre-acquisition market value of $2.93 billion and financed 97 percent of the purchase price with debt. There is little wonder that *Fortune* magazine called it 'the biggest, looniest deal ever' (see Loomis, 1990; Oesterle, 1997).

Financial Restructuring as Portfolio Restructuring

The events during this period could perversely be regarded as another round of portfolio restructuring as the transactions involved the change in ownership of a portfolio of businesses. However, it is clear on analysis that they are characteristic and motivated by marked differences from the round of strategic acquisition based portfolio restructuring that has characterised the 1990s department store industry. Whereas the 1990s era was motivated by the retention and construction of market share, Campeau Corporation's strategy was based more on capitalising on undervalued assets and constructing a retail empire through minimal equity risk in the process, as financial leverage would improve the operating efficiency of the firms – the typical motivations of financial restructuring. It is for this reason that such transactions are best considered as financial rather than portfolio restructuring. As Allen Questrom commented:

> It was a good way to make money and you could buy these things on debt because if you could pay the debt down you would be able to own this company relatively cheaply. You would put very little equity investment into it so you could buy 10% equity. In the case of Campeau. I think he had about 97%-98% debt and maybe questionable where the other 2% of equity was, but anyway. The concept was that "I will have huge, huge debt payments but as long as I have enough cash flow to pay the debt I will work that debt down and I will own this company and ultimately it didn't cost me anything – using your business to pay my debt" (Interview 1).

The results however, differed quite dramatically from theory as '(it) works as long as it's a reasonable price – (of) the interest rates are not extreme, the business can pay and sustain the debt' (Interview 1). Clearly, the Campeau transactions 'had nothing to do with the consolidation of the industry, it was more about him seeing this as a way he could use the department store as his card to develop malls around the world and he had some good ideas' (Interview 1). In other words, Questrom argues that Campeau had got the theory right but not the price:

> Bob is a very creative, very intelligent guy but not a manager and not a guy who has been one for execution but more for concepts and ideas and he got support from the banking industry because of the way the banking industry was at the time – they made a lot of money on the deal and since he had already been successful on Allied, here was an opportunity to become an investor in Federated and get a big transaction fee and a lot of money (Interview 1)

The Campeau Corporation's strategy was evidently a financial restructuring approach through the medium of portfolio restructuring to improve the competitive position of his mall-based real estate.

THE R H MACY LEVERAGED BUY OUT

The RH Macy experience of the late 1980s parallels the ill-fated financial restructuring of the Campeau Corporation. In this instance, the CEO, Edward Finkelstein in 1986, led a $3.5 billion leveraged buy-out. Prior to the buyout, the business had $144 million in debt and $1.48 billion in shareholder equity ($1 of debt to every $11 of equity). Following the takeover, the firm had $290 million in equity, as the ratio became $10 of debt to every $1 in equity (Trachtenberg, 1996). Despite this, the transaction was well-received by the financial markets, being regarded as a considerable wealth creator for those "fortunate" individuals who had been invited to invest. It was also catalysed by a number of case specific additional factors:

Explaining the LBO

There are a number of factors that contributed to the Macy LBO. First, there was the opinion that taking the company private through an LBO would offer a safe haven from Wall Street's earnings expectations. As the present Director of Stores for Macy's East reflected, the view of the firm was it would no longer 'be subject to the quarterly whims of the stock market' (Interview 19). Theoretically, the low valuation of the department store stocks, provided the opportunity for the LBO to realise the 'real' value of the firm, if privately owned.

Second, the Macy LBO was motivated, in part, by a hostile takeover threat from elsewhere in the retail industry. A number of precedents had been set by the mid-1980s. In the late 1970s, West Coast department store operator, Carter Hawley Hale aggressively pursued Marshall Field, the Chicago-based luxury department store, in a potential hostile takeover. Field responded by leveraging its capital structure through organic expansion. Eventually, this induced the arrival of a White Knight in the form of Batus in 1982, which was aggressively expanding its own portfolio of retail divisions (Laulajainen, 1990). Moreover, Carter Hawley Hale, an unimpressive department store franchise, faced the threat of a hostile takeover in 1984, when Columbus-based women's apparel retailer, The Limited Inc., made a bid at 25-35% above its going market price. The corporation succeeded in fending off the tender, but only by disposing of their Weinstocks division and ceding 37% of the voting power to a single shareholder, General Cinema Corporation (Laulajainen, 1987, p 233). Furthermore, in 1986, partly responding to these

pressures, May Department Stores acquired Associated Dry Goods Company operators of Lord & Taylor, amongst others, for $2.5 billion (Laulajainen, 1988). The impact of these threats for the department store industry cannot be overstated. As Walter Loeb, special advisor for Morgan Stanley, reflected, in response to the potential Carter Hawley Hale transaction, 'others looked at themselves and said size mattered and that they had to get bigger'. The alternative, of course, was to LBO and go private because '(s)ize and performance would no longer be enough to guarantee the independence of any company' (Trachtenberg, 1996, p 28). The mood was very much "act or be acted upon".

Finally, and most importantly, the rationale of the Macy's LBO was driven by the premise that investors in the buy-out stood to make considerable amounts of money as a result. The prospects were superficially good. Macy's was a national institution (cf. Ferry, 1960; Hendrickson, 1979; Hower, 1943), and had grown significantly through the 1970s and early 1980s under the skilled merchandising leadership of Edward Finkelstein. The LBO would retain the current management that had generated this proven track record. Furthermore, the leveraged-buyouts were nearing their peak with little signal of failure audible to ward potential investors away.

The Corporate Governance Issue

The Macy management-led LBO was questionable on corporate governance grounds, as Trachtenberg (1996) wonders whether 'a small group of men who had access to all of the corporation's secrets have the ethical right to buy the business for themselves or were they obligated by their position to put the long-term interests of shareholders above their own?' (p 77). Indeed, more generally, Jenson views the 1980s as a period where it was questioned 'who is the boss and whose interests come first?' (Jenson and Chew, 1995). The 1980s financial restructuring phenomenon constituted an era of assault on the traditional authority of the organisation, resulting in a convergence of interest between management and owners which had provided the potential to solve the central problem inherent in the separation of ownership and control of the firm – the so-called 'agency problem' (Jenson and Chew, 1995). The Macy LBO clearly offered the potential to distinguish between the dominance of managerial rather than shareholder motives for action with the rise of owner-managers, or in Jensen's terms; 'active investors' (cf. Jenson, 1986; 1989a; 1989b; Shleifer and Vishny, 1997). Importantly though, this does not suggest though that the management were sufficiently skilled to perform to the standards required, or that the company would be purchased at the right price.

There are also other important corporate governance questions in Macy's LBO. Although it is generally not public knowledge, as one senior Macy's figure has confirmed, initially the Macy board was reluctant to accept Finkelstein's proposal. However, the Board feared that if it refused, Finkelstein would depart Macy's, taking much of the most influential talent in the organisation with him. Finkelstein's offer was therefore ultimately accepted with important consequences for shareholder wealth maximisation and corporate governance. Indeed, Trachtenberg's (1996) analysis of the episode suggests that greater bids for the conglomerate would have been forthcoming had the retailer acted on its fiduciary duty of attempting to 'shop' for higher bids. This is where the problem described by agency theory becomes evident.

The Chapter 11 Filing

It is clear that Macy's bankruptcy in 1992, like the Campeau Corporation's before it, was fundamentally a capital structure bankruptcy. The firm had simply taken on too much debt and could not supply enough free cash flow to pay it down. It is ironic that the 1986 LBO was partially motivated by the urge to *avoid* the pressures of Wall Street, yet was replaced by the unforgiving form of debt. As a Macy executive reflected:

> We had to pay the debt, so from a person that was there when we were a public company to a person that was there when we were private, the pressure was much worse and the focus that we thought we would be relieved of – that we could run a business on a long term basis and we didn't have to worry about this month's results and heck we were positioning ourselves for the future - actually the opposite happened because we became so focused on comp store sales which drove cash and paid the debt (Interview 19).

In this vein Stewart and Glassman (1988) suggest that 'Equity is soft, debt hard. Equity is forgiving, debt insistent. Equity is a pillow, debt a sword'. In short, going private did not insulate the firm from the realities of a competitive market.

The financial distress that followed the LBO was however exacerbated by a number of issues. First, the late 1990s was a time of harsh recession for the retail industry causing a severe reduction in anticipated free cash flow provision. Second, as discussed later, the Macy's franchise was being run in a more promotional manner than was suited to its market positioning due to the pressure for increased cash flow. The final, and most fundamental factor, was the over-inflated $2.2 billion which Finkelstein paid for the two Federated chains of (I Magnin's and Bullock's) from debt ridden Federated. By the early 1990s, as Serwer (1996) suggests, 'Macy's bonds were marked down like ugly sweaters in a one day sale' and the firm capitulated.

All too often the era has been characterised by the use of adjectives such as 'looniest' and 'crazy' (cf. Loomis, 1990). The blame for these failures can, in many respects, be placed at the door of the investment bankers who promoted a financial climate of high leverage, but this does little to add to our understanding of the period. There are clearly more substantive lessons that can be drawn out from the events and placed in context.

Everything Has Its Price

The Campeau and Macy bankruptcies were very much products of their time. Although the concepts themselves were soundly based in financial economics, with numerous good precedents elsewhere in the economy, the prices at which the retailers were purchased was the core problem. As one ex-Allied Stores President reflected: 'It went crazy. Everything has a value and you have to know when to walk away from it' (Interview 22).

It is clear the bidding wars that occurred, especially that between Robert Campeau and Edward Finkelstein for the ownership of Federated was ludicrous. Both retailers were heavily debt burdened and faced considerable challenges in paying down their initial levels of leverage, regardless of adding to these deficits. Indeed, Macy's was so financially distressed that purchasing only two of the Federated divisions for $1.1 billion sealed its fate, nevermind taking the whole firm. Even Federated executives were bemused at how Campeau could afford their firm in the light of his previous purchase of Allied. Campeau had long-term debt of more than $4.5 billion, short-term debt of $1.6 billion, and stockholder equity of only $82 million. As such, 'it was inconceivable for Campeau to acquire Federated; on the contrary, the opposite made more sense' (Traub, 1994, p 273).

In many respects the spiralling bids further reinforced the legitimacy of the next overleveraged transaction, despite their foundation of minimal equity, as '(t)here was a soaring belief in ever-inflating prices. The sky-high prices were, we thought, self-fulfilling prophecies. Each takeover seemed crazy – until the next one. Each validated the one before. We went ahead, naïve, we were building a house of cards' (Traub, 1994, p 285). John Rothchild (1991), in his analysis of Campeau's overpayment, points to the status quo evident in the governance system of the mergers and acquisitions, at a time where nobody stood to gain from discouraging overpayment:

If Campeau was chasing phantoms and bidding against himself, with the Federated board playing the auction for all its worth, with bankers cheering for the transaction to proceed, whose role was it to tell Campeau not to overpay? (Rothchild, 1991, p 202).

It was clearly this control mechanism that failed and was a primary factor in producing unbearable financial distress to the firm and eventual bankruptcy. There are however, a number of commentators who go further than this, suggesting the whole concept of high leverage is simply unsuitable for the department store industry. It is to these issues the chapter turns.

Leverage and the Department Store

A key conclusion from the period is that the concept of the leverage-buy out is inappropriate for a luxury retailer lacking the strong and consistent cash flows which characterised other sectors such as food retailing. As Hammer and Champy (1993) suggest, there is often the argument that companies 'should juggle assets or restructure with a leveraged buyout (LBO). But this kind of thinking distracts companies from making basic changes in the real work they actually do. It also bespeaks of a profound contempt for the daily operations of business. Companies are not asset portfolios, but people working together to invent, make, sell, and provide a service' (p 25). This is partially correct. The leveraged acquisitions were often not motivated for the reasons traditionally put forward in the business schools of North America. For example, Campeau lacked the expertise to successfully restructure the department stores due to his lack of retail expertise. Instead, he saw undervalued assets that he could acquire using very little real equity due to the receptiveness of the financial markets, or what Harrison and Bluestone (1988) refer to as the 'casino society' of the time. Similarly, although the Macy LBO was partially initiated as a means of avoiding predation from other retailers, it also had everything to do with the greed of CEO Edward Finkelstein and his close associates who invested and expected to become multi millionaires as a direct result.

The principal proponent of the leveraged buyout, Michael Jensen (1991) suggested that the recession of the late 1980s and early 1990s, was the primary reason for the failure of many of the transactions of the era. Although this may be the case, it leads one to question the suitability of luxury retailers, characterised by *highly cyclical cash flow*, to the concept of high leveraging. Indeed, the efficiency generating argument, which was the driving force behind the LBO, cannot be achieved with such crippling leverage. As ex-Federated CEO, Allen Questrom, suggested, in essence, many of the organisational restructuring strategies adopted by Robert Campeau in the Allied/Federated acquisitions *were* appropriate but the lack of funding due to the huge debt burdens constrained their realisation:

> Bob's strategy was a right strategy. He was going to consolidate the businesses of Federated and Allied, take advantage of consolidating the businesses of Federated – the corporate offices and divisions – try to get some commonality between the stores and make cost savings. And then he was going to use those savings to obviously pay the debt. His proforma to buy was conceptually right was tactically was all wrong. He had to (have) higher sales increases, higher margin increases and bigger expense savings to make this thing all work (Interview 1).

The efficiencies that the Campeau Corporation were chasing were available to be realised but the timescale and the lack of room for manoeuvre set by the considerable debt meant that there was simply not enough opportunity to realise them, nor enough scope to tolerate the negative synergies that would result in the short term. The critical period following the leveraged acquisition was also followed by a market downturn that further pressurised the corporation. Indeed, the argument that the department store provides too cyclical a return for excessive gearing is now generally accepted throughout the industry. As Goldman Sachs retail analyst, George Strachan suggested:

> My read on it that this is still a relatively cyclical business and it is very dangerous to over-leverage the company because as soon as you go into a cyclical downturn, any operating issues that you may have are aggregated 10 fold and suddenly you find yourself illiquid, especially if you take on all this high yield debt. So your tremendous cash flow commitments to pay your high yield debt holders, not enough capital to continue investing in the business and the worst case being that your cash flow dwindles to the extent that you can't make your debt payments and you go into Chapter (11) (Interview 8).

The damaging impact of high gearing appears more pronounced when the firm was trying to realise synergistic benefits from divisional consolidation. Although, in the long run, centralisation provides a reduction in expense ratios, it requires an initial given level of sunk costs. Centralisation is made possible through investment in networked computer systems to facilitate data processing and sales interpretation for example. In the long term, this will lead to a reduction in expense ratios, although a considerable increase in cost in the short term. This was simply not a viable option in the Campeau and Macy empires during these highly leveraged periods, as Macy East Chairman, Hal Kahn acknowledges:

> When we were cash strapped, our biggest challenge from our customers was that you were never in stock so we went from a 12% stock-out at bankruptcy to about a 3%. We just didn't have the systems, the technology…it wasn't just that we were struggling; we didn't have the technology…giving buyers computers! We didn't have the money to do all those things so we weren't investing in the new technology (Interview 9).

Even when divisional consolidation did occur, department stores were unable to fully utilise synergistic benefits. The merger of Macy's New Jersey and New York divisions was only partially successful, with one division owning IBM cash registers, and the other NCR registers. This prevented the integration and interpretation of sales and inventory information, with little finance to invest in communal technology. Indeed, as Servaes (1994) has suggested more broadly, the financial distress of high corporate debt does reduce investment in ill-judged projects, but alas 'it is not clear whether investment cuts eliminate poor projects or value enhancing investments' (p 254).

Maintain Market Focus

There is considerable evidence that department stores, during the period of financial distress, were unable to maintain an appropriate market focus, and often ended moving downmarket, to increase turnover and cash flow to pay down the mounting debt burden. It is clear from discussions with executives that both Federated/Allied and Macy invested extensively in basic merchandise rather than high end products, and repeatedly discounted. As one executive reflected:

> I remember Macy's had to go 8% ahead if it was going to pay off its debt. We were not going to get 8% ahead unless we did some unnatural things to the business. That's part of the things that hurt the business. I would say those bankruptcies bought a tremendous promotional environment... (Interview 9).

Such action, whilst increasing consumer traffic in the short term, considerably reduced the operating margin of the business, and just as importantly, damaged the brand equity the department stores had with consumers – a reputation it would take years to rebuild after bankruptcy. Strategically, such moves opened the format to greater attack from burgeoning discount operators such as Target. Macy's, in particular repeatedly held two-day sales, but as one former Macy executive commented, 'there is a limit to how many sales you can have in a week' (Interview 7). The retailer also over-invested in private label merchandise at the expense of branded products. This price-cutting is in contrast to the action taken by highly leveraged US supermarkets, that tended to increase prices to maintain high cash flow (Chevalier, 1995b).

'Real' People and the Organisation

Recent economic geography literature has underlined the role of individuals in driving the corporate strategy of the firm, emphasising how personal possess different value asymmetries to that of the firm (Schoenberger, 1994a; 1994b; 1997). Indeed, agency theory has suggested that corporate officers often make decisions based on *their* values and not on that of maximisation of shareholder value (Bethel and Liebeskin, 1993; Lane et al., 1997; Shleifer and Summers, 1988). As such, it is clear that the firm is not merely a capital structure, or an economic facilitator of value, but an institution made up of different ideals, ethics and interests. Consequently, 'it is the delicate balance between financial drivers and people aspects which underpins success' (KPMG, 1999). There is considerable evidence that such perspectives were overlooked during the highly leveraged transactions in the department store industry. As one ex-President of the Allied Stores division testified, there was considerable resistance within the firms to the consolidation imperative brought about by financial restructuring – there were endemic values of

independence. Prior to the financial restructuring, there was a widely held view that there was no need to organisationally restructure, as suggested by a former President of Allied Stores:

> Well, if I'm at Bloomingdale's, why should I talk to A&S? Why should I talk to Lazurus? .... There was no reason why Abraham and Strauss, Rye Cumbler, Shillitos and Lazurus and Rich's *couldn't* talk to each other (Interview 22).

Indeed, the reluctance to centralise divisions in the Allied/Federated Campeau Corporation, in part, contributed to the downfall of the venture, as one industry executive confirms:

> He (Campeau) couldn't get the Federated and Allied organisations to work together. In many ways they conspired against him.... I think most of the people in Federated, and I don't know about Allied, saw him as some kind of a kook. They were very autonomous already so here was a company with a history of being very autonomous and they were not about to let this guy run the show (Interview 1).

The experience of the financial restructuring consequently underlines the importance of organisational cultural considerations in the portfolio and subsequent organisational restructuring strategies that accompany high gearing.

The quality of leadership during the periods of financial distress is also fundamental to the success or failure of the firm, and is another factor contributing to the eventual Chapter 11 filings. The executives managing the two corporations, Campeau and Macy could not have been more divergent in their expertise. Campeau was essentially a real estate developer and had no background in retailing. What is more astounding is that very few people in the Campeau organisation possessed any such expertise and were instead essentially experts in finance and large deal formulation (see Rothchild, 1991). This lacked any kind of application to the real world of retail. Indeed, this separateness of financial and retail knowledge is underlined by one executive reflecting on the period:

> So what you did was have these financial guys - "this is what they are going to do, we're gonna have this kind of a sales increase, this kind of an expense decrease – boy this is gonna make a lot of money!" But they didn't look at the specifics of *how* they were going to do all of this. It seldom ever happens that you can get a sales increase, a margin increase and an expense increase all at the same time. You have to pick one or the other that you think you can get some opportunities on and try to attack them but not all at the same time (Interview 1, my emphasis).

This meant that the cash projections developed for the department stores under financial distress were overly optimistic. As Marvin Traub, the ex-President of Bloomingdale's acknowledged:

> I realised that all of the Campeau projections, not just for Bloomingdale's but for the whole of Federated, had been totally done within First Boston and the Campeau Organization....No banker ever...came to Bloomingdale's to ask if I thought we could deliver those numbers (Traub, 1994, p 293).

Conversely, Macy's senior management was made up of department store merchants who had an intricate knowledge of the department store business in terms of effective merchandising, but lacked any kind of knowledge of generating efficiencies in operation to increase cash flow and alleviate financial distress. After all, the department store industry had become a target for high leveraging because *it was inefficiently run*, and in the Macy case the *same* executives took control. It was inconceivable that they could generate a new organisational structure without minimal previous experience of doing so. As the present Chairman of Macy's East reflects:

> What happened at Macy's was that Macy's management, which I was part of then, never knew how to run the business as a financially astute operator as Federated does, so we made all sorts of mistakes getting deeper in debt, building up the inventories – it really is really naive looking back in terms of how do you approach an LBO (Interview 9).

IMPLICATIONS OF THE FINANCIAL RESTRUCTURING PERIOD

It is clear there have been a number of lessons gleaned from the financial restructuring period. The failed leveraged transactions have had a number of direct implications for the reorganisation of the 1990s retail industry. In many respects these laid the foundations for the department store industry's re-emergence in the 1990s with a more responsive and leaner organisational structure. It is to these ultimately beneficial aspects of the failed financial reengineering that have been substantially neglected in the academic literature that we now turn.

A Prompt to Organisational Restructuring and the Role of Chapter 11

The general theory of high leveraging was that it would prompt an organisational change within the firm. As Jensen (1988) comments:

> These corporate control transactions and the restructurings that often accompany them are frequently wrenching events in the lives of those linked to the involved organizations: the managers, employees, suppliers, customers and residents of surrounding communities. Restructurings usually involve major organizational change (such as shifts in corporate strategy) to meet new competition or market conditions, increased use of debt, and a flurry of recontracting with managers, employees, suppliers and customers. This activity sometimes results in expansion of resources devoted to certain areas and at other times in contractions involving plant closings, layoffs of top-level and middle managers, staff and production workers, and reduced compensation (p 21-22).

This period of reorganisation was the case for Federated (and later, when bankrupt Macy's was consolidated into Federated) to a greater extent during the *post-bankruptcy period*, rather than during the high leverage period of financial distress. Fundamentally, the high debt burdens *constrained expenditure to finance successful organisational restructuring* rather than encouraging it to take place. It was surprising, when discussing with management from the time, how positively they viewed the Chapter 11 bankruptcy filing - in terms of supplying the opportunity to proceed with

the organisational efficiencies that were necessary, but were not implemented due to mounting interest repayments and debt burdens. There was a clear sense of relief amid Federated, and to a lesser extent Macy's, when Chapter 11 closure finally came. Essentially this was due to the nature of US bankruptcy legislation which encourages the reorganisation, and subsequent continued operation of firms.

The actual impact of entering bankruptcy via Chapter 11 protection was, in retrospect, the most positive aspect of the whole financial restructuring of the US department store industry. As Arthur Anderson executive Marc Davis (1999) suggests, Chapter 11 effectively protects the bankrupt firm from its creditors whilst allowing the company to continue trading. In this arrangement, the firm is compelled to produce a reorganisation plan to present before the court, in which the debt and organisational structure can be reworked whilst 'reasonably satisfying' creditors. It is crucially different from what most Europeans would regard as bankruptcy - a liquidation of the company. Indeed, one industry executive cynically commented that 'Chapter 11 is nothing more than screwing your creditors so you can get reorganised' (Interview 22). Such a process has received criticism from some quarters who view this as leading to a restoration of the status quo of poor quality management who continue to draw lucrative salaries despite poor performance (see Pomykala, 1997; 1999).

The impact of Chapter 11 status on Federated was a classic example of the benefits of the bankruptcy process for a retailer. It remained in bankruptcy protection for a little over two years from January 1990 to February 1992. As retail analyst Pam Stubing of Ernst & Young suggests, the bankruptcy process was 'made for somebody like a Federated that had excellent properties, and excellent franchises, excellent consumer franchise, brand name with consumers, especially with Bloomingdale's and Macy's. It was excellent for them, marvellous for them. Then they got rid of the debt and they chugged along' (Interview 18).

The procedure allowed the firm to cancel leases that it was tied to prior to the filing and allowed it to renegotiate debt with creditors. As renowned economist Robert Kaplin (1994) suggested, 'it is likely that Federated benefited from the bankruptcy process. Given that the post-bankruptcy Federated appears to be a better run than the pre-distress and pre-Campeau company, it also seems possible that Federated could have benefited from the onset of financial distress' (p 135).

Macy's bankruptcy process was conversely a lengthy procedure in which construction of a reorganisation plan proved problematic. It languished in Chapter 11 protection from January

1992 until its acquisition by Federated in December 1994 (Grant, 1996; RH Macy, 1994). Federated undertook this transaction through the purchase of a proportion of Macy's debt, in doing so becoming the principal creditor in Chapter 11 proceedings and hence the acquisition occurred. This was followed by the acquisition of the post-bankruptcy Broadway Stores (formally Carter Hawley Hale) that was once again struggling (Grant, 1996). This gave a newly revitalised Federated an increased national presence, with brand equity and a structure ripe for substantial reorganisation.

Although the financial restructuring of the late 1980s was misguided at best, the high leverage spurred and inadvertently laid the foundations for the organisational restructuring that was required – although the capital was not immediately available following the high leveraging to realise it. As such, high leveraging partially did its job in enforcing an organisational change within the firm although this required the impetus and partial debt write-off that Chapter 11 bankruptcy protection provided. Jim Zimmerman, CEO of Federated reflected on the added impetus Chapter 11 bankruptcy brought:

> In many ways *it was the best thing that ever happened to Federated* because the amount of change that arguably was needed in the way that the business was being run, probably could not have come gradually. Or would not have come fast enough had it come gradually, and the take-over and the trauma that surrounded that, made it very clear what the focal point was and changed a whole lot of people… Having said that, the only flavour I'm trying to give you is that it was an era that a lot of the traditionally bad things happened, or things happened that would traditionally be called bad, but it was also a period of time that *really catalysed the corporation and caused and allowed it to make change that made it a viable entity*, whereas it might not have been without that (Interview 12, emphasis added).

It is important to note that Zimmerman had no reason to put any positive gloss on the experience. It is widely known across the industry, and in journalistic accounts of the episode (e.g. Rothchild, 1991), that he was vehemently opposed to what Campeau was doing. In addition, Allen Questrom, Federated's CEO from 1990 - 1997, left the firm in 1988 as a protest at the conduct of the Campeau Corporation's running of the conglomerate, yet retrospectively suggests that '(t)he reorganisation because of the bankruptcy allowed them to do a lot of things that were, should have done perhaps before' (Interview 1). Harry Frenkel, CFO of Federated Merchandising Group admitted that much of the organisational restructuring in centralising merchandising was prompted by the Chapter 11 procedure: as '(i)t would have happened naturally I think just because of competitive forces, but I think this pushed us quickly which was great' (Interview 10). Another corporate executive revealed the sense of empowerment felt by Federated's senior management at the removal of the parent Campeau conglomerate on Chapter 11 filing:

> It was wonderful. It was a good thing for us. It is the opposite of what you would think. You would think that when you file bankruptcy that everything is gloom and doom but for us it was like we were casting off a yoke of this

crazy Canadian that had come in here and saddled the company with all of this huge debt that no matter how successful the stores were, and they continued to be successful through all of this, it didn't matter – you couldn't pay off that amount of debt. When we filed Chapter 11 it was regaining control of our own destiny (Interview 3).

There remains however deep-seated resentment within the Federated organisation for the events that preceded the bankruptcy period. When questioned about the good things that came out of the Campeau period, Bloomingdale's President, Michael Gould was reluctant to see any positive aspects:

He brought enormous disorder, fear when he came to a store, the things that he did. I don't see there was anything constructive, maybe the bankers think it was because they got great fees out of it but the fact of the matter is the people that were here at the time, I don't know anyone that said "wow that was a great experience. We learnt a lot". We learnt nothing (Interview 3).

Such opinions contrast, however, with the majority of the executives questioned who saw the bankruptcy as the spur to vital organisational restructuring, and to the centralisation of the resources of the industry, as evident in **Table 6.3**. These aspects of corporate restructuring are analysed in Chapters 2 and 12.

Table 6.3 Major Department Store Rationalisation, 1985-1995

Fiscal 1985			
Company	**No. of Divisions**	**Sales ($ millions)**	**Per Avg. Division/ $ millions**
Federated Dept. Stores	11	6,685	608
RH Macy	4	4,368	1,092
Carter Hawley Hale	6	3,979	663
Allied Stores	17	3,349	197
May Dept. Stores	10	3,327	333
Associated Dry Goods	10	2,724	272
Batus	5	2,300	460
Mercantile Stores	13	1,880	145
Dillard Dept. Stores	5	1,601	320
Dayton Hudson	2	1,448	724
Subtotal	*83*	*31,661*	*381*
Nordstrom	1	1,302	1,302
Total	**84**	**32,963**	**392**
Fiscal 1995			
Company	**No. of Divisions**	**Sales ($ millions)**	**Per Avg. Division/ $ millions**
Federated Dept. Stores	7	14,820 (a)	2,117
May Dept. Stores	8	10,612	1,327
Dillard Dept. Stores	5	5,918	1,184
Dayton Hudson	1	3,193	3,193
Mercantile Stores	5	2,892	578
Subtotal	*26*	*37,435*	*1,440*
Nordstrom	1	4,114	4,114
Neiman Marcus	2	1,888	944
Saks Fifth Avenue (b)	1	1,496	1,496
Total	**30**	**44,932**	**1,498**

(a) Includes results from acquired Broadway units; excludes Macy's Speciality and Close-Out operations
(b) Full-Line and Resort stores only; excludes Off 5th operations
NB Nordstrom, Neiman Marcus, Saks Fifth Avenue are categorised as speciality department stores and thus not included in the conventional department store industry

Source: Goldman Sachs (1996) *Department Stores: Rediscovering the Reinvented*, Goldman Sachs Investment Research, New York, May 3, 1996, p 30.

Bankruptcy, and the consolidation of firms following Chapter 11 Protection, allowed the key players to establish themselves and, by the start of the 1990s, 'forced a re-evaluation of dire predictions about the fate of the department store industry (Forsyth, 1993, p 29A). These newly emergent department stores started to operate in an integrated manner, resembling the discount and speciality store that were stealing so much of their market share - centralising the formally disparate divisions, sharing common services and technologically interlinking their supply chains (see Chapter 9, also Huff, 1993; Skrovan and Robinson, 1995).

CONCLUSIONS

The period of financial restructuring period was a turbulent time for the leading US department stores. Many of the firms entered bankruptcy in early 1990s primarily due to the recession making the financial distress of high leveraging more acute (see **Table 6.4**).

Table 6.4 Department Store Bankruptcies Following the Financial Restructuring Period

Date of Chapter 11 Filing	Retailer
January 1990	Allied/Federated Department Stores
April 1990	Ames Department Store
February 1991	Carter Hawley Hale
January 1992	R H Macy
June 1994	Woodward & Lothrop Department Stores

Source: authors own database

Some economists analysing the Federated acquisition by Campeau Corp. post-bankruptcy, suggest that the consolidation actually increased the net worth of the company, despite it being unable to meet its debt obligations (Kaplin, 1989; 1994). Although this may be the case, it is clear that Kaplin adopts an extremely narrow view of value, as the human effects of a firm's organisational and financial restructuring are all too often glossed over (cf. Bluestone and Harrison, 1982; Clark et al., 1992; Harrison and Bluestone, 1988). Indeed, adoption of a stakeholder perspective, to include, for example, all of the suppliers that lost revenue from the bankruptcies would undoubtedly result in a negative value of wealth creation (cf. Sternberg, 1998). It is these costs of bankruptcy that are not widely considered as implications of the 1980s turbulence.

This chapter has made clear that no matter what financial strategies were initiated to improve the competitive position of department stores, it was still the physical operation and actual execution of retailing that ultimately drove value creation. The financial restructurings in the mid-late 1980s placed the emphasis on leverage and deal construction rather than the actual operational improvements. Table 6.5 displays all of the major actual and potential leveraged acquisitions

between 1984-1988. It is no coincidence that all of the department stores featured in the figure, with the exception of May/Associated, experienced bankruptcy by the mid-1990s. Ultimately, however, the failed financial restructurings did inadvertently catalyse organisational improvements for the 1990s, due to necessary action taken during Chapter 11 bankruptcy protection, where the sector could be re-engineered to meet the competitive realities of the 1990s.

Table 6.5 Major Takeover Bids in Department Store Retailing, 1984-1988

Year	Potential Acquirer	Target	Bid	X book value	Response
1984	Limited	Carter Hawley Hale	$0.7 bn	3.1x	Reject
	Taubman (mall developer)	Woodward & Lothrop	$230 million	N/D	Accept
1986	Macy's goes private with leveraged buyout		$3.6 bn	2.7x	Accept
	Campeau Corp.	Allied Stores	$3.6 bn	2.9x	Accept
	May Company	Associated Dry Goods	$2.5 bn	2.3x	Accept
	Taubman	Wanamaker's	$183 million	N/D	Accept
1988	Campeau Corp	Federated	$6.6 bn	2.5x	Accept

Source: adapted from data in Laulajainen, 1988 and various other sources

This thesis takes a more pragmatic view of the financial restructuring period in the US department store industry than has often been suggested. Although, in the short term, the actions were disastrous and directly caused bankruptcy, the nature of Chapter 11 in the US allowed the otherwise healthy Federated to turn around quickly and refloat[44]. In fact the debt burdens did start to focus the minds of department store executives on organisational restructuring to achieve greater efficiency, but the leverage was too considerable to successfully operationalise these plans. The chapter thus argues that crisis can instead promote successful organisational response. In this manner, it can be argued that 'crisis is the best stimulus for successful transformation' as 'the real value of a crisis is that it demands a response, but the crisis is useless without leadership' (Thorne, 2000, pp 305-6, see also Kanter, 1985). Fortunately, as Chapter 9 discusses, Federated had quite exceptional leadership during the post-bankruptcy period in the form of Allen Questrom and Jim Zimmerman who realised the synergistic organisational restructuring that was planned in the late 1980s.

Above all this chapter has provided a good extrapolation of the issues raised in Chapter 2, regarding corporate restructuring not as a static and holistically theorised event, representing a clean break from the past (compare Hurst, 1995 with Clark, 1993a) – instead an open

[44] Biederman (1991) subsequently suggested that it is important to keep the bankruptcy in context. It was not a failure of the *concept* of the department store but a balance sheet issue as 'we should recognize that Campeau's difficulties resulted from a burdensome LBO structure, not a lack of viability of its underlying business' (p 9).

interpretation of the restructuring process is necessary in which corporate strategy is viewed as open to individual manipulation, and non-linear thinking. As McGrath-Champ (1999) suggests

> ...corporate strategy is often the strategy of an individual, adapted collectively via negotiation to gain the support and commitment of other individuals either within the organisation, or connected with it (e.g. shareholders) thus becoming a collective (corporate) strategy (p 241).

This was undoubtedly the case with Campeau at Federated and Allied and Finkelstein at Macy's, as these individuals reconstructed corporate strategies over time which drove the ill-fated restructuring of the sector. On Chapter 11 Bankruptcy filing, corporate strategy retained the ideals of centralisation and synergy realisation that had been integral to these financial restructuring plans but that were incompatible with the ideal of high leverage. The department store industry was consequently a fine example of how renewal cannot be regarded as a one-stop strategy, but more an ongoing struggle (see Hurst, 1995). It is how corporate strategy responds to these struggles and subsequently orchestrates corporate restructuring, whether it be financial, organisational or portfolio, that is important. It is to these ongoing issues the rest of the thesis turns.

Chapter Seven

Regulatory Constrained Portfolio Restructuring: The Case of the U.S. Department Store Industry

'(I)nterpretations of rules and procedures are always vulnerable to changing circumstances and competing arguments about the significance of changing circumstances for the integrity of rules: how those circumstances are accommodated within the inherited institutional context is an issue of considerable dispute'

G. L. Clark (1992) '"Real" regulation: the administrative state', *Environment and Planning A*, 24, p 620.

INTRODUCTION

There are numerous forms of corporate restructuring a firm may adopt in order to succeed in competitive markets. These have been well documented within the economic geography literature (e.g. Clark, 1993b; 1994; Clark et al., 1992; McGrath-Champ, 1999). First, an organisation may pursue financial restructuring; changing the capital structure of the firm to increase shareholder value. High leverage restructurings (LBOs and leveraged recapitalisations) in particular, have met with varied levels of success across different industries and firms (Bowman et al., 1999, see Chapter 6). Second, a firm may restructure organisationally, redesigning its operations to align with the firm's strategy (cf. Porter, 1980, see Chapter 9). Finally, and most obviously, a firm may restructure its portfolio of business units to sharpen its focus by disposing of units peripheral to its broader goals and core operations, eliminating under-performing units or alternatively acquiring other operations and integrating either horizontally or vertically (see Bowman et al., 1999; Bowman and Singh, 1993; Green, 1990). It is this form of restructuring which provides the focus of this chapter.

Portfolio restructuring clearly does not operate within a regulatory vacuum. In the United States it takes place within the context of antitrust legislation and its enforcement (see Wrigley, 1992 for a review of antitrust regulation in the retail industry). This chapter uses the example of the US department store industry in the 1990s to explore issues of portfolio restructuring operating in a regulatory constrained environment, considering in particular how difficulties with managing spatial strategic fit are negotiated through interaction with competitors in local markets. This geographical analysis of portfolio restructuring, interacting with governance and competition policy, provides an example of what Gordon Clark (1992a) has labelled 'real' regulation. In addition, it provides a perspective on the implementation of US antitrust legislation, and the

implications of reinterpretations of antitrust regulation for future merger and acquisition activity within the US retail industry.

FORMS OF PORTFOLIO RESTRUCTURING

There are a number of situations where a firm may choose to adopt a strategy of portfolio restructuring. First, it may adopt an aggressive acquisition policy, purchasing operations in its same business in order to increase market dominance and economies of scale. Second, it may adopt an acquisition policy as a defensive strategy, leveraging up to fend off potential acquirers (Laulajainen, 1990). In a market where there are few acquisition targets, the firm may be prepared to pay a premium for any remaining acquisition candidates (Wrigley, 1999b). This premium may be worth paying if the acquisition improves the firm's position in the market and prevents a competitor from consuming it. Third, portfolio restructuring may entail disposing of units peripheral to its core business (see Kirchmaier, 2001). Such divestiture might be to raise capital for other acquisitions or to rid itself of under-performing divisions, although they are likely to incur, what Clark and Wrigley (1995; 1997a) refer to as 'exit sunk costs'. This would have the effect of sharpening focus, but at the expense of increasing dependence on the core operation. Finally, the firm may diversify its portfolio through the purchase of units not related to its core business. This may be a defensive manoeuvre, shifting emphasis away from a faltering core operation with entry to a growth industry, or alternatively as a strategy to increase revenue to fund the core operation (Chung and Weston, 1982; Gort, 1966; Hughes et al., 1980). However, unrelatedness often represents a barrier to realising operational and financial synergies, and as such, 'a high proportion of unrelated acquisitions are divested shortly after purchase as many of these acquisitions – turned divestitures represent a losses for the acquiring firms' (Bergh, 1997, p 726)

PORTFOLIO RESTRUCTURING AND THE US DEPARTMENT STORE INDUSTRY

All of these methods of portfolio restructuring have been characteristic of the US department store industry over the last few turbulent decades. During the 1960s and 1970s, with the impression that the future of the conventional department store looked bleak, department stores adopted strategies of portfolio diversification, acquiring businesses from other sectors, including discounters, supermarkets and speciality stores (Bluestone et al., 1981; Laulajainen, 1987; 1988; Traub, 1994). The industry, in this respect, was characteristic of the so-called conglomerate merger wave of the period (Clark, 1992b; Fligstein, 1990; Schendel, 1993).

During the mid to late 1980s the department store industry underwent a period of portfolio restructuring principally driven by financial restructuring imperatives. This portfolio restructuring was principally motivated by opportunities for individuals and firms to acquire retailers with little equity through significant changes in the capital structure of the target. The US department store industry was one of the most notable casualties of the over-leveraging and debt-burdening characteristic of 'junk' bond financing. Firstly, between 1986 and 1988, Federated, and Allied, two of the largest department stores, were acquired by Canadian real estate virtuoso, Robert Campeau in a highly leveraged acquisition, underpinned by money from the coffers of Citibank and First Boston (see Hallsworth, 1991; Kaplin, 1990, 1994; Rothchild, 1991). Eventually, after substantial divestiture to pay down the debt, the corporation collapsed, and Federated/Allied filed for Chapter 11 bankruptcy protection in January 1990. The poor state of the sector was compounded by the failed leveraged buy-out of R. H. Macy for $3.5 billion in 1986, which ended in Chapter 11 protection in 1992. Indeed, before the buyout, the business had $1.48 billion in shareholder equity ($1 of debt for every $11 in equity), after the takeover, the ratio was $3.15 billion in debt and $290 million in equity (or $10 in debt for each dollar of equity) (see Lehmann-Haupt, 1996; Serwer, 1996; Trachtenberg, 1996). This portfolio restructuring was driven more by the theory of financial restructuring where the pressure of high interest debt payments would force managers to focus on the core business, and not squander cash flows in presumably less rewarding diversification projects (see Bethel and Liebeskind, 1993, p 10; Bowman and Singh, 1993; Jensen, 1986; 1989). However, the department store industry proved to have too cyclical a cash flow for successful leveraging, especially at the levels owed. Furthermore, the luxury-oriented nature of many of the more upscale department stores, was in direct opposition to the pressure to aggressively cut operating margins. This experience can be contrasted with numerous successful leveraged buy-outs in the supermarket industry which were characterised by non-cyclical cash flow (cf. Denis, 1994; Wrigley, 1999a; 1999b).

Strategic Acquisition-Based Portfolio Restructuring

Since the late 1980s, there has been a movement away from holding a diversified conglomerate of separate retail businesses and a focus on acquisition based portfolio restructuring throughout the department store industry, concentrated on acquiring rival department store operators rather than retailers in other sectors (**Table 7.1**). This de-conglomeration trend has been characteristic of US industry more widely, as 'divestitures of segments of the firm now deemed peripheral to the company's core operations are motivated by...a systematic strategic analysis that there are weak (or no) synergies among broadly diversified activities' (Harrison, 1997, p 40; see also Prahalad and Hamel, 1990). Michael Porter (1987) provides justification for this by suggesting that diversification is only effective when there is the opportunity to share resources and transfer

skills across the portfolio of businesses (see also Chang and Singh, 1999). This is difficult across such diverse segments as department stores and supermarkets, and, to a less extent, discounters. Unlike the 1960s and 1970s, department store firms no longer attempted to construct a broad array of retailing operations across a conglomerate portfolio, but instead pursue strategic acquisitions[45]. As the Director of the Federal Trade Commission (FTC) has acknowledged:

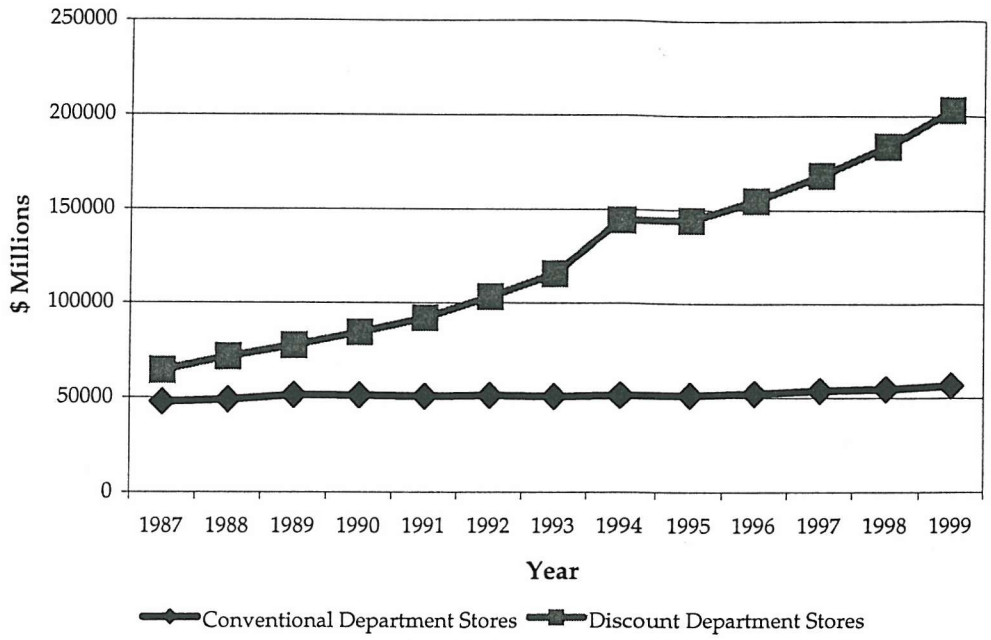
> What is remarkable about this merger trend, in addition to its sheer volume, is also the nature of the acquisitions. In the 1980s, many mergers were prompted by financial market considerations. To a far greater extent, today's mergers appear to be motivated by *strategic considerations* (Baer, 1997, my emphasis).

Explaining the Acquisition-Based Restructuring of the 1990s

In the same way as the easy finance from high yield corporate bonds and private pension fund investment freed from its regulatory constraints (see Clark, 1993a; Wrigley, 1999b) paved the way for the great wave of financial re-engineering of US industries during the 1980s, so there are general, and industry specific, factors underpinning the mid-late 1990s merger wave in the department store sector. Fundamentally, there was negative net growth in the industry. Over three decades, conventional department stores lost market share to discount stores such as K-Mart and Wal*Mart (**Figure 7.1**), and speciality store such as Limited and Gap (Porter, 1999; Rachman and Fabes, 1992; Rousey and Morganosky, 1996). Therefore, although consolidation increased the individual market shares of retailers within the industry, that took place within a sector that has been declining in real terms. For example, whilst Federated Department Stores increased its share of *conventional department store sales* from 14.8% of industry sales in 1989 to 28.8% in 1999, its share of *GAF* (general merchandise, furniture and apparel sales) has declined from 2.1% to 1.8% (see **Table 7.2**). **Table 7.3**, for example, contrasts the slow growth of conventional department stores with the spiralling success of discount stores through the 1990s, as the latter ate their way into the traditional apparel heartland of the conventional department store. Squeezed between alternative retail formats, department stores were forced, in effect, to consider acquiring their competitors to maintain their market position (Dunne and Kahn, 1997). Within this hostile environment, many regionally based department store chains in the US were prepared to accept consolidation with sympathetic, larger operators to save themselves from insolvency.

[45] The exception to this rule has been the Target Corporation (formally Dayton Hudson Corp.) which has successfully built up a thriving discount business alongside their three department store operations.

Figure 7.1 A Comparison of the Performance of Conventional and Discount Department Stores, 1987-1999



Source: data from US Department of Commerce (2000)

Table 7.2 Major Department Store Retailers' Share of GAF Throughout the 1990s

	1989	1994	1995	1996	1997	1998	1999
Personal consumption exp.	$3,596.7	$4,716.4	$4,969.0	$5,237.5	$5,524.4	$5,848.6	$6,257.3
GAF sales (billions)	454.3	592.6	625.0	655.2	685.5	729.2	783.5
Department Store Sales (billions)	51.2	51.1	51.0	51.7	53.1	53.7	55.1
Federated Department Stores	$7.6	$13.9	$15	$15.2	$15.7	$15.4	$15.9
% of industry sales	14.8%	27.3%	29.5%	29.4%	29.5%	28.6%	28.8%
% of GAF sales	2.1	1.6	1.7	1.8	1.8	1.8	1.8
May Department Stores	$9.5	$9.8	$10.6	$11.7	$12.4	$13.1	$13.9
% of industry sales	18.5%	19.1%	20.8%	22.5%	23.3%	24.4%	25.2%
% of GAF sales	2.1	1.6	1.7	1.8	1.8	1.8	1.8
Dillard Department Stores	$3.0	$5.5	$5.9	$6.2	$6.6	$7.8	$8.7
% of industry sales	6.0%	10.8%	11.6%	12.0%	12.5%	14.5%	15.8%
% of GAF sales	0.7	0.9	0.9	1.0	1.0	1.1	1.1
Saks, Inc.	$0.1	$0.6	$1.3	$1.9	$3.5	$6.0	$6.4
% of industry sales	0.2%	1.2%	2.6%	3.7%	6.7%	11.1%	11.7%
% of GAF sales	0.0	0.1	0.2	0.3	0.5	0.8	0.8
FD/MA/DDS/SKS department stores	$20.2	$29.9	$32.9	$35.0	$38.2	$42.2	$44.8
% of industry sales	39.4%	58.4%	64.5%	67.7%	71.9%	78.7%	81.4%
% of GAF sales	4.4	5.0	5.3	5.3	5.6	5.8	5.7
Other department store operators	$31.0	$21.3	$18.1	$16.7	$14.9	$11.4	$10.3
% of industry sales	60.6%	41.6%	35.5%	32.3%	28.1%	21.3%	18.6%
% of GAF sales	6.8	3.6	2.9	2.6	2.2	1.6	1.3

NB: GAF – *General merchandise, furniture and apparel sales*

Source: adapted from Goldman Sachs estimates, April 2000

Table 7.3 Department Store Retailers v Discount Store Retailers' Share of GAF in the 1990s

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Total Retail Sales *$ billions* (a)	$1,844	$1,855	$1,951	$2,082	$2,248	$2,359	$2,502	$2,610	$2,729	$2,972
GAF Sales *$ billions* (a)	471.6	485.4	519.2	553.0	594.2	624.4	655.0	683.2	724.8	778.7
Department Store Sales *$ billions* (a)	51.2	50.6	51.3	50.7	51.6	51.4	52.5	53.9	54.9	56.6
% of GAF Sales	10.6%	10.4%	9.9%	9.2%	8.7%	8.2%	8.0%	7.9%	7.6%	7.3%
Discount Store Sales	N/D	N/D	N/D	122.0	146.1	161.9	171.9	187.4	205.0	N/D
% of GAF Sales	N/D	N/D	N/D	22.1%	24.6%	26.0%	26.2%	27.4%	28.3%	N/D

NB: GAF – *General merchandise, furniture and apparel sales*

Sources: adapted from Goldman Sachs (1996; 1999) unless otherwise stated.
(a) Data from US Dept. of Commerce (2000)

The restructuring period of the mid-late 1980s principally involved the national operators who acquired, and integrated, the large multiregionally and regionally dominant chains with attractive locations and strong market shares in major metropolitan markets. By the early 1990s, however, there were few remaining large department store operators left to be acquired, although there remained a fragmented smaller *regional* industry of small chains, both publicly and privately owned across the country, previously too insignificant to attract larger players. Firms such as Alabama based Proffitt's began to exploit this niche, in turn creating a second wave of consolidation in the industry (see **Table 7.11**).

Table 7.1 Department Store Acquisitions of the 1990s.

Date	Acquirer	Acquired (Geographical Area)	Cost (If known)	No of Stores (If known)
1990	May	Thalhimers, (Richmond, Va.), Sibley's, (Rochester, N.Y.)	N/D	26
1990	Dayton Hudson	Marshall Field (Midwest)	$1.4 billion	N/D
Oct 1992-July 1993	Proffitt's	Hess (Southeast)	$24 million	18
March 1994	Proffitt's	McRae's (Southeast)	£212 million	28
1994	Bon-Ton	Hess	N/D	20
1994	May	10 stores from Hess (Northeast)	N/D	10
May 1994	Federated	Joseph Horne Co.	$116 million	10
Dec 1994	Federated	R. H. Macy	$4.1 billion	123
April 1994	Proffitt's	Parks-Belk	Less than $20 million	3
July 1995	May and J. C. Penney	Woodward and Woodward & Lothrop stores	Total Cost $460 million	21
Aug 1995	Federated	Broadway	$1.6 billion	82
April 1996	May	13 Strawbridge & Clothier stores (Philadelphia).	$479.5 million	13
Feb 1996	Proffitt's	Younker's (Midwest)	$258 million	51
October 1996	Proffitt's	Parisian (Southwest and Midwest)	$452 million	38
Nov 1996	Belk	Leggett Stores	$92 million	31
February 1997	Proffitt's	Herberger's (Midwest and Great Plains)	$154.9 million	40
January 1998	Proffitt's	Carson Pirie Scott (Midwest)	$956 million	55
March 1998	Proffitt's	Broady's (North Carolina)	N/D	6
May 1998	Dillard	Mercantile	$2.9 billion	103
August 1998	Gottschalks	The Harris Company (California)	$36.1 million	9
Sept 1998	Proffitt's	Saks Holdings (National)	$2.1 billion	96
October 1999	May	ZMCI (Utah, Idaho)	$52 million	14

Sources: various company reports and 10K's submitted to the Securities and Exchange Commission.

For this second wave of acquisition based restructuring to be successful, the department store firms had to leverage their increased market power in two fundamental ways. First, capital concentration allowed the leading department stores to realise considerable cost savings through economies of scale by demanding discounts through large scale purchasing (cf. Stern and Weitz, 1997). This is now a necessity in the conventional department store sector, as acknowledged by Michael Gould, Chairman of Bloomingdale's:

If you are a stand alone business today in the department store world then you are a $1 billion business then – what do you mean – what do you stand for? Let's say you are a $1 billion chain store in Pennsylvania – what's their power when they go into the marketplace...they go to Tommy Hilfiger or they go to Nautica – what's their power when they are up against $16 billion Federated or $14 billion May Company? Awful difficult! Better figure you are going to win on something unique, but I don't think they are big enough to win on service (Interview 16).

Second, the new portfolio of department store chains had to be organisationally restructured to eliminate duplication of core back office functions, centralising those operations the customer not see. These cost savings increase when operational expertise passes throughout the new firm in a process known as 'knowledge transfer' (see Merrill Lynch, 1999a). The difficulty of this reorganisation should not be underestimated - a recent study by KPMG found that 83% of mergers were unsuccessful in producing any business benefit as regards shareholder value (KPMG, 1999).

It is in this rapidly consolidating environment that the conventional department stores found themselves during the 1990s. Such portfolio restructuring did not occur in an aspatial or unregulated environment. Instead, it had to operate within the boundaries set by the FTC, in addition to those set by the competitive restraints of the market. For some economic geographers it is interesting to understand these regulations in the form of what Gordon Clark (1992a) has labelled 'real regulation', which comprehends these parameters as 'not simply derived from economic imperatives', as instead 'its form and functions are derived through the interplay between economics and political culture and then mediated through institutional practices' (Clark, 1992a, p 622). It is consequently necessary to understand these embedded strict regulatory conditions before analysing the strategic execution of merger activity in the sector and prescribe future solutions.

A BRIEF HISTORY OF US ANTITRUST REGULATION AND ITS IMPACT ON THE RETAIL INDUSTRY

US competition regulation has been a contested issue since the late 19th Century. There was an awareness of the virtues of economic competition in industry - it limited excessive concentration of power, dispersing benefits broadly along the contours of the market. It also provided a mechanism for the upward mobility for new market entrants to challenge the primacy of old competitors (Wood and Anderson, 1993, p 1). However, it was also appreciated that:

Free from outside interference, competitors often collude or resort to unfair practices to restrict competition. They may erect barriers to market entry to preserve their position. They may also seek a large market share in order to suppress the operation of market pricing mechanisms. Thus, competition does not maintain itself. Government action often becomes necessary to preserve or restore economic competition (Wood and Anderson, 1993, p 3)

Hence there was a need for the state to interfere with the working of the market mechanism to produce outcomes as near as possible to those demanded by neo-classical economics. The difficulty came in what form this action took, and how laws and statutes could be drafted to accommodate the smooth operation of the economy and ensure competitive industries.

At the heart of the US antitrust legislation is the *Sherman Act* passed in 1890, as a reaction against the predominant cartelisation and centralisation of market power prevailing in the United States at the end of the 19th Century. The act consisted of two main sections. The first, prohibited all contracts, combinations, and conspiracies in restraint of trade, whilst the second, prohibited monopolisation and attempts to monopolise (see Audretsch, 1989). The inability of the *Sherman Act* to control merger activity, however, was evident in the great merger wave that occurred at the turn of the century (Audretsch, 1989). Indeed, the *Sherman Act* was not drafted expressly to deal with mergers. As Valentine (1996) suggests, the act was successful in eliminating trusts and holding companies as vehicles for cooperation among companies although 'the Supreme Court did not extend its reach to mergers unless it could be shown that their very purpose was to restrain trade. Not surprisingly, businesses and barons adapted their technique and the US saw its first great merger wave in the 1890s, after and perhaps because of the *Sherman Act*' (Valentine, 1996). The *Clayton Act* was consequently passed in 1914 to clarify and supplement the *Sherman Act*. It attempted to solve the difficulty inherent in the 19th Century legislation, which applied only to mergers when the merging firms were on the verge of attaining substantial monopoly power. The revised Section 7, the part of the *Clayton Act* relevant to mergers, thus read:

> That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or part of the stock or other share capital of another corporation engaged also in commerce where the effect of such an acquisition *may* be to substantially lessen competition between [the two firms] or to restrain such commerce in any section or community or tend to create a monopoly of any line of commerce (cited in Viscusi et al., 1995, p 197, my emphasis)

This represented a notable shift in emphasis, with Congress coming down on the side of interventionist policy. It did not require proof that an acquisition definitely would lessen competition substantially, but only a reasonable probability that it would (Valentine, 1996). A second wave of mergers took place between 1916 and 1929. As Viscusi et al. (1995) suggest, because monopolistic mergers were effectively eliminated, there was a move towards the creation of oligopolies. This trend was truncated by the Great Depression of the 1930s, but was followed by a third merger wave after the Second World War (Viscusi et al., 1995). There was yet again a legislative response to the consolidations. In 1950, the *Celler-Kefauver Act* was passed. This revision of Section 7 of the Clayton Act explicitly prohibited the acquisition of another firm's physical assets if the effect was to substantially lessen competition or tend to create a

monopoly (Shugart, 1998). In the process it finally closed a loophole inherent in the *Clayton Act*, which prevented it from applying either expressly, or by judicial construction, to the acquisition of assets or to vertical or conglomerate mergers - hence the law could easily be circumvented through the acquisition of a firm's assets instead of its stock (see Audretsch, 1989; Luckansky and Gerber, 1993; Valentine, 1996). The *Celler Kaufaver* revision further armed the FTC to take action, as the 'emphasis on the concepts of "substantial lessening of competition" and "tendency to create monopoly" demonstrated Congressional concern at preventing mergers that might lead to monopoly power at some time in the future' (Audretsch, 1989, p 41).

During this post-war period, a structure-conduct-performance (SCP) framework was adopted by the FTC when analysing the threat of anti-competitive conditions (Eisner and Meier, 1990; Kay, 1991; Williamson, 1987). This framework suggested that industrial structure had a direct impact on the conduct of constituent firms. As such, in concentrated industries, with barriers to entry, major firms possessed the capacity to form and maintain collusive arrangements through adoption of a range of pricing, output and promotional policies ensuring supracompetitive profits. Such a structural approach to policy accepted the causal link between structure, conduct and performance, with action based on the premise that if the state corrected market structure, market conduct and performance would look after themselves (George and Jacquemin, 1992). This prompted the FTC to make decisions based on simple statistical measurements, easing decision-making, where clear-cut rules were troublesome to establish. Levels of concentration in industries and sectors were therefore the means by which the FTC acted.

> Because concentration was casually related to the existence and abuse of market power, an arithmetic representation of market structure (e.g. market concentration figures) could identify probable violations and define the limits of legality. Undoubtedly, the acceptance of the framework was also tied to populariist implications. Through its focus on concentrated economic power, its assumption that this power prompted abusive forms of conduct, and its reaffirmation of open markets with multiple small actors, it provided technical justifications for...anti-big business goals (Eisner and Meier, 1990, p 272).

Eisner and Meier suggest that the most striking display of Congress's adherence to the structure-conduct-performance framework came in the late 1960s, when national deconcentration programmes were considered. Such initiatives would have compelled major firms in concentrated industries to divest substantial parts of their holdings to achieve certain given concentration levels.

The more systematic analysis of merger activity due to the structure-conduct-performance interpretation of the *Celler-Kefauver Act* is clearly evident during the post-war period with considerable implications for the analysis of mergers in the retail industry. The landmark ruling on the Brown Shoe case of 1962 was particularly important. In this case, the Brown Shoe Company's acquisition of G.R. Kinney was declared unlawful as a result of competition being impaired in 270 cities or submarkets where both Brown and Kinney operated retail shoe outlets – despite the fact that merger would have created a shoe retailer with a mere 2% national market share (Shugart, 1998). This was due to a revised interpretation of market structure being adopted by the FTC. Crucially, instead of identifying national concentration levels, a new approach of identifying local market concentrations when investigating mergers was adopted. This method of analysis was then reinforced as a result of a ruling in 1966 on the proposed Von Grocery Company - Shopping Bag merger (Wrigley, 1992; 1997). In this instance, the Supreme Court refused the merger of two grocery chains holding a combined share of just 7.5% of the grocery market in Los Angeles, when the four leading firms in the market accounted for 24.4% of sales and the top 8 firms accounted for 40.9% (Valentine, 1996). The justification for this refusal was because;

> mergers involving small combined market shares were prohibited by Section 7 when they involved the leading seller in a market experiencing a trend towards centralisation (Mueller and Patterson, 1986, p 386; cited by Wrigley, 1992, p 739).

It was clear that the FTC had changed its spatial scales of analysis[46]. Indeed, the present FTC Chairman, Robert Pitofsky cites the conclusions of the Brown Shoe case as continuing to set the precedent today:

> ...if two retailers, one operating primarily in the eastern half of the Nation, and the other operating in the West, competed in but two mid-Western cities, the fact that the latter outlets represented but a small share of each company's business would not immunize the merger in those markets in which competition might be adversely affected (cited by Pitofsky, 2000).

As a result of *Celler-Kefauver*, the 1960s saw the forestalling of a number of mergers in the department store industry. Often this took the form of a ban on horizontal mergers for 10-15 years following the horizontal acquisition of another department store chain. The effect was to

[46] See Cotterill (1999b, p2; 1999c, p 3) for recent comments on the importance of investigating local market effects.

push department stores to acquire retailers outside of their expert market segments through the purchase of discounters and speciality stores. Alternatively, if FTC enforcement banned *any* acquisition, the focus shifted to organic expansion in greenfield localities and thus the establishment of branches (Laulajainen, 1987, see **Table 7.4**). As suggested more generally, an 'unintended consequence of the (*Celler-Kefauver*) act was to encourage firms to merge into...unrelated industries. Indeed, the law made it attractive to choose merger candidates that were quite distant' (Fligstein, 1990, p 222).

Table 7.4 Diversification of Major Department Store Chains in the 1960s and 1970s

Corporation	FTC ban	Major entry into	
		Discount retailing	*Speciality retailing*
Allied	1965-1975	1961-1978	1979-early 1990s
Associated	1975 (divestment)	1972-1976	1916-
Macy's	None	1987- early 1990s	None
Federated	1965-1970	1968-early 1990s	1982-early 1990s
May's	1965-1975	1970-early 1990s	1979-early 1990s
Dayton Hudson	None	1962-present	1966-present
CHH	1966-1974	None	1969-acquired 1987

Source: adapted, with modifications from Laulajainen, 1987, p 235. Additional data from R. H. Macy, 1994 and various company reports.

During this period of regulatory tightening, dissenting voices originated from academics at the University of Chicago, who were advocates of a reduction in antitrust action. Especially during the 1970s, the 'Chicago School' was instrumental in making the case for a movement away from merger guidelines focused on market structure analysis toward a greater emphasis on the procompetitive effects of mergers (Eisner and Meier, 1990; Wrigley, 1992). The argument mounted was that the burden of proof should come from the regulator when arguing for market intervention (Fligstein, 1990; Wood and Anderson, 1993).

Weakening of Enforcement and 1980s Financial Re-Engineering

Chicago School views were used during the early years of the Reagan administration to support deregulation and monetarist policies of economic development (Oesterle, 1997; Wrigley, 1992). This period was subsequently characterised by a relaxation in antitrust enforcement which reverted to a goal of preventing mergers that may enhance or create market power or facilitate its exercise - away from a decision based exclusively on concentration per se (Keyes, 1995; Valentine, 1996). These regulatory conditions coincided with the rise of new financial instruments and markets, specifically the high-yield bond market, to partly provide the

environment for the fourth merger wave in the 1980s, where the total value of transactions increased from $50 billion in 1983 to over $200 billion in 1988 (Viscusi et al., 1995, p 198, see also Taggart, 1988). This decade was accordingly characterised by financial restructuring, during a period Clark refers to as the 'arbitrage economy' (Clark, 1989a, see also Baker and Smith, 1998; Bartlett, 2000; Hallsworth, 1991; Oesterdale, 1997).

The 'Fix-it First' Regulatory Environment of the 1990s

By the late 1980s, in response to mounting public and Congressional criticism of the FTC's relaxed stance to retail mergers, there were signs of a retightening of antitrust enforcement (Wrigley, 1997). In particular, the State of California challenged the food retail industry merger of American Stores and Lucky Stores, Inc. in 1988 (Chevalier, 1995; Wrigley, 1997). The challenge was successfully carried to the Supreme Court in 1991, and American Stores was forced to divest its entire 145 store Alpha Beta chain in California (Cotterill, 1999b, p 4; Wrigley, 1997). This was indicative of a new era of antitrust conditions for retail horizontal acquisitions during the 1990s, whereby the onus was on the acquirer to produce an acceptable strategic fit of acquisition to pre-empt any FTC action.

The FTC, throughout the 1990s, essentially adopted a 'fix-it-first' approach, not necessarily opposing mergers in which the acquiring firm committed in advance (under the spirit of the *Celler-Kefauver Act*) to divest itself of horizontal market overlaps that might be deemed anti-competitive at the local level (Wrigley, 1999b, p 304). This approach was practical because the 1976 *Hart Scott Rodeno Act* compelled all proposed mergers of considerable size to be submitted to the FTC for consideration, allowing all mergers to be subject to the same level of investigation (Baer, 1996).

The retail regulatory environment of the 1990s was, therefore, characterised by a two-component policy. The first component of this was the FTC's 'fix it first' policy – whereby the retailers had to divest horizontal market overlaps deemed to be anticompetitive at the local level in order to gain FTC approval of the merger. This involved, as George Strachan of Goldman Sachs observed, the acquirer making 'some strategic decisions regarding what the likely outcome of the FTC will be'. In its turn 'the acquirer probably makes an educated guess as to what the FTC is likely to demand and they try to accommodate the most obvious overlaps before the

FTC orders them to do so. It is probably built into their plan before the FTC has even announced it' (Interview 8).

This anticipation of future enforcement through the 'fix-it-first' approach is echoed by Daniel Barry, equity analyst at Merrill Lynch:

> You think about the FTC and what they might do – you get the lawyers opinion – but you don't talk to the FTC. After it's done you go to the FTC. The FTC has a certain number of days with which they have to issue an opinion so if they want to stop it or attempt to stop it then they have that many days to do it. At that point they start negotiating and you may end up selling stores (Interview 6).

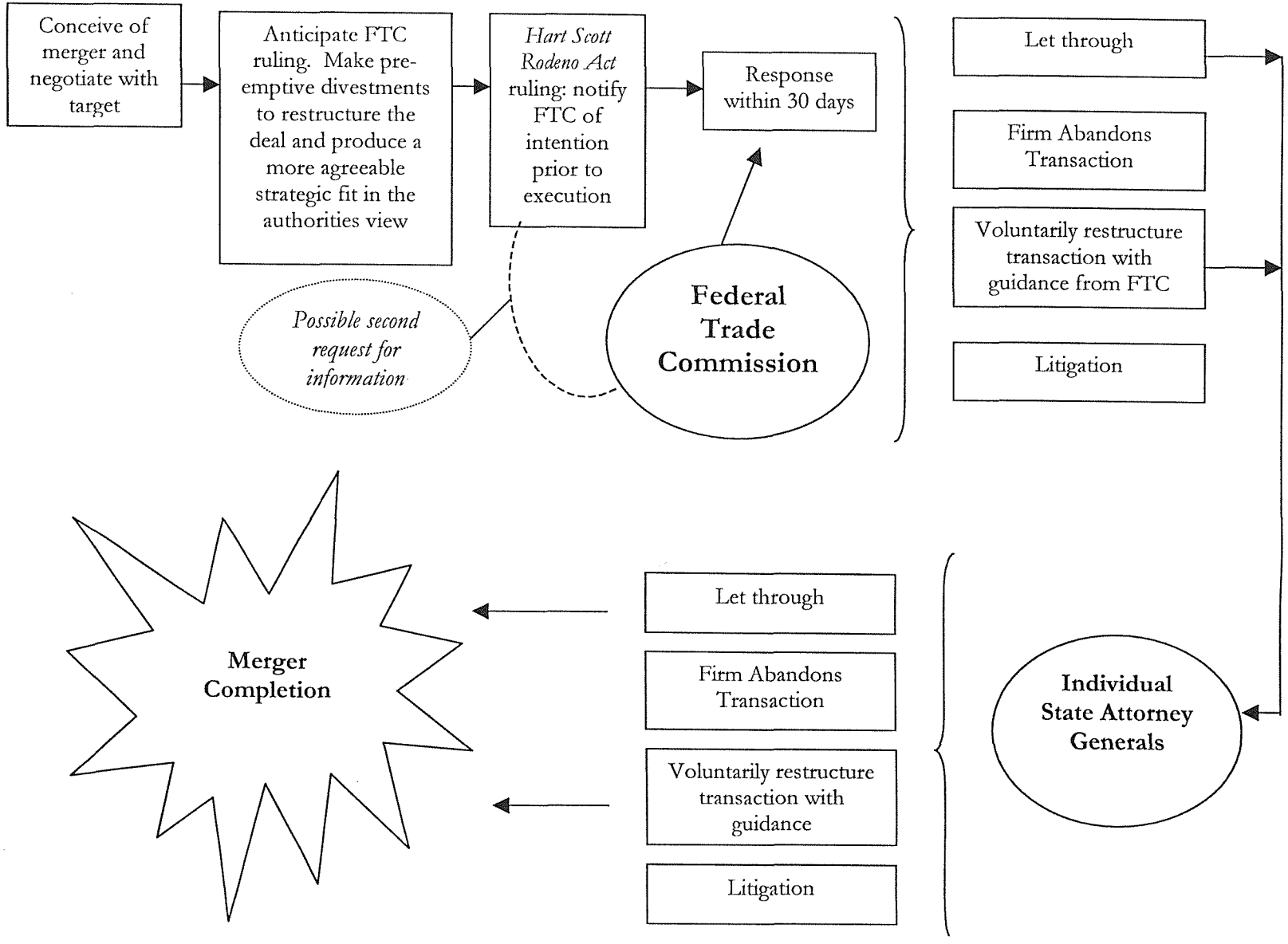
Second, the merger had to be approved by the Attorney General in the individual State in which it was occurring, even if clearance was granted by the FTC. Indeed the American – Lucky Stores divestiture was insisted on at the level of the Attorney General, as were the divestitures in Massachusetts and Connecticut in 1995/6 in the case of the mergers of Stop & Shop and Purity Supreme and between Royal Ahold and Stop & Shop, even though the FTC had provisionally agreed the transactions[47] (Wrigley, 1997). As Professor David Rachman of Baruch College, New York suggested:

> Basically there is another level that nobody talks about, that even if the FTC approves mergers, here are these State Attorney Generals get involved with these things and sometimes they get nasty. They fight. I happen to be involved in one. Some clerk in the main office of the Attorney General he said "they shouldn't let them do that" and they put forward some stipulation and before you know it there is an uproar going on even though the FTC has approved the merger (Interview 21).

This two-component policy was the regulatory framework that the US department store had to negotiate during the 1990s (see Wrigley, 2001 for a précis and **Figure 7.2**).

[47] This influence was most recently seen in September 1999, when the whole of the US retail industry waited to hear whether the Attorney General of California would ban all supercentre and warehouse club stores over 100,000 square feet (see Merrill Lynch, 1999b; 1999c for assessments). Although this was eventually vetoed, it showed the power of individual states in regulating their economic landscape hand-in-hand with the FTC.

Figure 7.2 A Decision Flow For a Retail Horizontal Acquisition Under the FTC 'fix-it-first' Policy



The following case study serves to evoke the internalisation of the 'fix-it-first' approach demanded by the FTC, which department store retailers had to realise in their portfolio restructuring strategies. In addition, it underlines how proposed acquisitions had to be negotiated and adjusted with, and between, other retailers in the surrounding area to result in an acceptable strategic fit. The extent to which divestitures and store swaps were pre-emptive of those insisted on by the FTC and the individual State Attorney Generals, and how much they were due to creating an improved strategic fit, is unclear and will be discussed in the following sections.

REGULATORY CONSTRAINED PORTFOLIO RESTRUCTURING IN ACTION - THE DILLARD'S – MERCANTILE STORES ACQUISITION

On May 18th 1998, Dillard's announced an agreement to acquire Mercantile Stores for $2.9 billion in cash. Under this agreement, Dillard's, the 3rd largest conventional department store, with sales of over $6.5 billion in fiscal 1997, proposed to take, in one bite, the 7th largest chain, which had 1997 sales of over $3 billion across its 106 department and home fashion stores under 13 different names in 17 states.

Questioning the Logic of the Deal

The proposed deal was completely contrary to Dillard's previous strategy of paying bargain-basement prices for extremely small regional chains which did not attract the larger industry consolidators of Federated and May (see D. Smith, 1998 and Rosenberg, 1988). In addition, there were considerable challenges and question marks concerning the strategic fit between Dillard's and Mercantile. Dillard's had for 15 years adopted a policy of every day value pricing and did not promote merchandise excessively. This was the opposite to the highly promotional Mercantile Stores. In essence, the two department stores were at opposite ends of the value-luxury spectrum. As Linda Kristiansen, Retail Analyst for Schroder's Capital Management commented:

> I can't think of two more opposite companies than Mercantile and Dillard's in terms of their markdown philosophy so I think that this was a real problem for Dillard's. It was set up from the beginning to be a real disaster (Interview 14).

A third major concern was the high price Dillard's proposed to pay (see **Table 7.5**). In essence the acquisition was highly defensive – Dillard's was proposing to acquire Mercantile to avoid its competitors gaining leading market shares in markets in which Dillard's was also present. As an industry source commented:

So basically Dillard deliberately overpaid for Mercantile and I think they did it as a defensive move because they (were) trying to keep Saks and Federated from taking...(these)... spots. So even though they overpaid and they never get a good return on the investment, it might have been better for the shareholder in the long run, from a defensive standpoint, to have taken it over and go through all the problems they are going through than to let a competitor take those spots (Interview 6).

Table 7.5 Dillard's, Inc.'s Acquisition in Context

Acquirer	Acquired	Date	Enterprise Value to LTM Revenue (a)	Enterprise Value to LTM EBITDA (b)
Proffitt's	McRae's	Mar-94	0.8x	6.0x
Federated	Macy	Jul-94	0.7x	17.8x
May & JC Penney	Woodward	Jul-95	0.9x	30.9x
Federated	Broadway	Aug-95	0.8x	20.6x
Proffitt's	Younkers	Feb-96	0.5x	6.5x
May	Strawbridge	Apr-96	0.5x	9.4x
Proffitt's	Parisian	Oct-96	0.7x	9.2x
Proffitt's	Herberger's	Feb-97	0.6x	8.6x
Proffitt's	Carson	Jan-98	0.8x	9.2x
Dillard	**Mercantile**	**May-98**	**1.0x**	10.3x
Industry Average			**0.73x**	12.85

(a) LTM – Last Twelve Months
(b) EBITDA – Earnings Before Interest, Tax Deductions and Depreciation
Source: adapted from Merrill Lynch (1998) and Paine Webber (1999)

Dillard's – Mercantile and 'Fix-it-First'

This case study displays how retailers learned in the 1990s to operate within the remit of the FTC 'fix-it-first' policy, thus avoiding any adverse regulatory enforcement by the FTC. Second, it shows how the geography of portfolio restructuring can be reworked, whilst still in the merger negotiation stage, through divestitures and store swaps with competitors. In particular, two events demonstrate the willingness of Dillard's to take action ex-ante of regulatory enforcement (see **Figure 7.3**).

a) *The Belk exchange*

On July 19, 1998, Belk, the largest privately owned US department store, with coverage principally in the South Eastern United States, agreed to exchange with Dillard's seven Mercantile Stores located in Florida and South Carolina, for nine Belk stores – eight located in Virginia and one in Tennessee (Dillard Press Release, July 14, 1998). This action made up half of the Dillard strategy to pre-empt any FTC antitrust action. The transaction also produced a strategic fit appropriate for Belk as it gave them a strong first time presence in the Jacksonville, Florida market and enabled them to re-enter the Columbia, South Carolina market with three stores.

For Dillard's, the transaction represented an agreement that would avoid duplication of stores in certain geographical areas improving the strategic fit for the corporation. It represented Dillard's first entry into the Chattanooga, Tennessee and Wilmington and Hickory, North Carolina markets and increased its presence in the Richmond and Tidewater markets. The Dillard CEO, Bill Dillard, hailed this as a win-win exchange: "It's rare that we can make the deal that so clearly benefits both parties. When we add the Belk stores to our existing stores, we will be able for the first time to offer our Virginia customers a full assortment of Dillard's merchandise in competitively sized stores. Chattanooga is a long sought-after addition to our already strong Tennessee stores, and Hickory and Wilmington will enable us to continue our aggressive growth strategy in North Carolina. On the other side of the coin, Jacksonville and Columbia fit naturally into Belk's geographical strategy, and we welcome them into these markets".

A major factor that made the store swap so successful was the similar average square footage between Belk and Dillard's and the same upper middle class target customer, indicative of an upper scale conventional department store. The strategy ensured that there would be minimal competition loss in specific spaces in the light of the transaction, appeasing the FTC, and producing a much-improved strategic fit for both retailers.

b) *Pre-emptive divestitures to Proffitt's and May Company*

In August 1998, Dillard's followed the coup of the Belk store swaps with the announcement that it was divesting some of the acquired Mercantile locations to Proffitt's Inc. and May Company, again to pre-empt any FTC regulatory enforcement and improve the geography of the acquisition. Under this agreement, Proffitt's acquired 15 former Mercantile stores in several markets including Nashville, Tennessee and Orlando, Florida, whilst May Company, on the other hand, agreed to acquire 11 former Mercantile locations in markets which included Kansas City, Missouri and Colorado Springs, Colorado. Critically, the stores sold were located primarily in markets in which Dillard had a strong presence *prior* to the Mercantile acquisition, especially around Kansas City, Nashville and Orlando. Such action prevented Dillard, therefore, from enjoying a localised monopoly in conventional department store retailing in the specific locales but equally ensured no cannibalisation of sales.

The Federal Trade Commission and Defining the Department Store Industry

Although Dillard's acquisition of Mercantile was of itself strategically questionable, the execution of the consolidation, provides an extremely interesting case study of a firm tailoring an

acquisition to conform to the FTC's 'fix-it-first' policy secondly, producing an improved strategic fit beyond that evident in the pre-merger geography. The extent to which the store swaps and divestitures were pre-empting antitrust action or to what degree they were initiated to improve the deals' overall strategic fit is not immediately obvious. It is dependent on the perceptions of the firm regarding how the FTC might chose to interpret the boundaries of the conventional department store industry.

As Shugart (1998) recently noted, narrowly drawn market boundaries, which only include a few retailers, increase the probability that a proposed merger between any two sellers in that market will be challenged. Conversely, if the market definition is more broadly defined, the greater number of competitors dilutes the impact of any merger on their reported market shares. There are two perspectives the FTC could have adopted in this case. First, it could have viewed the conventional department store sector as an industry of itself. Such an interpretation would have suggested a highly concentrated market, and the need for antitrust action. **Table 7.2** for example suggests that, in 1999 Dillard's possessed nearly 16% of the total industry. However, as previously noted, the conventional department store sector had faced vigorous competition during the 1980s and 1990s and seen substantial sales decline in the face of discount and speciality stores, driving consolidation in the sector. This suggests that a broader definition of the market for conventional department stores is more appropriate given a situation where, as Terry Lundgren, President of Federated Department Stores, acknowledged '(c)ompetition used to be defined more directly as department store versus department store. Today it is department store versus everyone' (Interview 23). That broader conception of the market comes in the form of the GAF (General merchandise, furniture and apparel sales) statistic of what, in 1999, Dillard's accounted for only 1.1% (**Table 7.2**).

There is considerable evidence to suggest that FTC prudently adopted the GAF approach rather than the conventional department store definition of the market in its consideration of mergers in the industry in the 1990s. Perhaps the best evidence of this comes from two acquisitions undertaken by a post-bankruptcy Federated. In 1994, Federated acquired Macy's, giving it a significant increase in the number of stores in New York, the south-east, and a major breakthrough on the west coast. The Macy acquisition was quickly followed by the purchase of the troubled Broadway Stores, also a west coast, Californian operator in 1995. As a result, and as evident from **Figure 7.4**, there was considerable market overlap in California, yet the reaction of the FTC was muted. As Vice President of Federated Department Stores, Carol Sanger noted in terms of FTC – required divestitures:

With the Macy's there was none. None that was FTC....In California it was a different story because...we were there with Macy's, and then with Broadway, the question was for the FTC, who was our competition? And there were some in the FTC who wanted to say that only department stores - we only competed against department stores. Well that's ludicrous; we compete against anybody who sells anything. And by the broader definition of competitor, Wal*Mart's our competitor, K-Mart's our competitor, Penney's and Sears are our competitors so our definition of who our competitors are was key in that whole decision and ultimately the decision was that all retail is the marketplace that you have to look at. You can't say that we only compete against May Company, we compete against Sears, Penney's and Limited and Gap and we compete against speciality stores and shoe stores....We had to divest ourselves of four I think! (Interview 3)

In this light, it is clear that the Dillard's - Mercantile pre-merger adjustments during the Summer of 1998 were driven as much by strategic market fit considerations as they were by the 'fix-it-first' policy of the FTC, given the likely use of the GAF figure by the FTC to interpret industry boundaries. It was this dual motivation of 'fix-it-first' and strategic market fit that drove pre-merger divestitures and store swaps.

Throughout the 1990s the 'fix it first' approach has represented the understood policy of the FTC in which retailers have understood their responsibilities and acted accordingly. Recent developments from two proposed consolidations however signal a harsher reading by the FTC of merger policy and a divergence away from this status quo. This has vast implications for the outcomes of portfolio restructuring in the conventional department store sector in particular and the US retail industry more generally.

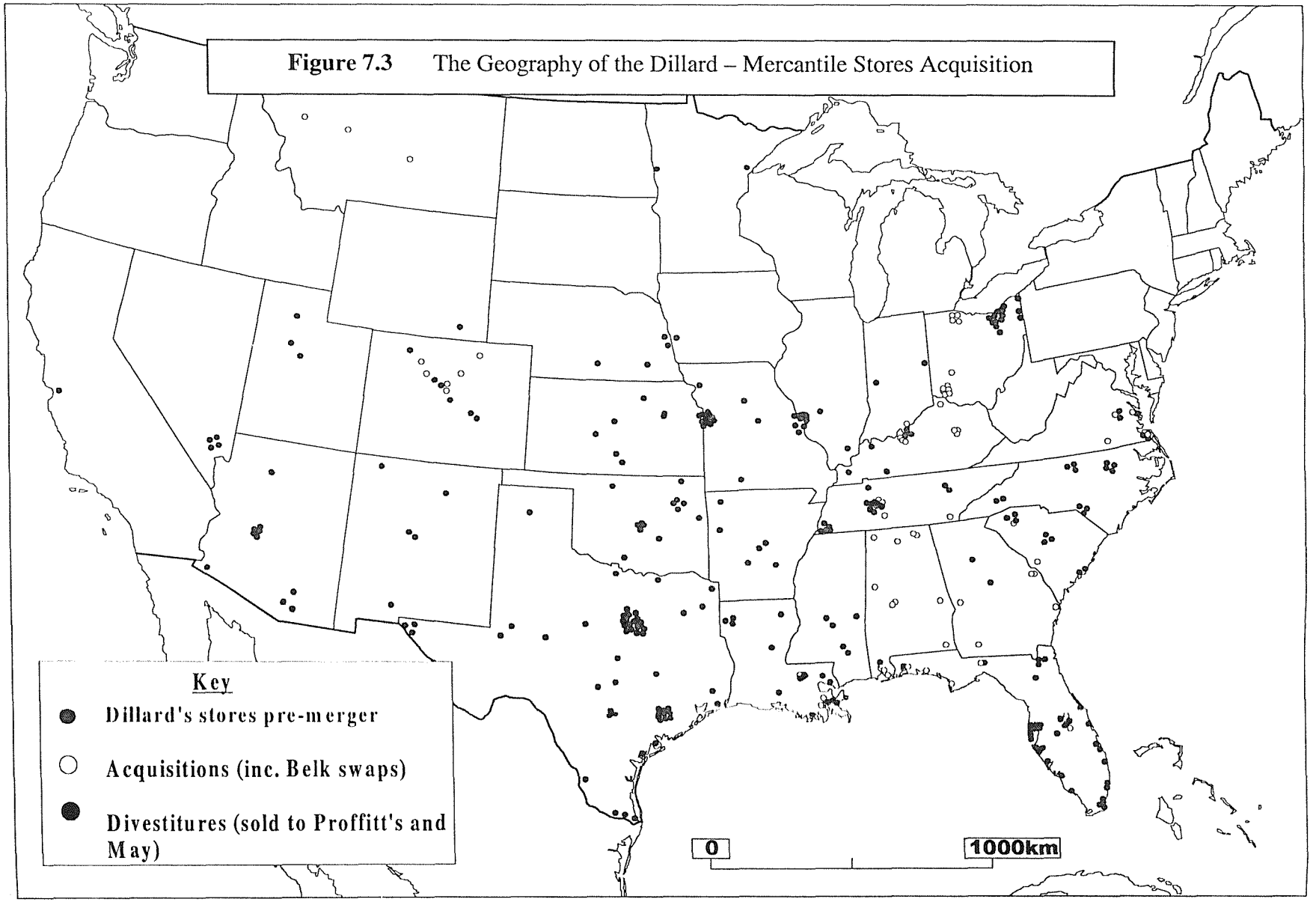


Figure 7.3 The Geography of the Dillard – Mercantile Stores Acquisition
Key
Dillard's stores pre-merger
Acquisitions (inc. Belk swaps)
Divestitures (sold to Proffitt's and May)
0
1000km

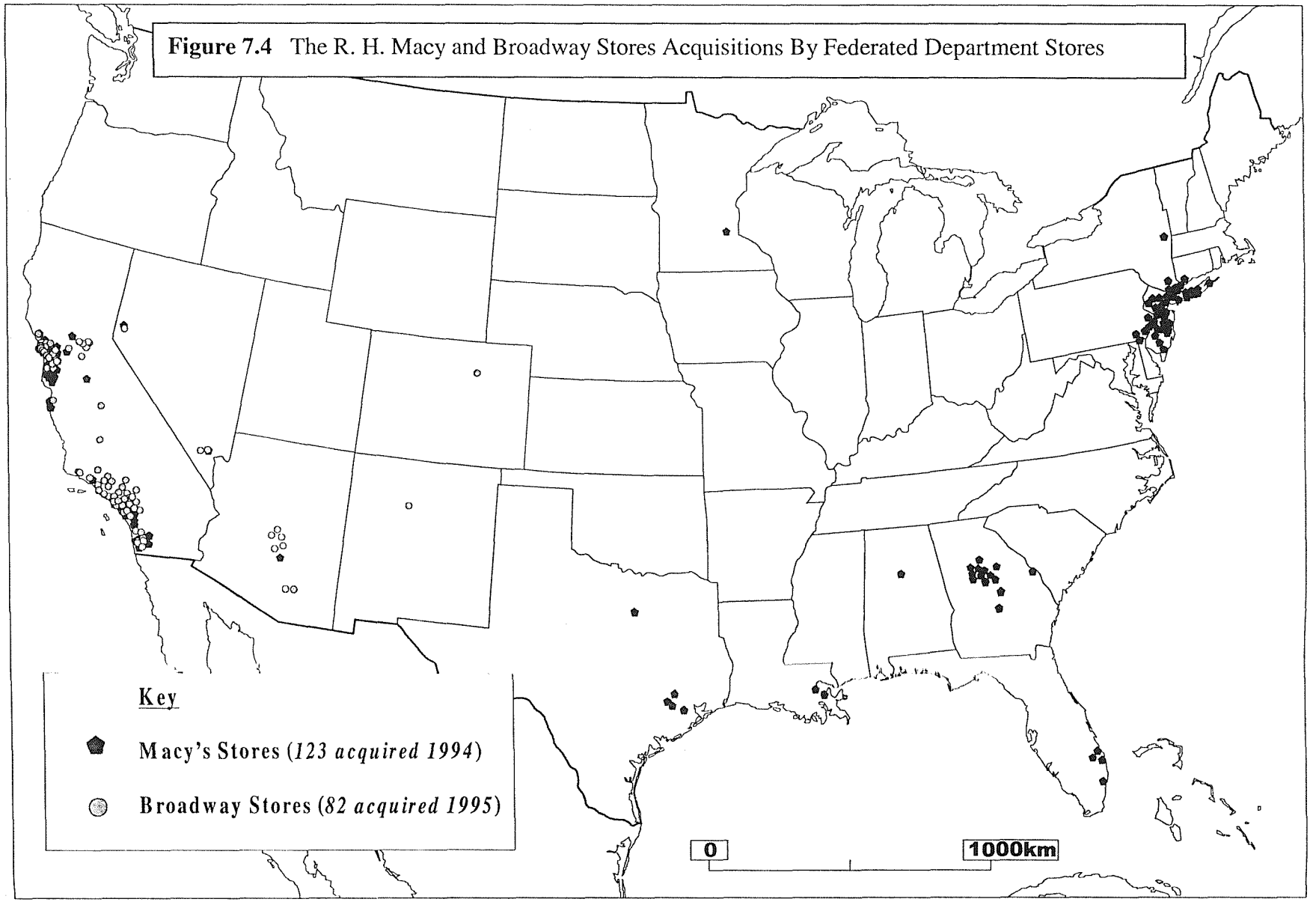


Figure 7.4 The R. H. Macy and Broadway Stores Acquisitions By Federated Department Stores

RECENT DEVELOPMENTS IN ANTITRUST INTERPRETATION: A NEW PARADIGM OF FTC ENFORCEMENT?

Recent developments in US retail industry regulation have cast doubt over the continuing implementation of the 'fix-it-first' approach in dealing with horizontal market overlaps (see Wrigley, 2001). It is widely believed that precedents have been set by the FTC's response in recent cases; the first dealing with the definition of markets, and the second, with divestiture as a policy for ensuring local competitiveness.

Defining Markets: The Staples – Office Depot Precedent

The first case relates to the proposed merger in 1997 between the first and second largest US office superstore chains; Staples and Office Depot. Staples offered to divest itself of its horizontal market overlaps, yet the case was taken to court and effectively killed off when, in June 1997, the federal district court in Washington, DC granted the FTC's request for a preliminary injunction blocking the merger (Baker, 1997).

The rationale for the refusal, according to the FTC, was that they had evidence that Staples raised prices and was thus uncompetitive in areas where it was the only office superstore in town. Such assumptions relied on complex econometric calculations of past experience (see Baker 1997; 1999). The case however, had far broader connotations for the rest of the retail industry and represented an important change in practice by the antitrust authorities. Office superstores, in this instance, were essentially being regarded by the FTC as a separate retail category independent of all other forms of retail (Warren-Boulton and Dalkir, 1997, see also Dalkir and Warren-Boulton, 1998; Werden, 2000). However, as Shugart (1998) notes, had the market included sales of office products at independent, mail order and discount retailers, then the Staples and Office Depot's combined market share would have represented a mere 5%. Similarly, it is argued over 80% of office supplies are purchased through outlets *other* than office superstores (Hausman and Leonard, 1997).

The case was indicative of a much stricter interpretation of industry boundaries by the FTC. Instead of the market being defined by all sales of the product, it is defined on the basis of the retail format. This is the exact opposite to what has traditionally occurred with the 'fix-it-first' policy in the department store industry throughout the 1990s.

Ineffective Divestiture: The Ahold – Pathmark Precedent

The second case relates to the FTC's harsh stance in late 1999 on the proposed merger between Royal Ahold, the 4th largest food retailer in the US and leading operator in the Boston and Washington DC corridor, and Pathmark (a subsidiary of Supermarkets General Holding Corporation), the market leader in the metropolitan areas of New York and New Jersey (Wrigley, 2000c). Ahold had previously made a large number of successful acquisitions in the US and divested enough stores under the 'fix it first' approach to appease the FTC (see Wrigley, 1998a; 1999a; 1999b). However, as Cotterill (1999a) suggests, such divestitures had often been ineffectual in terms of maintaining local market competitiveness. In an analysis of the performance of divested stores from Ahold's previous acquisition of Stop & Shop in 1996, Cotterill suggests that 'the stores divested have suffered major sales declines, but that the stores retained by the Royal Ahold have made major gains' (Cotterill, 1999a, p 9, see also Cotterill et al., 1999). In effect, it seems that retailers such as Ahold had been able to 'cherry pick' stores for divestiture, thereby divesting the least desirable store in each location (Cotterill, 1999a, p 9). In addition, Cotterill suggests that merging firms should not be allowed to divest to weak competitors from whom they can rapidly recapture market share. In short he suggests that the 'fix-it-first' approach in the food retail industry has produced divestiture orders that have not protected consumers from increased concentration and the exercise of market power (Cotterill, 1999a, p 9). The FTC accepted such evidence, and effectively blocked the Pathmark acquisition. Ahold consequently walked away from the deal, citing a significant change in policy by the FTC. Indeed, as Wrigley (2000) suggests, by mid 2000 there was mounting evidence of the tougher enforcement, as first the FTC decided to seek an injunction against the acquisition of 74 Winn-Dixie grocery stores in Texas by leading US grocery retailer, Kroger, citing its likely effect on prices and consumer welfare (see also Guidera, 2000) and, second, as it forced the 6th largest US food retailer, Delhaize America, to divest or close the entire southeast division of its Hannaford Brothers acquisition to gain regulatory approval (Wall Street Journal, 2000; Wrigley, 2000c).

Interpreting the Evidence

There are two issues raised by these recent cases of FTC enforcement that have implications for future portfolio restructuring in the retail industry. First there is evidence that the method of defining markets and industry segments is becoming more restrictive. Second there is evidence of a significant shift in the 'fix-it-first' approach - no longer being enough to divest horizontal market

overlaps to pre-empt FTC enforcement (Wrigley, 2001). Instead it is suggested by Cotterill (1999d) that divestiture is not a permanent prophylactic for market power. The FTC apparently agrees with this and has now shifted the bar towards tougher enforcement. 'It now seems to require more than a static divestiture that provides "numerical" parity to a competitive norm at the divestiture date. The momentum of the acquirer that will continue and may well increase after a merger is now factored in and this momentum factor requires a more substantial divestiture or outright challenge' (Cotterill, 1999d). Numerous statements coming from the FTC have supported this opinion.

On the subject of defining markets, literature from the FTC indicates the adoption of a more active and malleable view of market boundaries. As FTC Director William Baer suggests, the emphasis has moved from market *definition*, toward analysing market *interaction*:

> But the fact that we take a hard look at the actual competitive interactions within a market, rather than considering our job done as soon as the market is defined, should not be a basis for criticism but a reflection of the fact that we are doing our job. When we find unique relationships among products made by the merging firms, as evidenced by how the firms behave in the marketplace and by quantitative analysis of past pricing behavior, we have a merger that poses problems. And the issue of the precise market definition becomes and should become secondary (Baer, 1997).

This active definition and subsequent reaction is reinforced by comments by FTC Chairman, Robert Pitofsky (2000), who suggests that consideration will be given to whether the merger is part of a greater merger wave, rather than viewing the case in isolation.

On the subject of divestitures, it is clear there are considerable developments. Pitofsky (2000) recently suggested that considerable problems are likely to remain even if *all* horizontal market overlaps are eliminated. Indeed, the issue of the *quality* of the divestitures has been central to recent FTC concerns. Baer (1996; 1997) suggests that in future there will be moves to speed the divestiture process if it is necessary. Secondly, Baer (1996) advocates the increased the use of what he describes as the enforcement of *crown jewel divestitures*, where the Commission prescribe the divestiture of specified holdings. He acknowledges that in numerous cases, divestitures have been ineffectual, as acquirers have 'been able to frustrate the viability of a divestiture....by not transferring all the necessary technology or know-how' (Baer, 1996). As Pitofsky (2000) has suggested 'the bottom line is the divestiture must be effective and consumer welfare should not be asked to bear an unreasonably high risk that accomplished an uncertain and questionable undertaking'. Frequently, this has not been the case with the 'fix-it-first' approach as 'history has now shown that the antitrust authorities overwhelming preference for a 'fix-it-first' conciliatory approach to mergers in an

industry has produced a series of ineffectual divestitures that have rationalized the positions of leading chains, often enabling them to expand market share in the post merger period, thereby resulting in increased rather than lower concentration' (Cotterill, 1999a, p 2).

It is uncertain as to whether the stricter enforcement and narrowing of market definition by the FTC will be carried through into rulings on portfolio restructuring in the department store industry. It is suggested that food retailing represents more of a political arena for state intervention, and that department store retailing operates in much more of a backwater. Indeed, an Ernst & Young analyst suggested, '(t)hey (the FTC) are not as sensitive as they are in apparel as they are in food. Food is a very sensitive thing, much more sensitive than apparel is....I don't know, they blow hot and cold. It just depends on the political – it is all very political of course' (Interview 18). There is certainly a convincing argument that the FTC is likely to retain the working definition of the competitive market for the conventional department store industry in terms of GAF as

> This industry needs all the help it can get frankly. They are not dominating anything and certainly not in a position to name prices (Interview 8).

As one prominent department store CEO suggests, even high market concentrations in the conventional department store industry do not represent dominant market power beyond the tolerance of the FTC:

> I think what the FTC has historically done is smart and appropriate and that is they have looked at retail as a broader issue than just department stores. Our competitor for our business is not just another department store. Department stores in the aggregate...in a typical market, department stores may in the aggregate have 25% of the general merchandise, apparel & furniture – the GAF figure, so clearly 75% of the competition is not department stores. It is other forms of retail. So the FTC appropriately has looked at these from that perspective and concluded that even after the merger of the two companies that the share market they have is not counter to the beliefs of the FTC (Interview 12).

IMPLICATIONS FOR FUTURE DEPARTMENT STORE CONSOLIDATIONS

Until the end of the 1990s, under the prevailing ethos of the FTC's 'fix-it-first' approach, US retailers accepted that they would have to divest a given number of stores in order to conclude mergers and acquisitions. Essentially, this represented to them, what Clark and Wrigley (1995) would regard as a sunk cost to barrier to entry in a given market area. The recent hardening of the FTC stance may surpass a threshold of tolerance for these sunk costs and lead to a possible decline in horizontal mergers in the retail industry. Certainly for Royal Ahold the threshold was exceeded and they walked away. However, within the department store industry the number of potential acquisitions has declined, as few regional chains are left. Consequently, as in the case of food

retailing, the small number of acquisition candidates for department store acquirers 'effectively places a premium on chains that can offer to strategic buyers limited risk of extensive FTC-required divestment of stores. But conversely, because of the pre-existing geographies of major firms seeking to grow by acquisition and the regulatory risks of market overlap, such targets have, in practice, a strictly limited number of potential partners' (Wrigley, 1999b, p 304). These potential partners are, by virtue of the considerable acquisition activity, clearly large entities. Consequently any merger will inevitably involve considerable market overlap. This would undoubtedly lead to a situation whereby any acquisition would undoubtedly trigger FTC action, with possible refusal through litigation. The only solution for such a situation would be for the leading department stores to adopt a strategy of joint acquisitions, effectively sharing the target in their unpenetrated markets where antitrust enforcement would not apply. This could possibly lead to another era of portfolio restructuring where the large department stores firms are once again broken up and shared out. Conversely, the tightened regulatory environment could serve to stabilise the industry, as emphasis turns of organisational restructuring of the existing store portfolios.

Alternatively, by early 2001, concerns over the retention of a tighter enforcement of antitrust legislation in horizontal consolidations were evaporating. The arrival of the Bush Administration prompted the departure of Robert Pitofsky, FTC Chairman, and political analysts predicted a subsequent shift in actions. As the *New York Times* commented, 'most policy makers and corporate chiefs expect a loosening of antitrust policy. Economic advisers to President-elect George W. Bush have been critical of the Clinton administration for being too aggressive, particularly in its pursuit of monopolists (Labaton, 2001, p 3). Clearly, the direction of antitrust policy remains a controversial and contested area of US economic and political concern.

CONCLUSION

This chapter has made clear through the example of the US department store industry, the role of the regulatory state in portfolio restructuring. As Laulajainen suggested, over a decade ago, '(i)t is not just the willingness of the target to get acquired or the aggressor's capacity to place a hostile bid. It is as much a question of the FTC's attitude to the deal, which, in turn, is dependent on the political climate in general' (Laulajainen, 1987, p 170). It is evident that the investment decisions by firms do not occur in a regulatory vacuum and instead regulation does, to an extent, dictate

investment decisions (cf. Christopherson, 1993; 1999). The difficulty comes in interpreting state rules and, more broadly, theorising what role the state should have.

> What is clearly the issue, however, is the extent to which the state (at all levels) ought to have the size, roles, and functions that it currently has, given competing normative claims regarding the proper role of the state in relation to the market (Clark, 1992a, p 615).

In addition, it is clear that market consequences cannot be read off investment rules. As Clark (1990a) suggests, it is only in specific market contexts that the meaning of rules is determined and defined. Whilst the rules themselves may not change, the consideration and theorising of them may. Indeed, 'interpretations of rules and procedures are always vulnerable to changing circumstances and competing arguments about the significance of changing circumstances for the integrity of the rules; how those circumstances are accommodated within the institutional context is an issue of considerable dispute' (Clark, 1992a, p 620). As such, 'rules of adjudication are often unstable and fragmented. Reality as the unidimensional empirical facts of legal positivism is an implausible reference point for determining the plausibility of competing interpretations, and interpretations are political acts – contested over as representations of political interests' (Clark, 1989b, p 217). There must not be confusion over the substantive *content* of regulation and the *result* of the legal-regulatory process (see Clark, 1992b, p 721). Indeed, '(a)lthough the process of corporate restructuring in retailing is clearly contingent upon the legislation which governs competition in the industry, corporate restructuring and its spatial expression, in turn, transform that regulatory environment' (Wrigley, 1992, p 748). This leads one to a less rigid dichotomy between regulation as economic imperative and regulation as social practice - as Marden (1992) suggests, very much a false dichotomy as laws and regulations are continually re-interpreted and reviewed as conditions and political ideologies mutate over time (cf. Marsden and Wrigley, 1995; 1996; Marsden et al., 1998; 2000; Wrigley, 1993). It is in this environment the retailer is challenged to undertake portfolio restructuring.

Chapter Eight

The Limits to Portfolio Restructuring: Lessons from Regional Consolidation in the 1990s US Department Store Industry

---

'while synergy is the reason for the majority of takeovers, there is strong evidence that many takeovers are motivated by agency and hubris'

Berkovitch, E. and Narayman, M. (1993) 'Motives for takeovers: an empirical investigation', *Journal of Financial and Quantitative Analysis*, 28 (7), p 361.

INTRODUCTION

Portfolio restructuring has represented the principal engine of growth for the conventional department store industry throughout the 1990s. After the wave of mergers and acquisitions driven by the logic of financial restructuring, the start of the 1990s was characterised by a centralised industry with the major firms focused on rationalising and organisationally restructuring their store portfolios (see Chapter 9). By the start of this decade however, there remained a regionally fragmented department store industry that had escaped the notice of the giants of the department store sector.

Proffitt's, a seemingly insignificant southern department store chain, led a round of regional department store consolidation, acquiring those secondary chains not large enough to attract the attention of the larger players. This strategy was met with considerable acclaim during the mid to late 1990s throughout the business press (e.g. Barmash, 1996; ICSC, 1998; Schulz, 1998). This chapter examines this interesting acquisition strategy and how Proffitt's eventually diversified its portfolio through the unsuccessful purchase of an entirely inappropriate retailer in the form of Saks Fifth Avenue (SFA), the internationally renowned designer driven, speciality department store chain.

This change of strategy, away from acquiring struggling regional conventional department store chains, to acquiring an upscale designer merchant, allows conclusions to be drawn about approaches to portfolio restructuring in a saturated market, and how consolidators should examine the fundamentals of acquisitions before agreeing to buy. Due diligence is essential to analyse how the transaction can (or may not) appreciate shareholder value and whether there are any hidden difficulties with acquisition integration (Zecher, 1998). In investigating these issues, the chapter

goes beyond analysis of simple integration between the acquirer and the target, and moves towards a broader conceptualisation of elements in successful portfolio restructuring. The chapter commences by indicating the factors necessary for successful portfolio restructuring and then relates these to the Proffitt's strategy throughout the 1990s.

A FRAMEWORK FOR ANALYSING PORTFOLIO RESTRUCTURING

To assess the suitability of a horizontal merger in the retail industry it is useful to retain some measure of the "acquisition fundamentals" that underpin the successful integration of the target by the acquirer. These basic factors are especially important to consider in the successful conceptualisation of portfolio restructuring in the US department store industry, and in particular, to comprehend the strategy of Proffitt's, Inc. throughout the 1990s. These fundamentals underpin the successful execution of consolidations (see **Table 8.1**).

Table 8.1 Acquisition Fundamentals in Horizontal Consolidations

Fundamental	Comments
Price	Is it sold at a price where the acquisition can still be accretive? Is the price too expensive for what the retailer is *worth to the target* – this is different from what the market regards at what the price is worth.
Strategic fit of retailer	Does the target adopt the same strategic positioning? What are the implications for centralisation?
Correct strategic move?	Is it the correct strategy considering reactions of other competitors? What would happen in the event of the target not being taken?
Synergistic realisation potential	Organisational culture: receptiveness of both firms to integration? Does the systems compatibility allow centralisation? Is the existing management team competent or is an introduction of a new one necessary?
Spatial strategic fit	Is there overlap in markets? Would any divestiture be necessary for strategic considerations?
Regulatory considerations	What would the regulatory response be to any such overlap? What would the Federal Trade Commission and State Attorney General reaction be?

The first consideration is the price for which the target is on sale. The price itself can prove to be prohibitive, as the experience of the financial restructuring of the 1980s testified where transactions were fated due to the huge debt levels they produced (see Chapter 6). In addition, Eccles et al. suggest it is often not that acquirers pay too high a price in an absolute sense - rather, they pay more than the acquisition is worth to them (see Eccles et al., 1999). When considering the price of the retailer, the state of the industry must be considered. In a market, with few acquisition targets, a premium is placed on the remaining candidates (Wrigley, 1999b). The premium may be worth

paying if the acquisition improves the retailers' position in the market and prevents a competitor from consuming it (see the Dillard's – Mercantile acquisition logic in Chapter 7).

The spatial strategic fit is equally as important to consider. An overlapping store portfolio will cause the cannibalisation of sales in given market areas. Furthermore, horizontal market overlap can result in a situation of local monopoly and spur regulatory responses in the form of action by the Federal Trade Commission and individual state Attorney General reaction (see Chapter 7 and Wrigley, 1992; 1997; 1999b). If a level of divestiture is likely to be necessary, this must be factored into the acquisition decision and regarded as a sunk cost to market entry (cf. Clark and Wrigley, 1995, 1997a). In extreme cases, considerable divestiture may be insisted on by the regulatory authorities to such an extent that the transaction surpasses any tolerance for sunk costs of the acquirer and will not occur.

A primary element determining whether an acquisition is successful and adds value to the firm are the level of synergistic benefits that can be achieved through integration. As Milford Green (1990) suggested, '(v)aluation gaps created by coordination gains are commonly called synergistic enhancements. Synergy results when the profitability of a combined unit is greater than the profit that would have been realized had the merged units remained independent' (p 17). It is clear that firms with centralised administration and direction are less likely to have evident synergies available and thus less likely to be acquired (see Palmer et al., 1995). Such synergistic gains are, however, dependent on a certain level of compatibility between technological systems - supply chain infrastructures can contain hidden costs in integration if such issues are not investigated in the pre-merger period (see Crawford, 1998). As such Michael Porter (1987) suggested, that simple restructuring or identifying undervalued assets alone rarely creates value. Instead, extensive resource sharing and transfer of skills between newly acquired businesses are necessary to ensure viability. Consequently, Chang and Sing (1999) suggest from a resource-based perspective, that acquisitions are likely to perform better and survive longer in a related business than an unrelated one since the parent firm possesses the skills and resources to be competitively viable.

Understanding Unrelated Acquisitions

There are though a number of reasons why an unrelated acquisition may be pursued. Donald Bergh (1997) identifies three principal reasons why a firm may enter unrelated businesses. First, there may be the prospect of *financial synergy*, where the acquirer may find a reduction in the costs of capital,

which result in cost savings. Second, he identifies *governance efficiencies*, whereby acquired businesses may be more efficiently managed in the parent's governance system. As Hill et al. (1992) suggest, the acquirer may be 'able to achieve a more efficient allocation of capital resources between divisions, and police the efficiency of divisions more effectively than the stock market could were each division an independent firm' (p 503). Third, Bergh locates *managerialism* benefits, whereby the corporation achieves market power and increases in organisational size as a result of the unrelated acquisition. Finally, he recognises the unrelated acquisition producing *coinsurance*, as it enables the acquirer to balance revenue cyclicalities and reduce risks with diversification (see also Green, 1990).

Despite this theoretical endorsement, 'a high proportion of unrelated acquisitions are divested shortly after purchase as many of these acquisitions – turned divestitures represent a losses for the acquiring firms' (Berg, 1997, p 726). Indeed, precedents from the US department store industry regarding unrelated portfolio diversification are not good. The most widely known example is the corporate diversification into the financial services industry pursued by Sears, Roebuck & Co. in 1981 through its acquisition of Caldwell Banker & Co. and Dean Witter, Reynolds Inc. Although the initial investment increased shareholder wealth by over $400 million, anticipated synergies did not materialise, as it proved troublesome to link insurance, securities and real estate units to the traditional department store and catalogue operation, as cross merchandising initiatives were poorly conceived. By 1992, Sears announced the divestiture of the acquired firms and exit from the financial services industry. Although shareholder value increased by over $1.113 billion during the diversification/divestiture period, Gillan et al. (2000) argue it represented a significant loss compared with a portfolio of focused firms[48].

Having developed this theoretical framework it is interesting to analyse the acquisition strategy of the southern department store, Proffitt's during the 1990s.

THE PROFFITT'S STRATEGY

There were a number of elements that made the Proffitt's acquisition strategy successful. These are directly related to the acquisition fundamentals identified in the previous section. First, Proffitt's identified acquisition candidates that were strong in their regional markets and did not overlap with their existing stores (see **Figure 8.1**). The Proffitt's consolidation wave passed through the South,

[48] Monks and Minnow (1995) suggest that the continued pursuit of this ill-conceived strategy represented a significant failure in corporate governance at Sears as the retailer continually resisted contestation from investors who were unable to vote off board members and were effectively unable to nominate their own candidates.

Midwest and Great Plains, spreading through neighbouring regions in short period of time (see **Table 8.2**). Indeed, between 1988 and mid 1998 Proffitt's increased its store portfolio by 340 and its square footage by 31.6 million square feet. By 1999, revenues had increased to over $6.4 billion.

Table 8.2 Saks Inc. (formally Proffitt's) Consolidation Chronology

Company	Date	Stores Acquired	Gross Sq. Ft. (in millions)	Locations
Lovemans	May 1988	5	0.3	Tennessee
Hess	July 1993	18	1.2	Southeast
McRae's	March 1994	28	2.8	Southeast
Parks-Belk	April 1995	3	0.2	Tennessee
Younkers	February 1996	51	5.0	Midwest
Parisian	October 1996	38	4.1	Southeast & Midwest
Herberger's	January 1997	40	2.8	Midwest & Great Plains
Carson Pirie Scott	February 1998	55	8.2	Midwest
Brody's	March 1998	6	0.3	North Carolina
Saks Holdings	October 1998	96	6.7	National

Source: Adapted from Saks Incorporated (2000a)

The strategy of selecting regional department store chains allowed Proffitt's to leverage the lack of demand from the large operators for these retailers by paying a lower acquisition multiple for the chains – i.e. avoiding triggering competition which would have bid up prices (Merrill Lynch, 1997a, see **Table 8.3**). Indeed, the Proffitt's average acquisition multiple was 7.9x, whilst the average in the industry was 12.9x.

Table 8.3 Proffitt's, Inc. Acquisition Multiples Against Industry Average

Date	Acquirer	Acquired	Transaction Value	Enterprise Value to LTM Revenue	Enterprise Value to LTM EBITDA
March 1994	Proffitt's	McRae's	$212.0	0.8x	6.0x
July 1994	Federated	R. H. Macy's	3,449.2	0.7	17.8
July 1995	May & JC Penney	Woodward	460.0	0.9	30.9
Oct 1995	Federated	Broadway Stores	1,614.4	0.8	20.6
Feb 1996	Proffitt's	Younkers Inc.	258.4	0.5	6.5
Aug 1996	May	Strawbridge & Clothier	479.5	0.5	9.4
Oct 1996	Proffitt's	Parisian Inc.	452.0	0.7	9.2
Feb 1997	Proffitt's	G. R. Herberger's Inc.	154.9	0.6	8.6
Jan 1998	Proffitt's	Carson Pirie Scott	956.0	0.8	9.4
May 1998	Dillard's	Mercantile Stores	3,140.0	1.0	10.8
Industry Avg. (1994-1998)				0.7x	12.9x
Proffitt's Avg.				0.7x	7.9x

NB. EBITDA: Earnings Before Interest, Tax, Depreciation and Amortization; LTM: Last Twelve Months
Note: The Saks Holdings – Proffitt's, Inc. transaction represented a departure from the low acquisition multiple enjoyed by Proffitt's, as they paid 11.6x LTM EBITDA (Paine Webber, 1999a, p 10)
Source: adapted from J. P. Morgan Securities (1998a, p 17)

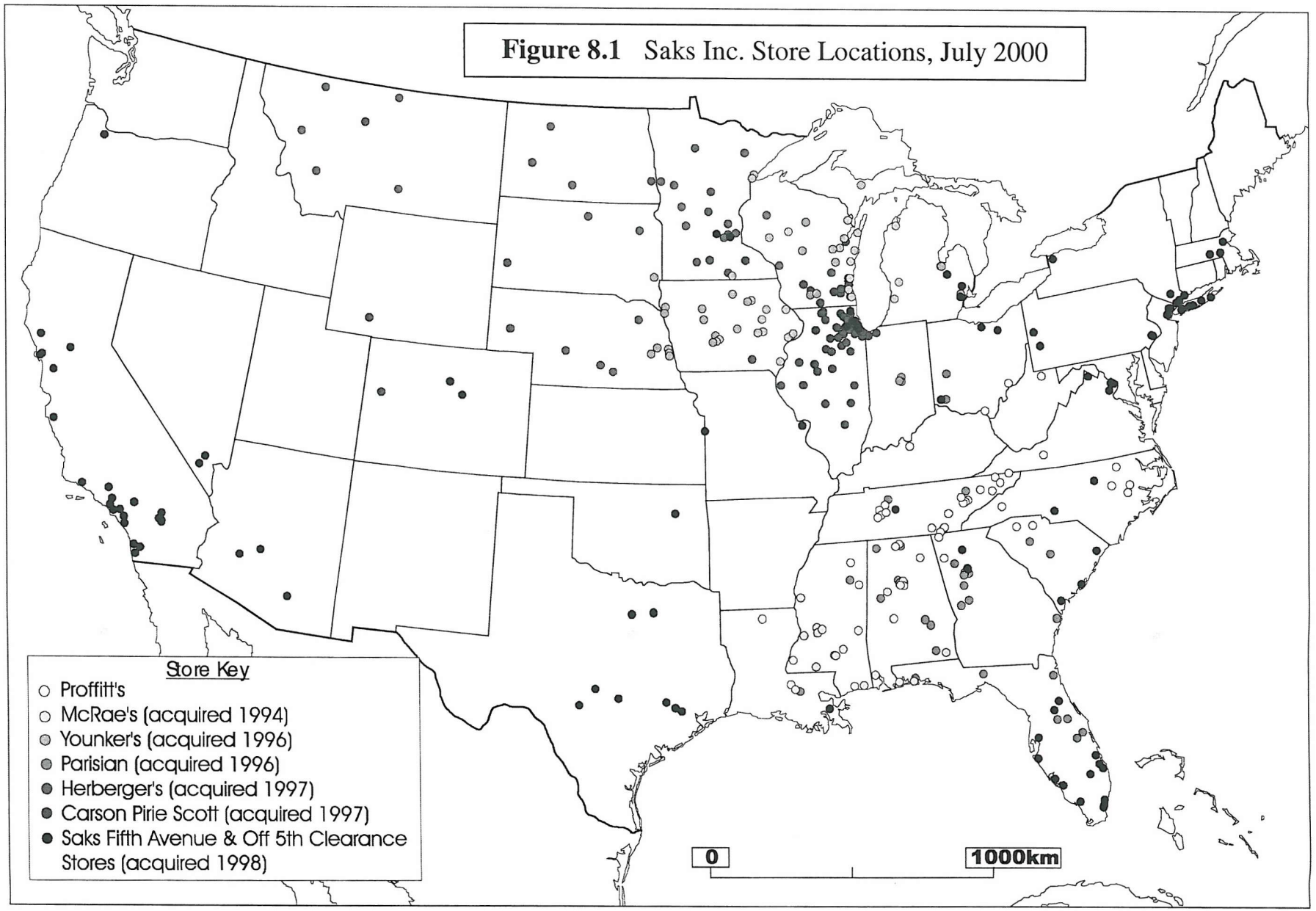


Figure 8.1 Saks Inc. Store Locations, July 2000
Store Key
Proffitt's
McRae's (acquired 1994)
Younker's (acquired 1996)
Parisian (acquired 1996)
Herberger's (acquired 1997)
Carson Pirie Scott (acquired 1997)
Saks Fifth Avenue & Off 5th Clearance Stores (acquired 1998)
0
1000km

The regional department store operators, aware that their days were numbered due to their lack of competitive scale, realised the advantages of merger with Proffitt's, not least as a protection against bankruptcy or predation later by larger, more unsympathetic operators who were likely to remove their regional identity. Indeed, the cultural considerations concerning the ease of merger integration in promoting the regional department stores' desire to consolidate was central to Proffitt's success. As George Strachan, equity analyst for Goldman Sachs, comments mergers can be

> very disruptive in some instance – the human animal is not totally rational and you get all kinds of cooky side effects that you don't expect or anticipate. So sometimes it makes a lot longer to make these deals work and that's why *you have to look very closely at the cultures of the acquired and the acquiring companies to see if there is a natural cultural fit as well as a natural geographical fit* (Interview 8, my emphasis).

Proffitt's were transparent in advertising their integration programme to their targets, operating a policy of incorporating regional operators into systems but maintaining the identity of stores in larger acquisitions. This allowed former regional chains access to big name vendors such as Tommy Hilfiger and Ralph Lauren at reasonable prices, instead of attempting to deal with these vendors independently. In its turn, the addition of regional department stores also increased Proffitt's competitive bulk. This acted as a major selling point to the independent chains, and a major buying inducement for Proffitt's.

By the early 1990s, the regional department stores viewed the decline of a number of competing chains that were considerably larger than themselves. It was certainly a matter of time until they either faced the prospect of Chapter 11 bankruptcy protection themselves, or alternatively, were acquired and merged into the existing operations of one of the all-devouring May or Federated's. The Proffitt's policy of retaining independence within a broader corporate configuration was viewed as a superb opportunity to avoid these scenarios, as regional identity was secure. As CEO Brad Martin commented to analysts in 1997,

> Our transactions have all been friendly transactions. We have never bought anything in a competitive auction. We have a purpose about what we are attempting to do and how we do things and treat people. As a consequence *people want to be our partner* (quoted in Merrill Lynch, 1997b, p 2, my emphasis).

Indeed, to a very significant extent, Brad Martin is viewed as playing a fundamental role in Proffitt's successful strategy (Moukheiber, 1998). As a member of the Tennessee legislature, he was well versed in southern political issues and embedded within the region. One cannot overstate the extent that this eased dealmaking, especially if one compares it to merger discussions with the traditional

eastern department store executives based in New York City. Martin, was thus viewed very much as "one of them", rather than an outsider. As one analyst suggested:

> I do believe that you are right that the sellers of these department store chains probably did take a measure of comfort in the idea that the name of the stores was not going to get obliterated – that there would be some sensitivity to the local employee base. Brad Martin is a supremely political fellow...He understood these people and what their desires were (Interview 8).

Another suggested, 'I think it (southern identity) was a good selling point, a strong selling point. It was also the dream of the chairman to do that' (Interview 23). Furthermore, Martin's own considerable personal investment in the firm served to reassure investors of his strategy (Porter, 1999), as this partially overcame the difficulties of a separation of ownership and control inherent in agency theory (see for example Jensen, 1989a; 1989b and a description in Chapter 6).

The Proffitt's Independence Model

The Proffitt's operating structure contrasted sharply with the more centralised organisational architecture of other large department stores of the 1990s. May Company, for example allowed little autonomy for their regional divisions as centralised buyers directed store operations (Moukheiber, 1998). Proffitt's offered a much more independent configuration. This is not to say that Proffitt's resisted change - the company consolidated certain administrative back office functions in order to better leverage expenses, reduce overheads and achieve the benefits of chain store economics. In addition, October 1996 saw the launch of Proffitt's Merchandising Group (PMG) (see **Table 8.4**). The body originated to coordinate buying and merchandising for all divisions - although the actual buy remained at the divisional level, allowing merchandise to be tailored effectively by each market (Merrill Lynch, 1997a' 1997b). PMG was thus more of a *coordinating body* to administrate buying, planning and merchandising among divisions in order to better realise the economies of scale that were clearly available to a retailer of the size Proffitt's had rapidly become.

Table 8.4 Proffitt's Inc. Balance Between Divisional and Corporate Responsibilities

Area	Decentralised Divisional Responsibility	Centralised Corporate/Centralised Role
Merchandising	Buys all divisional merchandise	Manages overall vendor relationships
Private label	Provides input into design	Designs and sources all private label merchandise
Pricing	Sets pricing strategy	Reviews results searching for best practices
Promotions	Determines promotional calendar, inc. timing of events and markdown amounts	Reviews results searching for best practices
Logistics	Run divisional network	Best practice sharing. Corporate to take over larger role over time
Technology	Support only	Manages existing technology platforms. Working to convert all divisions to one platform and upgrade functionality
New Stores	Operate new stores	Locate sites, conduct market research, determine feasibility, and built stores
Corporate functions	Support only	Provides most corporate functions such as accounting, credit, MIS and human resources

Source: adapted from JP Morgan (1998a), p 11.

As investment bank Merrill Lynch acknowledge, such a structure effectively retained the identity of each of the divisions that had been purchased by Proffitt's, yet allowed them to remain very much regionally embedded within their core markets - in the terminology of the economic geography literature - taking advantage of 'institutional thickness' (cf. Amin and Thrift, 1994; see Chapter 9 on the balance of local knowledge and centralised administration):

> The PMG was not formed to diminish the importance of regional management but rather allows the company to execute regionally whilst ensuring that each division realises the economies of scale of the total company....The management of Proffitt's firmly believes that merchandising and assortment planning should be kept as close to the ultimate consumer as possible...this level of decentralisation increases the degree of micromanagement of merchandising that can be achieved (Merrill Lynch, 1997a, p 34).

CEO, Brand Martin, underlined the logic of this 'centralised-decentralised' configuration of the firm recently:

> We built the department store company through the acquisition of a lot of different businesses, each of which had its own merchandising structure and strategy, each of which had strengths and weaknesses. We needed some central method to plan, to initiate best practices, to work with key vendors and to benefit from the scale associated with the business that we assembled, so we formed a corporate merchandising staff to do just that (Brad Martin, Saks Inc.2000b).

In this vein, it is well known that some such central administration of the retailer is necessary (see Abernathy et al., 1999 and Chapter 9). From an organisational perspective, Hill et al. (1992) comment that firms not employing such systems are unable to realise internal governance efficiency from acquisitions because they are cannot manage information processing requirements effectively. It is the leverage that such merchandising groups produce that makes acquisitions accretive. These centralised institutions allow firms that were small and insignificant on the national stage to suddenly 'demand better prices from big-name vendors, which are under greater pressure to satisfy a shrinking number of major consumers' (Deloitte and Touche, 1998, p 33).

Perhaps the best example of an acquisition that added synergistic benefit to the rapidly expanding Proffitt's portfolio was the capture of Carson Pirie Scott in 1998. It is interesting to consider this case in greater detail to understand the benefits of successful regional consolidation.

The Carson Pirie Scott Example

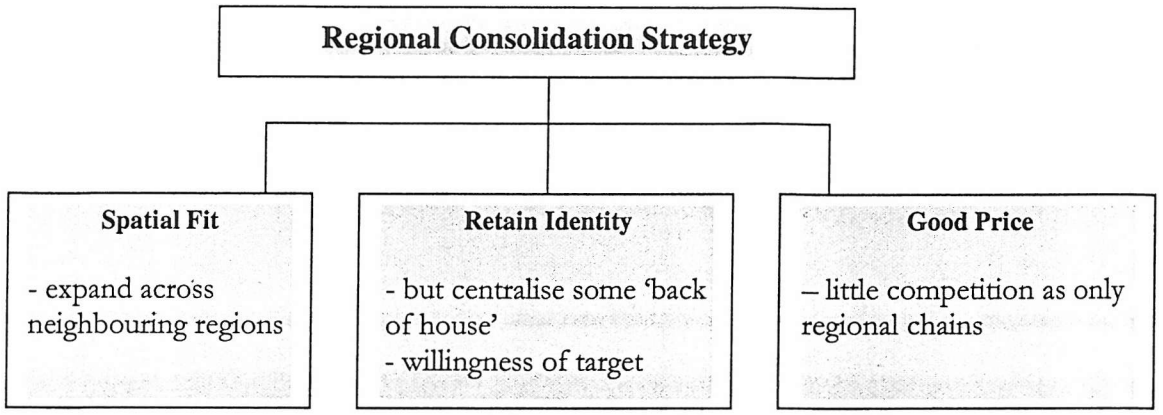
As Proffitt's increased in size, it became able to acquire larger department stores which offered improved facilities and expertise that was available to be leveraged across the whole organisation. Acquisition of the regional department store chain; Carson Pirie Scott, a 52 unit retailer, operating under the names Carson Pirie Scott, Boston Store and Bergner's for $952 million in February 1998 considerably expanded Proffitt's presence into the mid-west (see **Figure 8.1**), but there were a number of additional benefits but there were additional benefits.

First, the Carson's stores were historically well kept and regularly remodelled. Second, the firm additionally operated four free-standing galleries and nine furniture departments within the department stores (Merrill Lynch, 1997a). This effectively allowed Proffitt's to experiment with these concepts without encountering the sunk costs associated with starting these projects – what Clark and Wrigley (1995; 1997a) regard as 'start-up sunk costs'. Finally, and most significantly, Carson Pirie Scott operated the National Bank of the Great Lakes. This expertise was then leveraged across the whole of the Proffitt's organisation to manage all of the company's proprietary credit card operations. Prior to the acquisition, Proffitt's was attempting to establish its own national bank to administer these functions (Merrill Lynch, 1997a). Instead, it was able to acquire this ability and leverage the opportunity across the firm – an example of how synergistic benefits can be transferred throughout a firm's operations making an acquisition rapidly accretive. In this manner, Proffitt's realised savings of $10 million in 1998, $20 million by the end of 1999 and hope to achieve a cumulative $40 million by the end of 2000 (see also Chain Store Age, 1997).

Proffitt's successful portfolio restructuring, and its subsequent organisational restructuring and integration strategy attracted considerable endorsement from investors, analysts and industry commentators during the 1990s. As Fredrick Crawford, National Director of Ernst & Young's Retail and Consumer Products commented in 1998, at the height of the firm's success, 'Proffitt's success demonstrates how a well executed strategy can build market share in a relatively short time. By adopting the best practices of its targets, Proffitt's has amassed core strengths in systems,

logistics, operations, and private-label development' (p 3). This was dependent on a number of key factors (see **Figure 8.2**).

Figure 8.2 Proffitt's, Inc. Consolidation Strategy of Regional Department Stores



The limits to completely centralising the operation of department store chains under one corporate identity was a fact that Proffitt's evidently understood. Retaining a diversified portfolio of stores across space substantially diversified the risk portfolio that Proffitt's carried. The sunk costs in the independent regionalised identities must though be set against the reduction in transaction costs that a total centralisation would have brought through greater synergistic benefits (cf. Clark and Wrigley, 1997b). These, for example, might be evident in the economies of scale derivable from common advertising across regions, with the sunk costs being the loss of local consumer identity in individual markets. *Partial centralisation* was, as a result, the strategy Proffitt's pursued for most of the 1990s[49]

THE SAKS FIFTH AVENUE ACQUISITION

The previous section has argued that Proffitt's strategy of regional portfolio restructuring was a prudent and well-handled approach that rapidly increased their sales and market share in the saturated conventional department store industry. By paying attention to the demands of their targets when handling these transactions, the retailer found that regional department stores were prepared to accept predation. Strangely, as Proffitt's became a significant force in the conventional department store industry it diverged away from this strategy toward acquiring a seemingly unsuitable retailer in the form of Saks Fifth Avenue. Explanation of this case underlines the

[49] Although with recent pressures on their share price valuation with the underperforming Saks Fifth Avenue franchise, there have been signs that this view is changing.

importance of analysing acquisition fundamentals and conducting due diligence prior to agreeing transactions as different retailers are organised differently, have different customer bases and brand equities that can nullify and hamper merger integration attempts.

The Background to the Saks Acquisition

By all accounts, the Proffitt's strategy had been a highly successful one in the 1990s. As discussed above, the firm had consolidated a large number of regional chains and successfully integrated them into its back office and merchandising configurations. By 1998, although the number of regional targets was reducing, considerable opportunities for expansion still remained. As **Table 8.5** displays, several privately and publicly held department store chains remained throughout the United States, yet to be acquired. Many of these could have proved to be valuable additions to the Proffitt's portfolio.

Table 8.5 Potential Regional Department Store Acquisitions for Proffitt's in 1998

Potential Candidates	Sales ($mm)	Region	Ownership	No. of Stores	Comments
Dayton Hudson DSD	$3,162	9 Midwest states	Public	65	Significant market overlap and unwilling seller
Belk	2,042	13 SE states	Private	225	Best fit geographically
Boscov's	811	5 NE states	Private	28	Adjacent to current trade area.
Bon Ton	656	Middle and secondary markets primarily in NY and Pennsylvania	Public	64	Focussed on smaller, less competitive markets
Elder-Beerman	608	Ohio, Indiana, Michigan	Public	50	Attractive geographical fit, but company also owns 61 Shoebilee! And El-Bee shoe stores
Gottschalks Inc.	448	California, Washington, Oregan & Nevada	Public	37	Outside Proffitt's trade areas; also operates 22 speciality stores
Jacobson Stores	447	Michigan, Ohio, Indiana, Kentucky, Kansas & Florida	Public	24	Could provide a second speciality department store division or merge into Parisian
Von Maur	200	Iowa, Illinois	Private	11	Upscale department store may blend well into Parisian

Source: adapted from data in JP Morgan (1998a)

Instead of continuing to pursue the successful strategy of regional department store consolidation, Proffitt's embarked on an acquisition outside of their area of expertise – purchasing the luxury department store, Saks Holdings (Saks Fifth Avenue). Saks, in recent years, had experienced a turbulent history. In 1973, Saks & Company was acquired by BATUS, a subsidiary of BAT Industries PLC through its acquisition of Gimbel Bros. Inc.. During this period BAT built a sizable department store division, also acquiring Marshall Field in a friendly acquisition in 1982 (Agins,

1999). When BAT let it be known that they were prepared to divest their retailing operations in 1990, Investcorp, a Saudi Arabian based international investment group, who had previously revived the fortunes of such prestigious companies as Gucci and Tiffany, expressed interest and eventually acquired Saks for $1.6 billion in July of 1990 (Faircloth, 1998).

The 1990s saw a period of vigorous repositioning for Saks, where the company stepped up its expansion of full line stores and developed three related concepts – an outlet mall format called Off 5th, a smaller resort format for vacation areas, and a Main Street format for downtown areas in high income communities (Merrill Lynch, 1997c). Following this, in May 1996 Saks Holdings went public. During this time, Chairman Phil Miller set about taking Saks Fifth Avenue upmarket – removing mid-market brands and firmly establishing Saks as competition for the likes of Neiman Marcus and Bergdorf Goodman.

By 1998 Investcorp had completed its designated investment cycle and was prepared to sell the Saks business. As Saks Fifth Avenue Chairman, Phil Miller explains:

> Investcorp held Saks from 1990-1998 and they kept it longer than they wanted. They normally buy properties and do their value enhancement in a five to seven year period and it was year eight so they felt that they could enhance shareholder value by looking at some combination and they were the majority shareholder, even though we were a public company, they held the most seats on the board. They said to the board to go out and see if there were other ways to realise higher levels of value. We went out with Goldman Sachs and did a roadshow and talked to a lot of people and Proffitt's stepped up and said that they were interested, would buy the company at, I think it was $28 a share or whatever it was, and so it was just a time line longer than they were willing to stay with it. That's how the acquisition occurred (Interview 20).

In September 1998, Proffitt's competed the acquisition of Saks Holdings for approximately $2.14 billion in stock, and subsequently changed its name to Saks Incorporated.

Analysing the Saks Acquisition

There are a number of perspectives from which to analyse the Saks acquisition. This section reviews the purchase through the 'acquisition fundamentals' outlined earlier (see **Table 8.1**). First, the price of the Saks Fifth Avenue conglomerate was higher than previous Proffitt's acquisitions. As **Table 8.3** shows, the Saks-Proffitt's acquisition multiple was 11.6 x of the last twelve months (LTM) EBITDA, whereas the previous ratio was 7.9 x LTM EBITDA. From an industry wide perspective however, the price was not excessive - between 1994-1998 the average acquisition multiple was 12.9x.

Second, the Saks consolidation did not raise any antitrust issues. As a high end retailer it was only located in the most affluent of areas so had minimal overlap with the main divisions of Proffitt's. Whilst this was, in many respects, a benefit in reducing duplication in markets, it was also a potential barrier to integration and leveraging Proffitt's core competencies across the organisation. Proffitt's was a specialist in middle class, regional department stores and had no experience with speciality department stores. In addition, Saks carried exclusive products that rarely *overlapped* with the other department stores' offerings. This was a hurdle when arguing that Saks would add to the buying power of Proffitt's.

Third, it is questionable whether Saks Fifth Avenue represented an appropriate strategic move where there was realistic and achievable synergistic potential. There were a number of difficulties with respect to these issues. Even during the pre-merger due diligence stage Brad Martin expressed doubt over his ability to increase shareholder value for Proffitt's stockholders. He acknowledged to *Fortune Magazine* in 1998 that 'I didn't know what value I could add' (Faircloth, 1998, p 156). Martin, however, changed his mind however when meeting with Saks management. The rationale for the agreement, as explained in a press release at the time (Proffitt's Press Release, 1998), suggested of a marriage of synergistic ease. Cost reductions would come from consolidation of certain back-office functions, as had successfully occurred in all of Proffitt's previous acquisitions. Martin suggested that there would be considerable scope for merchandising improvements that could be spread across the new organisation despite the obvious differences between the acquirer and the target. He stated that

> ... there are also meaningful opportunities to improve the merchandising operations of the combined business through expanded fashion direction for the entire corporation, leveraging private brand development and sourcing capabilities, and strengthened vendor relationships. Saks Fifth Avenue will add a unique fashion perspective in emerging styles and trends that can be translated into further differentiation in our assortments throughout the corporation (Proffitt's Press Release, 1998)[50].

He continued that there were opportunities for cross-marketing between the 5.2 million proprietary credit card consumers of Proffitt's and the 3.3 million of Saks, again despite the considerable differences in customer base – where a Proffitt's customer was unlikely to be a regular customer of Saks Fifth Avenue and vice versa. Martin's focus would be on leveraging the considerable brand name of Saks and utilise the private label expertise of the Saks across the Proffitt's portfolio – again despite the exclusive nature of Saks products and the middle class origins of Proffitt's.

There were a number of reservations amongst the investment community, and these grew over time. Essentially, the Proffitt's portfolio of mid-range department stores was completely different to the luxury-oriented nature of the Saks Fifth Avenue brand. Indeed, the difference between the two retailers is evident from **Table** 8.6 and even superficially from a visual comparison of the Saks Fifth Avenue flagship store and the Proffitt's owned Boston Store - see **Plates 8.1 & 8.2**.

Table 8.6 Problems with the Saks 5th Avenue and Proffitt's Strategic Fit

SAKS 5th AVENUE		PROFFITT'S
Women, mid 40s +	TARGET CUSTOMER	Mother's, early 30s
$150,000	CUSTOMER'S AVERAGE INCOME	$55,000
$10-15,000	CUSTOMER'S ANNUAL SPENDING	$1,000
$355	SALES PER SQ FT	$177
	TOP SELLING APPAREL BRAND	
St. John's Knits	Women's	Liz Claiborne
Hugo Boss	Men's	Tommy Hilfiger

Source: adapted from Faircloth, 1998

Plates 8.1 and 8.2 Downtown Saks Fifth Avenue Flagship Exterior and the Suburban Proffitt's owned Boston Store Exterior

[50] Interestingly, Martin argued this case despite the two retailers having virtually no merchandise assortments, and few vendors, in common - rarely would Saks be included in a Proffitt's "buy".

Source: Sell Side Equity Analysts Presentation, 15 September 2000, images courtesy of Saks Incorporated

The problems for the new combined firm, Saks Incorporated, as it was called after the merger, was the lack of obvious cost savings from the marriage. During a period of my US fieldwork in March – April 2000, this was the central concern of industry executives who were slowly realising the extent of the incompatibility.

At the time of the announcement, *Fortune* magazine suggested that 'the merger marries two outfits with constitutionally different cultures, and it has many of the trappings of a merger driven by ego rather than economics, including the fact that the combined company will assume the prestigious Saks name' (Faircloth, 1998, p 153). This gulf between the two organisations concerned analysts more generally. As one such commentator suggested:

> What I didn't care for was when Proffitt's bought Saks because there was no obvious synergies. If you want two retailers to make a go of it, you want to be cutting costs. That's where you start it. This was no cost cutting kind of thing. It was two separate organisations with different focus.... He bought it because Brad Martin thought he was going to make Saks a 'brand name' (but) there were no synergies, it was just ...he was ego tripping! There were no synergies involved between these two organisations. There were none, because they bought different things, at different price levels and how do you combine buying staffs that way? Maybe you combine data processing, maybe you do your credit and certain back office functions do lend themselves but not necessarily. Even real estate, you would be looking for a different location for a Saks store opposed to a Herberger's, Proffitt's or McRae's store (Interview 18).

The problem was simple, as Professor David Rachman of City University of New York suggested:

They are a different kind of a business. I mean Saks was an upscale business and Proffitt's was a Southern department store. They bought Younker Brothers and they bought mid western but basically they were southern in their outlook. Not that that's necessarily bad but not style, fashion or New York. Another world! (Interview 21)

In effect, the transaction represented a complete turnaround from Proffitt's previously successful portfolio restructuring strategy, toward acquiring a company where there was little synergistic potential. Allen Questrom, the present CEO of JC Penney, commented that Martin had wrongly conceived of this new type of purchase, whilst in previous acquisitions:

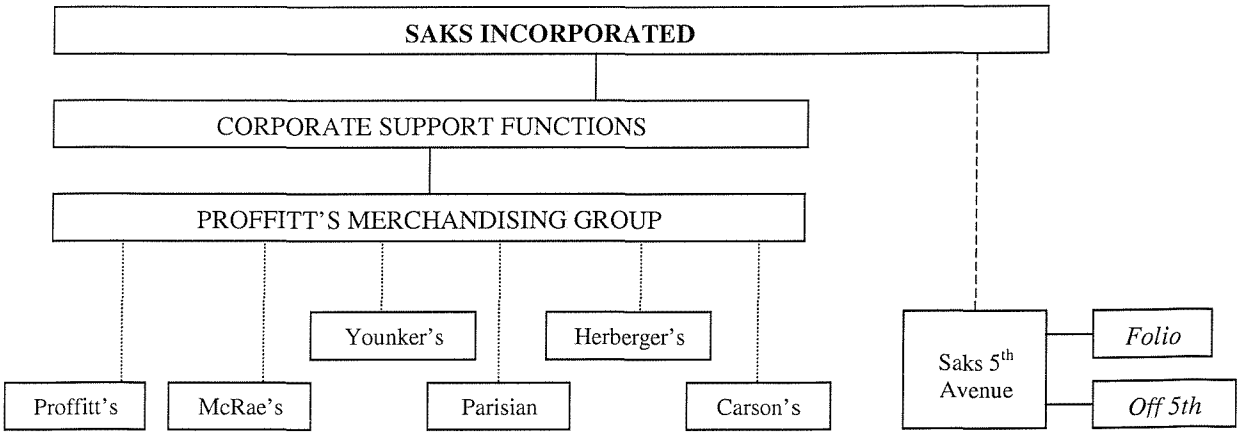
...he was able to put together a lot of these small b minor stores, then he realised that Saks Fifth Avenue was up for sale and he thought "that would be a prestigious store" but like Campeau, he didn't buy it for $12, he bought it for $30 something, he paid over what the company was worth and there was no synergy whatsoever between Saks Fifth Avenue and his stores because they were different customers (Interview 1).

Other analysts were even more cynical:

Let me say this, Brad Martin has no idea what retailing is all about. It was really an ambitious political move as I saw it at the time. His acquisition of Saks I think was wrong. He does not know how to run a fashion business and I don't think there is anyone in his business that knows how to run a fashion business. As a matter of fact, I am surprised how few good merchants he has in the organisation (Interview 24).

Even in areas that were highlighted as areas for synergistic benefit became potential problems. Whilst SFA did possess quality private labels, there 'was no way that a Saks customer was going to shop in a store like Proffitt's, it was totally ludicrous. So they never did get the expense savings that he thought he was going to' (Interview 1). As such, the two merchandising configurations of the main Proffitt's department store business, and the upper scale Saks Fifth Avenue speciality department stores had to remain separate (see **Figure 8.3**).

Figure 8.3 Saks Incorporated Organisational Structure



This evidently limited the scope for synergistic realisation at this important level of the business. Even Phil Miller, Chairman of Saks Fifth Avenue admitted, when comparing his organisation with Federated Department Stores:

> There is almost no crossover between our vendor structure and the department store – there is a lot of crossover between Bloomingdale's and the other Federated stores. There are the Tommy Hilfiger's, the Ralph Lauren's and the Liz Claiborne's. Although Bloomingdale's is a notch above most of the Federated stores, there is very little, except for the cosmetics lines...I mean the department stores report to Bob Mosco who is responsible for merchandising – he has nothing to do with Saks. We report directly to Brad Martin (Interview 20).

Evidently Proffitt's acquisition was not included in the successful Proffitt's Merchandising Group that was achieving improved vendor relations and broadening access to exclusive ranges across the conventional department store portfolio. As a result, time was focused on improving the independent operation of Saks Fifth Avenue and it has generally been acknowledged that this resulted in a lack of attention being paid to the core department store operations that constituted most of Proffitt's earnings. Ultimately, the firm was compelled to act.

EMERGENCY CENTRALISATION

Eventually the investment community voiced the inappropriateness of the Saks acquisition. The new conglomerate was not achieving the sales targets that had been predicted and their stock price was consequently dramatically bid down (see **Figure 8.5**). Initially, such shortfalls were seen in the Saks Fifth Avenue operation itself, but by 3rd Quarter of 1999, the luxury business was booming and the core department store business was starting to experience negative net growth year on year (as evident from **Table 8.7**).

Table 8.7 Proffitt's Department Stores vs. Acquired Saks Fifth Avenue Stores

("year-over-year change" in same store sales)

	DEPARTMENT STORES	SAKS FIFTH AVENUE
1st Quarter 99	1.4%	2.9%
2nd Quarter 99	4.0	2.3
3rd Quarter 99	**0.2**	6.9
4th Quarter 99	**0.4**	5.3
1st Quarter 00	**-3.8**	9.1
2nd Quarter 00	**-4.3**	5.9

Source: data from J. P. Morgan (2000b), p 1

The opinion was that management could not focus on both operations at the same time as it was believed that concentration on one would result in taking the eye of the other. Furthermore, there were considerable concerns that management would remove the upscale uniqueness of SFA and take it more downmarket to ease integration (see Prudential Securities, 1999). As one analyst suggested

Before they were buying the same types of companies, it's what they knew well and Saks Fifth Avenue is high fashion business. I don't think the management understands that business. Their goal at Saks Fifth Avenue is, as they have stated on big open conference calls, to get a higher return, a higher level of profitability from their Saks Fifth Avenue Stores than their department store business. I think the SFA business is inherently a less profitable business. The designer is not very profitable. It is quite a loss leader but it really sets the tone rather than as a business that is very profitable one. It is a very difficult thing that they are trying to do because if they are trying to drive a higher level of profitability at SFA, my concern is that they will drive for a level of profitability which inherently is not part of the business and end up taking away too much of the fashion – what makes it special. I don't envy them in trying to do this because it is a very fine line (Interview 14).

By mid-late 1999, serious questions were being asked concerning Proffitt's skill at integrating the Saks business into their organisation. The business press started writing skeptical articles on the potential for accretive returns for Saks stockholders (e.g. Pascual, 2000). George Strachan, equity analyst at Goldman Sachs, acknowledged that the Saks-Proffitt's problem was not based simply in difficulties of merchandising selection for a season as management had been suggesting, but instead it raised more fundamental questions of how mid-range department stores and high end speciality department stores can be operated most effectively – whether it be independently or as part of a broader corporate structure:

But the real question that remains – are these simply discreet issues that can be dealt with one by one or is there a larger issue of how you run a high end, luxury goods department store. Is the philosophy; is the economic model different than running basically traditional regional department stores? And that is an open question at present and frankly the track record is not particularly good...so it's tough. To some extent it is a different business. It's going to be more reliant on high end fashion, which is a very volatile piece of the business and it's questionable whether you can get the same types of returns from that business which may inherently be less predictable from the modern department store where you are essentially dealing with commodity merchandise (Interview 8).

Saks Inc. attempted to use many of the upscale, designer labels of Saks Fifth Avenue and introduce them to the former Proffitt's regional department stores that were traditionally configured to middle class consumers. This move ignored the income levels and needs and wants of their traditional consumers, as humorously argued by the *Wall Street Journal*:

Saks Fifth Avenue's business has long been built on cutting-edge designs from Dolce & Gabbana, Prada, Gucci and other luxury brands, and after the acquisition the Proffitt's chains tried shifting toward trendier merchandise. But with too many leopard print miniskirts and too few floral dresses, they ended up disappointing their regular shoppers (Spurgeon, 2000, p B1).

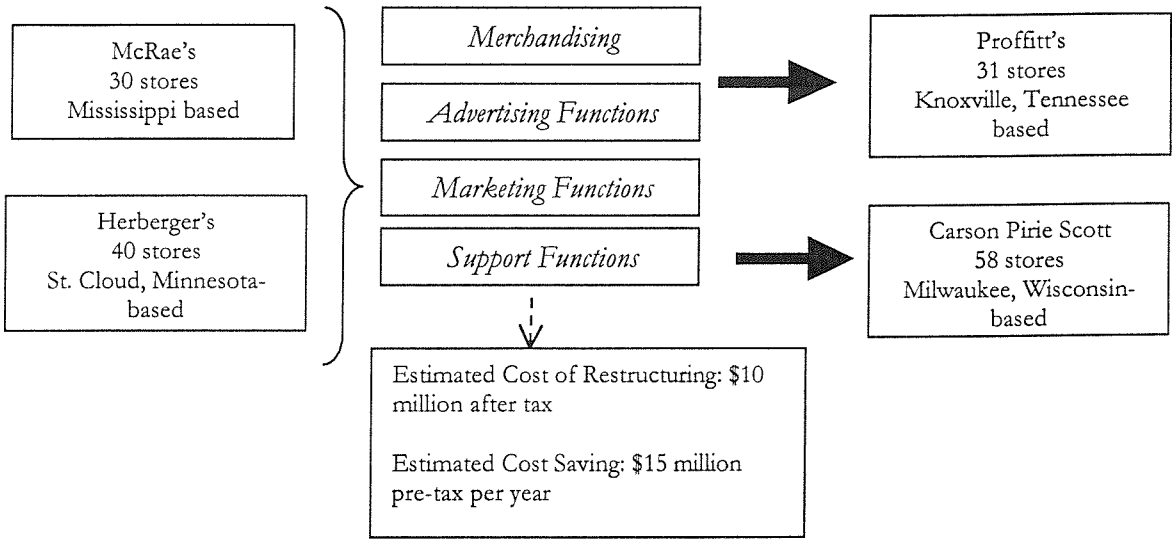
The pressure on Saks Incorporated came to a head at the start of 2000 as the former Proffitt's portfolio of regional department stores started to experience net negative growth year on year. In January 2000, the investment bank, Salomon Smith Barney issued a report entitled *You say 1999 was a difficult year? Time for some action.* In the publication, analysts gave a stark warning to the retailer:

Given the travails and disappointment that Saks has endured over the last year or so, we believe Saks is a prime candidate for some degree of restructuring activity (Salomon Smith Barney, 2000a, p 1).

Meanwhile, Paine Webber (1999) predicted the conglomerate could be acquired, or parts of it, by a larger, more focused, department store retailer due to its depressed stock price. These pressures catalysed the corporation to restructure organisationally in order to restore investors faith.

On 17 February Saks Incorporated announced a reversal of their strategy of decentralisation and divisional autonomy. A press release announced that the head offices of their McRae's and Herberger's chains would be consolidated into the Proffitt's and Carson Pirie Scott operations (see **Figure 8.4**).

Figure 8.4 The Consolidations of McRae's and Proffitt's Divisional Head Offices Announced February 2000



The press release was clear concerning the rationale of such activity, arguing that it was 'in order to streamline its organisational structure, leverage managerial talent and reduce overhead expenses' (Saks Inc. Press Release, 2000a). The savings from such action was estimated to save the firm $15 million pre-tax per annum, with the expense of the action being $10 million in the first year (- what Clark and Wrigley, 1997a regard as exit sunk costs). This eliminated approximately 460 positions. Additionally, the distribution centres for Proffitt's, Parisian and McRae's would be closed and consolidated in mid-2001 when the firm completed a new distribution centre in Steele, Alabama, saving another $10 million in the process (Merrill Lynch, 2000a).

This restructuring represented a considerable volte-face from the Proffitt's previous strategy: 'the consolidation is a retreat from plans outlined by Saks Chief Executive Brad Martin, who wanted to keep all divisional headquarters operating as he integrated each new acquisition into his retail empire' (Hajewski, 2000a). The pressure from Wall Street proved too much as the firm moved to reduce costs and increase their stock market valuation. As an analyst suggested:

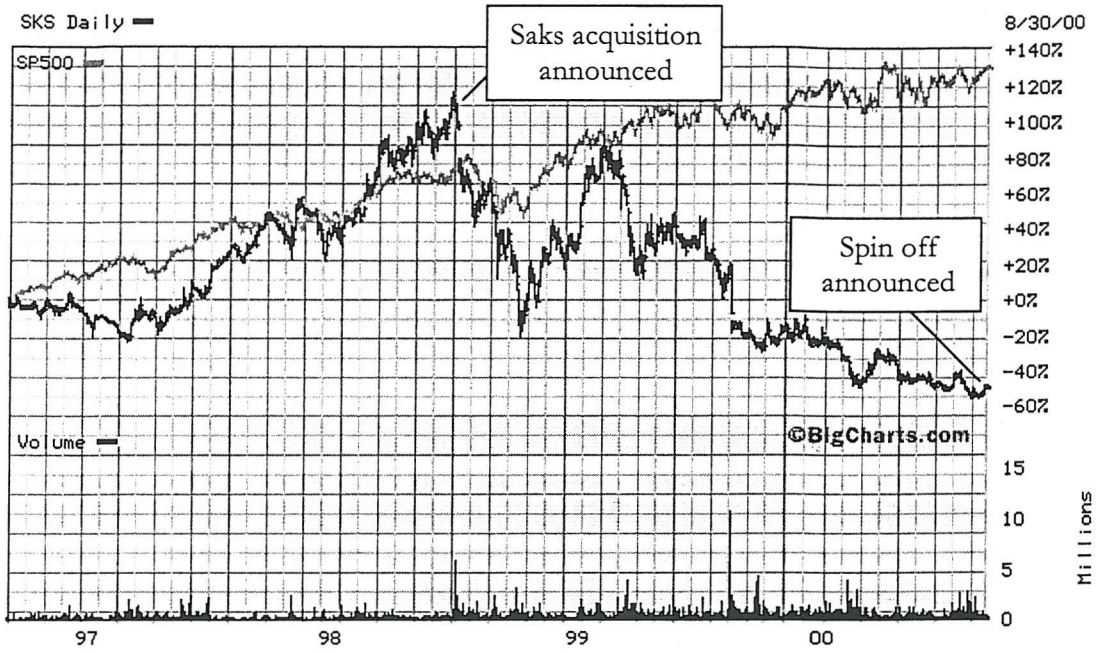
> ...what could have been done over a period of several years namely rationalising the more decentralised structure they had, now there is so much pressure on their earnings that they have got to step up the pace. I think it would have been better if they had proceeded at a more measured pace. Cost control is everything today (Interview 14).

The strategy did however retain the regional identity of divisions in name, although their actual operation was now no longer independent of other divisions in the portfolio. The "Street" moderately welcomed the news. Salomon Smith Barney (2000b) branded it 'a step in the right direction'. Regardless, the move did not halt the slide in the operating performance of the core department store business (see **Table 8.7**).

THE DIVESTITURE DECISION

By the summer of 2000 the stock price of SKS had fallen from around $43 in mid 1998 to around $13 (see **Figure 8.5**). This was partly due to the general depression in department store valuations, but was more acute due to the poor performance of the conglomerate. Speculation continued that the Saks Fifth Avenue operation would either be sold off, or that Saks Incorporated would be acquired by a competitor due to its depressed valuation.

Figure 8.5 Saks Inc. Share Price Versus S&P 500, October 1998 – August 2000



Source: data from www.bigcharts.com

Eventually, the firm reacted. On July 19, 2000, Saks issued a press release announcing that it was "spinning off" its Saks Fifth Avenue operations into a separate, publicly owned company (see Saks Press Release, 2000b). As Brad Martin admitted in a conference call, the motivation for the divestiture was obvious:

> Our share price has been additionally discounted because of the failure to achieve our targeted earnings growth, coupled with the perception that Saks Fifth Avenue and our department store business are different, unrelated operating enterprises (Saks Inc., 2000c).

The response of the financial press was somewhat smug. Hajewski (2000b) suggested that 'Wall Street's reaction to the announcement…was like the parent who hears her kid is breaking up after choosing an ill-suited marriage partner…It's so hard not to say "I told you so"'. The *New York Times* was equally scathing, commenting that:

> The answer to the question whether a country peasant can marry a Park Avenue swell and live happily ever after appears to be no (Kaufman, 2000, p 1).

Retail equity analysts welcomed the development, although some remained cutting, with J. P. Morgan's research note the day after the announcement entitled 'Admission of Guilt at SFA' (J. P. Morgan, 2000a).

The rationale for the spin off was that there was a requirement for focused management at each of the two distinct retailing operations. The separation, it was argued, would allow investors to realise the true market value of Saks Fifth Avenue, which had effectively been discounted due to the faltering core department store business (see Coleman, 2000). In the demerger, Saks shareholders would receive 1 share of SFA enterprises for every three shares of Saks, Inc., in an operation that would generate $6 million in negative synergies. Indeed, this divestiture was relatively trouble free because the Saks Fifth Avenue acquisition was not integrated into the core retail operations of the original Proffitt's corporate structure. As acknowledged, this was the fundamental problem with the acquisition, as the two were effectively distinct businesses. Of course this made them easier to spin off later. Indeed, 'if substantial integration has taken place between a new business and the rest of the firm through the transfer of skills or sharing of resources, it may be difficult to segregate this already integrated business and repackage for sale' (Chang and Singh, 1999, p 1021) – this was not the case in this example.

LESSONS FROM THE SAKS INC. EXPERIENCE: ANALYST RIGOUR, AGENCY THEORY AND UNRELATED ACQUISITIONS

There are a number of lessons about portfolio restructuring in the retail industry that can be drawn from this episode. First there are questions about the unsophisticated analysis by the investment community with regard to the consolidation. Despite the lack of obvious synergies, other than those from the integration of "back of the house" operations, some analysts gave the acquisition a warm reception. Daniel Barry, equity analyst at Merrill Lynch, suggested as late as April 2000 that the problems were short term in nature related to initial merger integration despite clear evidence to the contrary:

> Well I think it was a brilliant long-term move but there are some problems in the short run because Saks Fifth Avenue wasn't a completely fully functioning company. They are having some problems and they inherited those problems and are trying to correct those problems now. So in the short run they have some problems with Saks, but in the long run it opens up foreign expansion, it keeps the growth momentum going and it particularly going to be a big deal on the Internet. So I think that five years from now it is going to look like a brilliant move – right now it looks to some people that it was not (Interview 6).

In addition, George Strachan of Goldman Sachs admitted initially backing the deal despite some reservations:

> I felt that if you combined Brad Martin's no nonsense financial disciplines with, what is effectively, quite a powerful franchise – the Saks fashion franchise - that you would get good results out of it. But they stumbled in the first year so the jury is out. Now the level of scepticism is great and it is definitely the 'show me' story on the street. At this point they don't have much credibility and they have to demonstrate that they can make this work (Interview 8).

This optimism was also shared by some of the business press (e.g. Hazel, 1998), although this was by no means universal (e.g. The Economist, 1998). In many respects such a reaction is reminiscent of the analyst reactions during the 1980s financial restructuring where past performance was often regarded as indicative of future results. As one industry executive reviewed:

> They tried to change their strategy and when they did it, it wasn't really all thought out. The market bid them up because most of the investment community are not very sophisticated and they basically look back and say whatever was back is going to go forward and if things are bad they'll be bad in the future or if things are good, they'll be good in the future, they don't evaluate each strategy individually, why this works and this doesn't work, what's going to be different here versus there ...(Interview 1)

In this vein, Dunne and Kahn (1997) comment that analysts often have inexperience in the retail field and this contributes to the possibility of making age-old mistakes.

Secondly, the Proffitt's diversification adds weight to a debate that has been raging in the disciplines of economics and finance throughout the past two decades. The so-called 'conflict of interest' hypothesis suggests that bidder managers often knowingly overpay for target firms if they believe that the targets engage (or will engage) in activities that benefit them personally, even at the expense of shareholder value (see literature on agency theory, esp. Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983). The work of Jensen suggests that if the managers are also the owners of the firm then this conflict between ownership and execution is reduced (Jensen, 1989b). Brad Martin did indeed own approximately 2% of Proffitt's - a not insignificant amount, but this was possibly not enough to ensure the maximisation of shareholder value. Alternatively, as Syhun (1990) suggests, managers can overestimate their ability to manage the target firm and therefore systematically overestimate the benefits of corporate combinations (see also Roll, 1986). It must be considered that firm growth is not always congruent with relative increases in shareholder value. Whatever, the exact explanation, it seems that Martin's desire to promote himself as an active participant in the 'New York, Metropolitan scene' certainly compelled him to pursue the Saks merger, as the role of maximising shareholder value was, if not overlooked, then underemphasized. This lends weight to the argument for a more stringent corporate governance mechanism within the firm to put decisions about portfolio strategy under increased scrutiny. As Morck et al. (1990) suggest, at present management are not allowed to pursue their own personal strategies but they are not always implored to maximise shareholder valuations either:

> In sum, while it is incorrect to say that managers make investment decisions without regard for market value consequences, it is also incorrect to say that existing monitoring and control devices keep managers from pursuing personal non-value maximising objectives (Morck et al., 1990, p 32).

Thirdly, there are fundamental questions about changing the strategy in portfolio restructuring and retaining relevant expertise when diverging from the established approach. The strategic fit between retailers is equally as important as the spatial fit. An inappropriate acquisition results in difficulties in merger integration, making synergistic benefits troublesome to establish. Furthermore, when changing the strategy of portfolio restructuring it is essential to change the integration process accordingly. This mistake may not be as unique as this case study suggests. Indeed, as Haleblian and Finkelstein (1999) suggest, inexperienced acquirers, after making their first few acquisitions, can inappropriately generalise acquisition experience to subsequent dissimilar acquisitions, whilst more experienced acquirers appropriately discriminate between their acquisitions.

Fourthly, there are questions whether it is possible to successfully merge organisations in different market segments. At the start of the chapter, it was acknowledged that in some instances, an unrelated acquisition can be prudent. Bergh (1997) suggested a number of factors that may make such a transaction successful, including the establishment of *financial synergy*, where costs of capital are reduced as a result, *governance efficiencies*, whereby the acquired business may be more efficiently could benefit the parent firm, *managerialism benefits*, where the corporation increases market power, and finally *coinsurance* where the purchase allows the firm to balance revenue cyclicalities. None of these benefits were realised in the Saks Fifth Avenue acquisition. Instead, the restructuring pursued by Proffitt's with the purchase of the luxury retailer was motivated, at worst, by the desire of Brad Martin and other executives to acquire a flagship operation which would signal their arrival as a "major" department store retailer, and at best, by an ill-conceived strategic move. The episode underlines the importance of the pre-merger analysis period as an opportunity to thoroughly analyse the acquisition and its relation with the acquiring firm. As such

> Retailers considering acquisition strategies must put together teams staffed with professionals with strong industry, transaction, functional, and geographic knowledge. Buyers that use this strategy will be able to move due diligence beyond an analysis of the merger's financial synergies to a thorough evaluation of the target's competitive position, its management, and any cultural and operational considerations that might arise (Zecher, 1998, p 6).

If such measures are taken inappropriate portfolio restructuring can be minimised. Interestingly, attention to these details *had* been central to Proffitt's success for most of the 1990s. It remains to be seen whether, after the spin off, the core regional department stores can restart their previously successful regional portfolio restructuring strategy and acquire attractive locations still privately and publicly held, including Belk and Jacobson in the South East, Gottschalks on the West Coast, and Boscov and Bon-Ton in the North-East, or whether they, themselves, will be acquired by the department store heavyweights. Once again, any potential acquisitions should be subject to strict

analysis of core transaction fundamentals as due diligence is central to uncovering the reality behind persuasive press releases and convincing analyst presentations.

POSTSCRIPT – FEBRUARY 2001

Since the completion of this chapter there has been yet another change in stance of the Saks Inc management. On 8 February 2001, the firm announced that it was terminating the plans to spin off the Saks Fifth Avenue and related businesses from the traditional department stores (Saks Inc. Press Release, 2001). Brad Martin, the Saks CEO, argued that the separation of the two businesses that had occurred in preparation for the demerger had restored operating performance and that the slowdown in retail stocks (especially those of luxury retailers) would mean that a spin off would not be in the interests of stockholders. In response, *The New York Times* suggested the 'retail union...is turning out to have almost as many ups and downs as a Richard Burton and Elizabeth Taylor marriage' (Kaufman, 2001, p 1).

It remains to be seen whether the announcement only delays the inevitable - with the demerger occurring later, in more favourable economic conditions - or whether this really ensures the future of the unified Saks - Proffitt's conglomerate. What these recent developmentsdo point to however, is the indecisiveness of the incumbent management and the separate nature of the Proffitt's and Saks Fifth Avenue businesses - as such, the initial transaction represented portfolio diversification rather than the acquisition of a like department store retailer, as had been argued in 1998.

Chapter Nine

Organisational Restructuring, Knowledge and Spatial Scale: The Case of the US Department Store Industry

---

'The development of the spatial form of the organization cannot be divorced from the environment within which it operates'

Green, M. B. (1990) *Mergers and Acquisitions. Geographical and Spatial Perspectives*. Routledge, New York. P 24.

INTRODUCTION

In recent years the study of retail geography as a sub-discipline of economic geography has seen something of a renaissance. Geographers have moved away from traditional concerns focused solely on retail location, instead taking new and innovative approaches (see Blomley, 1994; Crewe, 2000; Lowe and Wrigley, 1996 for reviews). Indeed, the 'new' retail geography, as christened by Wrigley and Lowe (1996, see also 2001), with its close linkages to wider theoretical perspectives on consumption spaces and commercial culture across the social sciences (see Jackson et al., 2000), finds itself on the cutting edge of debates about the nature of contemporary society. As Hallsworth and Taylor (1996) suggest, the 'new' retail geography is a bold attempt to

> ...break free from the conception of retail studies as a minor subset of economic geography situated around retail logistics: an approach that has frequently been characterised by studies of retail catchment areas or models of store sales performance. The new retail geography is characterised by a more critical theoretical approach, driven by a recognition of the significance of factors of consumption as well as of production (p 2125).

In essence, since the early 1990s there has been a reconstitution and repositioning of the subject within a wider multi-disciplinary 'hot-bed' of research. This reconstitution and repositioning has resulted in both cultural and economic readings of retail industry (see Chapter 1 for a review).

This paper attempts to blend both of these economic and cultural conceptions of retailing to tackle an emerging debate within economic geography on the relationship between knowledge and spatial organisation. These issues particularly concern the battle between the role of tacit knowledge at the local level and codified knowledge at central nodes within the firm and their subsequent

geographical expression. Interestingly, the new retail geography has been almost completely silent about the interplay between retail, knowledge and geography. The few contributions that have emerged tend to focus on the role of networks, cultures and commodity chains (Hughes, 2000; Leslie and Reimer, 1999) rather than the implications for the spatial organisation of the firm.

The US department store industry has considerable potential to illuminate these theoretical debates on situated and universal knowledge in firms. The sector has only been partially analysed in the literature of the new retail geography - essentially from a historical/cultural perspective (Crossick and Jaumain, 1999; Domosh, 1996b; Dowling, 1993; Miller, 1981; Nava, 1996; Reekie, 1993). In particular its economic geography has rarely been studied, the few exceptions being contributions from the 1980s (Bluestone et al., 1981; Laulajainen, 1987; 1988; 1990). Moreover, recent studies of the department store in the management literature have essentially disregarded the US sector (see Chong, 1996; Gold and Woodliffe, 2000; McGoldrick and Sandy, 1992; McPherson, 1998; Phillips et al., 1992; Sternquist et al., 2000). In contrast, this paper focuses specifically on the US industry to make a contribution both to the missing debate within the new retail geography on the relationship between the use and interpretation of commercial knowledge and its relation to the geographical organisation of the firm, and also to the economic geographies of this important sector of retailing during the 1990s.

GEOGRAPHIES OF KNOWLEDGE AND DISTANCE

The relationship between geography and knowledge is a complex one, subject to conflicting opinions in the literature of economic geography. One perspective suggests that the burgeoning of integrative information and communication technologies result in a disembedding of economic activity. Such interlinkages are viewed as heralding an economy where geography is of less importance (see Castells, 1989; Harvey, 1989; O'Brien, 1992). As such, "expert systems" have separated space and time and had the effect of disembedding social systems (Giddens, 1991).

In direct response to the suggestions that place has become unimportant, a second perspective emphasises the role of local characteristics and the specificities of place that, in some instances, remain superior to the flattening effect of the integrative technologies (for example, those that drive successful financial centres, Martin, 1994; Porteous, 1999; Pryke, 1994; Pryke and Lee, 1995; Thrift, 1994). These characteristics and specificities have often been discussed in work which suggests the rise of new industrial spaces and the ties of tacit knowledge that bind them, characteristic of the

literature of post-Fordism (Henry and Pinch, 2000; Pinch and Henry, 1999; Storper, 1993; 1997; Storper and Salais, 1997). These 'learning regions', rich in territorial embeddedness, and institutional thickness (cf. Amin and Thrift, 1994) have often been used as models or caricatures of 'cultural embeddedness' (Zukin and Dimaggio, 1990) to which examples are sought to fit (Yeung, 2000a). In such formulations space is characterised as 'slippery', whilst place is 'sticky' to attract a spatial fix of capital in distinct locales (Markusen, 1996; cf. Harvey, 1982). Following from these literatures, there has been the rise of a renewed emphasis on regionalism (e.g. Lovering, 1999) and 'learning economies' (see French, 1999 for a review).

Within the context of the second perspective, a more holistic and eclectic view of the firm can be developed – one which recognises the embeddedness of economic and social action in place through business networks (Yeung, 1994; 2000b). Such views partially overcome the reductionist "theory of the firm" as '(a)lmost every economist now recognizes that the firm is more than a processor of information and efficient manager of transaction costs' (Amin and Thrift, 2000, p 6; also cf. Walker, 1989). A network approach thus allows concepts of knowledge and sociality to come to the fore in the research programmes of economic geography, whilst retaining the recognition of macro-structural influences (see Yeung, 1994). The network approach contrasts with the approach evident in the 'geographical economics' coming out of mainstream economics (e.g. Krugman, 1998) that is hesitant to embrace these culturally informed notions to explain the spatial organisation and agglomeration of economic activity (Martin, 1999).

The economic geography of the late 1990s, demonstrated an understanding of the importance of both codified and tacit knowledge as a major influence on the geography of organisation. As such, some networks are relatively more localised 'because they are dependent on the traded and untraded interdependencies of geographical agglomeration achieved through territorial embeddedness', whilst other networks 'are controlled "at a distance" when the key actors are spatially distanciated from the sites where the empirical events happen. In all cases, however, a specific spatial configuration is created and connected to other configurations at smaller and larger geographical scales' (Yeung, 2000a, p 23-24). It is these geographies of knowledge that, to an extent, have driven the spatialities of the department store industry which forms the focus of this paper. As Henry Yeung (2000a) recently suggested, territory and scale matter because they shape the constitution of the firm through their geographical effects on social actors and their network relations. Understanding the effects of these geographies of knowledge in driving these changes is essential to understanding the nature of the firm.

The example of the organisational restructuring of the department store industry provides evidence of networks of knowledge operating at a number of spatial scales, integrating to form a successful business operation. As Schoenberger (1999) suggests, different 'places' in the firm develop organisationally and geographically, with their own identities and ways of doing things. As such, the large firm is 'internally regionalised', where the corporate form transforms a number of knowledges between different spaces. Following Amin and Cohendet (1999), this paper finds that no one form of knowledge is exclusively relied upon. Instead, the firm mediates between a number a different spatial scales, across different operations and places resulting in a dual organisational structure whereby there is firstly, a highly integrated, network organisation driving the core competencies of the organization, and secondly, a hierarchical, divisional organisation that lies beyond the core competencies of the firm (Amin and Cohendet, 1999, p 94).

ORGANISATIONAL RESTRUCTURING OF THE US DEPARTMENT STORE INDUSTRY

This chapter focuses on the organisational restructuring of the US department store industry during the 1990s. It centres on the renegotiation of spatial scales of organisation and rerouting of knowledges through new systems of operation. By the late 1990s, the department store sector was highly centralised, concentrated in a small number of influential firms (see **Table 1.3 in Chapter 1**), which had been formed as a result of the 1980s financial re-engineering and the subsequent round of strategic consolidation wave of the 1990s.

The mid-late 1980s was characterised by department store financial restructuring, as the leading chains, including Federated, Macy's and Allied, were acquired in over-leveraged deals and found themselves in bankruptcy by the early 1990s (Hallsworth, 1001; Rothchild, 1991; Trachtenberg, 1996). In contrast, the 1990s was a period of renewed consolidation activity in the sector, where emphasis moved away from highly leveraged acquisitions supported by little equity, to strategic mergers to expand market share. These consolidations were catalysed by the minimal net growth in the conventional department store sector due to intense competition from discount stores such as Wal-Mart and Target, and speciality stores such as Gap and Limited (Morganosky, 1997; Swinyard, 1997). In this way Federated acquired the bankrupt Macy's in 1994, and then the struggling Broadway Stores a year later, whilst Proffitt's consolidated many of the southern, regional department store chains (see **Table 7.1 in Chapter 7**).

The Need to Renegotiate Scale in the 1990s

With their rapidly growing store portfolios, the major department store operators were faced with the task of rationalising and streamlining their organisational structures. In the past, US department stores had operated as many as 15 divisions, each with its own buying, accounting, credit and distribution facilities. The high costs that resulted made the format increasingly uncompetitive *vis-à-vis* discount and speciality stores, which had made considerable investments in centralising their large organisations and cutting overheads (Christopherson, 1996; Kaikati, 1985). Department store companies simply had too many decentralised divisions with too many buyers, hampered by a bureaucratic decision-making process, often lacking a central theme. In addition, and particularly in the case of larger companies, there was a lack of information flow through the retailer-supplier interface due to a dearth of coordinated systems with consequent difficulties executing key trends across divisions (see Biederman, 1991; Simone, 1991).

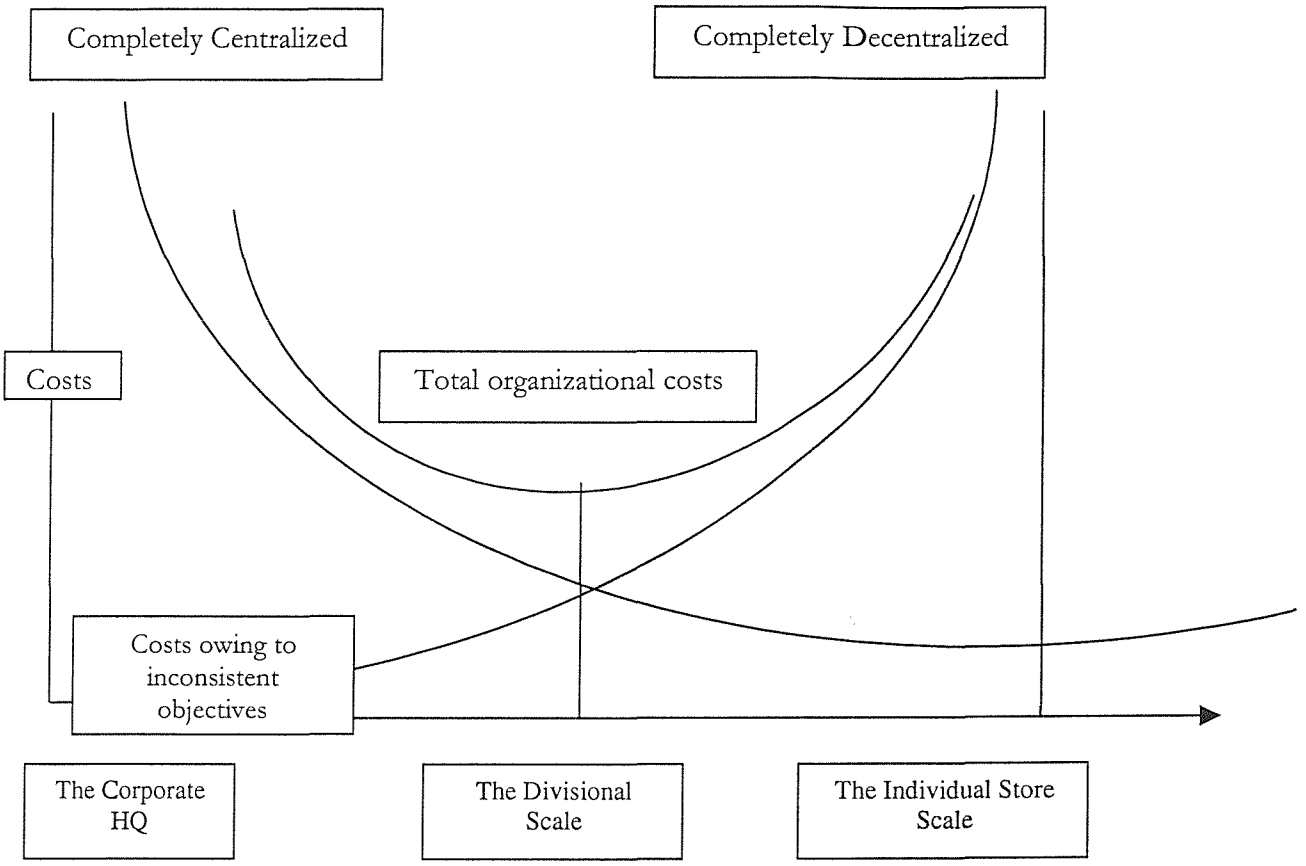
Prior to the 1990s, department store firms were unable to operate in a centralised manner due to the spatial variations in demand surpassing any ability of organisational and technological interlinkage across space. As such, there was an emphasis on tacit/local market knowledge, above any centralising tendency, as markets were regarded as complex, 'each one differing from the other and for that matter having differences between themselves', whereby a 'knowledge of the makeup of these markets' was perceived as being 'essential for the most effective marketing' (Clark et al., 1926, p 252). It is for these reasons that prior to the development of complex technological infrastructures, knowledge was acquired and decisions made largely at the divisional decentralised spatial scale (see **Figure 9.1**):

> If we…agree that the economic problem of society is mainly one of rapid adaptation to changes in particular circumstances of time and place…decisions must be left to people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization (Hayek, 1945, p 524, cited by Jensen and Meckling, 1992, p 252).

The late 1980s however saw the emergence of much-improved technological retail infrastructures and channels of communication that had the potential to overcome the costly duplication of the top management, merchandising and back office services (Abernathy et al., 1999). These "expert systems" therefore offered the opportunity for realisation in the 1990s of what had been hypothesised for the sector in the 1920s, i.e. that the department store could 'combine the merits of

centralized control which underlines the chain idea, and the decentralization of the department store' (Griffen et al., 1928, p 23). It is this tension between local/tacit knowledge and universal/codified knowledge in shaping geographies of organisation that provide the focus of this paper.

Figure 9.1 The Trade Off Between Centralisation and Decentralisation



This diagram explains the historical balance required between costly knowledge acquisition at the store level and the need for economical centralised control at the corporate headquarters that has plagued the US department store. It is clear that total costs have traditionally been at a minimum with control decentralised to the divisional level.

Source: adapted from Jensen and Meckling (1992, p 263).

THE STRATEGIC ROLE OF TECHNOLOGY IN RETAILING

As Thrift (1985) noted all knowledge is time and space specific. This fact severely constrains the interpretation of information "at a distance" from economic activity where the knowledge is produced. For this reason, amongst others, the geography of US department store retailing had

produced. For this reason, amongst others, the geography of US department store retailing had become a highly decentralised activity. Merchants were locally embedded within their core markets, knew them well, and performed ably. The emphasis was on responding to tacit knowledge, or, what Thrift (1985) refers to as 'practical knowledge', as it is 'produced and reproduced in mutual interaction that relies on the presence of other human beings on a direct, face-to-face basis. Such knowledge is deeply *imbued with both historical and geographical specificity, taking its cues from local conditions*' (p 373, my emphasis). The high costs of operating in such a decentralised fashion were not considered because there was no alternative. During the 1990s, however, Giddens' (1991) 'expert systems' have revolutionised the operational geography of retailing throughout the Western world. In many respects this has permitted the consolidation wave in the department store industry, as synergistic benefits are available to large firms taking advantage of technological systems, allowing the distribution system to react more rapidly and effectively to market needs and wants.

The Role of Expert Systems

Capital centralisation throughout the US retail industry has been promoted by the use of technological systems. These systems offer the potential to reduce lead times and centralise order fulfilment "at a distance". To an extent this new capacity eliminates the trade off between the contravening tendencies of economies of scale and sensitivity of local markets (Aufreiter et al., 1993). It also signals an increasing dependence on codified or empirical knowledge: 'distanciated, that is...removed in both time and space from the experiences and events it describes. Empirical knowledge does not depend for its acquisition on the presence of people, but it is transmitted through institutions and technologies which allow personal contact to be either by-passed or made specific to particular packets of information' (Thrift, 1985, p 375-6). As Hippel (1999) suggests, firms may reduce the "stickiness" of knowledge by investing in technical expertise which converts tacit expertise to empirical or explicit knowledge through an easily transferable form of software "expert system". In grocery retailing this has represented 'an important shift from an earlier pattern in which the store managers played an important role in local merchandising decisions' (Bowlby et al., 1992, p 144-145; Burt, 2000; Smith, 1988; Sparks, 1994).

Electronic Data Interchange (EDI) has been at the forefront of retail innovations, enabling the inventory pipeline to move goods more swiftly between the manufacturer and the retailer (Wagman, 1991). This 1980s innovation allowed communication between the retailer, vendor and manufacturer, concerning orders and demands. This innovation was executed via a network linkage

between the retail point of sale terminal (POS) on the cash register, backward through the supply chain to the warehouse, and often the manufacturer, communicating sales data and thus demands (Guy, 1988; Lynch, 1990). With this more centralised administration of sales information, came the development of distribution centres, to which vendors and manufacturers could deliver case pack merchandise leaving the retailer to deliver to stores (Smith and Sparks, 1993). In the US context, Wal*Mart is widely known to be the innovator of this form of cost cutting (see Vance and Scott, 1994). Such a strategy however relies on all the merchandise being easily scanned, interpreted and integrated into the expert systems. This requirement has been facilitated through the development of Universal Product Codes (UPCs) or "bar codes", which appeared in 1970 as a ten digit, non-descriptive, all-numeric code; the leading five digits were to identify the manufacturer, the trailing five digits the merchandise item (Abarnathy et al., 1999). The UPC provided a universal medium whereby merchandise could be instantly identified and inputted into, and between, the expert systems with ease.

With a more networked supply chain, there was the potential for sales based ordering (SBO) where the supply of goods in store is driven by consumer purchases (see Fiorito et al., 1995). A networked infrastructure has allowed Quick Response (QR) in retail distribution whereby 'the time between the sale and the replacement of goods on the retailer's shelf can decrease markedly; and retail inventories can be maintained at all levels which will meet consumers' demands' (Fiorito et al., 1995, p 12). QR was a concept developed in 1985 by major US retailers, their suppliers and IBM. The goal was to reduce inventories, increase on-sales, customer satisfaction and profits through faster and more frequent shipments. Computer links between the store, vendor and manufacturer shortened the time between a purchase by the consumer and the re-manufacturing, distribution and re-stocking of that same product in the same store (see Fernie, 1994). These EDI transactions are delivered via private, dedicated communication networks called Value Added Networks (VAN) or Intranets (see American Apparel Producers Network, 1999 for a summary).

Although US retailers initiated QR, it was the U.K. food industry which developed and refined the system during the late 1980s - to an extent that by the mid 1990s the US grocery retailers lagged up to 10 years behind the U.K (Wrigley, 1998c). These technological evolutions were initially adopted in the food industry because distribution is somewhat easier with basic, rapid inventory-turn merchandise. The infiltration of a quick response perspective has been slower in the department store industry, as the merchandise is considerably more expensive and involves considerably greater sunk cost and unpredictable demand. Furthermore, whilst retailers of basic merchandise are keen to

project a consistent image and are thus more conducive to centralisation (Burt, 2000, p 882), department store retailers often run a number of chains in different areas, each with their own regional identity and market positioning. Indeed, retailers differ in their applicability to new technologies as; '(m)ost large retailers are complex organizations that differ in degrees of centralization and formalization. How these organizational differences influence retailer buying behaviour remains unknown' (Hansen and Skytte, 1998, p 296).

CASE 1 - THE EVOLUTION OF THE SAKS FIFTH AVENUE SUPPLY CHAIN

Saks Fifth Avenue is an upscale speciality department store with 61 stores across affluent cities of the United States. In 1998 it was acquired by Proffitt's, Inc., but since then has been run largely as an independent operating concern. This case study analyses how the supply chain of the firm has reacted to the revolutions in the relationship between knowledge and geography throughout the 1990s.

Figure 9.2 displays the quick response system of Saks Fifth Avenue, interlinking the retailer, vendor and distribution centre through the new technologies. Buyers in New York City receive sales data from the network of stores and undertake all of the ordering centrally. A purchase order is entered by the buyer or created by the Basic Automatic Replenishment Computer Model (BAR) for each store, according to each specific product line or Stock Keeping Unit (SKU), and sent to the vendor via Electronic Data Interchange (EDI). After 3-10 days, the vendor packs the merchandise. Prior to it being prepared for distribution to the distribution centre (DC), an Advanced Shipment Notice (ASN) is sent to the buyer in New York and the DC, again via EDI, to tell them it is soon to arrive. On arrival at the DC, the merchandise is immediately identified as it is coded with a Universal Product Code so it is clear to which store it is to be sent. Consequently, the merchandise does not have to remain in storage at the distribution centre. It is typically placed straight onto a truck destined for the store in a process known as "cross-docking" (Abernathy et al., 1999; McKinnon and Campbell, 1998; Rowat, 1998). The quicker products can arrive in the store, the sooner they can be sold and the less time capital is tied up in inventory and can be invested in other merchandise (cf. Chandler, 1990).

Figure 9.2 The Speeding Distribution System Under Quick Response

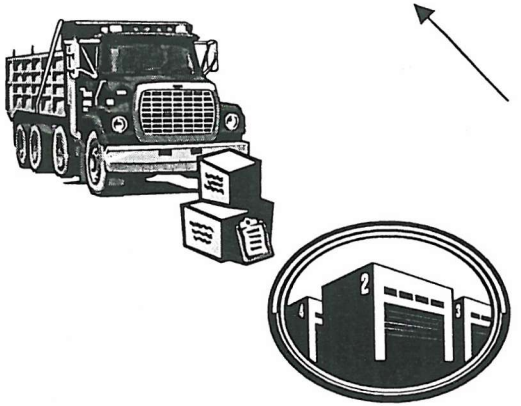
1
Buyer selects merchandise

2
Purchase orders are entered by the buyer or created by the BARS system in store and SKU according to vendor style #'s and descriptions

3
Purchase order communicated to vendor via EDI. Order is in vendor's system ready for allocation

4
Vendor picks and packs merchandise (turnaround 3-10 days) and sends advance shipment notice (ASN) to buyer and distribution centre via Electronic Data Interchange (EDI)

5
If UPC or preticketed and on approved hangers, items can be cross-docked (received and sent directly to stores)



6
Merchandise can be received in stores within 2-3 weeks of when order is originally placed

The Conflict of Knowledge: Codified or Tacit?

The purchase order is determined through two different techniques. Firstly, there is the *dynamic system*, where sales data is fed into a computer system that analyses the information in terms of the "peaks and valleys" of historical sales performance and makes predictions of future demand. The buyer then confirms or adjusts the order, based on a number of factors including changes in the store capacity, or his/her tacit knowledge of the market or weather conditions, and sends the order. Alternatively, there is utilisation of the *automatic replenishment model.* Products that are ordered regularly are candidates for automatic replenishment based on sales information interpreted through "expert systems" without express input from the buyer. Basic merchandise is particularly applicable to this form of ordering as it is typically characterised by rapid turnover and predictable demand (see **Table 9.1**).

Table 9.1 Merchandise and Knowledge Dependencies in the Supply Chain

TYPE OF MERCHANDISE	*KNOWLEDGE*	*SCALE*	*TARGET MARKET*	*COMMENTS*
Basic Merchandise	Codified	National	Universal	Cheap. Easier to predict. Fewer sunk costs
Fashion Merchandise	Codified and Tacit	National and local	Regional Markets	Expensive. Vast geographical variations. High sunk costs

The extent to which basic merchandise can be put on automatic replenishment, and not ordered manually by the buyers, has become a contested issue within these organisations. As Schoenberger (1994a; 1994b; 1997) has shown in a number of publications, individuals pursue self-interest in the firm, which may not necessarily be congruent with the strategic goals of the firm. Buyers are hesitant to give up control of a portion of their budget as this diminishes their responsibility within the organisation. This is in contrast to the *operational logic* evident in doing so. As the Director of Quick Response at Saks Fifth Avenue commented, automatic replenishment removes the emotional element that is *not* required for basic merchandise:

> An emotional buy for a basic item – there is no emotion in basics. I mean it is white underwear – there's no emotion. It is a need. We are saying that buyers should be buying fashion, they shouldn't be buying basics. Basics: a computer can do it. You don't need a brain to do it. You don't need a taste level. It's black and white and that's it, but fashion is what we are training the buyers to be (Interview 2).

Even in areas where the buyer previously had control, the codified knowledge is conflicting with traditional tacit based knowledge. With more complex sales prediction packages, the buyers' sovereignty is threatened. Furthermore, with the interlinked supply chain there is the potential for the retailer to cut costs and allow the *vendor* to drive the system if they are given access to the sales data. This is dependent however on mutual trust sharing between the two parties. It is to these concerns the paper turns.

Vendor Intensification

The ability of the retailer to offset costs and allow the vendor to drive the supply chain is dependent on an increase in the intensification of the relationship between the two parties. Indeed, at the start of the 1990s McKinnon argued grocery retailers were recognising that by 'concentrating responsibility for buying at head office, retail chains can strengthen their position *vis-à-vis* suppliers and economise on associated administrative and clerical work' (McKinnon, 1990, p 80). Such U.K. retailers have successfully centralised and dominated the supply chain in this manner with the virtual elimination of independent merchants (Wrigley, 1987; 1991; 1993a), increasing leverage with suppliers evident in the rise in numbers and quality of own-label products in recent years (Doel, 1999; Hughes, 1996; 1999).

US department stores have sought to centralise and change the relationship between the vendor and the retailer. Indeed, the trend more generally throughout the 1990s US retail industry was 'vendor intensification' (Ernst and Young LLP, 1998; Management Horizons, 1995). Department stores have built long-term working relationships with key vendors as an alternative to a more arms-length adversarial model (Dunne and Kahn, 1997; Porter, 1999). It was envisaged that building such understanding with firms lower down the supply chain would help maintain a more reliable arrival of products, reducing the costs of overstocks, unplanned markdowns, out of stocks, and customer dissatisfaction. It was expected that this closer working would facilitate risk sharing, allowing large dominant department stores to pressure suppliers for 'markdown money', reducing profit loss due to slow selling merchandise (Sternquist and Byoungho, 1998). Vendor intensification was made a reality through the pooling of resources that occurred with consolidation, and general closer working of the divisions through the strategic use of technology.

Vendor Managed Inventory

The use of integrative technologies themselves require a closer working relationship between the retailer and vendor/supplier, with a certain amount of trust evoked in sensitive data sharing (Larson and Lusch, 1990; McLaughlin et al., 1998; Maltz and Srivastava, 1997). As Evans and Wurster (1997) have recently suggested '(w)hen companies conduct business with one another, the number of parties they deal with is inversely proportional to the richness of information they need to exchange' (p 17). As large companies establish market sensitive organisational structures, the boundaries between companies will become less important (see Malone and Laubacher, 1998). With retailers now dominating the supply chain, they need to realise efficiencies can result if they work collaboratively, sharing market sensitive information to more accurately respond to changes in consumer demand (Kumar, 1996). This gradual move to a closer working relationship is starting to be seen in the supply chains of UK food retailing (Doel, 1999) and the UK apparel sector (Crewe and Davenport, 1992), where, if trust can be established, a mutually beneficial networked information-rich supply chain can result (see Wall et al., 1994).

Removing the Tacit Knowledge with Vendor Managed Inventory

Saks Fifth Avenue have taken tentative steps toward vendor-managed inventory. Hitherto this has only been seen in cosmetics, with the vendor, Clinique, becoming responsible for collecting and interpreting the codified knowledge, and thus the buying of *their* products. The rationale for allowing Clinique to participate in vendor-managed inventory is that they know their product better than any retailer would. This model of vendor managed inventory follows the pioneering progress of Wal*Mart, who were the first to produce such a relationship with Proctor and Gamble in the early-1990s (Moore, 1993). As mentioned, the most critical element in moving toward vendor-managed inventory is establishing trust between the vendor and the retailer. As Ann Whitney, Director of Quick Response suggests:

> No.1 you have to trust the vendor because he is spending your money but with that trust he also can give you the guarantee that if he gives you the wrong assortment of merchandise, or puts you into an overstocked position, that he will return that merchandise because the agreement up front is that if you give us too much, you own it – we are sending it back, and at your expense. That keeps them in line so they don't spend, they don't go crazy with our money (Interview 2).

This new vendor driven system replaces the conventional system of decentralised procurement of cosmetics for the department store retailer. Previously, ordering for cosmetics was undertaken at the branch level by individual department managers who took a stock count and ordered every week

through a manual book keeping method which was very labour intensive. Supply chain specialists argue that this practice, based on local market tacit knowledge, could often result in 'emotional buys', not substantiated by sales information with personal tastes and preferences were overvalued.

CASE 2 - (RE) NEGOTIATING SCALE AT FEDERATED DEPARTMENT STORES

Federated manages a number of department store chains operating at varying price points across the US (see **Table 9.2**). The search for increased efficiencies in the organisational structure through centralisation started in the early 1990s, where current and newly acquired divisions were merged when they were in geographical proximity (see **Table 9.3**). Such changes allowed immediate cost savings, eliminating duplication of core functions. These divisional consolidations were accompanied by a broader restructuring package exploiting economies of scale in buying but remaining sensitive to the immense geography of the trading area.

Table 9.2 Federated's Department Store Chains 1999.

Chain	*Number of Stores*	*1998 Annual Sales*
Macy's East	87	$4.587 billion
Macy's West	100	$3.866 billion
Rich's/Lazurus/Goldsmith's	76	$2.186 billion
Bloomingdale's	24	$1.922 billion
Burdines	49	$1.400 billion
The Bon Marche	42	$955 million
Stern's	25	$838 million

Source: Federated Department Stores (1999) *1999 Corporate Fact Book*, Federated Department Stores, Cincinnati, OH.

The initiatives by Federated were prompted by the substantial cost savings experienced by the May Department Store Company, which had, since the late 1980s, pursued a vigorous policy of the centralisation of resources and provision of shared services (see Chapter 6 of Laulajainen and Stafford, 1995). This made its acquisitions rapidly accretive to the extent that during the 1990s it was regarded as the most efficiently run department store chain in the US.

Table 9.3 Federated Divisional Consolidations, 1982-1996

Year	Divisions	New Division Name	Comments
1982	Rike's (Dayton) Shillito's (Cincinnati)	Shillito Rike's (Cincinnati)	
1986	Shillito Rike's (Cincinnati) Lazarus (Columbus)	Lazarus (Cincinnati)	
1987	Block (Indianapolis) Lazarus	Lazarus	Block acquired from Allied Stores
1988	Goldsmith's Rich's	Rich's	Memphis area retains Goldsmith's nameplate
1992	Abraham and Strauss Jordan Marsh	Abraham and Strauss/Jordan Marsh	
1994	Joseph Horne Co. Lazarus	Lazarus	Acquisition
1994	Macy's East Abraham and Strauss/Jordan Marsh	Macy's East	Acquisition
1995	Rich/Goldsmith's Lazarus	Rich's/Lazarus/Goldsmith's (Atlanta)	
1995	Broadway (Broadway, Emporium and Weinstocks nameplates)	5 stores: Bloomingdale's 56 stores: Macy 21 stores sold	Acquisition of 82 stores
1996	Jordan Marsh	Macy East	Loses autonomy in Macy East Division
1996	Bullock's	Macy West	Loses autonomy in Macy West Division
2001	Stern's	Bloomingdale's and Macy's	Stern's division closes: consolidated into Macy's & Bloomingdale's. Remainder closed

Source: Various trade press literature and discussions with company executives

The Uncharted Road to Centralisation

The trend toward centralisation has not been a smooth process, and has proven a particularly contested terrain within Federated. In 1992, Federated launched the Federated Accelerated Sales & Stock Turn (FASST) plan as a means of helping the corporation and its vendors work together more effectively to manage merchandise inventories. This was the first step towards modernizing the firm with a new structure configured for the new millennium. The lynchpin of the new initiative was team buying, supplanting the previous strategy of autonomous buying by the divisions. Team buying reduced the merchandising and support staff, obtained volume discounts and established stronger relationships with fewer suppliers (Bailey, and Bernhardt, 1996). Bailey and Bernhardt (1996) suggest that, in essence, the department store was conceptualised as an umbrella for a series of merchandise categories, or as a chain of speciality stores. Merchandising was organised under a 'Family of Business Arrangement', whereby each specific commodity area (e.g. sportswear, dresses, suits) was to receive direction from a team comprised of a visual director, marketing director and a director of stores. Each 'Family of Business' was broken down into a group of classifications, which then formed the basis of teams. This formation of teams did not however change the structure of the division's merchandising organisations. The segmented nature of the organisation essentially continued to exist. At this time, teams were expected to play a role in virtually every step of the merchandising process. They were expected to develop 70% of the assortment for each division with the mandate to plan, negotiate, select and price the merchandise, and then communicate and co-ordinate these decisions with the divisions which were left to develop 30 percent of the assortment on their own. Indeed, as Harry Frenkel, Vice President of Federated Merchandising Group, suggests, such early team initiatives were to have 'representatives from each division and then the corporate person here in Federated Merchandising to come and dictate what your assortment should look like; "here are the key items of your assortment". That was the direction ...(to) leverage the vendor base. You know, if we go in as a group, we got to buy much smarter' (Interview 10).

The principal challenge was finding the right balance between central control and local autonomy. Indeed, at the time Julie Forsyth observed in *Chain Store Age Executive Magazine*:

> Department store companies are beginning to operate more like chain store operations and less like collections of various autonomous divisions....Many divisional functions are being centralised to reduce costs and streamline operations. Department store companies are also downsizing their operations through divisional mergers and selected store closings. Through the introduction of advanced information technology, companies are now better equipped to

monitor cost structures, manage merchandise profitability, and re-attract disinterested consumers (Forsyth, 1993, p 29A).

Consequently, Federated were broadening the merchandising process beyond divisional lines and were successful, to an extent, in leveraging merchandising knowledge across the firm. Despite this achievement there were difficulties with the 70% centralised and 30% decentralised arrangement as it stood by the end of 1993. Non-team members were left feeling disenfranchised and the process of getting apparel to market was too slow and cumbersome (Bailey and Bernhardt, 1996). Indeed, 'although the process of team allocation increased awareness of company-wide allocation patterns, team allocation to local stores proved to be highly ineffective because it lacked the knowledge of local markets' (Bailey and Bernhardt, 1996).

The flat performance of Federated in the recessionary years of 1992-3 caused a reassessment of the buying process. Top level executives of the firm and outside consultants, re-examined the merchandising structure, producing an alternative buying model for implementation in the fall of 1994, designed to reduce bureaucracy and more clearly define the chain of command. This revision reduced the mandatory 70/30 split of dominating control from Federated Merchandising Group, as FMG would instead provide a menu of selections of products from which the divisions could select. This arrangement maintained a consistency of selection and economies of scale, yet permitted flexibility in maintaining the divisions' own regional identities. These arrangements saw a reduction in the importance of teams, where they became increasingly advisory, avoiding effort duplication, where merchants had previously split their time between the divisions and their teams.

The need to remain sensitive to local markets and limit the cost saving though centralisation is clear. As Swinyard (1997) suggests, these innovations are rapidly changing the nature of the distribution system,

Competition, consumer changes and growing technology are converging to make micromarketing's historical attractiveness both achievable and profitable. It is a result of the flattening of the competitive landscape of the USA and is becoming a major retailer focus...Until just a few years ago retail firms were so strongly driven by distribution and operations efficiencies that chains had the same stock mix in Miami's year-round warm climate as they did in Minneapolis' cold one - winter coats and snow shovels in the autumn and swimming suits not until the spring (p 251).

The reorganisation of 1994 effectively produced a model where Federated Merchandising Group supplied a matrix of core vendors from which the Federated divisions were strongly encouraged to select. As Vice President of Federated, Carol Sanger suggests, the merchandising group 'scouts the market and determines what everybody should look at when the divisions come in to go to market

and makes some decisions based on economies of scale which make sense for us, but allow the divisions, where the customers see it, to have their own identity and that to us is ideal'. Each division *retains its identity* and conducts its own buying. There is recognition that there will be the need to purchase from some regional vendors *outside* of the universal matrix provided by FMG. This practice underlines the importance of embedding divisions in local markets and not wholly centralising. This importance of regional identity is made clear by the Vice President of FMG:

> ...we try to come up with the base and once again the divisions have to have some leeway because Burdines are in Florida so they need some specialised vendors to support their climate and environment – all that kind of stuff....Burdine's wants to be...'the Florida store'. It is different from Macy's which is in the mall right next door to them in Florida (Interview 10).

Equally, the Federated Merchandising Group (FMG) is embedded within the fashion scene of New York City where all of the important vendors are based. Such proximity is essential to success in establishing the best prices and exclusive collections for their stores. Organisational restructuring is thus as much a story of territorial embeddedness and institutional thickness (cf. Amin and Thrift, 1994; Keeble et al., 1999), as it is about conflating distance through expert systems (O'Brien, 1992).

Upscale and Uniqueness – Exceptions to FMG

Changes in the configuration of the merchandising within Federated are *not* applicable across the whole organisation. The corporation operates a number of divisions across differing income levels (see **Table 9.2**). Firstly, there is Bloomingdale's, a speciality department store, upscale, and more in competition with the likes of Saks Fifth Avenue and Neiman Marcus. At the other end of the spectrum, there is Stern's, a chain department store – somewhat lower scale compared to the likes of Macy and Lazurus. As a result, it is problematic to include these stores within the broader FMG merchandising model, where the product assortments are more homogenous and targeted at the mid-scale, traditional department store chains. There remains therefore a considerable emphasis on completely independent regional divisional buying, where stores do not fit into the conventional department store model. Indeed, Federated Merchandising Group does not cater to Bloomingdale's or Stern's, as they buy completely independently focusing on upper and lower scale merchandise respectively. That said, they are incorporated into all of the Federated back-up support systems.

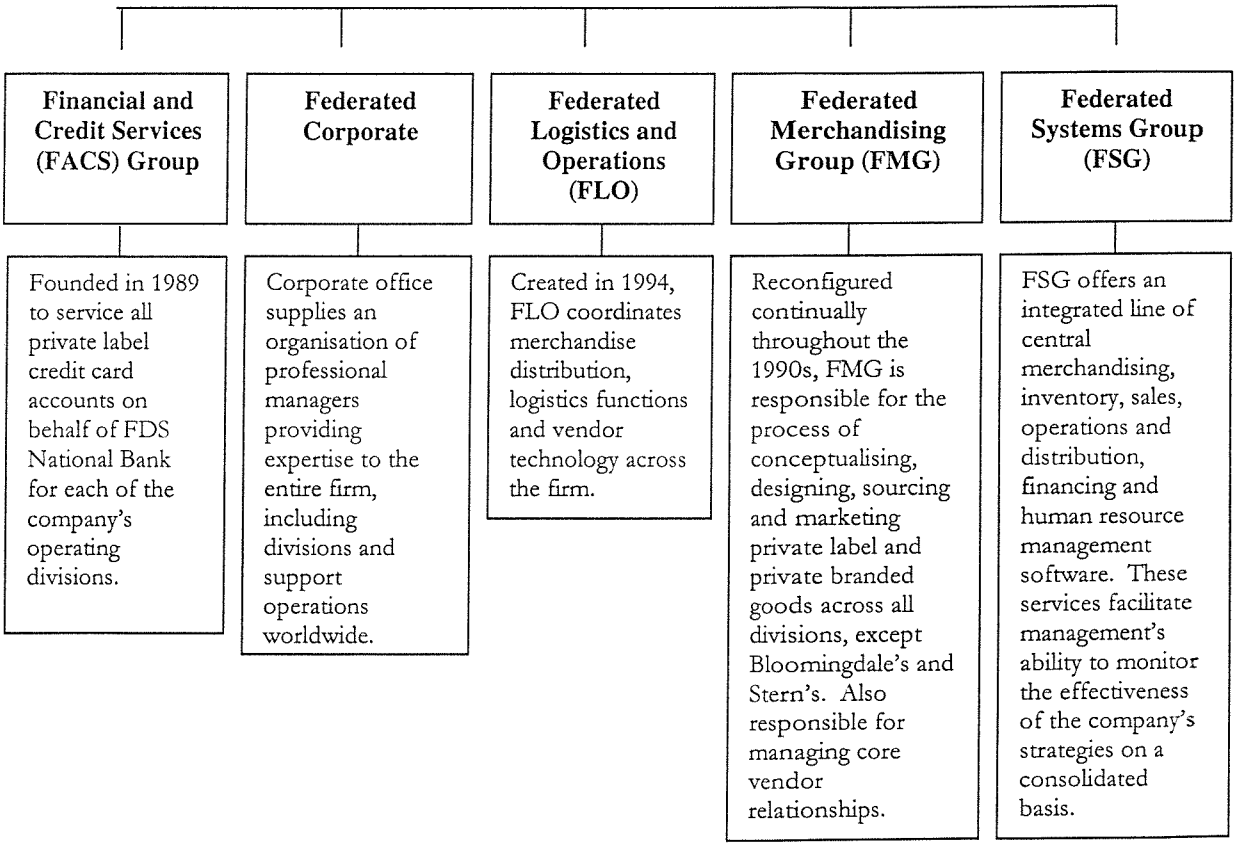
Centralising the Back Office Facilities

By the end of the 1990s, Federated was exhibiting a more centralised merchandising model to leverage the considerable scale of the organisation, yet at the same time, remain sensitive to the

idiosycracies of geography and spatial variation. Such a tension between centralisation and decentralisation is less in evidence with the organisational restructuring of back office facilities. Federated have consolidated many behind-the-scenes operations and formed separate support services where aspatial expertise is required and assistance can be leveraged throughout the entire corporation (see also Senn, 1996). This has only occurred with any conviction in the 1990s (see **Figure 9.3**). Terry Lundgren, President of Federated explained the rationale for the developments:

> ...we have a point of view that if the customer does not see it or feel it then it is an opportunity to be reduced or eliminated .... Every division used to have their own separate organisation – we don't need that anymore. Now we conceive it nationally in the east coast or west coast and move it to the various stores no matter if they are a Rich's store or a Lazurus store, a Bloomingdale's store or a Macy store...All of our technology, all of our systems, computer operations – every division used to have their own set up for that. Now there is one state of the art organisation outside of Atlanta that services all of the systems needs for our stores. One credit facility in Ohio services all of them (Interview 23).

Figure 9.3 Federated Department Stores Centralised Support Functions



Source: Company Information

Throughout the 1990s the role of these back-office systems has increased nationally throughout the organisation. Indeed, the changing role of Federated's Logistics and Operations (FLO) division is seen in **Table 9.4**. Here the emphasis has been on divisional inclusion, as the group has become

substantially more important, orchestrating a wider geographical field, more divisions and additional key responsibilities. As Deloitte and Touche reported in late 1998, prior to the support services' formation, it took Federated 3-5 days to move merchandise from its warehouses to the stores. By the end of the 1990s, because vendors tag and prepare most of their merchandise before they send it to Federated's automated distribution centres, the merchandise is on outbound trucks within a quarter of an hour. Over two thirds of the cartons they receive in their facilities each day are on the selling floor of the stores by the next morning.

Table 9.4 Stages in the reconfiguration of Federated Logistics and Operations (FLO)

DATE	*COMMENTS*
1994	Federated Merchandising set up to co-ordinate merchandise distribution and logistics functions and vendor technology across the company, with particular emphasis on the north-eastern US.
1995	Division expanded to handle these functions for all of Federated divisions nationwide
1997	Division's scope expanded again to assume corporate responsibility for key operational areas of the business including expense control, energy management, asset recovery, accounts payable, purchasing, loss prevention, shortage control, leased departments and maintenance functions.

Source: Company Information

Not only has the speed of this turnaround increased, but also the accuracy. The arrival of data sharing with vendors has allowed the right product to be in the right place, at the right time. Such sharing of commercially sensitive information allows the theory of Collaborative Planning Forecasting and Replenishment (CPFR) to become a reality. Federated initially pursued this in 1998 with a handful of suppliers via the 'First at Federated' programme. By 2000, collaborative practices were in place with a number of suppliers including Liz Claiborne, Pillowtex and several apparel resourcers (Reda, 2000). The data sharing effectively results in more of the demanded products to be in place at the right time, whilst carrying less inventory. This increases stock-turn and reduces the amount of time capital tied up in unproductive stock.

Re-emphasising Localisation

Codified knowledge has revolutionised the role of the buyer in the department store setting. Previously, the buyer used to visit each store. In many cases there were separate buyers at each store level. Today, buyers remain the *conceivers* of the grand plan whilst the branches become the *executers*. The buyer now has to envisage "the buy" and the presentation in store "at a distance":

> Instead of going out to the individual stores....now they put it on a document and their vision now goes onto a piece of paper. That piece of paper gets sent to store via the Intranet and the stores execute their vision. So clearly it is still the merchant who has the vision, the store is the executor. The stores embellish that execution, take it to another level, but the merchant still is the one who conceives (Interview 19).

Very few of the buyers will visit all of the stores. Instead, decisions are based on store profiles, where each location has a different model of capacity and demand. This practice has the partial effect of homogenising the selection across the chain as store managers are left to service the consumer. Even divisional head offices are left with only buying functions and human resources duties, as other back of the house functions are centralised by Federated itself. Again restructuring was a contested terrain, resisted within the stores, as 'in a big corporation you are always protecting your responsibilities and not giving them up and that is always a fight and a struggle within the industry' (Interview 10).

There remains, despite the centralising ethic of the 1990s, a need for localised attention, as some of the idiosycracies of the market are lost through at-a-distance conception. Firstly, as department stores carry high cost, luxury goods, more sensitive to spatial variations in demand, there is a greater need for local presence and tacit knowledge on the part of buyers than in the retailing of more standard and staple items. Department store buyers *do* spend a certain amount of time visiting stores to view how products are selling and how consumers receive merchandising. This may not be for all of the stores for which s/he is responsible, but viewing a cross-section remains critical. Secondly, it is still widely viewed that isolated codified knowledge of sales data and forecasting remains insufficient on which to make the merchandising decision exclusively. The fact that the buying function has been retained at the divisional level and not centrally pooled is indicative of the view that 'the customer changes and the weather changes are hard to simply put on a computer screen. We are in the fashion business. If we were just in the blender and toaster and business that would be easy.... so we have to understand the consumers changing lifestyles and be on top of that. It is different in California than it is in Brooklyn and I think that's important' (Terry Lundgren, President, Federated Department Stores, Interview 23). Some executives concede that the codified knowledge created "at a distance" cannot replace the tacit knowledge established in local market settings. Peter Sachse, Director of Stores for Macy's East admits:

> What sells in Atlanta does not necessarily sell on Long Island. We run stores in Atlanta and Long Island. In order to be good at our jobs we need to know the nuances of those two marketplaces....But we are not as good as it, quite frankly, as the people were who were in Atlanta when they woke up every morning, living in the city where they were selling the product...We have a sister division in Florida called Burdines, they wake up everyday and it is 80 degrees, when they are waking up and it is 80, our buyers are waking up and it is 20. *It is hard to think about short sleeve shirts that we need to buy and retail in south Florida when it is 20 degrees.* It is easy to think about them when it is 80, so again we get a little bit better at this every day. But do I think our buyers know the Florida market as well as the Florida buyers? No I don't believe they do. I think that Burdines buyers know their market better than our buyers. We have to get better at it....*So there is a fine line between centralisation and economies of scale and expertise in a particular marketplace.* Our folks I think do a terrific job. 87 stores, 87 different profiles. Every store has got a different profile; although we try to bunch them they still have different ones (Interview 19, my emphasis).

To overcome some of the difficulties that differing store profiles create there is a planning function within the divisions that allows individual stores to edit and tailor their mixes to their specific markets. This allows, what Swinyard (1997) regards a 'micromarketing'. There are consequently clear costs and benefits from operating at the centralised and decentralised spatial scales, as a trade off against these contravening tendencies is the result (see **Table 9.5**).

Table 9.5 Centralised Functional Integration versus Decentralised Business Unit Integration

	Organising Principle	Advantages	Disadvantages
Functional integration (Centralised)	• Organise functionally to achieve cost and skill advantages of scale	• Economies of scale in Distribution, Advertising, Infrastructure • Builds functional skill superiority • Information can be leveraged across the whole organisation	• Lack of responsiveness to local requirements • Difficult to develop general managers • Expense of 'expert systems' • Vendor intensification may result in too much homogeneity in assortment • New products from smaller vendors often overlooked • Possible lack of accountability at a distance
Business unit integration (Decentralised)	• Organize around multiple profit centres to gain advantages of focus	• Focus/clear accountability • Close to customer = responsiveness • Builds teams/identities	• Lack of scale • Duplication of effort • No critical mass of skills

Source: adapted from George et al., 1994, p 55

THE DECENTRALISATION – CENTRALISATION DEBATE IN CONTEXT

The developments in the geographies of department store merchandising and operations feed into many of the recent debates on the geographies of knowledge in economic geography. This centres on the battle between the role of tacit knowledge at the local level and explicit knowledge at central nodal points (see French, 2000, p 116). As has been acknowledged, the literature has made much of tacit knowledge at the level of the region, as research on industrial clusters and learning regions in terms of relational geographical proximity has increased. Such work, although informative and interesting, tends to overshadow the value in codified knowledge and explicit knowledge feeding from these decentralised spaces. Indeed, this paper has provided a commentary on the movement away from the wholly decentralised operations, as control has centralised and tacit knowledge is gradually becoming less valued. As such, I agree with the conclusions of Amin and Cohendet (1999) who set about questioning 'the separability of the two forms of knowledge and by suggesting that

business networks largely dependent on local tacit knowledge and incremental learning may prove to be inadaptable in the face of radical shifts in markets and technologies' (p 88).

The current challenge for department store retailers, as Dawson (2000) has noted more generally, is 'to enable the store management to maintain links to the buyers and strategists in head office as well as to the customers but within the structure of a very large firm' (p 125). As the technologies available to retailers have developed, it has been increasingly possible to change tacit knowledge, on the trends and demands of the local market, to produce an abstraction of codified knowledge at a central nodal point. This transformation has had the effect of conflating distance, as capital replaces labour at the local level. These expert systems have the potential to determine the replenishment from basic items in department stores centrally, without the express attention of the buyer.

A Blend of Spatial Scales

Knowledge acquired exclusively at any one spatial level is likely to be inaccurate. As Schoenberger (1999) has suggested more generally, 'situated knowledge is mistaken for universal knowledge with all the errors that this can entail' (Schoenberger, 1999, p 208; cf. Haraway, 1991). Even codified knowledge received "at a distance" at buying offices is acknowledged to be partial, as a company executive from Saks Fifth Avenue admitted:

> We somehow need to come up with a better system than we are doing it because having the buyers, I do a lot of store training, so I travel across the country and listen to the stores problems, when you have someone in New York making a decision for someone in California, what you perceive or what you think you are reading on the computer is not really what's going on. If people are trying to tell you that you are selling merchandise and you are looking at numbers and saying 'you only sold 8', how can you say you are really selling it? Answer: 'But you have only given me 3 (Interview 2).

A mix of scales is necessary. Yeung et al. (2001) commented more generally: firstly some degree of 'localised management is required to fully understand the nature of the ever changing conditions of the region, and secondly "managing from a distance"...is no longer an acceptable tool for strategic management in a world of keen competition and high demand for local responsiveness' (p 3). As a result, buyers are still located at the divisional level, as it is felt that the combination of tacit/*local* knowledge (i.e. being near their markets) is important, but at the same time, benefiting from the matrix of selections developed *centrally* by the headquarters merchandising group. This centralisation represents a movement away from the belief, especially inherent with early 1980s department store organisational structure, that there is a need to spend extensive amount of time on the shop floor to pick up on the 'mood' of what is demanded. Instead, codified knowledge of sales reports and

mathematical models of estimates, supplement the decision making process. In addition, many of the operations that were decentralised are now operated at central locations again facilitated by technological innovations and the economies of scale available to larger retailers due to the acquisition based portfolio restructuring (see Chapter 7). This blend of tacit and specific knowledge thus 'fuses data and instinct with corporate models and analysis to create a high-tech forecasting system' (Fisher et al., 2000, p 116), providing evidence that a dual structure of organisation is emerging, mediating between these two spatial scales of organisation, as displayed in **Figure 9.4**.

> Thus a dual structure seems to be emerging, which is composed of a decentralised network of reflexive and interactive centres to advance core competencies and learning and overlaid upon a more traditional hierarchical structure for the regulation of noncore activities. In such a context, *the key challenge facing firms and business systems concerns less the transition from one structure to the other than the integration of the two structures into a coherent whole* (Amin and Cohendet, 1999, p 88, my emphasis).

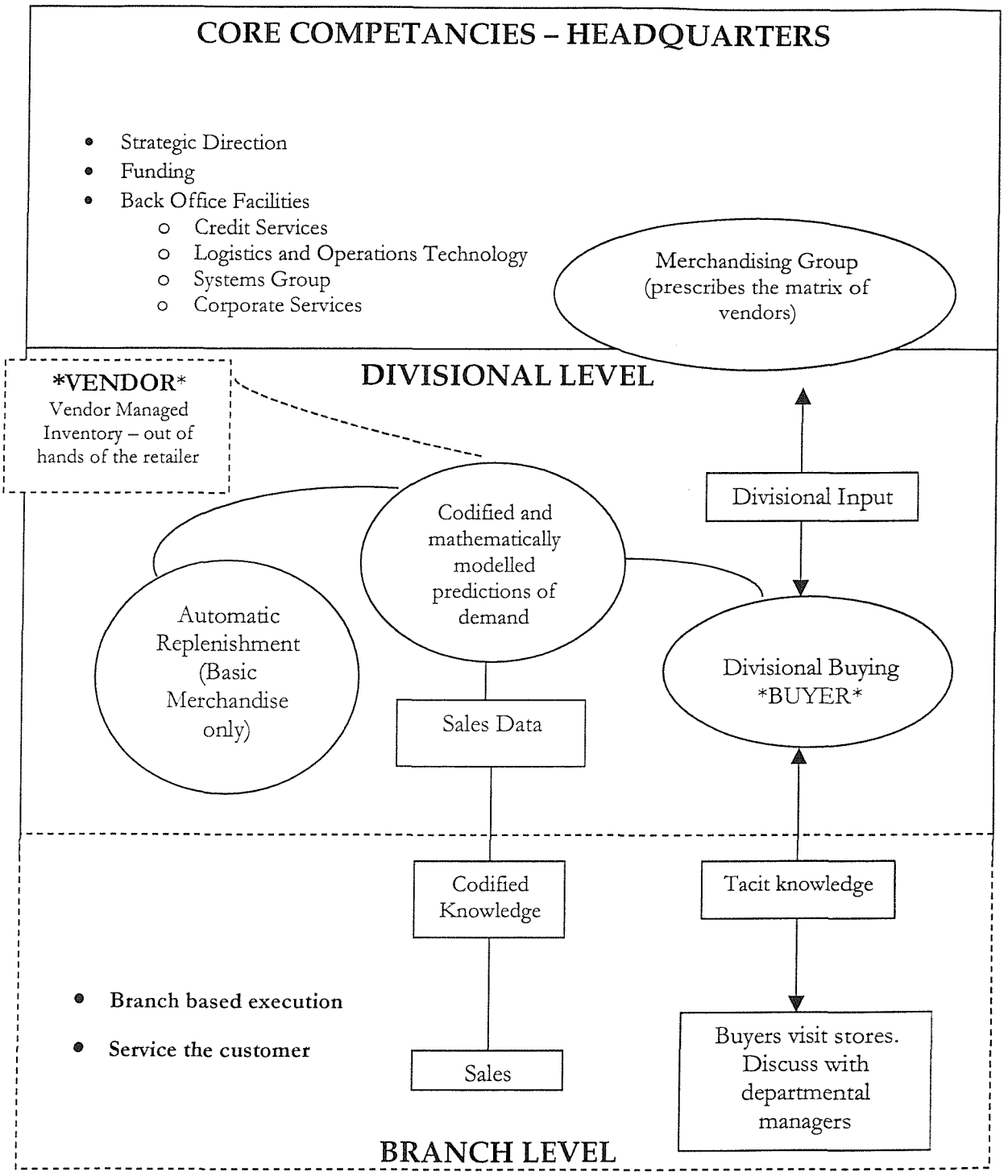
The construction of such a new organisational configuration has been actively contested over time. As Schoenberger (1994a; 1997) has suggested, individuals have different value asymmetries to that of the firm and are thus keen to protect their own established roles. Consequently, divisions were immediately resistant to loosing functions to the centralised back-of-the-house operational units. In addition, buyers remain resistant to basic merchandise being replenished automatically through the Quick Response system. It is clear there are many cultures and subcultures within an organisation that are seeking legitimacy in the face of the dominant central vision:

> The firm's dominant culture, created by and expressed through the activities and understandings of top management at headquarters, necessarily contains multiple subcultures. Some of these may revolve around functions that cut across places...but some will have real geographical locations – they will have grown up in specific...places. It follows from this that the interesting locus of study and of transformative processes is not only where "the firm" (conceived as unitary agent) meets the world (competitors, markets, suppliers), but also internally as competing subcultures strive for validation and expression (Schoenberger, 1999, p 211)

The transition from tacit to codified knowledge in controlling nodes is not unique to the US department store industry and compares with the revolutions evident in recent organisational restructuring in the operations of U.K. retail banks (see Leyshon and Thrift, 1995). Here, there has also been a distanciation away from decentralised authority with the utilisation of codified knowledge "at a distance", to make decisions on loans and insurance to distinguish between good and bad credit risks. Previously, physical proximity of branches allowed banks to obtain rich, customised, 'softer' information (Alexander and Pollard, 2000; cf. Thrift, 1997). This codified knowledge of credit scoring has replaced the tacit knowledge of trust and reliability (see Leyshon and Thrift, 1999; Leyshon et al., 1998). Such literature provides a useful contrast to the recent growth in literature on the specificities of regional learning, tacit knowledge and network linkages.

As such '(t)here is a danger... that the discovery of local relational learning environments ends up proclaiming the superiority of tacit knowledge, based on face-to-face contact, over codified knowledge, based on scientific discovery, technological enhancement, and distantiated conditions' (Amin and Cohendet, 1999, p 90). Conversely, the retailer must not remove the sensitivity to the decentralised divisional and branched level, as these knowledges remain important contributions to successful retail operations. As Schoenberger (1999) comments in a more general context, firms are 'figuring out ways to support this emerging corporate region so that at least it is less likely to be snuffed out by a recalcitrant headquarters' (p 222). This paper has shown that only when a mixture of the two spatial scales is brought together can successful execution be achieved and begin to overcome the traditional conflict between integration and independence of department stores (see **Table 9.5**). The relationship between centralisation and decentralisation remains in a state of flux within, and between, organisations, as the capability of technological systems to conflate distance changes. It is to these spatial aspects of distribution that retail geographers should start to pay greater attention.

Figure 9.4 Geographies of Organisation of the Late 20th Century Department Store



Chapter Ten

Refocusing Department Stores: Design, Space and Retailer-Brands

It is important to understand the 'manner in which retail capital actively explores and penetrates specific spaces at a number of scales, and the way in which retailers manipulate spatial layout and design'.

Ducatel, K. and Blomley, N. (1990) 'Rethinking Retail Capital', *International Journal of Urban and Regional Research*, 14, p 225.

INTRODUCTION

In a landmark paper, which ushered in the so-called 'new' retail geography, Ducatel and Blomley (1990) identifed a gulf in the existing literature regarding the spatial design and image building of retail capital across space – and more specifically, the 'manner in which retail capital actively explores and penetrates specific spaces at a number of scales, and the way in which retailers manipulate spatial layout and design' (p 225). This thesis has primarily focused on the restructuring of retail capital at the corporate level and analysed the restructuring approaches adopted by department store firms. However, as Ducatel and Blomley suggested, there is also a need to consider retail capital not only at the corporate level but also how it restructures store layout and design.

Although 'orthodox' retail geography was relatively silent on these issues it was not totally so. Garner (1966), for example, sought to understand the internal spatial arrangement of shopping centres using bid rent theory in the 1960s, whilst Brown (1992) provided a comprehensive survey of research through the 1970s and 1980s of retail location at a micro scale within the dominantly applied spatial analysis tradition of orthodox retail geography[51]. The 'new' retail geography, post Ducatel and Blomley, has taken the internal spaces of retail stores far more seriously. The reconfiguration of contemporary consumption spaces has received attention from commentators such as Hopkins (1990), Shields (1989; 1992) and Goss (1993; 1999) who emphasise the role of

[51] See also further summaries by Jones and Simmons (1987; 1990).

leisure blending with retail space to increase consumer's dwell time[52]. But, in particular, the internal retail spaces of late 19th and 20th Century department stores have provided a particular focus (see Blomley, 1996; Domosh, 1996a; 1996b; Leach, 1994). This work has linked strongly to related work in cultural studies, cultural history, anthropology and sociology (Nava, 1996; Mort, 1996) and has increasingly drawn geographers into collaboration with these perspectives and disciplines (e.g. Jackson et al., 2000).

Despite these contributions, however, retail geographers have yet to assess the importance of a retailer's spatial arrangement *in conjunction with*, and in relation to, *retailer-brand building* through the process of retail restructuring. Yet it is essential to understand that the nature of the brand is dependent on the spatial arrangement, presentation and identity attached to a store space and vice versa. Brand identities are clearly influenced by the environment in which they are sold – Ralph Lauren's wood panelling within department store boutiques is a classic case in point. Indeed, although recent literature by retail geographers has underlined the role of retailer-brands and the competitive position of retailers in relation to manufacturer branded merchandise (Doel, 1999; Hughes, 1996; 1999a; Sparks, 1997), it is clear that the links to the ways 'retail capital has simultaneously become increasingly concerned with, and sophisticated in, the premeditated configuration of retail space in an attempt to induce consumption' (Ducatel and Blomley, 1990, p 223) have not yet been considered. It is to this task the chapter now turns.

INTERNAL RETAIL SPACES, DESIGN AND IMAGE

Although retail geography has often neglected analysis at this micro-scale, there have been advances in the study and understanding of these store spaces throughout other disciplines. In the field of marketing, the recognition of internal spaces has long been acknowledged. Martineau, for example, in 1958 wrote on the importance of developing a personality of a retail store and projecting an image to configure to the consumers interpretation of themselves through manipulating internal geography. Following this, Lindquist (1974) suggested there were eight elements of store image: merchandise, service, clientele, physical facilities, comfort, promotion, store atmosphere and institutional and post-transaction satisfaction. Indeed, 'the retail store is a bundle of cues, messages and suggestions which communicate to the consumer' (Markin et al., 1976, p 43). Recent work has underlined the role of music (Yalch and Spangenberg, 2000), crowding (Eroglu and Machleit, 1990)

[52] Sometimes such strategies are *too* effective and attract non-consuming individuals and groups who disrupt the capital accumulation purpose of the space (see, for example, Venderbeck and Johnson, 2000).

and colour usage in strategically configuring the retail store environment. This has often culminated in a range of core textbooks for visual and store designers (see in particular Barr, 1997; Colborne, 1996; Diamond and Diamond, 1998; Pegler, 1998).

This specialist literature has emphasised the importance of how customers *interpret* the store setting and subsequently act based on those opinions (e.g. Birtwistle et al., 1999; Hall, 1966). It is consequently the task of the retail designer to comprehend, what geographers have termed the spatiality of place, and thus the relationship individuals have with space as 'it seems clear that the manner in which store organization and layout is constructed is clearly of importance in shaping the extent and intensity of purchasing activity by the consumer' (Ducatel and Blomley, 1990, p 223). As Ed Soja (1985) acknowledged

> Spatiality is portrayed as a social product and an integral part of the material constitution and structuration of social life. Above all else, this means that spatiality cannot be appropriately understood and theorised apart from society and social relationships. (p 92).

And as a result:

> Spatiality as a socially produced space, must be distinguished from the physical space of material nature and the mental space of cognition and representation, each of which is used and incorporated into the social construction of spatiality but cannot be conceptualised as its equivalent (p 92-3).

Consequently, design is 'not just concerned with products, but with the environment in which it is sold' (Doyle and Broadbridge, 1999, p 78). This store design must be holistic and 'not consider features of the design in isolation, but within the context of their relationship to all other features and the purpose for which they exist. Within a design, each aspect is equally important and its eventual fulfilment is essential for the design to be considered total' (ibid., p 78). In particular, Moore and Lochhead (1998) acknowledge that 'our understanding of the process of designing, developing, implementing and protecting a retailer's visual identity is partial and incomplete. As a result, previous research has largely failed to consider the importance of design in the development of retailer-as-brand identity and the interaction required between retail organizations and a design professional so that the retailer's identity may be raised from merely that of a "name above the shop" to a meaningful and fully viable brand identity' (p 122).

The aim of this chapter is first to analyse the ways in which department stores have restructured their store environment, merchandise selection and marketing image, emphasising themselves more as successful "retailer-brands". This has led to them renegotiating which product lines they offer, how they are marketed and, of course, how the presentation of those products is organised. All of

these issues have to be situated within the context of broader sectoral challenges to the conventional department store industry. Second, however, the chapter seeks to make broader points concerning the neglect of internal spaces of contemporary retailing and the importance of these localised geographies in changing the competitive economic landscape.

THE CASE OF US DEPARTMENT STORES

By the late 1980s, there was a need for the US department store industry to improve its competitive position. As this thesis has explained, the sector consolidated and organisationally restructured throughout the decade, but equally important has been a reorganisation of its store environments and a new emphasis on building stores as brands – directly in competition with clothing manufacturers. Both of these aspects – brand building and the renegotiation of department store space – have been underemphasized throughout all of the academic literatures thus far and consequently deserve engagement here.

The Need to Focus Merchandise Selection

By the late 1980s and early 1990s there was a requirement for the conventional department store industry to reposition itself *vis-à-vis* its competitors to avoid the retail format becoming a relic confined to grand city downtowns and elsewhere - retail history. As the rate of format change quickened throughout the retail industry, department stores had to reassess their offering. As Wileman warned in the early 1990s:

> First generation destination retailers must pre-empt these (format specific) threats, and be prepared to fight back hard. They need to evaluate their price/margin/volume positioning, and their strategy and execution in product quality, range and the use of own label. They need to critique themselves ruthlessly across the total value chain, before their weaknesses are exposed by a new generation of competitors (Wileman, 1993, p 9).

US department stores realised that the contemporary retail environment had changed, as former departmental strengths in electrical, toys, sports, and homeware disappeared due to undercutting by mass merchandisers, discount superstores and category killers (see Wileman and Jary, 1997). Department stores had to reposition themselves, reviewing their segmentation strategy and focusing their brand positioning. Typically, as formats mature, retailers need to act quickly and effectively renew their retail concept. Renewal does not mean 'executing the existing concept more effectively, but rather *repositioning the idea* to address shifts in consumer needs' (Burns et al., 1997, p 102, my emphasis). For Sternquist and Byoungho (1999a), department stores had to redefine what it was to

be a department store. This was underlined in the late 1980s, when *Stores Magazine* reclassified the definition of a department store due to the reduction in the product lines the retail format carried (see Bergmann, 1987).

The conventional department store industry moved away from being, what London department store founder William Whiteley referred to as, 'Universal Providers' (cf. Lambert, 1938), and focused on the sale of soft goods – thus increasing merchandise depth in their speciality areas of expertise. This prompted the retreat of department stores from their traditional areas of strength in electrical and home appliances, leading one industry commentator to suggest that 'department stores have become apparel supermarkets. With some exceptions, they have eliminated many of the departments that made them department stores initially' (Carlson, 1991, p 19). Indeed, '(r)egardless of whether a department store is located downtown or in a mall, today's version bears little resemblance to the department store of the 1970s, and it possesses only a passing likeness to the department store of the 1980s. Most notably, the institution has gone determinedly upscale' (McCloud, 1997, p 17-18). For industry journal *Women's Wear Daily*, the sector instead focuses on apparel, currently 'travelling a new path: the road to hipness' (Kletter, 1999).

Department stores had to defend their role as high quality showcases for fashion and home lifestyle producer brands, maintaining their position as the premium distributor of these commodities. Wileman and Jary (1997) suggest there was consequently a dependence on the top quality brands that do not recycle their surplus stock through off-price stores, as a consistent brand reinforcement strategy is central to successful fostering customer loyalty (cf. Keller, 1999). Furthermore, retailers need to be wary of overextending their brand, by effectively endorsing products that were not congruent with their upscale image and reputation (Court et al., 1999). Brand integrity was central to the successful reputation-building department stores were faced with during the 1990s. The pre-eminence of continual promotions and sales is known to harm brand franchise, as customers become wise to retailers' tactics (see Betts and McGoldrick, 1994; Merrilees and Fam, 1999; Yoh and Gaskill, 1999). In addition, there was a need to built brand differentiation *between* department stores. As the commentators suggest,

> By and large these department stores sell a similar range of classic producer brands, all in high service, high quality store environments. There are differences in category coverage and weight, and in service consistency but, as with speciality repertoire retailers, the real key to brand differentiation between them is quality store brand/private label development, complementary to their role as a showcase for producer brands (Wileman and Jary, 1997, p 69).

This is where the conventional department stores could leverage their scale and range of assortment in soft goods, at the expense of the speciality apparel stores (see Barmash, 1994; Hogan, 1994). The strategies that conventional department stores opted for in the light of these challenges has proved as important to the re-emergence of the sector as organisational, financial and portfolio restructuring.

Private Labels, Lifestyles and Retail Space

By and large the major department stores have set about successfully reorienting their customer end operations. Throughout the 1990s, the sector mediated between providing nationally and internationally known branded goods to drive store traffic, and carved out a strategy where they were able to develop their own identity in the marketplace to ensure future customer loyalty. Department store retailers realised it was no longer good enough to provide only nationally recognised branded goods, as, by the mid 1980s, it was evident that '(n)ame brands once exclusive to stores such as Saks Fifth Avenue, Neiman Marcus, and Bloomingdale's now appear in thousands of off price stores around the country' (Kaikati, 1985, p 88).

A central way department stores attempted to retain their upscale image, positioning themselves away from discount and off-price stores, was been through private label development. As Chandler (1995) commented in *Business Week*; '(a)fter the battering in the 1990-92 recession, department stores have refocused on their most defendable niches – upscale apparel and home furnishings. Within those niches, they've differentiated their merchandise and cut prices by aggressively developing private label apparel offerings' (p 4). The department store private label of the 1990s, effectively signalled a divergence away from the common adage of own-brand communicating the stores' low price positioning -commonly the case in retailing (cf. Hughes, 1996; Sparks, 1997), but particularly the case with apparel (cf. Davis, 1990; Moore, 1995) where traditionally the sales of private label has been inversely related to the economic cycle (Quelch and Harding, 1996). There have been a number of motivations for repositioning the concept of the private label.

First, the use of private labels was an obvious way of differentiating the department store retailer from the competition in and outside the department store industry. It was a strategy where the department store "as a power brand" could be leveraged across the merchandise assortment. In effect, the retailer itself becomes the brand, as confidence is invested in the reputation of the retailer,

just as has traditionally been the case with the manufacturer (cf. Court et al., 1997). Paralleling developments in the grocery sector, retailers have 'gradually upgraded their range from the starting point of the traditional lower price/lower quality retailer brand, to the offer of a high quality/value for money retailer brand, often only slightly less expensive than the leading manufacturer brands' (Sparks, 1997, p 157). As Kremer (1991) suggested, department stores' interest in producing private labels had been stimulated by the establishment of owned or franchised retail stores by certain manufacturers with strong consumer recognition such as Ralph Lauren, Laura Ashley and Burberry. These manufacturer-turned-retailers compete with the department stores themselves. Private label thus works as a hedge against brand names too commonly carried by many retailers and is most effective when the department store has a prestigious name (Sternquist and Byoungho, 1999a). Clearly these strategic moves are especially important in the light of manufacturers moving to increasingly by-pass the conventional value chain and sell directly to the consumer (cf. Ghosh, 1998). This has most recently been seen with Ralph Lauren through the Polo.com web site launched in early 2000, which caused department store valuations to fall in recognition of their potential weakness (Salomon Smith Barney, 2000c).

Second, department store private labels can exploit merchandise niches not filled by branded manufacturers. Stores with upscale appeal such as Neiman Marcus and Saks Fifth Avenue found that selling their brand name often carried as much utility as many of the lesser-known designers (Kremer, 1991, p 5). Reinforcing these trends is the fact that the retailer has numerous points of contact with the consumer on which to base a loyal relationship. The ongoing retailer-consumer linkage is cognitive through the store experience, with a number of opportunities to promote brand image through personal communication and good service, whilst manufacturers are left to rely on conventional advertising for promotion (Wileman and Jary, 1997).

Third, a department store private label carries a greater margin than manufacturer branded merchandise. This is extremely important, especially when one considers the recent observation from Deloitte and Touche (1998a) who suggested that the cost of selling goods typically makes up from 70-85% of a retailers' expenses. By selling private label merchandise, the retailer eliminates the cost of the middleman in the distribution system.

Finally, the use of private labels encourages the segmentation of the department stores' customer cohorts. As Kara and Kaynack (1997) have recently suggested, 'it is almost impossible to satisfy all customers in a single market with a single marketing strategy' (p 873) – instead the retailer's goal is

'actionable segmentation' (Forsyth et al., 1999). This results in the department store retailer offering a broad array of private labels *across* lifestyle cohorts - private labels are retail brands focused at specific market segments defined by lifestyle. Just as manufactured brands such as Polo may signify a life in a gentleman's club, so the private label can allow the consumer to buy into the *retailer's* identity. This identity is based on a number of environmental, marketing and promotional attributes, from the quality of the shopping bags on purchase, the ambience communicated through the stores internal configuration, the attitude of the sales people, to the representations of the retailer in the media (Doyle and Broadbridge, 1999; Bloomer and de Ruyter, 1997). This has led Helman and de Chernatony (1999) to suggest that

> For consumers of lifestyle retail brands, the consumption experience is an interactive process that creates value; lifestyle themes shape consumption patterns, the goods acquired undergo the consumption processes of symbolism, embellishment, transformation, and display, and so shape lifestyle (Helman and de Chernatony, 1999, p 56).

Individual product ranges are designed specifically for lifestyle groups and given an appropriate identity in a particular space of the store. For example, Federated Department Stores have the range names INC. International Concepts, Charter Club, Alfani, amongst others, all developed with a strong lifestyle appeal, predominantly featured across the company's stores and catalogues (see **Table 10.1**).

Table 10.1 Federated Private Brands

Brand	Description
Charter Club	- Feminine apparel, intimate apparel, accessories and home furnishing items that appeal to the classic traditional customer; Club Room is classic menswear for the value-conscious man
Club Room	
INC – International Concepts	- A collection of updated, casual fashions for men and women
Alfani	- Updated, contemporary styling for men and women, inspired by the better designer looks
Arnold Palmer	- A collection of golf related apparel
Tools of the Trade	- Quality and value kitchen cutlery and cookware
Badge	- Denim and related sportswear with a unique youthful energy
Style & Co.	- Updated moderate sportswear in casual and comfortable key pieces that mix, match and coordinate

Source: Federated Department Stores (1999d, p 8).

In this manner, the lifestyle appeal is clearly evident across the focused private label range. Harry Frenkel, of Federated Merchandise Group commented on the explicit direction of each of the lifestyle brands:

...one of the keys is gotta know your customer and we spend a lot of time – they have brand concept meetings where we talk about the brands a lot. What are you looking for? Are you looking for the 20 year old? The fifty year old? Conservative? Very fashionable? They spend a lot of time, thinking that through, way ahead of the product cycle because you have got to know who you are looking to when you design it. But yes and we have different...INC – much more fashionable, a different type of person, Charter Club – ladies, which is much more conservative and traditional, Alfani – career wear, for the professional lady to come in and buy the suit. It's very distinctive, that one. And within certain commodities and then sportswear, where we are looking for the 28 year old man to come in and buy his casual sportswear. We have Alfani in men's as well which is much a higher brand and Saville Row which a lower price brand. So we might have within the same customer a higher price – lower price (Interview 10).

Federated created a team of designers for the INC. brand, supported by advertising in leading fashion magazines, on billboards in major metropolitan markets, and in separate promotional mailers. INC. was launched in Spring 1998, whilst Alfani was rolled out to complement the collection which debuted as a Macy private brand in 1986 (Price Waterhouse Coopers, 1999). The ranges are given their own private sections in the store where the identity of the label can be promoted through the strategic configuration of retail space. This can occur in the same way in which manufacturer brands rent their own part of the department store as a concession. Such arrangements allow individual labels to achieve their own exclusivity and uniqueness, increasing store identity and heterogeneity (see McGoldrick, 1987). Eventually, the brand can be extended across a wider range of products, as suggested by analysts at Price Waterhouse Coopers.

Once a brand is well established with target consumers, it often can be leveraged by extending it to other products or customer groups. That is because many brand names have an image that is related not only to the physical qualities of the product, but one that also evokes broader lifestyle connotations (Price Waterhouse Coopers, 1999, p 5).

Department stores promote their reputation as a brand through identification with distinctive product collections. This reinforces a strong fashion position or lifestyle point of view to establish them as a destination retailer. In the past, the emphasis of private label on upper scale customers had been unsuccessful - often they were of an inconsistent quality, timeliness and uniqueness of fashion, but with the concentration on fewer vendors and emphasis on brand management, the private label has been pushed upscale (Crites, 1992; Much, 1997). Indeed, INC can be regarded as an important 'signature label' encompassing ideals of fashion, fit, price, value and quality (see Chain Store Age, 1998a).

It is important to consider that private label department store spaces are designed in accordance with the individual brand identities. In Federated Department Stores this is conceived and managed by the firm's own store planning construction and engineering division (SPACE) who work with the merchants who source the products, to generate this vision (see **Plate 10.1**). Carol Sanger, Vice President of Federated Department Stores, suggests SPACE work with the merchant to capture what the merchants want as the image of the brands and then reflect this in the departments as 'like

Ralph Lauren has these dark woods and very clubby feel to it, and that goes with the image of that brand, INC for us is sleek and lightwood and metallic lettering and very clean' (Interview 3).

Plate 10.1 The Alfani Private Label Department

Source: Goldman Sachs (1999)

The mediation between the design team and the merchants keen to best promote their products can however be complex one, subject to the self-interest of the individuals involved. On the one hand, the merchants want to expand the themed private label area for which they are responsible, whilst the store designers maintain more of an eclectic view of the "whole" project, whether it is a whole store construction or a remodel. As a Senior Store Designer at SPACE commented:

> There are differences of opinion but a lot of time the merchants do not have the big, big picture in mind and the other people do. Do you know what I am saying? They have their corner in mind, maybe that corner isn't that important a business right now....if they had their (way) they'd have the whole half of the floor, but they are not going to get that - maybe because in the other people's mind there are other businesses to go at, at this moment. That is the tough thing. Probably our toughest challenge is the changing nature of this business. What's new today is gone tomorrow! If it always moving and so you try to design something that is basically, fairly stable but has to be flexible (Interview 17).

This is yet another example of individuals having different value asymmetries within the firm that are not always congruent with the strategic goals of the corporation. These personal goals focus on individual career development and progression and are not balanced opinions regarding the optimal merchandise selection and organisation for the retailer (cf. Christensen, 1997; Schoenberger, 1997).

The Private Label Balance

The challenge faced the sector on entering the 1990s was raising the penetration of private label assortments, and thus brand profile, but at the same time, maintaining the credibility of offering big brand names. In the US, Porter (1999) suggests 20% penetration is good, whereas in the UK, 40% own label is considered reasonable (see **Table 10.2**). In particular there remains a niche in the market for female lifestyle private labels - a market considerably more fragmented than menswear, which is supplied with manufacturer brands including Hilfiger, Lauren and Nautica.

Table 10.2 Private Label Penetration By Department Store

Department Store	% Private Label
JC Penney	45
Nordstrom	21
Dillard's	20
May	17
Federated	15
Saks Fifth Avenue	10
Proffitt's	7
Neiman Marcus Group	3

Source: Deloitte and Touche (1998a, p 37) quoting figures from JP Morgan

Although there are obvious benefits with the development of private label assortments, such positive factors have to be set against the increased markdown risk of owning the stock itself. Furthermore, customers require *a mix* of private label and manufacturer brand products so the merchandising balance is all-important.

For Federated Department Stores the balance between private labels and manufacturer brands is a tenuous relationship. As the Vice President of Federated Merchandising Group suggested, consistency in private label assortment is more important than cyclical sales trends:

> I think once again that we will go 15 (per cent), maybe 16 (per cent) and that will be it. And you pick your shots. Some things we are doing zero. So that skews your penetration a little bit. We are not doing cosmetics, I mean we sell a lot of cosmetics so you have all those sales with no PL...(B)ut listen, for me and for FMG (Federated Merchandising Group): private label, there would be nothing better than to sell more and more, but what happens is you overbuy...and then not only do you think you are doing well because you are selling so much, but next year (when it does not sell well because consumers want private label *in conjunction* with major brands)... the market's buying down here now. So you want to get away from those waves and just have one steady line (Interview 10).

Although private labels can be popular additions to the merchandise assortment, manufacturer branded products still drive much store traffic. Private label is clearly regarded as a useful contribution in an appealing merchandise assortment, but must be offered in association with other manufacturers products.

A NEW PARADIGM OF US DEPARTMENT STORE SPACES?

With the increasing recognition of the need to develop the retailer "as a brand" amid conditions of the saturated market and intense competition, there has been an increased focus on the strategies of design and presentation of merchandise and the strategic configuration of internal retail spaces within US department stores more generally. The 1980s saw the continued rise of department store enclosed boutiques, which had originated in the 1970s, from the Bloomingdale's department store (see Traub, 1994). Instead, in the late 1990s this gave way to an 'open-sell' environment, away from the complex environment of confined spaces of boutiques. As such, premier department store designer, Jay Fitzpatrick, commented that in the 1960s, the format was generally conceived as an open plan as 'down one sight line you would see 80,000 square feet and then go to the next floor and you would see the same thing. It was very open plan, just a racetrack plan that went around' (Interview 11). Yet in the early 1970s 'it started to get into worlds, where then they started to decide that it is all too homogenous and we have got to have a world for men. We have to have a world for women. We have to have a world for kids. Then they started to have worlds but still very open space'. Then, in the 1980s, Fitzpatrick acknowledges that department store retailers such as Bloomingdale's 'wanted to see more boutiques and more smaller spaces, so inside the worlds, we started to carve out smaller boutique spaces so not only did we do a men's world, we started to do sportswear, furnishings, Ralph Lauren, Active – started carving up more space so they became much more boutiquey' (Interview 11).

In contrast to the smaller department store space trend of the 1980s, the late 1990s conceptions of department store spatial reorganisation have re-emphasised the role of clear sight lines, where consumers entering the store can instantaneously locate departments. This is in response to customer preferences that suggest the department store's spatial configuration made the format seem too confusing and disorienting for time constrained shoppers (see Morganosky and Crude, 2000), replacing the previous configuration where the consumer was encouraged to investigate niches within the 'cathedral of consumption'.

It is no coincidence that the retail formats of discounter and speciality store that have prospered in the 1990s, have offered an open plan configuration. Rousey and Morganosky (1996) suggested that 61% of consumers believed that other types of stores were easier to shop than department stores. In contrast to the conventional department store poor store configuration, discount department

store, Target, for example, has dramatically improved the retail environment for the time stressed consumer. As Craig Childress, Prototype Design Director, at consultancy firm, *Envirosell* suggested 'they (Target) understand this whole concept of making it easier to shop. Like when you ....(go into it) you will see that Target has some of the best entrance sight lines of any mass market or large store in the business. The reason why they can do this is because their fixturing starts out low at about three feet and slowly builds up until it is on the back walls and almost on the top of the wall. What that does is....you can actually see where you want to go (Interview 5).

This contrasts with the conventional department stores, as explained by another design specialist:

> Pretty soon when you walked through the front door in the '80s, you were in the cosmetic department, you couldn't see the juniors and you couldn't see men's, you had to walk out of that world and go into another world. It became very, very confusing and very expensive to build and no sight lines. But that was through the '70s and the '80s. Towards the mid '80s, discounter were coming in, Target was just starting and I was just preponderant of opening up the stores, getting rid of the walls, so I started designing stores open (Interview 11).

Despite the recent tendency for department stores to reorganise their spatial arrangement toward clear sight lines, some department stores such as Sears remain poorly configured:

> Almost all of their stores are two floor and have an escalator that is on the middle of the floor, so your sight lines are always going to be hindered by the escalator, no matter what you do....I think that is the whole problem of things this size; it is just that people get lost and confused from the beginning (Interview 5)

In particular, the movement toward generating clearer sight lines and a less confusing spatial manipulation makes economic sense from a retail design perspective. In essence, the emphasis appears to have moved away from opulence toward practicality:

> Cost has also had a lot to do with that, when you build the boutiquey stores like Bloomingdale's and what you were talking about, with rooms and shapes and heavy Ralph Lauren shops and heavy Tommy Hilfiger shops and all this boutiquey stuff, it cost three times more than it costs to build what I am designing now because they are very open. I don't want to spend a lot of money on a store. I want to build store with less money. I want to build stores that are easy to shop (Interview 11).

Conventional department stores have not only reverted to simplifying their spatial organisation through clear sight lines, they have also started to simplify the act of shopping itself. Gradually, the retailers are removing the formalised nature of customer service toward adopting an open sell environment, where merchandise is in close proximity to the consumer, effectively within reach of the potential purchaser.

Toward "Open Sell" Retail Spaces

Perhaps the best example of the open sell environment permeating the United States has been the advent of the rapidly globalising Paris based specialist cosmetic and perfumery, Sephora, which has opened stores in a few chosen urban centres. This open sell environment is revolutionary in removing the counter between the sales consultant and the customer (see **Plate 10.2**). Instead the customer is encouraged to pick up and examine the products. Sephora's expansion was rapid. Wilson (2000) comments, 'it is the way brands are displayed that makes Sephora so unique. Disproving the long-held notion that prestige products should be kept under glass, Sephora puts everything on open display. There are no counters or showcases – everything is accessible to customers. Fragrance brands are displayed alphabetically. Sephora's "assisted self-service" has struck a responsive note with consumers. That fact has not escaped department stores, which have been rushing to play catch up' (p 53).

Plate 10.2 The Sephora Open Sell Format

Source: Goldman Sachs (1999)

Indeed, the assisted service element is equally pivotal to the success of the retailer. As one designer suggested, when assistance is required it should be offered, but it should not be "in the face" of the customer:

> Assisted service or open sell or whatever you want to call it has been around for a long time. I think that they are on to a trend. At the same time, when I shop I don't want anyone helping me but when I have a question about something, which usually happens on my timescale and not theirs, I go to look for someone and there is never a anybody there and I get very frustrated and I will walk out and they will lose a sale. So I think that, I don't want to be bothered, but I want someone there when I'm ready (Interview 11).

Clearly, the balance between service and customer freedom is a dialectic tackled by the department store industry over many decades and is subject to the changing consumer demands over time (see for example Benson, 1986 on the 19th Century service ethic in US department stores).

Sight Lines and the Open Plan Department Store

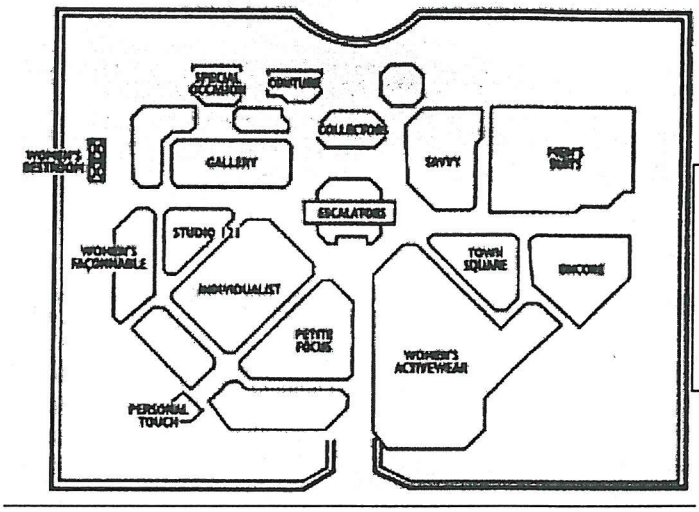
There is considerable evidence that spatially restructuring the store to conform to this 'open sell' notion has become a high priority for the major department store retailers. As McLachlan (1998) suggested, 'department stores at both ends of the luxury goods spectrum are having to replace that treasured old "may I be of service" encounter with a more "help yourself" approach. Increasingly, "open sell" is the name of the game'. Even department store Annual Reports have attested to this. May Department Stores for example, began testing various open sell environments in 1998, eliminating the glass counter between customers and the merchandise to promote exchange between customers and sales associates. The firm suggested that '(t)he new open, assisted sell formats are proving very popular with younger customers, as are strong, impactful presentations of key merchandising ideas and designer brands that energize the selling environment in our stores' (May Department Store Company, 1999, p 10).

Similarly, Federated are adopting the open plan strategy, which contrasts with the rapid construction of "boutique worlds" introduced by Bloomingdale's during the 1970s and 1980s. Instead, the firm argue that 'this new design approach is our belief that a customer should be able to recognize immediately those lines and items that represent the current fashion trends and most-wanted merchandise' (Federated Department Stores, 1999b, p 10). Consequently, Federated argue that 'sight lines across departments will be clearer so the customer can easily find merchandise of interest' (ibid., p 10). In doing this, department stores are reducing the percentage of manufacturer branded products and increasingly emphasising their own private labels. Marshall Fields/Dayton Hudson has recently announced that it is suspending construction of new designer boutiques in all of its 64 stores and announcing plans to eliminate name boutiques entirely over the next six to eight years (see Quick, 2000c).

These open sell environments are producing department store configurations much more amenable to the time starved consumer. The problem, as suggested by John Fleming, senior vice president of merchandising for Target Corp.'s department store group, was that boutiques "have just taken over the whole store. It's like being in a city with no zoning laws" (see Quick, 2000c, p A1). As Butler

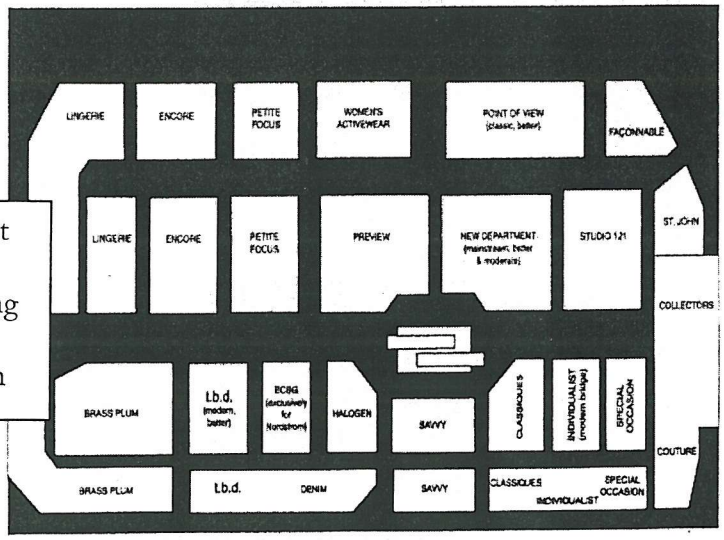
(1999) acknowledges, space in tomorrows department store open sell scheme 'is not defined by walls like the traditional department stores, and wherever you stand you can see the entire store'. These improved sight lines are gradually being seen across all of the major department store groups. Nordstrom, the Seattle based speciality department store operator, have recently unveiled their new store design. This clearly displays this new trend toward more simplistic spatial negotiation (see **Figures 10.1 and 10.2**).

Figure 10.1 Nordstrom Second Floor- Old Layout



No clear sight lines – a confused and muddled configuration

Figure 10.2 Nordstrom Second Floor- New Layout



Clear sight lines encouraging easy navigation

Source: Merrill Lynch (2000b, pp 10-11)

Improving sight lines and producing a more easily navigable department store interior is proving somewhat easier for the luxury or speciality department store retailers who make a higher rate of profit on each product. These upscale department stores do not rely on sheer sales scale and rapid

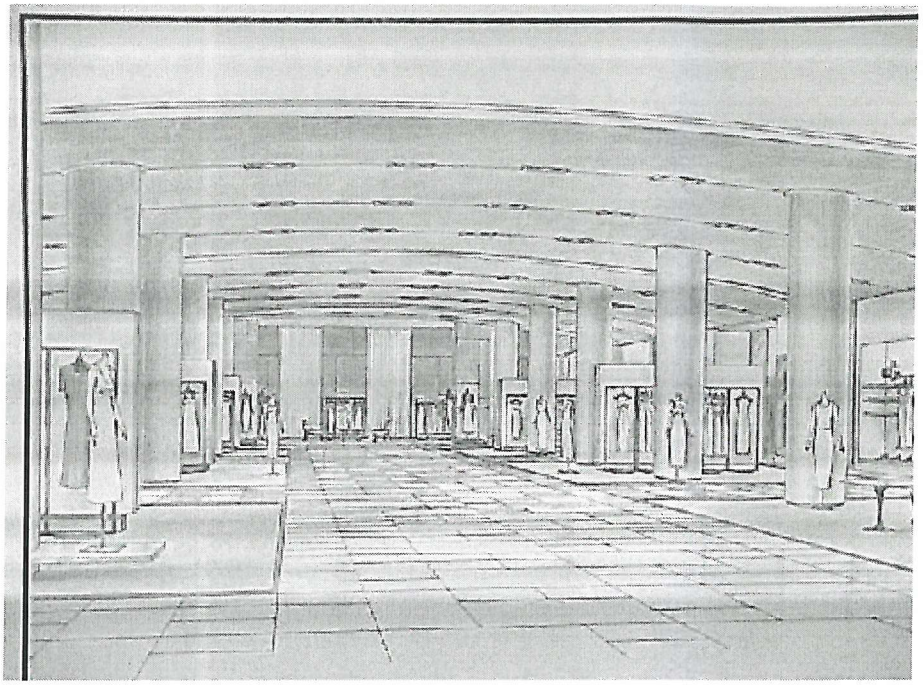
rates of turnover and thus do not require a compressed floorplan. Saks Fifth Avenue are traditionally an uncluttered retailer, but are clearly aggressively moving to embrace this style of uncluttered spatial organisation. Recent architectural designs from future store plans, revealed at a recent analyst meeting, are impressive evocations of this strategy (see Plates 10.3a – 10.3c).

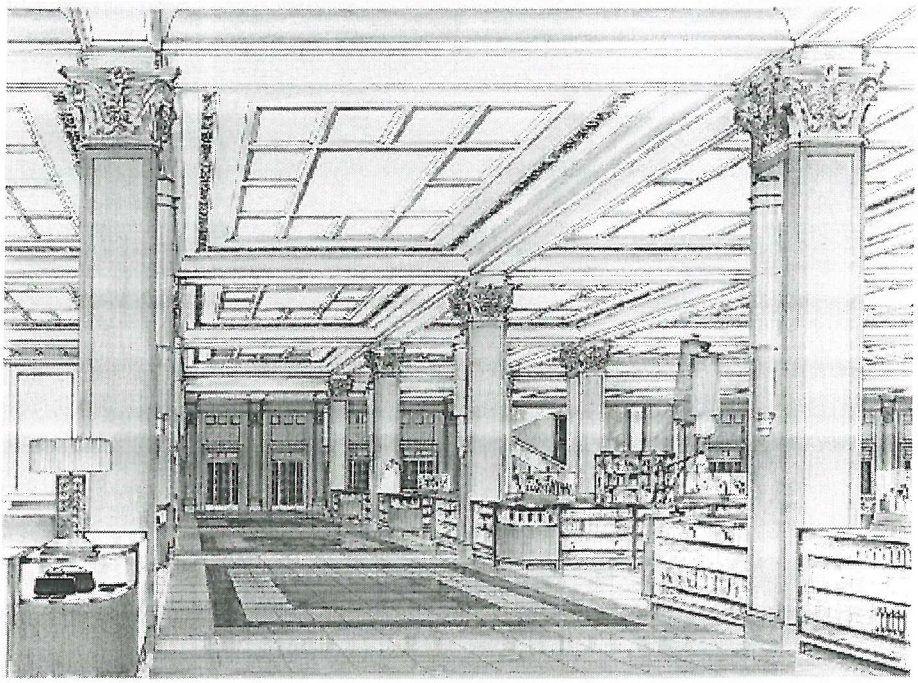
Plates 10.3a Recent Improved Sight Line Spatial Design at Saks Fifth Avenue

SAKS FIFTH AVENUE

Source: Sell Side Equity Analysts Presentation, 15 September 2000, images courtesy of Saks Incorporated

Plates 10.3b and 10.3c Plans for the New York Flagship Refit at Saks Fifth Avenue





Source: Sell Side Equity Analysts Presentation, 15 September 2000, images courtesy of Saks Incorporated

Reintroducing "fun" to the Department Store

Much of the recent literature on new consumption spaces in retail geography has underlined the tendency towards blending retail with leisure activities, primarily to establish the retailer as a destination and increase customer dwell time, producing what Chaney (1990) referred to as 'an iconography of entertainment' (p 52; see also Goss, 1993; 1999; Shields, 1989; 1992). From this perspective the individual retail store, and more broadly the mall, is broadly reconfigured to provide a more enjoyable retail experience, and to project an image in keeping with the target clientele (cf. Martineau, 1958). Indeed, more widely, Pine and Gilmore (1999) comment that there has been the emergence of the 'experience economy', where 'companies must realize that they make memories, not goods, and create the stage for generating economic value' (p 100, see also Pine et al., 1995).

This sense of excitement has been conspicuously lacking from conventional department store spaces since the mid-1970s. The 1980s especially brought failed financial restructuring, which was followed by an era of strict analysis of operating margins and cost structures through the process of organisational restructuring of the sector. To a certain extent, this has contributed to the 'dumbing down' of the department store experience. As a senior industry source suggested:

> All the managers that started to run these stores in the 1980s were all MBA type people and weren't the merchants and the control went from the merchants to the business people and they started running a business. The department stores suffered and I think more bottom line, more ready to wear and then the ready to wear business just went to pot (Interview 11).

This contrasts with the retail format of the 1960s, where the whole of the 200,000 sq ft flagship department stores were annually transformed to a theme from a faraway land, whether it be Oriental, French or Italian displays (see Marcus, 1975; Traub, 1994). In contrast, where department stores were less exciting in the 1990s, speciality stores such as Old Navy, The Limited and Gap saw their internal spaces as key attributes to their success. In particular, teenagers were attracted by the 'industrial chic' appeal if the Old Navy Store, which possessed concrete partitions, pumping music, bright lights and electronic message boards. An editorial in *Display and Design Ideas* in 1999 evoked this problem for the out of touch department stores:

> It seemed as if department stores slept through the 1990s, ignoring many vital retail trends. For example, as the new youth wave hit (beginning about six years ago), a whole range of new stores came into being...Most department stores failed to acknowledge the trend, continuing to look to their outdated "junior" areas to solve the problem (Display and Design Ideas, 1999)

In the last five years conventional department stores have started to respond to these pressures by reintroducing entertainment and 'fun' to the retail environment. As one retail design consultant suggested:

> I would argue that … department stores are going a little toward entertainment, more of a place; "hey this is where you can come and spend a few hours, this is where your kids can play games and be entertained and where you can be entertained". There is going to be a lot more physically happening at the department store. Anything they can do to make shopping more fun certainly adds to that (Interview 5).

There are many recent projects that evoke this new trend. Macy's has aggressively pursued these new directions. Firstly, in August 1999, the Federated department store chain unveiled its *Macy Sport* department at its Union Square flagship store, in the process taking considerable steps to changing consumer perceptions of department store sportswear areas. There are a number of distinctive features of interest. The format made a considerable departure from previous active-wear departments. A three-storey vertical billboard marked the 34th Street entrance to the 15,000 square foot department and a barrier on the billboard highlighted a different Macy Sport vendor each week. The space was configured to be elliptical, creating a more free-flowing environment, which encouraged consumer circulation. Lighting features complemented this shape, as a series of custom lights were presented in an elliptical configuration and used to highlight graphics (see **Plate 10.4**).

Plate 10.4 The Macy Sport Department at Union Square, New York

Source: Pennington, T. (1999)

Each sport had its own area of the department and graphics depicting athletes participating in the sport. Way finding signs were of sports imagery, rather than conventional letters. In common with

the speciality store, Old Navy, Macy Sport offered a flooring pattern of Asbestolith, a material designed to resemble concrete but has full custom colour and is crack resistant (see Pennington, 1999).

The second of Macy's groundbreaking projects has been their newly revitalised junior department entitled THISISIT (pronounced 'this is it') that has been unveiled in three locations in California in 2000. This department is configured to appeal to the teenage shopper, and includes internet kiosks, lounge areas with games and a DJ booth with sophisticated sound equipment, and a changeable LED message screen. Video screen promote the latest music videos and the 3 lounge areas are set off the main area with large metal canopies covered with coloured lumisite coverings and giant plasma walls (see Chain Store Age, 2000a; see **Plate 10.5**). As Nadine King of Federated's SPACE department which designed the format suggested now the retailer is more successfully responding to the consumer by reorientating the geography of store spaces:

> Right now we have a lot of new initiatives called reinvent they are basically reinventing parts of the business like juniors or kids for example. Kids, we think, the newer kids are much hipper. This generation, they don't want little cutesy kids department, they want it to be like, they actually want to shop in the Junior's department so we are actually moving toward that – to combine the business of kids and juniors, into a bigger concept and then we'll still have the baby world because grandma still has to shop there (Interview 17).

Macy's are not the only department store to successfully respond in this way. All of the other major competitors are producing similar store configurations. Elder Beerman, the Midwest and Pennsylvanian department store has produced a new junior department called 'The Zone', for example, with similar features (Chain Store Age, 2000b). Nordstrom has recently introduced departments with merchandise 'displayed in metal racks and cabinets giving the area a contemporary, hip feel, along with modern, funky furniture and light fixtures. Techno/hop music is also played throughout these department' (Merrill Lynch, 2000b, p 7). Early results from these revitalised departments are encouraging. By mid 2000, instead of 10-15% sales growth in typical juniors' departments, the new formats were generating 25-30% sales increases (Goldman, 2000).

This thesis does not argue that all department store spaces are turning into teenage friendly discothèque environment. Instead, it makes clear that these retailers are more effectively segmenting their space, between different customer types and producing an environment in which these individual groups are more likely to buy. In the process, this represents a balancing act as trendier items preferred by younger customers need to be offered in a youthful setting, whilst traditional brands remain in demand by the traditional middle aged department store consumer.

Plate 10.5 The Macy's THISISIT Junior Department

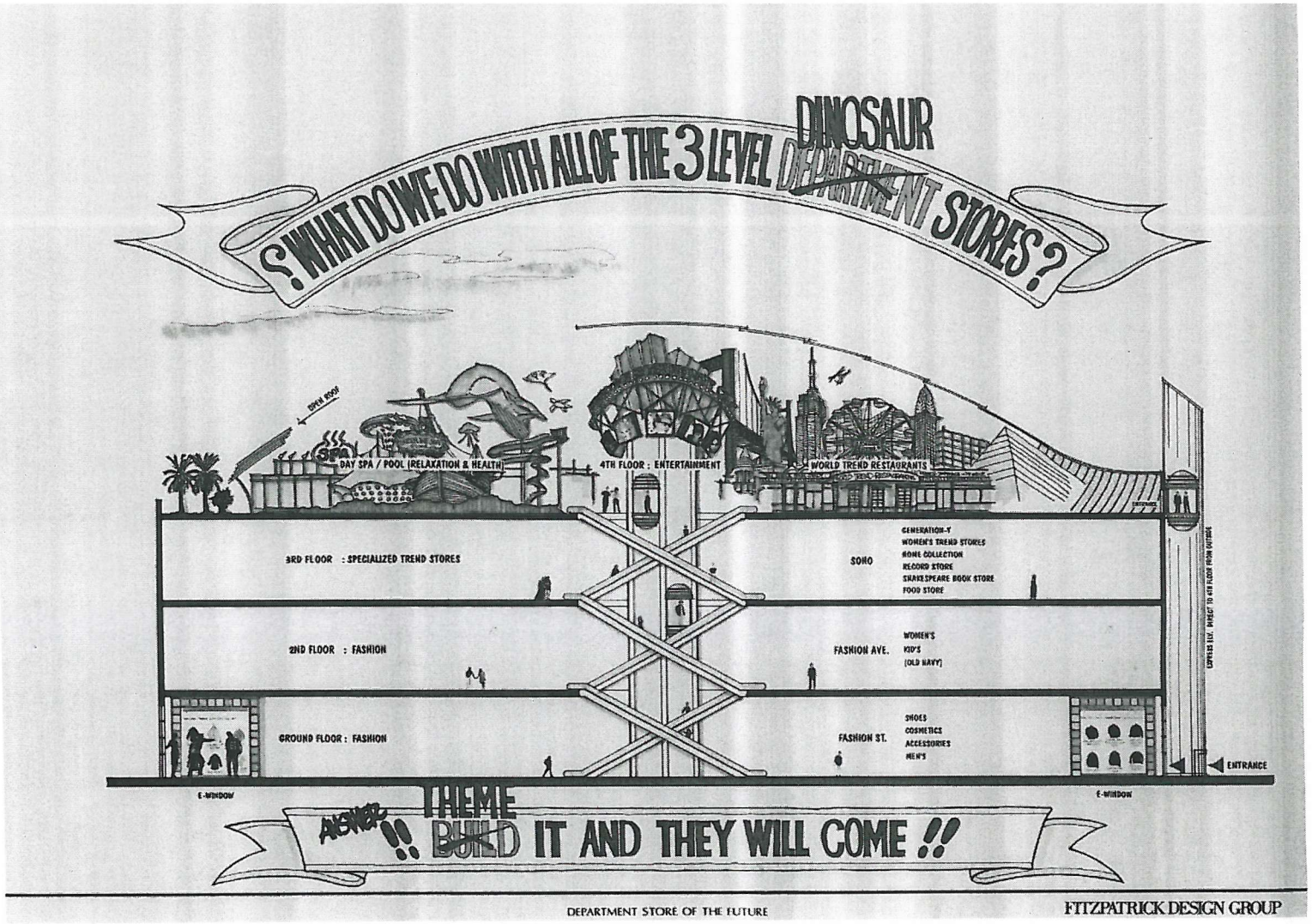
Source: Federated Department Stores (2000)

IMPLICATIONS FOR FUTURE RESEARCH

The recent innovations of department store format and visual design have underlined the importance of the complex geographies of these spaces. First, each department is going to have to gradually focus on the specific lifestyle of the clientele if the ageing format is successfully going to compete with speciality stores that only have to configure their store environments to one consumer segment. Second, the department store is gradually being restructured to provide an easier shopping experience where the time starved consumer can more easily find what s/he wants quickly and effectively. These pressures have contributed to catalysing an 'open sell' shopping environment, with improved sight lines throughout the store. Third, the store is becoming a more leisured and entertaining space than it was during the turbulent 1980s and rebuilding period of the 1990s. Put simply, the department store has got to regain the excitement and festival that it promoted in the early to mid- part of the 20th Century (see **Plate 10.6**).

Retail geographers have been surprisingly silent about the importance of the geographies of the store interiors. The visual design and restructuring of these geographies must be regarded as pivotal to the success of retail operations - as essential as store location, retail labour policies and distribution technologies – themes that have made up so much of recent retail geography. As Porter (1999) recently suggested, these issues remain fundamental as '(w)hile no one format is ever likely to dominate the department store sector, providing that thrill, in one form or another, is going to be the challenge that takes the successful operators into the next phase of their development' (p 131). As such, the store 'experience' is of fundamental importance, as by 'exposing the consumer to as many commodities as possible, the chances are increased that consumers will spend more of the limited funds available to them in any given store at one time, as opposed to in a competitor's store or at a later date' (Ducatel and Blomley, 1990, p 223). It is clear that more attention should be paid to these richly spatial issues that are all too often neglected.

Plate 10.6 The Need to Reconfigure Department Store Spaces



Chapter Eleven

E-Commerce, New Business Models and Spatial Implications

'The new economy represents a tectonic upheaval in our common wealth, a far more turbulent reordering than mere digital hardware has produced. The new economic order has its own distinct opportunities and pitfalls. If past economic transformations are any guide, those who play by the new rules will prosper, while those who ignore them will not. We have seen only the beginnings of the anxiety, loss, excitement, and gains that many people will experience as our world shifts to a new highly technical planetary economy'

Kelly, K. (1998) *New Rules for the New Economy*, Viking, New York, p 1

INTRODUCTION

Over the past decade, the economies of the developed world are widely recognised to have become networked and integrated through the strategic use of technology (cf. Castells, 1996), producing, what is now regarded, as the onset of the "new economy" (Kelly, 1998). This new business environment is driven by knowledge and expertise and less by the physical world of raw materials. Indeed, this has been evident in Chapter 9, when examining the organisational restructuring of the US department store sector. Underpinned by these networked technologies, economies have gradually become more globalised in perspective, rather than inward looking toward the region and the nation state (cf. Yeung, 1998). As Thrift (1996) suggests, this has widely raised questions about the importance of geography, in a world where deals can be transmitted across continents in the passing of a fraction of a second. Indeed, economists have, in recent times, taken an extremely aspatial perspective in outlining a thesis of a 'weightless world' (see Cameron, 1998; Coyle, 1998; Quah, 1996; 1997; 1998; 1999; 2000). From this standpoint, value is located more in the virtual rather than physical world – 'where economic value is embedded in logical units – bits and bytes of memory (possibly computer, possibly biological, possibly chemical). The distinction to be made here is against the opposite extreme, that historical one where economic value manifests in concrete, physical, and material form' (Quah, 1996, p 1). As a direct result, it is suggested that the task for the modern corporation is to 'evolve into a knowledge-generating, knowledge-integrating and knowledge-protecting organisation' (Teece, 2000, p 42).

The best example of these changes in the nature of the operation of the economy is evident in investigating the disembodied, weightless, world of the Internet, 'because the supply of

knowledge-products is bounded neither by geographical location nor by increasing marginal cost, their natural marketplace is immediately global' (Quah, 1999, p 12). Strangely, although visualized as a spaceless experience, the Internet is represented through spatial terms and metaphors (Graham, 1998). For some commentators the implications of the Internet are devastating, as 'knowledge and information are in the process of replacing labour and capital as the central variables of the western economy: the processes of production, consumption and management are becoming increasingly reliant on knowledge generation, information exchanges and information handling. Cyberspatial technologies are seen as fundamental "agents of change" in the restructuring of the economic landscape with some commentators suggesting that the telematic infrastructure currently being created will be as important for today's economy as the railways were for the age of industrialization, and automobiles in the postwar boom' (Kitchin, 1998, p 388). What is evidently lacking however are ground level case studies investigating how firms are reacting to these supposed changes - What are the organisational responses? How is information being handled? What are the implications for physical space? These questions can only be answered through investigation of corporate restructuring in response to these threats and opportunities[53].

Contributions such as Quah's from the discipline of economics have so far generated little response in economic geography. As Pratt (2000) recently commented, this is strange because they have considerable implications for the manner in which space is conceived in the social sciences. This chapter seeks to examine these claims regarding the supposed "new rules of the new economy" by investigating the adoption of e-commerce by US department stores through the late 1990s. Its findings support the conclusions of Pratt (2000), who finds that the "weightless economy" perspective developed by economists underemphasizes the importance of place and situation in an evolving organisational structure, while the grounding of expertise in specific locales is essential to produce successful organisational responses. In short, few industries are purely weightless, but are instead embedded within locales, peoples and knowledges - weightless products still need to be created and workers that administer these services have to be situated somewhere in space.

First, the chapter argues that there is a need to manage e-commerce as a separate operation to conventional store based operations, representing, what Christensen (1997) views, as a 'disruptive technology'. Second, the findings concur with much recent literature that suggests

[53] In a similar manner, Rob Kitchin questions: 'To what extent is cyberspace leading to patterns of centralization and decentralization of certain corporate divisions? What is the spatial manifestation of this restructuring? Is cyberspace, and telematic communications in particular, leading to the dematerialization and dissolution of the city? Are electronic spaces really replacing urban spaces, or is there a symbolic relationship between the two?

there are specific routes to value creation in the virtual world which remain fundamentally different from that in the physical world of bricks and mortar. In this manner, there has been a requirement of conventional department store retailers to embark on new portfolio restructuring strategies to "buy in" expertise to support the fledgling initiatives. This is not unusual in the new economy, as Kelly argues: 'Established firms are now doing what they should be doing: weaving dozens, if not hundreds, of alliances and partnerships; seeking out as many networks of affiliation and common cause as possible, sharing the risk by making a web' (Kelly, 1998, p 92). Finally, the implications of virtual retailing for the considerable costs sunk in physical department store sites are assessed. Here the hype surrounding the weightless economy is considerably overemphasised as '(t)he old economies will continue to operate profitably within the deep cortex of the new economy' (Kelly, 1998, p 7).

This chapter clearly goes beyond the current hype and hysteria surrounding the coming of the spaceless, knowledge-driven, networked economy to offer some findings from retailers through the medium of organisational change and merger and acquisition in adapting to these new conditions. Geography is evidently not melting away into, what Castell's (1989) labels, a 'space of flows', but instead, the new economy signals a gradual adaptation over time, challenging retailers to handle new types of knowledge and relationships across physical and virtual space as the organisational structure of the firm is grounded in multiple delivery channels.

THE EMERGENCE OF INTERNET RETAILING

Throughout the developed Western world, the future of retailing has been fundamentally reassessed in the light of the potential of Internet commerce – representing, to many, a 'paradigm shift' in retailing (Dawson, 2000). Variations of this direct form of marketing have been hypothesised continually throughout the late 20th century (see Doody and Davidson, 1967; Bogart, 1973; Rosenberg and Hirschman, 1980) although this is only now showing any sign of becoming a reality.

US Department stores have historically been slow to capitalise on advances in technology but the 1990s heralded a period of rapid technological adoption by the sector, principally seen in the reorganisation of the distribution system, constructing a networked supply chain, linking the retailer, vendor and factory (see Abernathy et al., 1999 and Chapter 9). By the mid-late 1990s however, the possibilities of a new method of distribution became evident via the use of the

---

How will cyberspace affect our spatial behaviour and the social aspects of the city? Will we see radical changes in shopping patterns?' (Kitchin, 1998, p 399).

emergent Internet or World Wide Web interface, which was forecast to have considerable growth potential (see **Table 11.1**).[54]

Table 11.1 Projections of US Online Purchasers

Year	US On-Line Purchases	% Penetration of On-Line Users
1998	8.7 million	30.4%
1999	13.1 million	39.1%
2000	17.7 million	46.2%
2001	23.1 million	53.1%
2002	30.3 million	62.4%
2003	40.3 million	76.3%

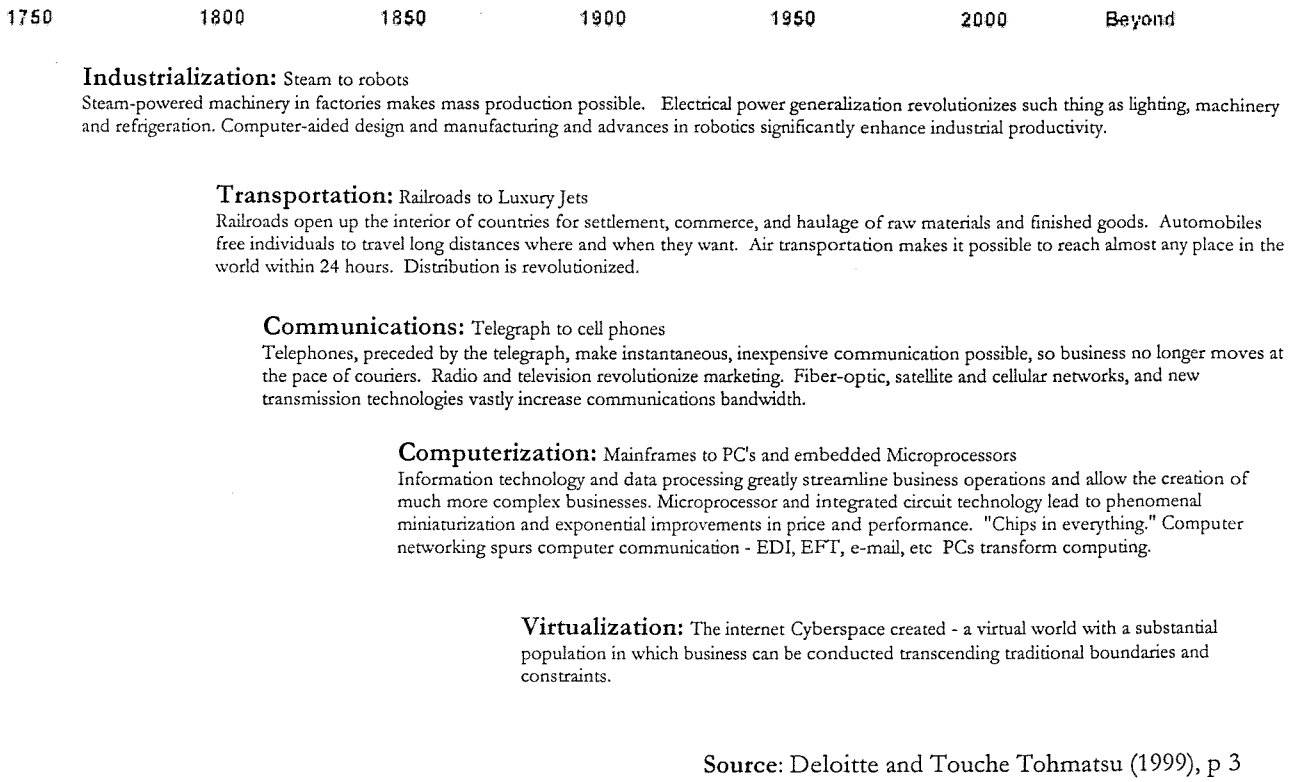
Source: Forrester Research. Cited in Merrill Lynch (1999d, p 4)

The promise offered by the Internet, and technological networks in general, are often viewed as representing a radical departure from the previous operation of the global economy, sometimes characterised as another wave of industrial innovation or Kondratieff Wave, heralding a new era of competition (cf. Tapscott and Caston, 1993). Research consultants Deloitte and Touche (1999) suggest it is indicative of a period of 'virtualization', after the lengthy period of 'computerization' preceding it – where traditional boundaries of space are overcome through a greater networked and interlinked economy and society (see, on reflection, the work of Castells, 1996; see **Figure 11.1**). In its early stages, Benedikt (1991) viewed the medium as 'a new universe, a parallel universe...created and sustained by the world's computers and communication lines' (p 1). However, as Venkatesh (1998) has wisely acknowledged, there is considerable difference between *marketing potential* of the new economy and any such *value realisation*. As Kelly (1998) recently suggested, the microchip is of little use if employed independently, but '(w)hen we take the dumb chip in each register in a store and link them into a swarm, we have something more than dumb. We have real-time buying patterns that can manage inventory' (Kelly, 1998, p 12). It is consequently up to businesses to harness the opportunities of the new medium and realise the added value from the new conditions. This is well recognised to be increasingly difficult. As UK management guru Charles Handy (1995) has suggested, it is increasingly difficult to prescribe answers to change, which is now rather discontinuous, no longer a linear projection of past trends into the future. With this new economy, past success has minimal relevance as conditions are changing rapidly. Amid this uncertain environment, it is forecast to be especially important that the brand equity of the firm is protected, as custom is likely to be built on these knowleges if the disembedding of economic systems occurs with veracity - '(m)anaging knowledge assets and other intangibles (e.g. brands) is the key to building competitive advantage. The manner in which one can successfully manage

[54] Interestingly, Internet retailing emerged in a very similar manner as predicted as far back as the late 1960s (see Doody and Davidson, 1967).

each of the identifiable components of knowledge management – creation and building, transfer, protection, use – will be different' (Teece, 2000, p 44).

Figure 11.1 Technological Shaping Forces 1750-2000: Industrialization to Virtualization.



Source: Deloitte and Touche Tohmatsu (1999), p 3

DEPARTMENT STORES, ELECTRONIC COMMERCE AND PORTFOLIO RESTRUCTURING

The US department stores initially took an extremely apprehensive approach to e-commerce through the construction of web sites as customer service hubs, rather than actual direct sales generating vehicles (Morganosky, 1997b). In recent years, more favourable investor and analyst reactions have been forthcoming, as they were prepared for retailers to inject capital into these untested initiatives. By the end of September 2000, there was a web presence by all of the major department store retailers, with an ever-expanding number of sales based facilities (see **Appendix III**). It is important to understand the different strategic approaches that have led to this e-commerce explosion, and the changes in the organisational structure of the firm associated with doing so.

The dilemma for large department store operators was how to approach and experiment with the opportunities offered with largely untested Internet commerce. In many respects the retail format was inexperienced and under-qualified to proceed. E-commerce, in essence, represented

a radical departure from store-based portfolio strategies of value creation. Many of the retailers had developed catalogue operations throughout the 1980s, although these were technologically deficient in the face of the epochal turn presented by the "new" economy. As Ernst and Young (1999) suggest, the cost of setting up and integrating online retailing with the existing business, and the lack of direct to consumer fulfilment and distribution infrastructures are seen as barriers to adoption of the medium by store based retailers. Conversely however, there were considerable opportunities for store-based retailers to enter virtual retailing as they had 'warehouse infrastructures, supply-chain and inventory systems, distribution, customer-support centres, and product-return networks already in place, and could seek to leverage those strengths by adding e-commerce operations to their existing businesses' (Wrigley, 2000b). This is in contrast to pure-play e-tailers who had to develop much of this infrastructure from scratch and thus struggled to make profits. It was consequently an important decision as to whether department stores should approach e-commerce independently or whether they should partner or acquire specialist firms in the sector.

The Acquisition or Internal Development Decision

The consequence of conventional department store's lack of experience was that they acquired the knowledge offered by current e-commerce retailers to complement the value inherent in *their* merchandising knowledge and brand equity. The philosophical underpinning for this decision to acquire is clear. As Yip (1982) acknowledged nearly two decades ago, if a firm is internally developed, and in the same market as its parent, then the costs of start up are reduced due to reduced barriers to entry. However, this was not the case for the department stores as they were essentially tackling a different market. In such cases, Yip made the argument for acquisition, as market relatedness does not affect the costs of entry via acquisition since the market for corporate control sets the price. He consequently concluded that firms tend to enter related businesses by internal development, while entering unrelated ones by acquisition. More recently, Chatterjee (1990) has developed this argument concluding that whereas a related acquisition is more likely to involve the purchase of unwanted assets (since such acquisitions entail the purchase of redundant resources that come with the acquired business unit), acquisition entry in unrelated markets reduces the possibility of acquiring unwanted assets (see Chang and Singh, 1999).

The rationale for acquiring, or partnering, with an e-commerce specialist was therefore clear, as suggested by a leading retail analyst:

I think it's essential you partner with someone who has the technological know-how and the expertise on the Internet. What retailers know is how to merchandise and open stores, they are not usually technologically savvy people so I think you have to make sure you have the right partner whether its Yahoo for Kmart or AOL for Wal Mart you want to go with people who have proven themselves on the Internet....Developing it on your own, with no outside help is a dangerous path to take because you are closing yourself off to some of the outside ideas that I think make the Internet an exciting medium (Jeff Stinson of MidWest Research[55]).

There are basically two approaches conventional US department store firms pursued with respect to increasing their e-commerce expertise. First, the majority of firms established "partnerships", making strategic investments in Internet "pure players" – virtual retailers with no physical store sites. This is the more common, conservative strategy, as it is clear that 'empires are (often) too expensive and too risky. It is cheaper and safer to expand one's scope by a series of alliances and ventures' (Handy, 1996, p 39). The second, and more adventurous strategy has been to acquire catalogue or Internet firms which also possesses many of the necessary characteristics for direct marketing success (see **Table 11.2**). It is clearly interesting to briefly analyse these differing approaches.

Table 11.2 Department Store Strategic Investments to Support Direct-to-Consumer Initiatives

Date	Department Store	Direct Marketer	Comments
April 1998	Dayton Hudson (now Target Corp.)	Rivertown Trading	Purchases the catalogue retailer
October 1998	Nordstrom	Streamline	$22.8 million strategic investment
February 1999	Federated	Fingerhut	Acquisition of the direct marketing specialist for $1.7 billion
May 1999	Federated	The Wedding Channel	Acquires a 20% equity stake in the bridal registry e-commerce operation
July 2000	May	David's Bridal Inc.	Acquisition for $436 million – store based retailer but provides merchandise for e-commerce operation

Source: various industry literature and analyst reports

Whereas certain US e-commerce based food retailers (e.g. Peapod) were acquired as a response to regulatory tightening stalling horizontal consolidation opportunities (Wrigley, 2000c), the US department store industry's recent portfolio restructuring has been directed at increasing their expertise in e-commerce and direct marketing and is not knee-jerk reactions to changes in regulatory enforcement.

In the latter years of the 20th Century, US department store firms have, to differing extents, started to embrace e-commerce direct-to-consumer opportunities. Federated Department Stores has been at the forefront of these changes, initially constructing macys.com as an informational site as early as 1996 and later that year as a test site for selling (Chain Store Age, 1998b). This culminated in an announcement in June 1998 that the retailer was establishing the operation as a

[55] Quoted in a conference call online at www.wallstreetradio.com, on 14:00 EST, 7 January 2000.

separate subsidiary, in the process, increasing the macys.com offering to over 250,000 SKUs (Federated Press Release, 26 June 1998).

The tendency to "buy-in" expertise to support department store e-commerce expansion has been common throughout the sector. In an aggressive move, Federated Department Stores acquired the direct sales organisation, Fingerhut Companies Inc. for approximately $1.7 billion (including net debt of Fingerhut) in February 1999 (Federated Department Stores Press Release, 11 February 1999). Later, in May 1999, Federated purchased a 20% equity stake in Wedding Channel, a pure-player e-commerce firm offering an online wedding gift registry. The deal allowed the department store to be the exclusive supplier for Wedding Channel's site that received a percentage of sales, and exposure to 400,000 of Federated registered brides. Similarly, the Federated site benefited from the link to wedding related products. The integration of a bricks and mortar and Internet retailer thus provided synergies for both parties (Merrill Lynch, 2000c).

The strategy of purchasing or acquiring an equity stake in an e-commerce specialist has been reflected elsewhere in the department store industry. Target (formally Dayton Hudson) purchased the direct marketer Rivertown Trading in April 1998 whilst speciality department store operator, Nordstrom, made a strategic investment in the pure-player Streamline in 1998 – injecting $22.8 million in the grocery delivery specialist. A press release at the time suggested '(t)he investment reflects Nordstrom's interest in exploring and learning about the rapid expansion of electronic commerce and its confidence in Streamline as a leading consumer direct services provider' (Nordstrom Press Release, October 8, 1998). Significantly, Nordstrom spread risk in their subsequent investments by injecting only $10 million in the site, nordstromshoes.com, with venture capital firms contributing a further $16 million (Wells, 1999b).

May Department Stores were the slowest to seriously pursue e-commerce opportunities, waiting until mid 2000 to take any serious action, when they announced an equity investment in WeddingNetwork.com to provide the official online registry service for 7 of their 8 division's new sites (see May Department Stores Press Release, 2000a). The retailer rapidly followed this in July with the acquisition of David's Bridal Inc., for approximately $436 million. This transaction aimed to improve the in-store selection and expertise in sales of bridal related merchandise and presented considerable transferable skills for May's web site and a comprehensive online bridal registry (see May Department Stores Press Release, 2000b).

Many of the deals outlined represent examples of the diversified portfolio restructuring upon which department stores have embarked on to improve e-commerce capabilities, and in particular, the offering of wedding related merchandise that clearly has the potential to be extremely profitable for department stores online and in physical stores. Indeed, all of the major department store operators have made strategic investments in this regard to support the emerging initiatives (see **Table 11.3**).

Table 11.3 Department Store Retailers' Bridal Registry On-Line Partnerships

Department Store Company	Bridal Registry Partner
Dillard's	Della.com
Federated	WeddingChannel.com
May	WeddingNetwork.com
Neiman Marcus	Della.com
Nordstrom	The Wedding List

NB Since this table was published, WeddingChannel and Della have merged under the name WeddingChannel.
Source: J. P. Morgan (2000) *May Department Stores: Bringing May's Bridal Business On-Line*, J. P. Morgan Equity Research, New York, April 13.

Strategically, the blend of the Internet and the upscale brand integrity of the major department store companies (cf. Wileman and Jary, 1997) provided considerable opportunity for capitalising on wedding purchases, which represents between $30-50 billion per year (Merrill Lynch, 2000c). As a leading investment analyst suggested:

> Today it is common for many engaged couples to already own the typical wedding gifts such as kitchen appliances and utensils…Therefore registries provide the couple with the opportunity to choose unusual items that they need and want as well as avoid the repeated trips back to the retailer to return and exchange their purchases. The wedding registry not only satisfies the engaged couple, but it makes the gift giving process easier for family and friends. Additionally, it provides a national and international presence, which is particularly useful for those who do not live near the retailer (Merrill Lynch, 2000c, p 2).

The wedding registry represents a fine example of physical stores and the Internet successfully working in unison - the couple can examine the merchandise prior to formulating the in-store list, trust in the brand integrity of the leading retailers, and utilise the power of the Internet medium, which provides a real time catalogue of items yet to be purchased for the couple from any geographical location.

In this niche market, the brand equity that the large department store possess is fundamental to capturing market share and provides a good example of a firm leveraging their brand across product ranges and mediums (see Court et al., 1997; 1999; Henderson and Mihas, 2000). The department stores are adding value to the capabilities of the bridal e-commerce "pure players" by acquiring or investing their reputation as "retailer-brands". Engaged couples are more likely to be prepared to trust the online presence of a Macy's, as opposed to an unknown 'Wedding

Network'. Although, as Evans and Wurster (1997, see also Mellahi and Johnson, 2000) suggest there are no barriers to entry with the Internet, and competitors can rapidly appear, such perspectives ignore the value and role that the brand equity has in attaining and retaining customers. It is for this reason that the claims of Tapscott (1999b) in suggesting e-commerce marks the end of brand image are largely unfounded. Instead, the Internet provides the opportunity for the large department store operators who are, essentially, "retailer-brands", to strengthen this reputation that has been established through store experience by broadening delivery channels and diversifying product selection.

Case Study: Federated's Acquisition of Fingerhut

The purchase of the Fingerhut Corporation by Federated Department Stores has been the most aggressive strategy in pursuit of e-commerce success. Indeed, more widely during the late 1990s, capital expenditure on e-commerce by Federated rapidly increased - $45-50 million in 1999, rising to $150-200 million in 2000 when it expected to generate $150 million in revenues (Prudential Securities, 2000b). This section analyses the appropriateness of this particular acquisition, and its effect across the whole of Federated's organisational strategy, both in the electronic direct-to-consumer initiatives, and throughout the distribution system.

Federated acquired the direct-to-consumer retailer in March 1999 for $1.7 billion. Fingerhut is a catalogue retailer by origin but had successfully made the diversification to web-based business in the latter half of the 1990s. It found its expertise in data mining and order fulfilment was well suited to virtual retailing as this talent was transferred from its traditional catalogue operation (see Chain Store Age, 2000c). It gradually built up a wide portfolio of wholly and partially owned Internet pure player selling sites during this period (see **Table 11.4**).

Table 11.4 Fingerhut E-Commerce Businesses

Wholly Owned	
Fingerhut.com	**General Merchandise**
Andysgarage.com	*Liquidation products at deep discounts*
Andysauction.com	*Clearance items sold in auction format*
TheHut.com	*Apparel, accessories and other products for young lifestyle*
Figis.com	*Gourmet foods and gift baskets*
Part Owned	
Handtech.com	*Computer systems*
Pcflowers.com	*Flowers and gift baskets*
Roxy.com	*Digital products and services*
Mountainzone.com & Skiresorts.com	*Mountain and outdoor sports equipment*
Freeshop.com	*Free merchandise and links to other e-commerce sites*
1-800birthday.com	*Birthday reminder and gift service*

Source: Federated Department Stores, 1999c, p 7.

The Fingerhut acquisition was radical, representing a notable movement away from a store-based focus by Federated and the financial market initially took a negative view of the transaction. Indeed, Federated Vice President, Carol Sanger commented that Wall Street analysts

> thought it was going to be terribly dilutive and could not understand why we would want this ... at that point they really did not know Fingerhut, it was in a totally different sector and to them Fingerhut was this rather strange catalogue, lower end catalogue and that was it[56]. They did not understand the infrastructure, the fulfilment, the business services, the third party potential that was inherent there and when they began to understand that a little better, it made more sense to them (Interview 3).

Federated CEO, Jim Zimmerman explained that the strategy was focused on generating long-term shareholder value – representing a departure from buying back stock with free cash flow – an approach that had been central to all of the major department store retailer in the 1990s. Zimmerman admitted that the transition represented something of a calculated gamble:

> We made a decision 2 years ago that we could do more or some better things with our excess cash flow than just buy back stock. We had been doing well for several years, had considerable excess cash flow, was buying back stock – in the US today paying dividend is not a very efficient way of returning value to stock holders. We didn't really want to pay a dividend and so the question was 'beyond buying back stock, should we be doing with the cash? (Interview 12).

Instead, Federated deemed it necessary to redirect this capital to direct-to-consumer operations, by diversifying their portfolio of businesses, as Zimmerman suggested:

> Our conclusion was that direct to the consumer was a good bet for some proportion of our business ....So we said let's take a proportion of our assets, about 10%, and bet on direct to the consumer and e-commerce. You don't want to invest an amount that becomes 'you bet your company' but you don't want to do such a small thing that it won't move the needle on an $18 billion sales company. So we shopped around and looked for a company that was an experienced direct marketer, that had started its own e-commerce efforts and had a lot of infrastructure to provide the call centres, database marketing and the fulfilment centres that our own catalogues needed, and that e-commerce would need as it grew in the future. While a higher risk than normal thing to do, we decided that this was an important investment for the future and that we wanted to jump in this pool and start thrashing around (Interview 12)

This calculated risk to aggressively pursue e-commerce opportunities was supported by considerable evidence of transferable skills from Fingerhut that could be leveraged across the direct to consumer operation and, in some instances, across the whole of the department store company. It is these qualities that must be understood to appreciate the beneficial nature of the acquisition.

---

[56] It should be noted that equity analysts are typically divided into separate field of expertise. In the case of investment bank, Merrill Lynch, this includes Hardlines (DIY, Home Office retailers) and Softlines (apparel and department stores). This fact severely constrains analysis of vertical acquisitions by any one analyst.

a) Data Mining Potential

First, the Fingerhut operation offered the opportunity to teach Federated's direct-to-consumer operations how to successfully 'mine' the data on customers and their preferences, subsequently turning it into knowledge in order to act upon it. The need to do this in the "new economy" is clear. As long ago as 1994, Davis and Botkin attested in *Harvard Business Review* that;

> As an economy, we are on the cusp of the transition from information to knowledge, with knowledge meaning the application and productive use of information (Davis and Botkin, 1994, p 5, original emphasis).

Data is random, whilst information is data arranged into meaningful patterns. Clearly companies have good reasons to collect as much information about customers as possible, as it enables them to target their most valuable prospects more effectively, tailor their offerings to individual needs, improve customer satisfaction and retention, identifying niches for market growth (Hagel and Rayport, 1997). With catalogue and Internet operations the leverage such information offers is clear. In contrast, customers in bricks-and-mortar stores leave no record of their behaviour unless they buy something where basic data is recorded through EPOS. In virtual stores these shopping purchases are more transparent (Reichheld and Schefter, 2000). By producing such rich knowledge, electronic retailing offers unprecedented opportunities for learning about their customers' demands and offers the potential to develop customised offerings. In this manner, Judy Daniel, President of Bloomingdale's By Mail argues that:

> ...if we run an item and it comes in five sizes and three different colours, and we photograph it and it's in the catalogue and the customers can place orders for it, (but) they don't know what inventory we have from what they want so we know exactly how the customer would have bought the item in size and colour, whether we have it in stock or not (– hopefully we do have it and fill every order). We have all of that information and we have information on that customer and what they bought and how frequently they bought and how much money they have spent with us – we have a lot of information and so we are constantly gathering information – which items sell, which sizes sell, which colour sell, what are the trends in terms of merchandise categories or classifications. We have all this data about the customers of where they live and how much do they spend (Interview 13).

This data can be turned into knowledge, and acted upon, by focusing specific products on specific customers. Tailored, personalised e-mails can be sent concerning specific product ranges that are successful with that particular customer type. This allows the e-commerce operation to build an effective "relationship" with the consumer over time, focusing on products where there is demand. Whilst department store companies at present use this information to send different types of catalogue to different customers (such as producing a shoe catalogue and sending it to shoe buyers), the data from direct-to-consumer operations has the potential to produce *customised* supply catalogues therefore more effectively aligning it with their needs and wants (Ghosh, 1998). With such developments, the information the customer sometimes unwittingly gives can drive the merchandise selection s/he is offered. Consequently, McKenna

(1995) argues that this is indicative of an era where the production and consumption of goods is brought closer, what he calls 'prosumption'. If this strategy is successful, the customer is theoretically "locked in" to the retailer – the service is closely aligned to the needs and wants of the consumer who has unconsciously offered information about their desires over time and the retailer has appropriately adapted as a result (cf. Peppers and Rogers, 1997).

Fingerhut possess particular expertise in this area to the extent that Gruppo, Levey & Company, US Direct Marketing Specialists commented that 'they are among the most sophisticated database management people we know...True expertise in data base management has grown up in the direct marketing industry, where it has been a critical success factor for all companies marketing direct to the consumer. (Indeed, in some respects,) Fingerhut has been doing this successfully for 50 years' (cited by Merrill Lynch, 1999c, p 2). As such Merrill Lynch suggest, Fingerhut has an extraordinary capability in credit scoring and modelling, whereby one of the benefits is their list of 8 million credit suppress files – identifying credit risks that greatly reduce the risk of making bad credit decisions (Merrill Lynch, 2000). In addition, the database is reported to have 1,500 characteristics on every buyer that they have in their file (ibid.).

b) *Fulfilment expertise and capacity*

The second factor in making the acquisition attractive for Federated was the expertise and capacity in fulfilment Fingerhut possessed. The catalogue retailer had considerable expertise in fulfilling orders for direct-to-consumer operations. This type of fulfilment is fundamentally different from that seen in store-based retailing. As a leading department store executive commented:

> It is difficult for store based fulfilment – stores get orders from the Internet, they have a hard time going down to their inventories on the floor and pulling those and then shipping them out to the customer. Here at Bloomingdale's By Mail and Bloomingdale's, we are working together to form a web site and are finding that the Bloomingdale's By Mail side of it is really the strength in terms of the images and taking the orders and filling the orders, and Bloomingdale's is really the strength in terms of the marketing and the image of it (Interview 13).

Fundamentally, this represented a radical departure from the conventional distribution method, toward one more suited to the virtual, new economy. Fulfilling e-commerce requests from manual picking from the shopfloor is now regarded as obsolete and it is accepted that new models and separate business models are required.

Secondly, Fingerhut possessed considerable spare warehouse capacity through which to direct all of the direct marketing merchandise. Initially, Federated were only seeking to partner with the firm to outsource order fulfilment. As President, Terry Lundgren admitted:

> We went to Fingerhut initially to consider them as the fulfilment arm of our expanding catalogue and our beginning e-commerce business. We were simply running out of space and were going to have to build a new facility and we said instead of building a new facility we can do this on a third party basis and let them do the fulfilment for us. We were so impressed by the people and the infrastructure, by the technology, by the data mining capabilities that they had and most importantly, the fulfilment. Their fulfilment capabilities were spectacular. They had 3 million square feet of fulfilment in 3 different facilities that were all fantastically new innovative technologies and they weren't being used – they were only 60% occupied (Interview 23).

Over time, this additional square footage will be increasingly be used for distribution throughout the department store business, as the Fingerhut-Federated integration gathers pace.

c) Link the physical and the virtual stores

Increasingly store based retailers who have gone 'online' seek to capitalise on their store portfolio in the virtual world, using it as a returns site for electronic sales and a location at which to examine merchandise prior to an online purchase. In many respects though, the reverse is also true where the Internet operations can support the success of the store. This is most obviously achieved where the Internet is utilised by the customer to research merchandise available, prior to visiting the physical store location. The Fingerhut acquisition has allowed a mutually reinforcing and supporting relationship between virtual and physical space. Chapter 10 explains how the department store industry lost many of its strengths in toy and homewear merchandise due to intense competition from speciality and category killer stores to the extent that, by the 1990s, department stores had become, what one commentator called, 'apparel supermarkets'(Carlson, 1991, p 19). E-retailing can however, conceivably bring back some of these product groups to the store through in-store kiosks. With Fingerhut's wide range of commodity types, including specialist sportswear, gourmet foods and computer systems, customers can view such merchandise in the department store setting and then order them through the in-store Internet kiosk. As such, in-store portals 'are a means of providing a wealth of product innovation, tailored to individual needs and presented in an interesting and user friendly environment' (Dawes and Rowley, 1998, p 352-3, see also Rowley, 1995). As a Federated executive commented:

> We don't see Internet replacing stores. It's our challenge to integrate the two that makes sense and makes shopping fun. If you think about it, by bringing Internet into the store, for example an active wear department - we don't sell skis, snowboards or roller blades in our stores, however, we have access through Internet and through our partnerships with some of the Internet sites that Fingerhut owns equity interest in like Mountainzone.com, to be able to have a kiosk in the active wear department that allows people who are shopping for clothes to also access merchandise that ordinarily we would not have in the store and information…(They can) make reservations at ski

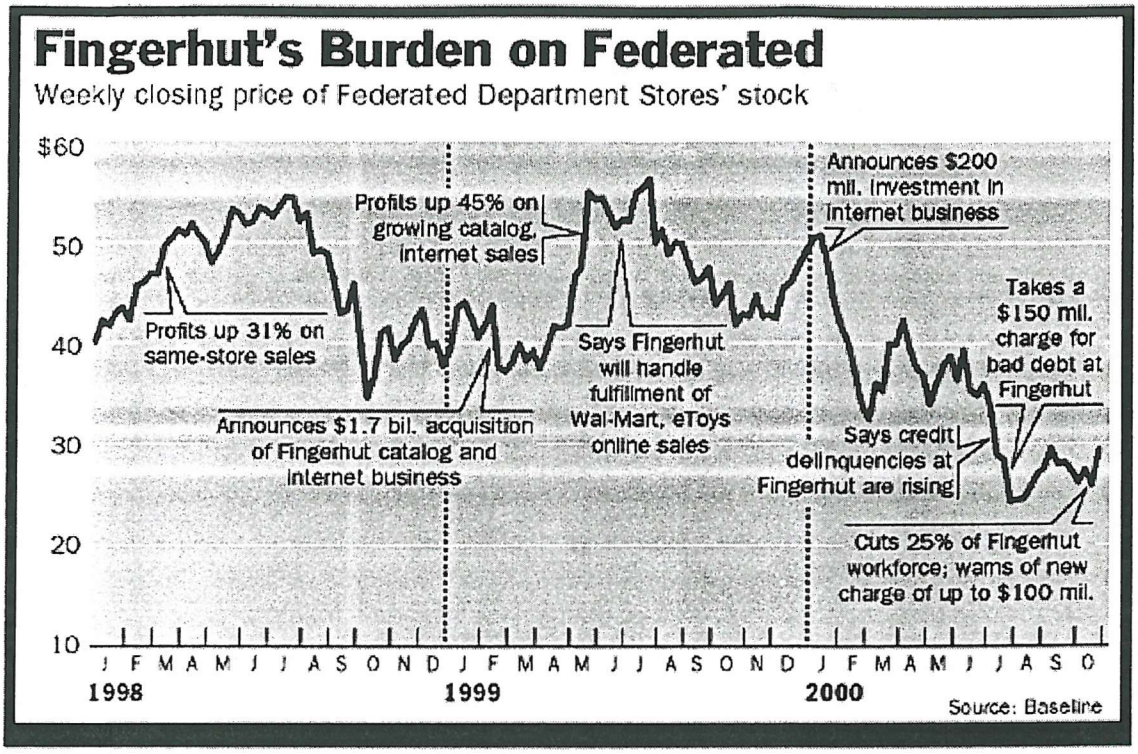
resorts and do all of that sort of stuff right in that department of the store. That's the kind of integration of bricks and clicks that we are looking at (Interview 3).

It is this integration that has the potential to bring a selection back to store spaces that was evidently missing in the 1990s, where, once again, the brand equity of the department store benefits from the "spaceless" nature of e-commerce and vice versa.

During late 2000 there have been identifiable difficulties with the Fingerhut operation, as the divisions' revenues have reduced due to bad debts accruing from its Fingerhut catalogue which targets low-income shoppers. The business press, always eager to muddy the waters with a negative story, speculated that the acquisition was disastrous (see Berner, 2000a; Rublin, 2000). In October 2000 Federated responded by announcing a significant round of organisational restructuring to tackle these problems, 'de-emphasizing all aspects of the Fingerhut operation that are not directly focused on supporting the primary Fingerhut catalog and the fingerhut.com website' (Federated Department Stores Press Release, 2000). This was in response to a steadily reducing share price (see **Figure 11.2**). As such 550 positions will be eliminated with the result being a smaller Fingerhut catalogue and e-commerce site, with significantly fewer mailings, and a more targeted approach that concentrates on Fingerhut's 'better' customers. This strategy focused the Federated Direct business to the types of upscale consumer with which the firm has traditionally been well acquainted. In this manner, Federated reproduced the organisational architecture of their acquisition to emphasise the qualities that they require in their specialist business – another example of a firm focusing on their core competencies (cf. Prahalad and Hamel, 1990).

Indeed, it is likely that the Fingerhut acquisition will be successful. To an extent, the change of opinion is associated with the loss of confidence in electronic commerce throughout 2000 by the investment community – especially with the pure-player business model (see latter sections) - as *Business Week* commented recently, 'Like many managements, they (Federated) got sucked in at the top of a cycle' (Berner, 2000b, p 198). However, the problems of the inappropriateness of the target consumers of the Fingerhut operation, and the associated bad debts have now been alleviated. As a result, it seems that Federated *will* make the acquisition work as the overall added value that the firm brings to the department store conglomerate, both directly through increased sales, and indirectly, through increased capacity and e-commerce and catalogue expertise, is currently undervalued by the investment community.

Figure 11.2 The Wall Street Journal's Reporting of the Fingerhut "Problem"



Source: Quick (2000b, p B4)

ELECTRONIC COMMERCE AND NEW BUSINESS MODELS

It is clear that the strategic investments and outright acquisitions that conventional department stores have made in direct marketing firms have brought considerable added expertise in equipping the retailers for adapting to the demands in fulfilment, marketing and information processing necessary for success in the virtual world. What their acquisitions have essentially underlined however is the separateness of the physical world of resources and locations, and the virtual sphere of information and concepts. This has led Rayport and Sviokla (1995) to comment that businesses must establish how to create value in these two environments, yet remain aware that the processes for value creation between the two mediums remain fundamentally different. From this perspective, it is argued that:

> The economic logic of the two chains is different: A conventional understanding of the economics of scale and scope does not apply to the virtual value chain (VVC) in the same way as it does to the physical value chain (PVC). Moreover, *the two chains must be managed distinctly but also in concert* (Rayport and Sviokla, 1995, p 38, my emphasis).

With such theoretical justification, department store retailers that have seriously adopted Internet retailing have recently set about consolidating all of their direct-to-customer operations, running them as a separate division from the conventional department store business. Federated set up a

separate subsidiary, as did Nordstrom, and most recently, Saks, Inc. has announced the creation of Saks Direct.

Theoretical Underpinnings

The doctrine of growing an emerging business outside the usual confines of the firm is well supported by the business and strategic management literature. Clayton et al. (1999) for example, commented that, all too often, internalising the fledgling operation results in it being supplied with too much capital, as its excesses are shrouded by the bulk of the much larger corporation. Indeed, this view is supported by the pioneering work of Christensen (1997) who makes the distinction between *sustaining* and *disruptive technologies*, the former being those that aspire toward faster and improved product performance, maintaining the evolution of established products in established markets, whilst the Internet represents a *disruptive technology*, where the conventional ideals of commerce and success do not necessarily apply. Here, the technologies that emerge often result in poor initial performance, are unprofitable and located in markets too small for large firms to usually concern themselves with. Furthermore, these markets do not exist in any entirety so they cannot be analysed using conventional techniques. As Christensen suggests,

> Companies whose investment processes demand quantification of market sizes and financial returns before they can enter a market get paralysed or make serious mistakes when faced with disruptive technologies. They demand market data when none exists and make judgements based upon financial projections when neither revenues or costs can, in fact, be known (p xxii).

Ignoring the potential new disruptive technologies is dangerous, as they provide the potential for market growth in new areas, with new consumers. Maintaining a holistic perspective on new business opportunities is necessary, as success in the current physical world should not obscure potential development elsewhere. 'Great success in one product or service tends to block a longer, larger view of the opportunities available in the economy as a whole, and of the rapidly shifting terrain ahead. Legendary, long-lived companies are intensely outward looking' (Kelly, 1998, p 87). As a result:

> Because the network economy favors the nimble and quick, anything that requires patience and lowness is handicapped. Yet many projects, companies, and technologies grow best gradually, slowly accumulating complexity and richness. During their gestation period they will not be able to compete with the early birds (Kelly, 1998, p 37).

Indeed, as Anderson et al. (2000) acknowledge, conventionally new initiatives are examined by their parent firm in terms of required rates of return - the so-called hurdle rate - and the

opportunity cost of capital. The potential growth of such a business and its strategic importance are not normally considered in assessing viability.

As a 'disruptive technology', direct-to-consumer operations represent a departure from the conventional department store operation. Organisational redesign is clearly necessary to improve the infiltration of these specific knowledges throughout a separate direct selling subsidiary of the firm. As the management science literature suggests:

> Organizational redesign activities should emphasize improving the flow of information which, if done correctly, will improve organizational responsiveness. Information systems are vital to redesign activities because of their ability to increase communication and expand the knowledge base of all organization members (Douglas, 1999, p 622).

These technologies include expertise in data mining and order fulfilment that must be extrapolated across the whole direct sales division. With such a structure there is the potential to generate and establish a quite distinct organisational culture – moving it away from the one based on merchandising prowess of the conventional department store operation, to one based on these specific principles of direct selling. The challenge for the new economy is consequently 'to be big and small at the same time' (Handy, 1996, p 35). Managers whose horizons are bounded by the traditional industry perspectives will find themselves missing the real challenges and opportunities facing their emerging companies (cf. Moore, 1993). In this regard, expertise gleaned from catalogue operations offered considerable transferable skills in e-commerce strategies:

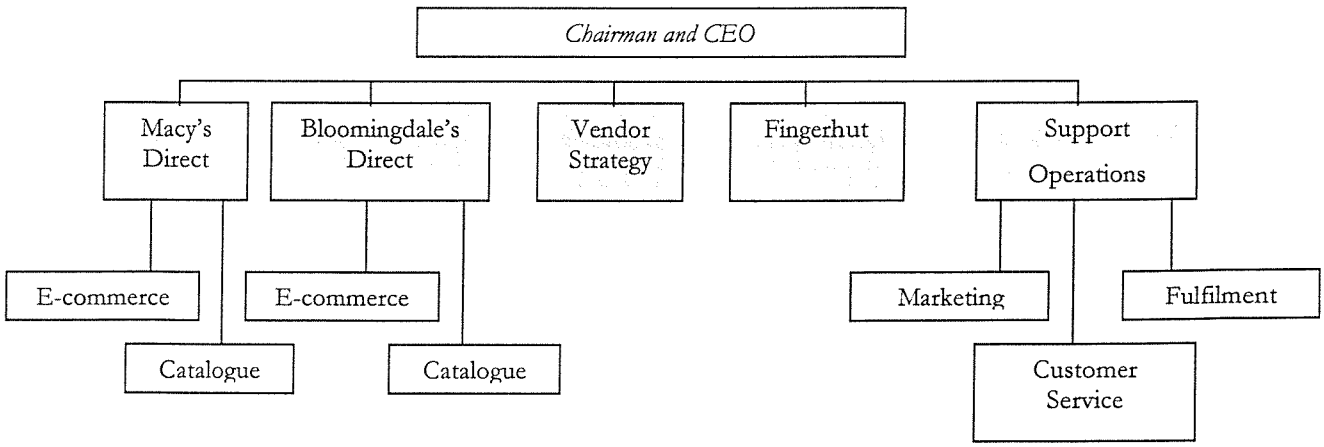
> Primarily because the catalogue companies know how to take orders, fulfil orders and ship orders to the customers. They know how to sell from an image; they know how to speak to the customer through copy and visually so they're best equipped to handle the Internet business, as opposed to doing it out of the store (Interview 13).

It is increasingly important to have such a culture because, as numerous publications have suggested, the rules of competition within the so-called 'new' economy tend to mutate rapidly over time necessitating effective communication structures within the organisation (Tapscott, 1999a). Indeed, as Iansiti and McCormack (1997) note, the market needs that a product is meant to satisfy, and the technologies required to satisfy them, can change rapidly, even as the product is under development. It is consequently prudent for the corporation to spin out these disruptive technologies to separate organisations where the expertise in their specific sector can be nurtured within a separate value network.

The formation of Saks Direct is a clear example of this strategy. Saks Incorporated have assembled a separate management team with extensive experience in merchandising, marketing and information technology to support the introduction of the saksfifthavenue.com sales site launched in Summer 2000. As the Internet business is broadly congruent with the expertise required for the catalogue business, the new division will also include the Folio and Bullock & Jones catalogue operations. In the spirit of Christensen's (1999) remarks, Saks Direct will operate essentially as an independent unit, operating its own staff in key areas such as merchandising, marketing, information technology, and order fulfilment. In addition, administrative services will be purchased from other Saks Incorporated units on a fee-for-service basis. Furthermore, the division will remit a 5% royalty payment to Saks Incorporated based on net sales for the use of certain brand names (see Saks Inc. Press Release, February 17, 2000c).

Federated Department Stores have progressed further along this strategy, announcing in April 2000, the consolidation of all of their direct-to-consumer businesses under the division, Federated Direct. This division operates under the auspices of Jeff Sherman, formally President of Bloomingdale's (see **Figure 11.3**)

Figure 11.3 Federated Direct Organisational Structure



Having established a direct-to-customer division due to the specific knowledges that can flow and be shared between the e-sites, catalogue and support operations, this autonomy may produce the effect of creating a networked business incubator 'facilitating the flow of knowledge and talent across companies and the forging of marketing and technology relationships between them' (Hansen et al., 2000, p 76). Indeed this is common in growing conventional Internet firms.

Although the "direct" business model represents a certain level of independence for the direct-to-consumer operation, it still needs to be kept under a certain level of internal control, which dictates the tone and merchandise direction of the site. This helps to produce a consistent selection across the range of department store delivery channels, to avoid the consumer differentiating between them. What is crucial through these reorganisations is the 'company's ability to manage the trade-offs between separation and integration' (Gulati and Garino, 2000, p 114). From this perspective, the e-site can make *some* departures from the conventional department store product mix, as some products are more suited to direct-to-consumer sales than others, as, to an extent, they 'have to define their product mix as the e-retailers do, not as the physical constraints of their bricks-and-mortar stores forced them to' (Evans and Wurster, 1999, p 89). The initiatives of department stores in developing electronic bridal businesses are an excellent example of the retailer successfully adapting in this manner to the new rules offered by electronic retailing.

VIRTUAL AND STORE SPACES – THREAT OR COMPLEMENT?

In an editorial commenting on the Federated-Fingerhut transaction *Chain Store Age* (1999a) commented that 'Federated has seen the future, and it is none too rosy for traditional department stores' (Chain Store Age, 1999a, p 102). As such, Jones and Biasiotto (1999) comment that '(m)any retail analysts see cyber-shopping as a panacea with unlimited potential' (p 70). This is a little simplistic and a sentiment that needs to be analysed in terms of the broader strategic restructuring of the sector. The shift towards e-commerce can be viewed as both an offensive and defensive strategy. Offensively, the initiatives are directed at establishing the individual department stores as retailer-brands, for example projecting Macy's and Bloomingdale's to the forefront of the consumers' mind, whether they select the store, catalogue or e-site. The delivery channel should be unimportant – with each providing another access point for the consumer. However, defensively there are considerable sunk costs in the physical store portfolios that need to be protected and thus remain at the forefront of the department store executives' minds - as Peter Sachse, Director of Stores for Macy's East, remarked on the potential of e-commerce:

> Clearly we believe that it is a viable medium that needs to be contended with. Both on a pro-active and I guess a defensive basis. Pro-actively we have our own Internet sites and we are going after the business very aggressively. Defensively we have got to protect out turf. You know we have a lot of real estate out there that we need people to come into every day (Interview 19).

The Internet business remains insignificant to the store based sales, as all sites currently operate at a loss. Indeed Federated CEO, James Zimmerman has recently commented, "Although it's

the highest growth-rate opportunity, it's going to have to grow at 80 percent a year for 80 years before it gets up to proportion" (Frazier, 1999). Whilst direct non-store sales for Federated in 2000 should yield sales of around $2.2 billion, this will be made up of $2.1 billion from catalogue sales and only $150 million in e-commerce. This is during a period where their investment expenditure for e-commerce is likely to be between $150-$200 million annually (Prudential Securities, 2000a). Similarly, Saks Fifth Avenue's web site is not expected to be profitable for three years. This will follow a reported first year loss of £12 million on sales of $15-20 million (New York Times, 2000).

The Clicks and Mortar Approach and the Decline of "Pure Players"

Department store retailers are essentially trying to make early inroads to the *concept* and avoid being left behind by a technological tidal wave. Retailers are focusing their activities *across a range of delivery channels* for their brand, as executives regard this as the key for future success. As Nordstrom Co-President Dan Nordstrom commented at the launch the Nordstrom website, "We are convinced that online shopping will be a major part of our future...In particular those retailers who offer their customers a *fully integrated combination of stores, catalog and Internet shopping* will have a significant service advantage" (quoted in Batsell, 1998, my emphasis). Indeed, the Federated/Fingerhut example of E-kiosks in store is a fine example of the added value the Internet can bring to the store. This is in contrast to the accepted notion of the benefits flowing the other way – from store to Internet - as the store provides a return-base for unwanted merchandise, physical port of call, and a brand identity for the web site (see Quick, 2000a).

More broadly however, it is essential to recognise the sea-change of opinion regarding e-commerce initiatives since much of the research for this chapter was conducted. Even in late 1999 the prospects for pure B2C e-commerce appeared extremely positive with pronouncements of a rosy future for the new form of direct retailing (e.g. Gurley, 1999) and as late as June 2000, Federal Reserve Chairman, Alan Greenspan, was still airing positive sentiments regarding the potential of the new economy:

> What differentiates this period from other periods in our history is the extraordinary role played by information and communication technologies. The effect of these technologies could rival and arguably even surpass the impact the telegraph had prior to and just after the Civil War (cited by Leamer, 2000).

However, this prevailing opinion has transformed from over-eager positive perspectives on the new economy, to harsh dismissive statements, especially targeted against the pure-player e-commerce operators throughout 2000. Particularly under-fire was the intangible nature of the pure-players. The *Los Angeles Times* commented that in the Old Economy 'the assets were

structures and equipment, which take time to build and have substantial salvage value. The time to build slows the ride up, and the salvage value softens the landing. In the new economy, the assets have been Internet ideas. These ideas seem to have emerged effortlessly and instantaneously from the minds of "Interpreneurs," which has made for a wild ride up. But these ideas have very little salvage value' (Leamer, 2000, p B-9). In addition, it has been argued that there is no real departure with e-commerce regarding the qualities that are desired by the consumer – it is just that they are fulfilled through a new and direct medium. As Kohler (2000) comments, '(t)he notion that there was something fundamentally different about selling goods and services using the internet to receive orders will seem laughable' (p 50).

The period of pessimism following the hype was prompted by the failure of a number of notable Internet-only based retailers who expended their initial venture capital funds without starting to generate profits (see Uchitelle, 2000; Wall Street Journal, 2001a). These included boo.com, pets.com, eve.com, and even Nordstrom's partner, Streamline (see **Table 11.5**). Indeed Fields (2000) reflects on the dramatic changes that occurred in 2000:

> Last year, companies of every stripe glued "com" onto their names as if some sort of "new-economy" mojo would rub off. Then the market went kaplooie, the venture capital dried up and dot-coms started to cramp their owners' style. Today, those three little letters spell failure, and companies are lopping them off as fast as they once tacked them on (Fields, 2000, p C-1).

By early 2001 *Wall Street Journal* questioned 'Is it dot com Armageddon?' (Boudette, 2001). Even the stalwarts of the pure-player scene were under criticism and pressure - Amazon.com was recognised as nearing an illiquid situation and analysts were demanding greater information about the firm upon which to base accurate investment opinions[57].

[57] Amazon were so hesitant to reveal the true picture of their finances that the New York Society of Security Analysts operated a workshop whereby analysts could ask tough questions about Amazon's financials anonymously, without retribution from management (Veverka, 2000).

Table 11.5 Selected Pure-Player E-Commerce Failures, 1997-March 2001

Name of Firm	Nature of Service	Start-Up Date	Cessation of Trading	Burn-Rate
Streamline	Online delivery service	1993	Nov 2000	Unknown
Garden.com	Gardening products online	Sept 1995	Nov 2000	Unknown
ShopLink	Online delivery service	Oct 1997	Nov 2000	Unknown
Reel.com	Video rental site	April 1997	June 2000	$90 million
Living.com	Furniture e-tailer	1998	Aug 2000	Unknown
Furniture.com	Home furnishings e-tailer	Jan 1999	Nov 2000	Up to $45 million
Pets.com	Pet store e-tailer	Oct 1998	Nov 2000	Unknown
SpinRecords.com	Music e-tailer	Nov 1998	Oct 2000	Unknown
Hardware.com	Home improvement e-tailer	April 1999	Aug 2000	Unknown
Gazoontite.com	Health e-tailer	May 1999	Oct 2000	Up to $25 million
Boo.com	Apparel e-tailer		Oct 2000	Unknown
AdMart	Online grocer	June 1999	Dec 2000	Unknown
Eve.com	Cosmetics e-tailer	June 1999	Oct 2000	Up to $28.7 million
ToyTime.com	Toy and baby e-tailer	Sept 1999	June 2000	Unknown
Beautyscene.com	Fashion & cosmetics e-tailer	Sept 1999	June 2000	Unknown
Clickmango.com	Health & beauty e-commerce site	Sept 1999	Sept 2000	$4.4 million
Babygear.com	Parent & Infant goods e-tailer	Feb 2000	Dec 2000	Unknown
Savvio.com	Travel services	Sept 2000	Jan 2001	Unknown
Etoys.com	Toy e-tailer	Oct 1997	March 2001	Unknown

Source: Upside Today Magazine, 2001 and the Financial Times

More significantly for this analysis, 2000 marked a change in the manner in which bricks and mortar retail stores were viewed - whereas previously traditional retailers were viewed as unable to leverage the virtual medium, non-store operators are now characterised by another kind of B2C – 'Back 2 Bankruptcies' (Leamer, 2000, p B-9). As *The Economist* reflected:

> Investors seemed to believe that, even if bricks-and-mortar companies tried to venture on to the web, the Internet-based companies would triumph. Stodgy old retailers after all, did not "get" the web. And, true to stereotype, many of the bricks-and-mortar companies regarded Internet retailing as a fad, or a way of loosing money, or both (The Economist, 1999).

But by mid 2000 Daniel Barry, retail analyst at Merrill Lynch, New York was noting that:

> The (retail) brand is very, very important. You also need the low cost of the ability to market to go to market under the existing umbrella of the marketing, of the purchasing, of the retailing. You would have to spend additional marketing expenses to market your brand (if you were a pure-player) and so when there is just pure incremental

> expense you just can't make a profit so the bricks and mortar retailers don't have to spend any money on marketing because they already market their brand everyday in the normal newspapers (Interview 6).

In other words, the brand equity of the major department store retailers' that support the multi-channel approach was being viewed as crucial in allowing the retailer to penetrate geographical areas where there was no store base. This has historically been true for the catalogue of Bloomingdale's throughout the late 1990s as '(t)he Bloomingdale's name is so well known that customers who live in areas where there isn't a Bloomingdale's store, buy from a catalogue because it is an opportunity to buy from Bloomingdale's and they don't have a store to go to' (Interview 13). With the Internet however, there is no need to send for a catalogue, as purchases can be made instantaneously.

Sauer and Burton (1999), in their pessimistic view of department store e-commerce initiatives, suggest brand identity of the major retailers 'is likely to be shortlived as it is usurped by the new brand names of the Internet' (p 394). This could not contrast more with the evidence from this chapter, where brand equity is viewed as difficult to attain in the virtual world. The department store retail brand, as has been suggested, can provide the pivotal factor in getting customers to trust the net. The physical store sites support these burgeoning initiatives as a returns base, brand builder and, in the last resort, a complaints point (See Quick, 2000a). Similarly, Clancy (2000) argues that brand building is constructed on more than marketing communication alone. Instead, product quality, customer service, management vision, leadership and social responsibility influence a brand's reputation – all of which are easier to establish in the physical world. It is strange Sauer and Burton (1999) adopt a pro "pure player" stance, as they cite data from Sellers (1999) suggesting the typical Internet only retailer typically spends 65% of revenues on marketing and advertising costs compared to less than 5% by conventional retailers. In short, conventional retailers, with their brand names well known, only have to include a web address in their publicity. This is another central benefit from "clicks and bricks" integration. These factors lead to the conclusion, as recently espoused by Calkins et al. (2000), that 'store-based retailers can leverage their multi-channel advantage to give customers what they want, how and when they want it' (p 140). As *Forbes* magazine suggest, 'don't write off last century's manufacturers and retailers, because these companies can also sell over the Web. There they can leverage well-established brands, loyal customers and existing distribution infrastructure' (McGinnis, 2000, p 394).

The Limits to Virtual Store Space

It is clear that Internet retailing will only take a small percentage of the conventional, store-based department store business (Prudential Securities [2000b] suggest only 4% of department store

business by 2003). Indeed, there remain a number of substantial barriers to e-commerce rising to become a dominant retail medium, and specifically, the principal medium for the distribution of department store merchandise.

First, it must be acknowledged that conventional bricks and mortar retailers provide a sheer sociality of the shopping experience (Underhill, 1999). This is a factor that must not be ignored. The public simply enjoy the act of shopping around the store and mall, frequently indulging in personal tactics and strategies in the process (see Miller, 1998; Miller et al., 1998). As Terry Lundgren, President of Federated Department Stores commented:

> (t)he actual shopping experience in a store is emotional, an emotional release that allows an individual to get out of the house and away from the computer and allows her to be satisfied by interacting with another human being who says how great you look in that dress you've just purchased. There is a psychological and social part of the shopping experience that, at least at the moment, is not being contemplated in Internet or catalogue shopping (Interview 23).

In this vein, it remains a considerable challenge to effectively "mine" customer data to fully personalise websites to align offerings with customer needs and wants (see Child et al., 1995; Reichfield and Schefter, 2000). Although department store retailers will undoubtedly improve the look and navigation of their sites, it remains impossible to imitate the instant gratification from shopping physically and in real time.

Second, there is the difficulty of getting potential customers to trust the medium of the Internet and to reveal their credit card details to a PC. Considerable developments remain to be made to increase consumer confidence and alleviate concerns about the misuse, theft of information, and security of identity on the web. Only then, when there is trust in the medium over many years, can there be a base for a stable e-industry (Cheskin Research, 1999; Deloitte and Touche, 1998b). As suggested, this is where the value of the major department store's brand is valued. Consumers are more likely to trust the established "name" of Macy's than that of a "pure player" when parting with their credit card details. As Reichfield and Schefter (2000) succinctly put it, '(p)rice does not rule the web, trust does' (p 107). Bricks-and-mortar stores promote this as the physical store presence gives the customer a literal port of call in the event of any inaccuracies or mistakes.

Third, the Internet is very much a technology driven by the younger members of society. The general target market for the traditional department store remains the 40+ age cohort. There does however remain a demographic driver behind the new medium. With this in mind, it could be conversely viewed as a strength and a medium by which to establish a new consumer base.

Fourth, perhaps more specific to the sector, is understanding the limitations in the type of merchandise the retailer can successfully sell over the Net. Soft goods, principally apparel and accessories, are traditionally purchased through physical contact and personal examination. The Internet, despite the revolutionary 3D technologies designed to facilitate more convenient product viewing, remains a medium where the senses cannot be stimulated in this manner. As analysts at Merrill Lynch (1999d) recently observed, disintermediated retailing does 'not give you the instant gratification of being able to touch, feel or wear the item before you buy it' (p 3). These views lead Sauer and Burton (1999) to conclude that 'there is always likely to be a role for the physical stores in such areas as high fashion where it is important for the customer to handle the product' (p 393). Department store sales sites could offer therefore an excellent service to those customers who know what they require – actually enticing them to buy may well be another matter. When questioned about the questionable application of designer quality apparel to e-sales in a recent conference call, Saks CEO, Brad Martin suggested that the potential for selling tactile, designer wear through the net is limited, but department store sites would still promote the sale of these goods in stores, providing information and driving store traffic – another example of "clicks and bricks" integration. Instead the prospects for department store e-sales lay in non-designer apparel, accessories and footwear, where upscale department stores possess considerable opportunities because of the *scale* of online purchases, set against those seen in alternative retail sites. Martin cited data from the Saks catalogue divisions, indicative of a high value of purchases per transaction ($200-$500) *vis-à-vis* e-tailers such as Amazon and BOL, which rely on transactions of considerably smaller quantities where shipping and handling make up a higher percentage of the total cost. It seems that this is the rationale for viewing the Internet as an appropriate medium for the department store retailer.

The potential for successful department store e-commerce seems considerable with retailers who have a strong international brand name such as Bloomingdale's or Saks Fifth Avenue. Consumers are more likely to invest in the level of quality and service the retailer represents. The immediate application can be seen through extending the virtual department store brand franchises to areas where there are no physical stores. Indeed there is optimism this could provide an immediate opportunity to leverage the retail 'brand' overseas. Analysts have argued 'Federated Department Stores, through its Macy's and Bloomingdale's divisions, and Saks possess the necessary characteristics, i.e. strong nationally, if not globally, recognized brands, which will enable them to create defensible positions with their respective internet strategies' (Salomon Smith Barney, 2000d). From a longer temporal perspective, e-commerce strategies could, through sales data, provide indicators for future destinations in physical store internationalisation.

There remains a very good argument that the bricks and mortar stores will remain pivotal to the success of the department stores, even if the e-commerce strategy takes off - they are the customers' direct point of contact with the retailer, and the location where brand reputation is established. To an extent, all Internet sites are identical, so physical stores offer the opportunity to differentiate retailers. Further to this, stores are likely to play a pivotal role as a returns base for the unwanted goods from the e-commerce arm of the business (Merrill Lynch, 1999d). In this way, store based retailers, having *already* developed the distribution infrastructure, appear to have substantial advantages compared to purely virtual organisations (Calkins et al., 2000). As Barsh et al. (2000) put it 'the clear advantage in retailing goes to big, highly skilled traditional retailers that use the Web to extend their already potent physical presence. So though pure plays may indeed be doomed, the demise of e-tailing has been greatly exaggerated for multichannel players' (p 98).

CONCLUSION

The revolution of the new economy is slowly infiltrating into the US department store industry. This has initially occurred through the technological, knowledge-based innovations evident in the organisational restructuring of the sector (see Chapter 9). More recently however, conventional department stores have begun to react to the opportunities posed by Internet technologies for generating sales, in addition to those transferring knowledge throughout the supply chain. Although initially apprehensive, all of the leading department store retailers are making progress with these initiatives. Fundamentally, the adoption of these strategies has been characterised by a new wave of portfolio restructuring focused on direct marketing firms - effectively 'buying in' expertise. In addition, as the conventional department store industry is saturated, with few regions experiencing any substantial sales growth, organic expansion is limited and the selection of national and regional department stores available for consolidation is reducing. In this environment, department store retailers have been keen to increase shareholder value through these methods instead of share buy-backs. Department store executives were therefore perhaps more prepared to invest heavily in these untested mediums than would have otherwise been the case.

Having taken the decision to invest in e-commerce, department store retailers quickly realised the need to protect the considerable sunk costs inherent in their considerable store portfolios. At the time of their initial investments in the medium, the view across the retail industry was that store based retailers lacked the necessary expertise and would be unsuccessful in the virtual world. On the contrary however, this separation of the two worlds, the physical and the virtual, has proved to be only partially correct. It is true that there was a need to separate the two

businesses organisationally, due to the different knowledge-based demands across them, yet at the same time, maintain the consistency of selection and tone across the delivery channels. More fundamentally however, the store portfolios support e-commerce operation success, in what has been called a "bricks and clicks" or "clicks and mortar" approach (see Stuart, 2000). The place dependent and location specific elements of social life are viewed as more important than a purely virtual experience as a blend of the two mediums is seen to be the key to department store success.

This chapter has once again revealed the truth behind the metatheories of the end of geography that come with arguments on the new economy (see for example, Coyle, 1998; O'Brien, 1992; Quah, 1996; 1997; 1998; 1999; 2000). Even pure player e-tailers are still embedded within space as 'for every Amazon.com to excel in the world of global business, we need more of the services of global credit companies (e.g. Visa and American Express), global distribution companies (e.g. Federal Express and DHL), global producers (e.g. publishers and entertainment companies), local warehousing and Internet service providers' (Coe and Yeung, 1999, p 7). More broadly, telemediated banking and insurance services situate call centres within space and cannot be placed in abstract cyberspace (Breathnach, 2000; Richardson et al., 2000). Clearly, in the US conventional department store industry, although e-commerce opportunities may promote new business models and the renegotiation of commercial knowledge across organisations, they do not fundamentally change the organisational architecture of the department store away from being, what Emile Zola called, 'cathedrals of consumption' (1998 [1883]). Physical department store spaces still drive profits, and will continue to do so, even though the number of delivery channels may expand. The sociality of shopping that has been widely emphasised throughout the new retail geography literature (see Miller et al., 1998; Shields, 1992) clearly remains fundamental as it is clear 'that many aspects of human interaction...cannot be achieved solely by new technology (e-mail, webcasting, video links, etc.). The need for physical interaction was identified in the practices of learning, innovation, contracting, employment, as well as in socialising, eating, relaxing, or just "feeling the pulse" of the city' (Pratt, 2000, p 434). As such, store environments remain pivotal as '(e)xtensive store networks offer major advantages in terms of the fulfilment problems of e-commerce, with the capacity to be used in a distribution role and, more importantly, being available to consumers as sites for "pick up" and/or return and exchange of products' (Wrigley, 2000b, p 16). Clearly, cyberspaces 'do not replace geographic spaces, nor do they destroy space and time. Rather, cyberspaces coexist with geographic spaces providing a new layer of virtual sites superimposed over geographic spaces' (Kitchin, 1998, p 403). The international brand identity established through the in store experience is translated onto other mediums, be they catalogue or e-commerce. Consumers invest in this brand equity, prepared to trust in this long-established relationship as the physical store relationship still

underpins retail success and provides the focus of department store business into the new century.

Part Five

CONCLUSIONS

'The history of capitalist industrial development is a history of change. Existing practices, relations, and ways of thinking are constantly challenged by new problems and opportunities, and a continuous stream of innovations and adaptations is propelled by the pressures of competition. In this sense, change is a normal feature of industrial culture'

Schoenberger, E. (1997) *The Cultural Crisis of the Firm*, Blackwell, Oxford, p 224.

Chapter Twelve

Reflections and Speculations

REFLECTIONS – SEVEN CONTRIBUTIONS OF THE THESIS TO DEBATES IN ECONOMIC GEOGRAPHY

In a recent article in *Geographical Analysis*, Wrigley noted with concern that the huge domestic US retail industry has traditionally been 'neglected in the writing of the economic geographies of industrial restructuring, the particular form that corporate restructuring took, and its relations with regulation of competition and investment, (which could)...focus attention on a range of issues central to conceptual debate within economic geography' (Wrigley, 1999b, p 305). This thesis has used the example of the US department store industry as a case study to investigate many of the themes Wrigley raises. The geographies of restructuring in the US department store sector have been shown to revolve around these issues of corporate restructuring, strategy, regulation, competition and investment.

Each of the three approaches to corporate restructuring outlined to Chapter 1 - financial, organisational and portfolio - have been used to improve the strategic positioning of department store firms during the late 1980s and throughout the 1990s. Clearly, these strategies have been employed at different times, with different foci, at a number of hierarchies and spatial scales throughout the firms. This thesis has attempted to emphasise the geographical effects of corporate restructuring that contribute to the theoretical and empirical frameworks and debates within economic geography. These contributions can be summarised under seven headings.

a) Refiguring corporate restructuring

Throughout this thesis, it has been clear that corporate restructuring - whether it is of a portfolio, organisational or financial nature - is rarely a holistic strategy and, even less frequently, completely theorised. Indeed, 'there is no one theory of restructuring. Rather, the literature is dominated by accumulated observations about the dimensions and characteristics of the process' (Clark, 1993b, p 105). This thesis has not presented a theory of corporate restructuring as such – it would simply be too general to be of any use - but instead it has attempted to develop understanding of the complex process as it occurs in its multitude of forms. As a result, it has become evident that each restructuring initiative consolidates the effectiveness of the next. New

restructuring strategies evolve from the ashes of previous ones – an excellent example being the shift towards organisational restructuring in the US department store industry during the 1990s which was catalysed by the bankruptcy-inducing financial restructuring of the previous decade. As a direct consequence, the thesis accepts a movement away from the view of corporate restructuring as "reengineering" (Hammer and Chumpy, 1991; see Chapter 1), towards a view of corporate change that can diverge from planned strategy and mutate into new plans of economic reconfiguration, whether it be for the better or worse of the ultimate competitive position of the firm (see esp. Chapter 3).

Indeed, corporate restructuring is not necessarily Business Process Reengineering (BRP) which 'advocates the imposition of radical step, revolutionary or "big bang" change' (Knights and Wilmott, 2000, p 3). On the contrary, corporate change is a never-ending phenomenon, as Schumpeter's gales of creative destruction ceaselessly blow. As Harvard Business School Professor David Hurst suggested, 'renewal is not a one-stop affair but an ongoing process - a continual struggle' (Hurst, 1995, p 71). Similarly Thrift (2001) has recently observed, 'firms now live in a permanent stage of emergency, always bordering on the edge of chaos' (cited by Yeung, 2001). As a direct result then, the preferred definition for corporate restructuring that has been used in this thesis comes from Wrigley (1999b, p 305) who sees restructuring as 'a strategy of corporate change that materially alters, sometimes with minor modifications and at other times fundamental transformations, the composition of the firms' asset portfolio and/or claims against those assets'. Evidently, corporate restructuring is never the last word – instead it is a strategy of change, formed under the auspices of situated knowledge and open to change in direction in response to broader changes in environmental, competition, regulatory or technologically based factors.

In addition, it has been important to recognise that restructuring strategies often emerge from circumstance, as much as from the drive of senior executives who prescribe solutions to circumstance with organisational change. **Table 12.1** outlines the two approaches to organisational change: one as immediate and holistic, and the other as emergent. It is consequently clear that restructuring can be both planned, immediate change, but also emergent - borne out of the interplay between history, economics, politics and business sector characteristics over a longer time period.

Cell 1 in **Table 12.1**, for example, acknowledges that change can be planned but requires analyses in a processual way over time. In this thesis, such restructuring has been seen in the gradual centralisation of back office services in the US department store industry and the consequent provision of shared services. In order to achieve success at this strategy however,

there has been the need to convince and articulate clearly the merits of doing so to the management and staff of the corporation. This is characteristic of Cell 2. Such outcomes link with Schoenberger's findings where individuals are perceived as possessing different value asymmetries from that of the firm – which is 'both a collection of individuals and a self-reproducing institution whose identity is linked with, but not the same as, those of the people who work in it' (Schoenberger, 1997, p 21). As such, it is clear that corporate strategy 'is increasingly seen as the outcome of organized human activity – of relations between individuals, between individuals and the firm, and between each of these set of relations and the firm's environment' (O'Neil and Gibson-Graham, 1999, p 13).

Table 12.1 A Characterisation of Approaches to Organisational Change

	The Process of Change	The Implementation of Change
Planned Change	1 Logical incrementalism and various need, commitment and shared vision models	2 Reducing resistance to change
Example	*Centralisation of back office facilities in the large department store firms*	*Convincing staff that centralisation of services is the only way to survive and does not affect their importance to the firm*
Emergent Change	3 Characteristics of strategic decisions: political process models	4 Contextualism: implementation is a function of antecedent factors and processes
Example	*Late 1980s divisional consolidations in the midst of high leverage* OR *divisional consolidation in the early 1990s in producing the reorganisation plan to get out of Chapter 11 protection*	*Contemporary portfolio restructuring in the sector – role of FTC, target selection and spatial and strategic fit (see especially the defensive acquisition of Mercantile by Dillard's)*

Source: developed after Wilson (1992, p 10)

Equally importantly, organisational change can come gradually and in a more emergent manner – not necessarily due to the drive of inspired leadership. Cell 3 in **Table 12.1** illustrates how change can result from the interplay of a number of environmental economic and social factors. Here Wilson (1992) suggests that whilst individuals can still depict future desired states, to understand fully where the vision comes from and how change eventually occurs requires a processual lens through which to view the action. This has been seen, for example, in the requirement of the major department store firms to begin to consolidate divisions when under the constraints of high leverage during the late 1980s and also in the divisional consolidations of the early 1990s which were initiated to satisfy the bankruptcy courts and thus permit emergence from Chapter 11 bankruptcy protection. This restructuring was partly catalysed by the financial restructuring that was dominating the industry at the time, leading to eventual bankruptcy for the

major firms. It must be considered that financial restructuring itself only occurred because of a number of environmental factors at once, coalescing to provide conditions where high leveraging was an option. This is, of itself, a fine example of the importance of context in economic geography.

Cell 4 in **Table 12.1** introduces the concept of contextualisim. As Wilson (1992) suggests, although organisational power play may sway change one way or another, what is most important is to see the context in which those powerful interests are built up and operate. This has been emphasised in much of the portfolio restructuring of the sector. For example, Chapters 7 and 8 analysed how merger and acquisition activity is mediated by a number of factors including the availability and price of targets, the role of spatial and strategic fit, the ambitious drive of the executives, competitor's reactions, and the FTC's reading of antitrust legislation, amongst others - representing a complex open system where change in conditions is constant. As Yeung (2000c) recently suggested, '(t)he context in which economic action is realized over space becomes a critical component in any economic geography explanation', and as such, it 'is highly difficult to determine the exact causality of economic action' (p 10).

This thesis is clear that the firm is made up of real people and that there are consequent social drivers behind strategy and restructuring, meaning that perfect knowledge is not available to any one executive in the firm. As a direct consequence, it is not necessarily true that strategy will be entirely rational and in the interests of the firm - individuals possess different personal value asymmetries from firm-based profit maximising objectives. For example, the agency problems outlining the difference between ownership and control evoked in financial economics through the work of Jensen could be viewed to have been evident in justifying the leveraged-buy outs in the 1980s. A separate issue is convincing stakeholders such as staff that it is prudent to believe and invest in strategy, as they are naturally eager to retain their individual authorities and responsibilities in the new configuration (see Chapter 9). Hence, the firm is viewed as, at times, 'disorganized, incoherent and contradictory ...undermin(ing) the disciplining power of a single and unidirectional logic of reproduction' (O'Neil and Gibson-Graham, 1999, p 20), or as Yeung (2000c) recently put it, 'a messy constellation of multiple identities, contestation of power, and shifting representations' (p 19). This has repeatedly been seen in the outcomes of corporate restructuring in the department store sector.

In summary, the thesis argues that '(r)estructuring is not so neat or easily foretold. Nor should it be assumed that economic imperatives are...coherent and well defined', and as such it should be 'admitted that economic imperatives are actually historically contingent and spatially heterogenous' as 'social and political forces (regulation in general) have a life of their own'

(Clark, 1993b, p 108). It contends that corporate 'restructuring is a process of experimentation where the end-point is not known and where the costs and risks of restructuring are considerable' (Clark, 1993b, p 108).

b) Close dialogue and the potential contribution of the equity analyst

Secondly, the thesis has attempted to build on strategies and methodological approaches recently discussed in the economic geography literature. Whilst strategies of research broadly within human geography are extensively scrutinized – especially from a feminist geography standpoint – specifically economic geography methodological approaches remain underemphasized. The thesis builds on the nature of how to "do" research on the subject of corporate restructuring and examines, in a situated manner, close dialogue with corporate elites (cf. Clark, 1998). Here issues of gaining access to powerful corporate actors come to the fore. Fundamentally, it is argued that it is necessary to interrogate the narratives from the key strategy builders within firms, in order to understand the process of corporate restructuring. In addition to maintaining a close dialogue with key industry executives within the constituent firms of the industry in question, the thesis contends that the contributions of the investment analyst in building a balanced narrative remain underemphasized in the current literature. Chapter 5 therefore examines the positioning, role and nature of the knowledge equity analysts offer in constructing a complex geography of corporate change. Indeed, the situated nature of all knowledge gleaned through close dialogue is essential to consider. Hence, it is argued that a rigorous triangulation strategy is necessary *between agents in the close dialogue process* - whereby close dialogue should be carried out with a wide range of corporate elites - but also *between perspectives gleaned from close dialogue and those from secondary data* obtained from the business press, industry reports and the like. Clearly, the close dialogue process offers outstanding opportunities for in-depth economic geography enquiry but this must be tempered by a consciousness of maintaining a balanced perspective.

c) Financial leverage and the firm

The investigation of financial restructuring of the US department store sector in Chapter 6 has emphasised the geography of divestiture that occurred as a direct result of the debt burden experienced by the overleveraged retailers. Furthermore, the effects of financial re-engineering had long-term spatial implications, with extensive bankruptcy and store closings, as adjacent divisions were consolidated. It is argued however, that such overleveraging, and the subsequent Chapter 11 bankruptcies that followed it, often provided the framework within which to organisationally restructure and centralise what had been fiercely independent business units. This contrasts with the view taken in much of the literature of economic geography which

focuses on the negatives effects of the arbitrage economy, particularly on the US department store industry (c.f. Hallsworth, 1991) – a view also taken in the literature of other disciplines (e.g. Rothchild, 1991; Trachtenberg, 1996). In addition, the case studies of RH Macy and the Campeau Corporation raise important lessons regarding agency in corporate restructuring, and high leverage in a firm that experiences cyclical cash flows. Moreover, it is important to consider that whilst high gearing and leverage was envisaged to produce a more efficient corporate structure, the high debt repayments meant that the department store industry could not negotiate the high sunk costs that would be necessary to initiate any organisational restructuring. Indeed, it was only following Chapter 11 bankruptcy filing that the department store conglomerates were able to start along the road of realising organisational centralisation and operating efficiency.

d) Organisational restructuring, the geography of knowledge and social relations in corporate restructuring

Chapter 9 of the thesis has contributed to the debates concerning the geography of commercial knowledge in firms and its subsequent geographical expression in the organisational restructuring of retailers. This, in particular, has focused on the interplay between tacit knowledge collected at the local, decentralised spatial scale, and codified knowledge collected at the centralised points through the operation of "expert systems". Indeed, as Castells (1989) anticipated in the late 1980s, it has become easier to disembed the organisation of firms from their local contexts through the utilisation of "expert systems" in, what he labels, a "space of flows":

> While organizations are located in places, and their components are place-dependent, the organizational logic is placeless, being fundamentally dependent on the space of flows that characterizes information networks. But such flows are structured, not undetermined. They possess directionality, conferred both by the hierarchical logic of the organization as reflected in instructions given, and by the material characteristics of the information systems infrastructure....The more organizations depend, ultimately, upon flows and networks, the less they are influenced by the social context associated with the places of their location. From this follows a growing independence of the organizational logic from the societal logic (Castells, 1989, pp. 169-170, cited by Stalder, 1998).

As Hippel (1999) suggested 'firms may reduce the stickiness of a critical form of technical expertise by investing in converting some of that expertise from tacit knowledge to the more explicit and easily transferable form of software "expert system"' (p 71). From this perspective, tacit knowledge and explicit knowledge are not totally separate but mutually complementary entities' (Nonaka and Takeuchi, 1999, p 219). Despite the theoretical ability to centralise a firm's organisational structure - with expert systems converting tacit knowledge to specific or codified knowledge, there have been limits to the department store's ability to do this. Evidence presented in Chapter 9 contends that some tacit knowledge, collected at the local or regional

scale, at times, remains more important and is unable to be reformatted or codified and subsequently administered at a central node. Such conclusions support Amin and Cohendet's (1999) view that a dual organisational structure occurs - mixing the decentralised and centralised business units. From this perspective, as Dunning (1999) suggests, the spatiality of knowledge within firms is gradually becoming more successfully negotiated:

> ...firms are becoming increasingly aware of the need to balance the advantages of centralized control of financial assets, intellectual capital and markets, with those of the decentralization of entrepreneurial initiative and managerial competence, and the need to adapt asset usage to local needs and customs (Dunning, 1999, p 303).

Furthermore, organisational restructuring has underlined the social nature of the firm and how individuals in the organisation can resist change, as they possess different value asymmetries from that of the firm's strategy (cf. Schoenberger, 1997). Repeatedly, the restructuring strategies of US department stores were partially resisted in specific hierarchies and spaces of the firm with individuals anxious to retain their importance in the new organisation. Indeed, the firm is an 'unpredictable site of multiple and contradictory processes' (O'Neil and Gibson-Graham, 1999, p 12). As Yeung (2001) recently acknowledged:

> ...while the capitalist "firm" is constantly responding to market forces and competitive pressures (alternatively known as "economic" imperatives), its market coping strategies and negotiating processes can be regulated through a variety of institutional and socio-cultural practices at different spatial scales (Yeung, 2001).

This social regulation of the firm has been repeatedly evident in the restructuring of the US department store industry, as corporate management is faced with the task of communicating strategic direction across the whole firm, establishing inclusiveness at all spaces, places and hierarchies.

e) Portfolio restructuring, real regulation and strategy

The analysis of portfolio restructuring in Chapters 7 and 8 have been shown to have a number of implications for current debates throughout economic geography. In particular, the analysis extrapolates theoretical work on the discursive nature of the enforcement of state rules via a clearly worked practical case study (cf. Clark, 1992a) - highlighting the role of *strategic fit* in portfolio restructuring – a topic rarely tackled in economic geography. In addition, discussion moves beyond an analysis of regulatory constrained spatial fit, to highlight a number of "acquisition fundamentals" and their importance when analysing a case study of failed portfolio restructuring. In this analysis, issues of cultural strategic fit and integration concerns come to the fore as:

> instead of being a mechanistic production function or an abstract capitalist imperative...(the firm is) a contested site for the material and discursive constructions at different organisational and spatial scales. The firm is therefore necessarily a site of power relations and power struggle among actors, it is a socio-spatial construction embedded in broader discourses and practices (Yeung, 2000a, p 5).

It is shown in this case study that integration issues have led to difficulties in merging two corporate cultures, as each "side" attempts to retain responsibilities and powers in the new organisation. Moreover, it is shown that during the due diligence process it is equally important to consider cultural/social issues of this kind as spatial fit, price, profitability and regulatory response.

f) The configuration of internal spaces of retailing and retail-brand building

Chapter 10 argues that the strategically configured spaces of store interiors remain, in many ways, the engines of retail capital accumulation, equally as important as any revolutions in the distribution system. In recent years, conventional department store retailers have reorganised their internal store geographies, attempted to ease shopping for their time-strapped consumers, and respond to the competition from better configured retail formats. Part of this process has been directed at the development of themselves as retailer-brands, with an increasing infiltration of own-brand products into their merchandise assortments. This has directly led to the proliferation of own-branded sub-departments of the store, as the sector has gradually learned to better theme its departments and to more effectively target clientele for specific departments. These issues lack any comprehensive coverage to date in the economic geography literature, however, they potentially complement the research into brand building within retail geography and much culturally informed retail geography analysis focused on store interiors (e.g. Hopkins, 1990; Shields, 1992).

g) The "new economy" and new business models

Finally, the thesis has tackled the issue of the response to the conditions of the so-called "new economy", seen in the department stores' adoption of the Internet. The corporate restructuring response to e-commerce, due to its recent arrival, has yet to be adequately analysed in either the economic or retail geography literature (a minor exception being Murphy, 2001). Chapter 11 has contributed to these emerging debates by analysing the portfolio restructuring strategies of department stores in acquiring the specific knowledges necessary to operate direct-marketing firms (-see most recently in the UK, department store retailer John Lewis and its purchase of the UK arm of Buy.com in February 2001; see Barker, 2001; Cope, 2001). In pursuing these diversified strategies, organisational redesign is necessary where direct marketing information

must be managed in isolation from the knowledge that support the conventional stores' operation. E-commerce represents, what Christensen (1997) labels, a 'disruptive technology'. However, contrary to what this dual organisational structure and much geographical literature has suggested, the virtual and physical store spaces support each other, as the brand identity and physical presence of the store underpins success in the virtual world. More work is clearly necessary to fully understand the relationship between virtual and physical store spaces in the new economy and the subsequent restructuring responses of firms.

SPECULATIONS – THE US DEPARTMENT STORE, THE NEW ECONOMY AND GLOBAL RETAILING

The "New Economy" and the US Department Store

The end of the 20th Century has been represented throughout much of the media, management and economic geography literature as a business environment where traditional modes of commerce have been transcended upon an apparent placeless, boundless landscape (see the wide array of work by the economist Danny Quah). These new conditions have fostered increased globalisation as business is increasingly based on knowledge rather than tangible bases. In addition, with this knowledge-based economy, firms find they do not necessarily possess all of the attributes to succeed and consequently have to enter into alliances with firms from other sectors to succeed (see for example Kelly, 1998; Tapscott, 1999a; see Chapter 11).

Although the revolutionary nature of this transformation has been tempered by the recent bankruptcies and loss of confidence in the "pure-player" "dot-coms", it is equally clear that the issues that are outlined in **Table 12.2** regarding the qualitative changes in the economy are valid. Indeed, even though department store retailing is fundamentally based around physical distribution, there is considerable evidence that the essence of many of the changes that make up this "information economy," "network economy," "digital economy," "knowledge economy," or "risk society" have been evident in the restructuring of the constituent firms in the department store sector.

Table 12.2 A Comparison of the Old and New Economy

ISSUE	OLD ECONOMY	NEW ECONOMY
Economy-Wide Characteristics:		
Markets	Stable	Dynamic
Scope of Competition	National	Global
Organizational Form	Hierarchical, Bureaucratic	Networked
Industry:		
Organization of Production	Mass Production	Flexible Production
Key Drivers of Growth	Capital/Labor	Innovation/Knowledge
Key Technology Driver	Mechanization	Digitization
Source of Competitive Advantage	Lowering Cost Through Economies of Scale	Innovation, Quality, Time-To-Market, and Cost
Importance of Research/Innovation	Low-Moderate	High
Relations With Other Firms	Go It Alone	Alliances And Collaboration
Workforce:		
Policy Goal	Full Employment	Higher Real Wages and Incomes
Skills	Job-Specific Skills	Broad Skills and Cross-Training
Requisite Education	A Skill or Degree	Lifelong Learning
Labor-Management Relations	Adversarial	Collaborative
Nature of Employment	Stable	Marked by Risk and Opportunity
Government:		
Business-Government Relations	Impose Requirements	Encourage Growth Opportunities
Regulation	Command and Control	Market Tools, Flexibility

Source: adapted from The Progressive Policy Institute (PPI) (1998) *The New Economy Index*, June 1998

Table 12.3 summarises the fundamental changes that have occurred in the US department store sector over the past decade and a half – the period that is extensively covered by this thesis. The knowledge driven nature of the new economy has been acutely seen in the organisational restructuring of the sector whereby firms have moved from being made up of almost purely autonomous divisions (albeit part of a larger corporate operation) to closely interlinked forms with extensive resource and data sharing. As a result, data is turned into knowledge and seen as driving operations, where tacit knowledge is replaced by codified knowledge that can be collected at a decentralised spatial scale with interpretation at central nodes – as Gus Pagonis,

President of Sears' Logisitics Division President in 1996 – 'I am a strong believers in centralized control and decentralized execution' (Sharman, 1996, p 107). With this transfer of control from the branch to the central headquarters, the buyer no longer drives the merchandising process, although s/he dictates selection across a wider number of stores – hence data becomes central to carefully administering this complex process.

With the evolution of the so-called networked economy there has been the growth of B2C (business to consumer) e-commerce possibilities. This has often entailed building relationships with direct marketing specialists - as forecast extensively in the literature of the "new economy" (e.g. Handy, 1996; Tapscott, 1999a). However, as department stores have embraced this medium, they have continued to develop physical infrastructures of retailing, recognising that there is a crucial dependence on many of the fundamental characteristics of the "old economy" within the apparent new competition.

Table 12.3 The Department Store Entering the New Economy

OLD ECONOMY Pre-1985	NEW ECONOMY post-1985
Separate divisions	Centralised direction, some divisional execution
Fragmented and decentralised operating structure	Centralised Structure
Independent administrative offices across divisions	Centralised support services
Data as useful	Data as necessity
Disaggregated supply chain	Integrated supply chain
Independent data retention	Share data along the value chain
Buyer as lynchpin of department store	Buyer's power declines as branches increase
Store/divisional based innovation	Central planning. Store based execution
Store as the only delivery channel	Multi delivery channels: store, catalogue, internet
Principally in CBD	Suburban markets
All types of household goods	Soft goods/apparel
Functional store interiors	Configure each department to appeal to target consumers

As much business literature has suggested, firms have had to resort to focusing on their core competencies amid the 'new competition' (cf. Prahalad and Hamel, 1990). US department store firms have had to respond by focusing their merchandise selection in their area of strength – apparel and lifestyle home furnishings. In addition, this has seen a divergence toward suburban markets rather than the deteriorating city centres – their core competency of servicing the upper middle and upper class is clearly focused in suburban environments. A major part of this focus has seen the department store firms attempt to better focus their stores to the target clientele, through improved departmental theming with functional and attractive store interiors. Indeed, commentators Pine and Gilmore (1998) suggest that in the "new economy" it will be necessary for retailers to create a retail experience in what they label the 'experience economy'.

The "New Economy" and US Department Store Internationalisation

Clearly, the US department store industry has seen many of the themes of the "new economy" replicated in their restructuring strategies. However, one principal theme that has been largely absent from the sector has been globalisation. This is intriguing as global retailing is rapidly occurring across many retail sectors (see N. Alexander, 1997; Sternquist, 1998; Wrigley, 2000b), receiving increasing coverage both in academia and the business press– see for example the analysis of emerging global retailer, Wal Mart (Arnold and Fernie, 2000).

Indeed, the 1990s has been a time of rapid adoption of technological infrastructures in a saturated market, so it would, on superficial analysis, seem the perfect time for international expansion. Indeed, as far back as the early 1990s, Rogers broadly commented, 'Communications are shrinking the world and transnational retailing is becoming increasingly commonplace. It cannot be long before Nordstrom opens a branch on London's M25, or Harrod's "hangs its shingle" in Manhattan' (Rogers, 1991, p 11). Why then, was the 1990s not the decade of rapid US department store internationalisation?

There are a number of reasons why such developments have not been characteristic of 1990s US department store retailing. First, with the stringent regulatory landscape of the USA, governed by the FTC, it has increasingly been difficult for retailers to nationalise their operations. Indeed, Wrigley (1992; 2000b) points to the unique regulatory framework as the key reason holding back the development of national food retailing in the US. During the 1980s and 1990s, the implementation of the anti-trust action in portfolio restructuring declined and consolidation occurred. As a result, US retailers have traditionally been considerably behind their overseas competitors when it comes to national concentration – let alone considering international presence and subsequent expansion. The department store industry has thus only relatively recently been exploiting the potential of its large trading area, with the secondary consolidation of smaller regional operators throughout the 1990s, after the larger consolidations of the department store heavyweights at the start of the decade.

Second, the highly leveraged transactions of the 1980s effectively stopped the US department store industry in its tracks for a short period. The retailers were more focused on keeping their debt-burdened businesses afloat rather than expanding overseas. This consolidation amongst all of the major players in the industry has focused the minds of company executives on organisational restructuring and strategic repositioning to leverage synergistic benefits. In

addition, having acquired these competitors during the 1990s, the balance sheets of the large US department store firms were hardly favourable to further leveraging (see **Table 12.4**).

Table 12.4 US Department Stores: Gearing 1999 and Capex/Depreciation Ration 2000E-2001E

Firm	Gearing 1999	Capex/Depreciation Ratio Average 2000E-20001E
Sears Roebuck	153%	108%
JC Penney	72%	130%
Federated	86%	139%
May	92%	133%
Kohl's	30%	360%
Nordstrom	68%	138%

Source: Deutche Bank (2000, p 33)

Despite these valid issues, there remains the *potential* to leverage well-known department store brand names further across the country. One consequence has been the Bloomingdale's name appearing on the West Coast alongside Macy's (Porter, 1999), and rapidly expanding urban areas such as Phoenix, Arizona attracting the attention of stores pursuing organic expansion. With so much activity internally within the US, retailers have been hesitant to look overseas for expansion opportunities. Deloitte and Touche (1998a) quote an anonymous department store executive - "We do not want to take our eye off the ball here in the US. It's too important a market" (p 39). Indeed, in response to Saks' recent interest in internationalisation, analysts have expressed concern that it could represent a 'distraction from their core business' and could 'be difficult to manage' (Spurgeon, 2000, p B1).

There is an argument however that the consolidation activity of the U.S. department store sector should naturally lead on to department store internationalisation, as the factors are finally in place for advancement overseas:

> The USA is the largest mass market in the developed world. It has taken domestic retailers decades to expand from the east coast to the west coast, and from the northern border to the southern boarder. However, the time has come when many formats have reached the saturation point. The USA is over-stored and for many retailers the best expansion possibility is to internationalize (Sternquist, 1997, p 262).

Despite certain counter examples, domestic expansion in the industry is becoming increasingly difficult to achieve – not least because of a period of regulatory tightening by the FTC during the late 1990s (see Chapter 7). International expansion, in this context, would further allow department store retailers to increase in scale and enter a virtuous cycle, as explained in a recent *McKinsey Quarterly* article.

> Growth in scale permits them to achieve greater purchasing efficiency in sourcing, information technology (IT), and advertising. As scale efficiencies increase their operating margins, they can invest in the kind of expertise that would permit them, for example, to gather information about customers. The more retailers expand geographically, the more their profits swell, further increasing their ability to make investments to gain even more geographic reach and expertise and to upgrade their intangible assets, such as brands and talent. In short, those that have, get more (Incandela et al., 1999, p 87).

It is important to consider however, that conditions in Asia have deteriorated - a location where much activity was hypothesised to occur - which has served to underline to retailers the risks of expanding into foreign markets.

A possible avenue of internationalisation growth, which could serve to get a foothold overseas, is through operating licensing agreements with foreign retailers and store developers. Indeed, recent literature has underlined the importance of information asymmetry in the overseas investment decision (see Doherty, 1999). This aids the smooth integration into a new country, being conscious of the new competitive environment and cultural attributes of foreign customers with minimal risk. Saks Incorporated recently took a tentative step in the Middle East by announcing an agreement with Prince Saud, Chairman of Trade Centre Company Limited, to open a 57,000 square foot Saks Fifth Avenue, located in The Kingdom Centre, Riyadh, Saudi Arabia in 2001 (Saks Incorporated Press Release, 1999). Saks is attempting to avoid many of the risks of internationalisation, as the store will be owned and operated by Kingdom Holding Co. under a licence agreement with Saks Fifth Avenue, which will ensure the quality of the services of the merchandise and amenities (Park, 1999). Although the store will be congruent with its American counterparts, Saks acknowledge that some cultural differences, catering to regional customs, are necessary - the store will house a private shopping level exclusively for women, amongst the usual Saks attributes. It is hoped that such attractions can capitalise on the increasing number of 'Westernised' customers, in what is, an extremely wealthy area (see Park, 1999).

Clearly internationalisation has the potential to provide another avenue of growth into the 21st Century for the dominant US department store firms, allowing them ultimately perhaps to mirror the rapidly globalising grocery and discount stores.

POSTSCRIPT

The thesis has clearly investigated a number of themes and aspects of corporate restructuring, finance, regulation and the firm which deserve further investigation by economic geographers. The US department store industry therefore has served as a dynamic vehicle to extrapolate many lessons that are characteristic of the firm and its changing geographical expression across capitalist space.

Part Six

APPENDICIES

I SELECTED US DEPARTMENT STORE ACQUISITIONS, 1976-2001

II VOLUME OF LARGEST TRADITIONAL US DEPARTMENT STORE COMPANIES, 19841999

III US DEPARTMENT STORES AND THE INTERNET: STATE OF THE INDUSTRY END SEPTEMBER 2000

IV CORPORATE CONTACTS THROUGHOUT PhD

V REFERENCES

VI PUBLICATIONS

APPENDIX I Selected U.S. Department Store Acquisitions, 1976-2001

Date	Acquirer	Acquired (Geographical Area)	Cost (If known)	No of Stores (If known)	Comments
1976	Federated	Rich's (Atlanta Based)			
1978	Dayton Hudson	Mervyn's			*Mervyn's is a discount department store cum discount store*
1978	Marshall Field	Breuners (California)			*Breuners was a furniture retailer, not a department store.*
1979	Marshall Field	Lipman's (Portland)			*Purchased from Dayton Hudson Corporation. Purchased to increase debt/equity ratio to resist take-over by Carter Hawley Hale.*
1979	Crown American	Hess's Department Store Inc.			
1980	Marshall Field	6 Union Stores (Columbus, Ohio), Iveys (Florida and the Carolinas)			*Purchased to increase debt/equity ratio to resist take-over by Carter Hawley Hale.*
1981	Allied	Garfinkel's (Washington DC), Brooks Brothers and Miller Rhoads			*Acquisition increased debt burden for Allied and concerns were raised that they would be vulnerable to hostile take-over.*
1981/1982	Batus Inc.	Gimbel's			*Note that Gimbel's owned Saks Fifth Avenue*
March 1982	Batus Inc.	Marshall Field	$368 million		
1983	Dillard's Department Stores	Stix Baer and Fuller from Associated Dry Goods			
1984	Alfred Taubman (shopping centre developer)	Woodward and Lothrop (Washington DC)	$230 million		
1984	Mort Olshan	B. Altman			
1984	Dillard's	John A. Brown and Diamonds from Dayton Hudson			
1984	Dayton and Hudson form Dayton Hudson Department Store Company.				*Hudson's and Dayton's combine to form Dayton Hudson Department Store Company.*
1985	Elder-Beerman	R. H. Macy's Ohio stores			
1986	Campeau Corporation	Allied Department Stores	$3.6 billion, plus assumed debt making $4.4 billion in all		*Allied was then the sixth largest department store chain which included Ann Taylor, Tie Bon Marché, Brooks Bros., Maas Bros., and Stern's.*
1986	Finkelstein takes Macy private through a leveraged buy-out of $3.6 billion				
1986	May	Associated Dry Goods Corporation (New York, NY)	$2.5 billion	110	*Including Lord & Taylor, headquartered in New York City. Strouss, in Youngstown, Ohio, was consolidated with Kaufmann's.*
1986	Alfred Taubman	16 store John Wanamaker from CHH	$183 million		
1987	Federated	Block's (Indianapolis Based)			*Formally Allied Owned. Converted to Lazarus on acquisition.*
May 1988	Proffitt's	Lovemans (Tennessee)		5	
July 1988	Campeau Corp/Allied	Federated	$6.7 billion		
1988	R. H. Macy	I Magnin and Bullock's	$1.1 billion		*Formally division of Federated. Bullock's was not transferred to Macy nameplate until 1996.*
1988	May	Foley's (Houston) and Filene's (Boston).	$1.5b	46	*Acquired from Federated and operated as separate divisions*
1989	P. A. Bergner	Carson Pirie Scott (Midwest)			
15 Jan 1990	Federated Department Stores Inc. and Allied Stores Corp. both controlled by Campeau Corp., file for protection from creditors under Chapter 11.				
1990	May	Thalhimers, (Richmond, Va.) Sibley's, (Rochester, N.Y.)		26	*Consolidated with Kaufman's*
1990	Dayton Hudson	Marshall Field (Midwest)	$1.4 billion		*Operated as a separate division*
July 1990	Investcorp.	Saks Fifth Avenue			*Acquired from BAT*
Jan 1992	Macy file for Chapter 11 Protection				
Feb 1992	Federated emerges from bankruptcy, becoming a public company once again				
Oct 1992-July 1993	Proffitt's	Hess (Southeast)	$212 million	18	
March 1994	Proffitt's	McRae's (Southeast)	$337 million	28	
1994	Bon-Ton	Hess		20 and distribution centre	*Bon-Ton receives the rights to the Hess's nameplate. Run as a separate division until 1995. 5 stores dropped in 1997*
1994	May	10 stores from Hess's (in Pennsylvania and New York State).		10	*Six of the stores were consolidated into Kaufmann's, two into Hecht's and two into Filene's.*
May 1994	Federated	Joseph Horne Co. of Pittsburgh.			*Added 10 Pennsylvania stores to its Lazarus division.*
Dec 1994	Federated	R. H. Macy	$4.1 billion	123	*Acquisition approval, granted by U.S. Bankruptcy Court in December, culminates Macy's three-year reorganization plan. Macy's East, headquartered in New York City, merges with A&S/Jordan Marsh to form a $4 billion retailing division of Federated.*

Date	Acquirer	Acquired (Geographical Area)	Cost (If known)	No of Stores (If known)	Comments
April 1994	Proffitt's	Parks-Belk		3	
1995	May	16 Wanamaker and Woodward & Lothrop stores in the Philadelphia area and in Washington, D.C.		16	*Fourteen of the stores were consolidated into Hecht's and two into Lord & Taylor.*
July 1995	May and J. C. Penney	Woodward	Total Cost $460 million		*Woodward's rescued from bankruptcy*
Aug 1995	Federated	Broadway	$1.6 billion	82	*Based in Los Angeles. Initially, this added 82 Broadway, Emporium and Weinstock's department stores in California and four other southwestern states with annual sales of more than $2 billion. Federated announces that 56 of these stores will be converted to the Macy's nameplate. Five others will become Bloomingdale's, while other locations will be sold or closed.*
April 1996	May	13 Strawbridge & Clothier stores in the greater Philadelphia area.	$479.5 million	13	*Strawbridge & Clothier rescued from bankruptcy. The stores were consolidated into Hecht's and are operated under the name Strawbridge's, along with eight other stores in the Philadelphia market.*
Feb 1996	Proffitt's	Younker's (Midwest)	$258 million	51	*Operated as a separate division*
October 1996	Proffitt's	Parisian (Southwest and Midwest)	$452 million	38	*Operated as a separate division*
Nov 1996	Belk	Leggett Stores	$92 million		
February 1997	Proffitt's	Herberger's (Midwest and Great Plains)	$154.9 million	40	*Operated as a separate division*
January 1998	Proffitt's	Carson Pirie Scott (Midwest)	$956 million	55	*Operated as a separate division*
March 1998	Proffitt's	Broady's (North Carolina)		6	*4 converted to Proffitt's stores, 2 closed.*
May 1998	Dillard	Mercantile	103 (predominately fashion apparel stores and 16 home fashion stores Southern, Southwestern, Midwest). $2.9 bn		*Due to transaction May purchased 13 stores: 11 former Mercantile stores from Dillard's, one former Dillard's store, and one former Montgomery Ward store. Eleven of the stores were consolidated into Famous-Barr, seven of which are operated as The Jones Store in the Kansas City and Topeka markets. Proffitt's agrees to acquire 15 former Mercantile stores.*
August 1998	Gottschalks	The Harris Company (California)	$36.1 million	9	*One of which was closed*
Sept 1998	Proffitt's	Saks Holdings (National)	$2.1 billion	96	*Proffitt's, Inc. changes its name to Saks Incorporated*
October 1999	May	ZMCI (Utah, Idaho)	$52 million	14	
March 2001	May	Saks Inc.	$310 million	9	*Saks divests 5 Proffitt's stores in Nashville, Tenn.;3 Parisian stores in Louisiana and Florida, and 1 McRae's store in Baton Rouge, La.*
March 2001	Target	Montgomery Ward		35	*Acquires 35 of the bankrupt chains' sites*

Sources: Numerous articles, company reports and trade press including Agins, 1999; Deloitte and Touche LLP (1998); Grant (1996); Kaplin (1990; 1994); Laulajainen (1987; 1988; 1990); J. P. Morgan, 1998; Loomis (1997); Serwer (1996); Reiferson (1991) Wall Street Journal (2001b) and numerous Chain Store Age articles and Merrill Lynch equity reports.

APPENDIX II Volume of Largest Traditional Department Store Companies, 1984-1999

1984	
Federated	$6,567
R. H. Macy	4,065
Allied Stores	3,970
Carter Hawley	3,642
May	3,236
Associated D G	2,544
Batus – Saks/MF	2,000
Mercantile	1,706
Dayton Hudson	1,548
Dillard	1,277
Nordstrom	959
Total	$31,514
% of GAF Sales	10.0%

1986	
Federated	$6,974
R. H. Macy	6,283
May	4,653
Allied Stores	4,470
Carter Hawley	3,985
Batus – Saks/MF	2,500
Mercantile	2,028
Dillard	1,851
Nordstrom	1,630
Dayton Hudson	1,566
Total	$35,940
	9.8%

1988	
May	$7,537
R.H. Macy	6,800
Federated/Allied	6,220
Carter Hawley	2,708
Batus – Saks/MF	2,600
Dillard	2,558
Nordstrom	2,328
Mercantile	2,266
Dayton Hudson	1,693
Total	$34,710
	8.3%

1990	
May DS	$8,669
Federated/Allied	7,142
R. H. Macy	6,859
Dillard DS	3,720
Dayton Hudson	2,909
Nordstrom	2,894
Carter Hawley	2,533
Mercantile	2,367
Neiman Marcus	1,414
Saks	1,350
Total	$39.857
% of GAF Sales	8.4%

1992	
May	$9,033
Federated	7,080
R.H. Macy	6,449
Dillard	4,714
Nordstrom	3,422
Dayton Hudson	3,024
Mercantile	2,732
Carter Hawley	2,138
Neiman Marcus	1,485
Saks	1,343
Total	$41,420
	8.0%

1994	
Federated	$13,947
May	9,759
Dillard	5,546
Nordstrom	3,894
Dayton Hudson	3,150
Mercantile	2,819
Neiman Marcus	2,092
Saks	1,418
Proffitt's	617
Total	$43,243
	7.3%

1996	
Federated	$15,229
May	11,662
Dillard	6,228
Nordstrom	4,453
Dayton Hudson	3,149
Mercantile	3,030
Neiman Marcus	2,166
Saks	1,945
Proffitt's	1,890
Total	$49,752
% of GAF Sales	7.6%

1997	
Federated	$15,688
May	12,352
Dillard	6,632
Nordstrom	4,852
Proffitt's	3,545
Dayton Hudson	3,162
Mercantile	3,055
Neiman Marcus	2,210
Saks	2,193
Total	$53,689
	7.9%

1998	
Federated	$15,883
May	13,095
Dillard	7,797
Saks, Inc.	6,220
Nordstrom	5,028
Dayton Hudson	3,284
Neiman Marcus	2,461
Total	$53,718
	7.8%

1999	
Federated	17,716
May	13,869
Dillard	8,677
Saks, Inc.	6,424
Nordstrom	5,124
Dayton Hudson	3,074
Neiman Marcus	2,553
Total	57,437
% of GAF Sales	7.4%

NB: These sales figures include all sales by the department store companies. These may be through department store stores, catalogue, Internet. Additionally, they may be through their off-price stores. They therefore do not necessarily represent only department store sales. GAF – General merchandise, furniture and apparel sales

Source: Adapted from Goldman Sachs (1999) *Department Stores: Loss of Market Share – A Blight with Few Apparent Remedies*, Goldman Sachs Investment Research, New York, May 7, p16. Updated with data from Company Reports and 10Ks submitted to the Securities and Exchange Commission. Additional data on GAF sales from U.S. Dept. of Commerce (2000) *Revisions to Monthly Retail Sales and Inventories Series*, United States Department of Commerce News, U.S. Census Bureau, Washington D.C.

APPENDIX III

Department Stores and the Internet: State of the Sector end September 2000

DEPARTMENT STORE	ADDRESS	DIRECT SALES FACILITY	CUSTOMER INFORMATION
Federated	www.federated-fds.com	×	✓
Bloomingdales	www.bloomingdales.com	✓	✓
Macy	www.macys.com	✓	✓
May	www.mayco.com	×	✓
Dillard	www.dillards.com	✓	✓
Saks Inc.	www.saksincorporated.com	×	✓
Saks 5th Avenue	www.saksfifthavenue.com	✓	✓
Nordstrom	www.nordstrom www.nordstromshoes.com	✓	✓
Dayton Hudson	www.dhc.com	×	✓
Marshall Fields	www.marshallfields.com	✓	✓
Hudson's	www.hudsons.com	✓	✓
Dayton's	www.daytons.com	✓	✓
Belk	www.belk.com	×	✓
Neiman Marcus	www.neimanmarcus	✓	✓
Boscov's	www.boscovs.com	✓	✓
Bon-Ton	www.bonton.com	×	✓
Gottschalk's	www.gottschalks.com	✓	✓
Elder-Beerman	www.elder-beerman.com	×	✓

Source: Author's research

Appendix IV Corporate Contacts Throughout the PhD

Dated in order of first contact

Date	Contact	Contact Medium	Reason for Contact
Jan 1999	Daniel Barry, Merrill Lynch	Meeting at Merrill Lynch Retailing Conference, Phoenix, AZ.	Discussion of department store industry.
Jan 1999	Michael Stein, CFO, Nordstrom	Meeting at Merrill Lynch Retailing Conference, Phoenix, AZ	Viewed analyst presentation
Jan 1999 – Sept 2000	Anna Marie Martinez, Institutional Investor, First MD.	Meeting at Merrill Lynch Retailing Conference, Phoenix, AZ, and later E-mails	Constant discussions about the industry.
June 1999 – Sept 2000	Professor Daniel Raff, Wharton Business School	E-mail	E-mail discussion on the Federated and Campeau period and methodological advice.
July 1999	Trevor R. Stewart, Principal, Deloitte and Touche, NYC	E-mail	Secured a number of E-commerce reports.
August 1999	Christine Honeygosky, Price Waterhouse Coopers	E-mail	Secured a number of US retail industry reports.
Dec 1999 – Sept 2000	Professor Howard Biederman, Former divisional head of Division at Allied Stores and author of Biederman (1991)	E-mail	Daily E-mails about the industry and the progression of my thesis.
Jan-March 2000	Diane Kutyla, Deloitte and Touche, NYC	E-mail and mail	Secured a number of important retail reports.
Jan – March 2000	Mike Turbidy, Librarian, International Council of Shopping Centers, NYC	E-mail, fax and mail	Secured a number of rare US department store stories.
March 2000	Allen Questrom, ex-CEO Federated. Present day CEO Barney's New York.	New York City	Extensive Semi Structured Interview
March 2000	Terry Lundgren, President and Chief Merchandising Officer, Federated Department Stores	New York City	Extensive Semi Structured Interview
March 2000	Ann Whitney, Director of Quick Response, Saks Fifth Avenue	New York City	Extensive Semi Structured Interview
March 2000	Professor David Rachman, Baruch College, City University of New York (see Rachman and Fabes, 1992)	New York City	Extensive Semi Structured Interview
March 2000	Judy Daniel, President, Bloomingdale's By Mail	New York City	Extensive Semi Structured Interview
March 2000	Peter Sachse, Vice Chairman, Director of Stores, Macy's East	New York City	Extensive Semi Structured Interview

	Director of Stores, Macy's East		
March 2000	Professor Howard Biederman Former divisional head of International Division at Allied Stores and author of 'Strategic restructuring in the US department store industry' (1991)	New York City	Extensive Semi Structured Interview
March 2000	Hal Kahn, Chairman, Macy's East	New York City	Extensive Semi Structured Interview
March 2000	George Strachan, Equity Analyst, Goldman Sachs	New York City	Extensive Semi Structured Interview over lunch
March 2000	Pam Stubing, Department Store analyst, Ernst and Young	New York City	Extensive Semi Structured Interview
March 2000	Harry Frenkel, Senior Vice President, Chief Financial Officer, Federated Merchandising Group	New York City	Extensive Semi Structured Interview
March 2000	Don Eugine, ex-CFO Macy's. Now President of Finkelstein/Eugine Associates Inc.	New York City	Lunch appointment discussing the 1980s
March 2000	Daniel Barry, First Vice President, Equity Research, Merrill Lynch	New York City	Extensive Semi Structured Interview
March 2000	Linda Kristiansen, Schroder's Capital Management, Equity Research	New York City	Extensive Semi Structured Interview
April 2000	Carol Sanger, Vice President, Federated Department Stores	Cincinnati	Extensive Semi Structured Interview
April 2000	Steven A. Bergquist, Operating Vice President Store Design, Federated Department Stores	Cincinnati	Brief discussion regarding Federated's retail store designs
April 2000	Nadine King, Senior Designer, Federated Department Stores	Cincinnati	Extensive Semi Structured Interview
April 2000	James Wagner, Designer, Federated Department Stores	Cincinnati	Extensive Semi Structured Interview
April 2000	Jay Fitzpatrick, Fitzpatrick Design Group	New York City	Extensive Semi Structured Interview
April 2000	Walter Loeb, Loeb Associates (ex-Morgan Stanley analyst and formally Macy Stores executive)	New York City	Extensive Semi Structured Interview
April 2000	Craig Childress, Director Prototype Design Research, Envirosell, Inc.	New York City	Extensive Semi Structured Interview
April 2000	Michael Gould, Chairman, Bloomingdale's	New York City	Extensive Semi Structured Interview
April 2000	Philip Miller, Chairman, Saks Fifth Avenue	New York City	Extensive Semi Structured Interview

April 2000	Diane Kutyla, Manager – Research & Analysis, Deloitte & Touche	New York City	Extensive Semi Structured Interview over lunch
April 2000	Trevor Stewart, Principal in E-Commerce, Deloitte & Touche.	New York City	Extensive Semi Structured Interview over lunch
May 2000	Chris Colpack, Replenishment Director, Saks, Inc.	Telephone Interview to Birmingham, AL.	Extensive Semi Structured Telephone Interview
May 2000	Jim Zimmerman, CEO & Chairman, Federated Department Stores	Telephone Interview to Cincinnati, OH	Extensive Semi Structured Telephone Interview
August 2000	Pam Stubing, Ernst & Young	New York City	E-mail contact about e-retailing
February 2001	Professor Kauo Usui, Visiting Professor, Dept. of Management, University of Edinburgh	Southampton	Discussion on historical retailing
March 2001	Richard Hyman, CEO, Verdict Research	London	Discussion about US retailing

Appendix V References

Abelson, E. S. (1989) *When Ladies Go a-Thieving: Middle-Class Shoplifters in a Victorian Department Store*, Oxford University Press, New York.

Abernathy, F., Dunlop, J., Hammond, J., Weil, D. (1999) *A Stitch in Time. Lean Retailing and the Transformation of Manufacturing – Lessons form the Apparel and Textile Industries*, Oxford University Press, Oxford.

Adams, J. S. (1970) 'Residential structure of midwestern cities', *Annals of the Association of American Geographers*, 60, 37-62.

Agins, T. (1999) *The End of Fashion. The Mass Marketing of the Clothing Business*, William Morrow & Company, Inc., New York.

Alexander, A. (1997) 'Strategy and strategists: evidence from an early retail revolution in Britain', *The International Review of Retail, Distribution and Consumer Research*, 7 (1), 61-78.

Alexander, A. and Pollard, J. (2000) 'Banks, grocers and the changing retailing of financial services', *Journal of Retailing and Consumer Services*, 7, 137-147.

Alexander, N. (1997) *International Retailing*, Blackwell Publishing, Oxford.

Alexander, N. and Akehurst, G. (1998) 'Introduction: the emergence of modern retailing, 1750-1950', *Business History*, 40 (4), 1-15.

Alevizos, J. P. and Beckwith, A. E. (1954) 'Downtown dilema', *Harvard Business Review*, 32 (1), 109-119.

Allen, J. and Massey, D. (1988) *The Economy in Question*, Sage Publications, London.

American Apparel Producers' Network (1999) *Fulfilment: How 'Quick Response' Works in the American Apparel Industry.* Posted at (http://usawear.org/qr.htm), accessed on 28 February 2000.

Amin, A. (ed.) (1994) *Post-Fordism - A Reader*, Blackwell, Oxford.

Amin, A. and Thrift, N. (eds.) (1994) *Globalization, Institutions, and Regional Development in Europe*, Oxford University Press, Oxford.

Amin, A. and Thrift, N. (2000) 'What kind of economic theory for what kind of economic geography', *Antipode*, 32 (1), 4-9.

Amin, A. and Cohendet, P. (1999) 'Learning and adaptation in decentralised business networks', *Environment and Planning B: Society and Space*, 17, 87-104.

Anderson, R. ,Byers, S. and Groth, J. (2000) 'The cost of capital for projects: conceptual and practical issues', *Management Decision*, 38 (6), 384-393.

Anon. (1927) 'Department store expansion', *Harvard Business Review*, 6, 81-89.

Archer, M. and Blau, J. R. (1993) 'Class formation in 19th century America: The case of the middle class', *Annual Review of Sociology*, 19, 17-41.

Arnold, S. and Fernie, J. (2000) 'Wal Mart in Europe: prospects for the UK', *International Marketing Review*, 17 (4-5), 416-432.

Ashton, P. J. (1984) 'Urbanization and the dynamics of suburban development under capitalism'. In W. Tabb, and L. Sawers, (eds.), *Marxism and the Metropolis - New Perspectives in the Urban Political Economy*, Second Edition, Oxford University Press, New York, pp54-81.

Audretsch, D. B. (1989) *The Market and the State. Government Policy Toward Business in Europe, Japan and the United States*, Harvester Wheatsheaf, New York.

Aufreiter, N., Kurch, N. and Smith Shi, C. (1993) 'The engine of success in retailing', *The McKinsey Quarterly*, No. 3, 101-116.

Baer, W. J. (1996) *Reflections on 20 years of Merger Enforcement Under the Hart-Scott-Rodino Act.* Prepared remarks of William J. Baer, Director, Federal Trade Commission before The Conference Board, Washington D.C., October 29, 1996 and The 35th Annual Corporate Counsel Institute, Northwestern University Law School, Corporate Law Center, San Francisco, CA, October 31, 1996. Transcript available (http://www.ftc.gov/speeches/other/hsrspeec.htm).

Baer, W. J. (1997) *New Myths and Old Realities: Perspectives on Recent Developments in Antitrust Enforcement.* Prepared Remarks of William J. Baer, Director, Bureau of Competition, Federal Trade Commission, Before the Bar Association of the City of New York, New York, N.Y., November 17, 1997. Transcript available at (http://www.ftc.gov/speeches/other/bany.htm).

Baerwald, T. J. (1978) 'The emergence of a new "downtown"', *Geographical Review*, 68, 308-318.

Bailey, T. and Bernhardt, A. (1996) *The Reorganization of the Workplace in Service Industries: Effects on job quality and organizational performance*, NCW Working Paper Series No. 7, Institute of Industrial Relations, University of California, Berkeley.

Baker, J. B. (1997) *Econometric Analysis in FTC v. STAPLES.* Prepared remarks of Jonathan B. Baker, Director, Bureau of Economics, Federal Trade Commission before American Bar Association's Antitrust Section, Economics Committee, Willard Hotel, July 18, 1997. Revised March 31, 1998. Transcript available at http://www.ftc.gov/speeches/other/stspch.htm).

Baker, J. B. (1999) 'Econometric Analysis in FTC v. STAPLES' *Journal of Public Policy and Marketing* 18 (1) 11-21

Baker, G. Smith, G. (1998) *The New Financial Capitalists: Kohlberg Kravis Roberts and the Creation of Corporate Value*, Cambridge University Press, Cambridge.

Baker G. and Smith, G. (1998) *The New Financial Capitalists: Kohlberg Kravis Roberts and the Creation of Corporate Value*, Cambridge University Press, Cambridge.

Barker, T. (2001) 'John Lewis to beef up internet side – retailing partnership close to buying UK operations of Buy.com', *Financial Times*, 3 February.

Barmash, I. (1994) 'Department stores gain on speciality store chains', *Shopping Centers Today*, October 1994, p 1.

Barmash, I. (1996) 'Proffitt's – the name can't hurt this company', *The Emporium*, 28 March.

Barnes, T.J. (1997) 'Theories of accumulation and regulation: bringing life back into economic geography'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp.231-258.

Bernhardt, A. (1999) *The Future of Low-Wage Job: Case Studies in the Retail Industry*, NCW Working Paper Series No. 10, Institute of Industrial Relations, University of California, Berkeley.

Barr, V. (1997) *Stores: Retail Display and Design*, PBC International.

Barsh, J., Crawford, B. and Grosso, C. (2000) 'How e-tailing can rise from the ashes', *The McKinsey Quarterly*, No.3, 98-109.

Barth, G. (1980) *City People: The Rise of Modern City Culture in Nineteenth Century America*, Oxford University Press, Oxford.

Bartlett, S. (2000) *The Money Machine: How KKR Manufactured Power & Profits*, Replica Books, New York.

Batsell, J. (1998) 'Nordstrom puts its wares on Web', *The Seattle Times*, Thursday, October 22, 1998.

Baudrillard, J. (1981) *For a Critique of the Political Economy of the Sign*, Telos Press, St. Louis.

Benedikt, M. (ed.) (1991) *Cyberspace: First Steps*, MIT Press, Cambridge, MA.

Benson, S. P. (1986) *Counter Cultures: Saleswomen, Managers and Customers in American Department Stores, 1890-1940*, University of Illinois Press, Urbana and Chicago.

Bernstein, P. L. (1998) 'The expected return of the security analyst', *Financial Analyst Journal*, 54 (2), 4-9.

Bergh, D. D. (1997) 'Predicting divestiture of unrelated acquisitions: an integrative model of ex-ante conditions', *Strategic Management Journal*, 18 (9), 715-731.

Bergmann, J. (1987) 'What is a department store? Why does it matter?', *Stores*, July 1987, p12, p81.

Berkley, G. E. (1998) *The Filenes*, Branden Publishing Company.

Berkovitch, E. and Narayman, M. (1993) 'Motives for takeovers: an empirical investigation', *Journal of Financial and Quantitative Analysis*, 28 (7), 347-362.

Berman, M. (1982) *"All That Is Solid Melts Into Air" The Experience of Modernity*, Verso, London.

Berner, R. (2000a) 'A Federated foul-up? Its acquisition of Fingerhut is running into serious problems', *Business Week*, July 24.

Berner, R. (2000b) 'Federated's Fingerhut fiasco', *Business Week*, December 18, p198-202.

Berry, B. J. and Kasarda, J. D. (1977) *Contemporary Urban Ecology*, Macmillan, London.

Berry, L. (1980) 'The new consumer'. In R. W. Stampfl and E. Hirschman (eds.), *Competitive Structure in Retail Markets: The Department Store Perspective*, Proceedings of the American Marketing Association, 1-11.

Best, H. (1919) 'Extent of organization in the women's garment making industries of New York', *The American Economic Review*, 9 (4), 776-792.

Best, M. J. (1990) *The New Competition. Institutions of Industrial Restructuring*, Polity Press, Cambridge.

Bethel, J. and Leibeskind, J. (1993) 'The effects of ownership structure on corporate restructuring', *Strategic Management Journal*, 14, 15-31.

Betts, E. J. and McGoldrick, P. J. (1994) 'Consumer behaviour and the retail "sales". Modelling the development of an "attitude problem"', *European Journal of Marketing*, 30 (8), 40-58.

Biederman, H. W. (1991) *Strategic Restructuring in the US Department Store Industry*. Unpublished Working Paper No. 9101, Institute for Retail Studies, University of Stirling.

Bingham, W. H. and Yunich, D. L. (1965) Retail reorganization', *Harvard Business Review*, 43 (4), 129-146.

Bloemer, J. and de Ruyter, K. (1997) 'On the relationship between store image, store satisfaction and store loyalty', *European Journal of Marketing*, 32 (5/6), 499-513.

Birtwistle, G., Clarke, I. and Freathy, P. (1999) 'Store image in the UK fashion sector: consumer versus retailer perceptions', *International Review of Retail, Distribution and Consumer Research*, 9 (1), 1-16.

Bishop, C. (1998) 'Defenders of the brand', *Display and Design Ideas*, November.

Blomley, N. K. (1986) 'Regulatory legislation and the legitimation crisis of the state: the enforcement of the Shops Act (1950)', *Environment and Planning D: Society and Space*, 4, 183-200.

Blomley, N. (1994) 'Retail Geography'. In R.H. Johnston, D. Gregory, D. M. Smith (eds.) *The Dictionary of Human Geography*, Basil Blackwell, Oxford.

Blomley, N. (1996) 'I'd like to dress her all over': masculinity, power and retail space'. In N. Wrigley and M. S. Lowe (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Bluestone, D. M. (1991) 'The pushcart evil - peddlers, merchants, and New York City streets', *Journal of Urban History*, 18 (1), 68-92.

Bluestone, B., P. Hanna, S. Kuhn, L. Moore (1981) *The Retail Revolution. Market Transformation. Investment and Labor in the Modern Department Store*, Auburn House, Boston.

Bluestone, B. and Harrison, B. (1982) The deindustrialization of America : plant closings, community abandonment, and the dismantling of basic industry, Basic Books, New York.

Blumin, S. M. (1969) 'Mobility and change in Ante-bellum Philadelphia'. In S. Thernstrom, R. Sennett (eds.), *Nineteenth Century Cities - Essays in the New Urban History*, Yale University Press, 165-208.

Blumin, S. M. (1984) Explaining the new metropolis - perception, depiction and analysis in mid nineteenth century New York City, *Journal of Urban History*, 5 (3), 365-396.

Blumin, S. M. (1985) 'The hypothesis of middle class formation in nineteenth century Amercia: a critique and some proposals', *The Amercian Historical Review*, 90 (2), 299-338.

Bogart, L. (1973) 'Future of retailing (thinking ahead)', *Harvard Business Review*, 51 (6), 16-176.

Bolen, W. H. and Davis, R. J. (1997) 'Overreaching for mass merchandisers', *The McKinsey Quarterly*, No. 4, 40-53.

Bondi, L. and Domosh, M. (1998) 'On the contours of public space: a tale of three women', *Antipode*, 30 (3), 270-289.

Borchert, J. (1996) 'Residential city suburbs: the emergence of a new suburban type, 1880-1930', *Journal of Urban History*, 22 (3), 283-307.

Boston Consulting Group (1999) *Myths and Realities of On-Line Retailing*, Boston, Massachusetts.

Boudette, N. E. (2001) 'Is it dot com Armageddon', *The Wall Street Journal Europe*, 8 January, p 27.

Bourdieu, P. (1984) *Distinction: A Social Critique of the Judgement of Taste*, Routledge, London.

Bowden, M. J. (1971) 'Downtown through time: delineation, expansion and internal growth', *Economic Geography*, 47, 121-134.

Bowman, E. and Singh, H. (1993) 'Corporate restructuring: reconfiguring the firm', *Strategic Management Journal* 14 5-14

Bowman, E. Singh, H. Useem, M. Bhadury, R. (1999) 'When does restructuring improve economic performance?' *California Management Review* 41 (2) 33-54

Bowlby, R. (1985) *Just Looking. Consumer Culture in Dreiser, Gissing and Zola*, Methuen, London.

Bowlby, S., Foord, J. and Tillsley, C. (1992) 'Changing consumption patterns: impacts on retailers and their suppliers', *International Review of Retail, Distribution and Consumer Research*, 2, 133-150.

Bowman, E. H. and Singh, H. (1993) 'Corporate restructuring: reconfiguring the firm', *Strategic Management Journal*, 14, 5-14.

Bowman, E. H., Singh, H., Useem, M. and Bhadury, R. (1999) 'When does restructuring improve economic performance?', *California Management Review*, 41 (2), 33-54.

Boyer, P. (1978) *Urban Masses and Moral Order in Amercia, 1820-1920*, Harvard University Press, Massachusetts.

Breathnach, P. (2000) 'Globalisation, information technology and the emergence of niche transnational cities: the growth of the call centre sector in Dublin', *Geoforum*, 31 (4), 477-485.

Briggs, A. (1956) *Friends of the People. The Centenary History of Lewis's*, B. T. Batsford, London.

Briggs, A. (1984) *Marks and Spencer: 1884-1984: A Centenary History of Marks and Spencer: The Originators of Penny Bazaars*, Octopus Books, London.

Bronner, S. J. (1989a) 'Introduction'. In S. J. Bronner (ed.); *Consuming Visions. Accumulation and Display of Goods in America 1880-1920*, Norton, New York, pp1-13.

Bronner, S. J. (1989b) 'Reading consumer culture'. In S. J. Bronner (ed.); *Consuming Visions. Accumulation and Display of Goods in America 1880-1920*, Norton, New York.

Brown, M. P. and May, E. G. (1961) *Operating Results of Multi-Unit Department Stores*, Harvard Business School, Division of Research, MA.

Brown, S. (1987) 'Institutional change in retailing – a geographical interpretation', *Progress in Human Geography*, 11 (2), 181-206.

Brown, S. (1992) *Retail Location: A Micro-Scale Perspective*, Avebury Press, Aldershot.

Bryson, B. (1994) *Made in America*, Black Swan, London.

Bryson, J., Henry, N., Keeble, D. and Martin, R. (1998) *The Economic Geography Reader*, Wiley, Chichester.

Bryson JR, Daniels PW, Ingram DR (1999) 'Methodological problems and economic geography: The case of business services', *Services Industries Journal*, 19 (4) 1-16.

Buck-Morss, S. (1989) *The Dialectics of Seeing - Walter Benjamin and the Arcades Project*, MIT Press, Cambridge, MA.

Bucklin, L. P. (1983) 'Patterns of change in retail institutions in the United States with special attention to the traditional department store', *International Journal of Physical Distribution & Materials Management*, 13 (5-6), 153-168.

Burnham, E. A. (1938) 'The influence of size of business on department store operating results', *Harvard Business Review*, 16, 211-225.

Burnham, E. A. (1940) 'The department store in its community', *Harvard Business Review*, 18, 455-471.

Burnham, E. R. (1949) 'Employee productivity in department stores, *Harvard Business Review*, 27, 480-497.

Burns, K. B., Enright, H., Hayes, J. F., McLaughlin, K. and Shi, C. (1997) 'The art and science of retail renewal', *The McKinsey Quarterly*, No. 2, 101-113.

Butler, C. (1999) 'The Galleries: a work of art', *Display and Design Ideas*, June 1999.

Burt, S. (2000) 'The strategic role of retail brands in British grocery retailing', *European Journal of Marketing*, 34 (8), 875-891.

Burt, S. and Sparks, L. (1993) 'Structural change in grocery retailing in Great Britain: a discount re-orientation?', *International Review of Retail Distribution and Consumer Research*, 4, 195-217.

Calkins, J., Farello, M., Smith Shi, C. (2000) 'From retailing to e-tailing', *The McKinsey Quarterly*, No. 1, 140-147.

Cameron, G. (1998) 'Economic growth in the information age: from physical capital to a weightless economy', *The Journal of International Affairs*, 51 (2), 447-472.

Carlson, H. J. (1991) 'The role of the shopping center in US retailing', *International Journal Retail and Distribution Management*, 19 (6), 13-20.

Cary, F. C. (1977) 'The world a department store: Bradford Peck and the utopian endeavor', *American Quarterly*, 29 (4), 370-384.

Cassill, N. L., Williamson, N. C., McEnally, M., Thomas, J. (1993) 'Intratype competition among department stores', *International Review of Retail, Distribution and Consumer Research*, 3, 65-78.

Castells, M. (1989) *The Informational City: Information Technology, Economic Restructuring, and the Urban Regional Process*, Blackwell, Oxford.

Castells, M. (1996) *The Rise of the Network Society*, Blackwell, Cambridge.

Chain Store Age (1997) 'Proffitt's and Carson Pirie Scott to merge', *Chain Store Age*, 1 December, p 138.

Chain Store Age (1998a) 'State of the industry: brand management', *Chain Store Age*, 1st August, p24A.

Chain Store Age (1998b) 'Windows of opportunity', *Chain Store Age*, 1st August, p51.

Chain Store Age (1999a) 'Federated dips into Fingerhut', *Chain Store Age*, 1st March, p102.

Chain Store Age (2000a) 'It's not your Mother's Macy's', *Chain Store Age*, May 1, p76.

Chain Store Age (2000b) 'Elder Beerman enters the zone', *Chain Store Age*, 1 June, p65.

Chain Store Age (2000c) 'The many channels of Fingerhut', *Chain Store Age*, 1 June, p100.

Chandler, A. D. Jr. (1962) *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, Cambridge, MA.

Chandler, A. D. Jr. (1977) *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, Cambridge, MA.

Chandler, A. D. Jr. (1990) *Scale and Scope: The Dynamics of Industrial Capitalism*, Harvard University Press, Cambridge, MA.

Chaney, D. (1983) 'The department store as a cultural form', *Theory, Culture and Society*, 1 (3), 22-31.

Chaney, D. (1990) 'Subtopia in Gateshead: the MetroCentre as a cultural form', *Theory, Culture & Society*, 7, 49-68.

Chaney, D. (1994) *The Cultural Turn: Scene Setting Essays on Contemporary Cultural History*, Routledge, London.

Chang, S. and Singh, H. (1999) 'The impact of modes of entry and resource fit on modes of exit by multibusiness firms', *Strategic Management Journal*, 20, 1019-1035.

Chapman, K. and Edmond, H. (2000) 'Mergers/acquisitions and restructuring in the EU chemical industry: patterns and implications', *Regional Studies*, 34 (8), 753-767.

Castells, M. (1989) *The Informational City – Information Technology, Economic Restructuring and the Urban-Regional Process*, Blackwell, Oxford.

Chatterjee, S. (1990) 'Excess resources, utilization costs and mode of entry', *Academy of Management Journal*, 33, 780-800.

Cheskin Research (1999) *eCommerce Trust Study*. A Joint Research Project by Cheskin Research and Studio Archetype/Sapient, January 1999.

Chevalier, J. A. (1995a) 'Capital structure and product-market competition: empirical evidence from the supermarket industry', *American Economic Review*, 85 (3), 415-435.

Chevalier, J. A. (1995b) 'Do LBO supermarkets charge more? An empirical analysis of the effects of LBOs on supermarket pricing', *Journal of Finance*, 50 (4), 1095-1112.

Child, P., Dennis, R., Gokey, T., McGuire, T., Sherman, M. and Singer, M. (1995) 'Can marketing regain the personal touch', *The McKinsey Quarterly*, No. 3, 113-125.

Chong, L. (1996) 'Department stores in troubled waters: a Singapore encounter', *International Journal of Retail and Distribution Management*, 24 (1), 34-39.

Christensen, C. (1997*) The Innovators Dilemma - When New Technologies Cause Great Firms to Fail*, Harvard University Press, Boston, MA.

Christopherson, S. (1989) 'Flexibility in the US service economy and the emerging spatial division of labour', *Transactions of the Institute of British Geographers N. S.*, 14, 131-143.

Christopherson, S. (1993) 'Market rules and territorial outcomes: the case of the United States', *International Journal of Urban and Regional Research*, 17, 274-288.

Christopherson, S. (1996) 'The production of consumption: retail restructuring and labour demand in the USA'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp159-177.

Christopherson, S. (1999) 'Rules as resources. How market governance regimes influence firm networks' In T J Barnes and M S Gertler (eds), 1999, *The New Industrial Geography: Regions, Regulation and Institutions*, Routledge, London, pp 155-175

Chung, K. and Weston, J. (1982) 'Diversification and mergers in a strategic long-range planning framework'. In M Keenan and L White (eds.), (1982), *Mergers and Acquisitions: Current Problems in Perspective* (Lexington Books, Toronto) pp315-347.

Clancy, K. (2000) 'Getting serious about building profitable online retail brands', *Arthur Anderson Retail Industry Newsletter*, 12 (6) November, 1-5.

Clark, F. E., Onthank, H., Dodd, A. E., Nystrom, P. H., Griffen, C. E., Lyon, L. S., McGarry, E. D. (1926) 'Reducing the costs of marketing'. Papers and Proceedings of the Thirty-Eighth Annual Meeting of the American Economic Association, *The American Economic Review*, 16 (1), 250-265.

Clark, G. L. (1989a) 'Remaking the map of corporate capitalism: The arbitrage economy of the 1990s', *Environment and Planning A*, 21 (8), 997-1000.

Clark, G. L. (1989b) 'Law and the interpretive turn in the social sciences' *Urban Geography* 10 209-228.

Clark, G. L. (1990a) 'Autonomy of the National Relations Board' *Policy Studies Journal* 18 721-738

Clark, G. L. (1990b) 'Unethical secrets, lies and legal regulation in the context of corporate restructuring in the United States', *Transactions of the Institute of British Geographers*, 15, 403-420.

Clark, G. L. (1992a) 'Real regulation: the administrative state', *Environment and Planning A*, 24, 615-627.

Clark, G. L. (1992b) 'Problematic status of corporate regulation in the United States: towards a new moral order' *Environment and Planning A* 24 705-725.

Clark, G. L. (1993a) 'Costs and prices, competitive strategies and regions', *Environment and Planning A*, 25, 5-26.

Clark, G. L. (1993b) *Pensions and Corporate Restructuring in American Industry: A Crisis of Regulation*, John Hopkins University Press, Baltimore.

Clark, G. L. (1994) 'Strategy and structure – corporate restructuring and the scope and characteristics of sunk costs', *Environment and Planning A*, 26 (1), 9-32.

Clark, G. L. (1998) 'Stylized facts and close dialogue: methodology in economic geography', *Annals of the Association of American Geographers*, 88 (1), 73-87.

Clark, G. L. (2000) *Pension Fund Capitalism*, Oxford University Press, Oxford.

Clark, G. L., J. McKay, G. Missen, M. Webber (1992) 'Objections to economic restructuring and the strategies of coercion: an analytical evaluation of policies and practices in Australia and the US', *Economic Geography*, 68, 143-59.

Clark, G., Mansfield, D. and Tickell, A. (2000) *Accounting standards and German and supplementary pensions: the emerging framework underpinning global finance*, Oxford University Working Paper in Economic Geography, No. 00-03, July 2000.

Clark, G. and Wrigley, N. (1995) 'Sunk costs: a framework for economic geography', *Transactions of the Institute of British Geographers* 20 204-223

Clark, G. L. and Wrigley, N.(1997a) 'Exit, the firm and sunk costs: reconceptualizing the corporate geography of disinvestment and plant closure', *Progress In Human Geography*, 21, 338-358.

Clark, G. and Wrigley, N. (1997b) 'The spatial configuration of the firm and the management of sunk costs', *Economic Geography*, 73, 285-304.

Clarke, D. (1996) 'The Limits to Retail Capital'. In N. Wrigley and M. S. Lowe, (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp284-301.

Clarke, D. (1998) *Consumption, Identity and Space-Time*, Paper prepared for ESRC Study Group, 'Geographies of Commodities Conference', September 1st-2nd, Manchester.

Clayton, J., Gambill, B. and Harned, D. (1999) 'The curse of too much capital: building new businesses in large corporations', *The McKinsey Quarterly*, No. 3, 48-59.

Cochrane, A. (1998) 'Illusions of power: interviewing local elites', *Environment and Planning A*, 30, 2121-2132.

Coe, N. and Yeung, H. (1999) *Grounding Global Flows: Constructing An E-Commerce Hub in Singapore.* Paper presented to the conference on 'Global networks, innovation and regional development', UC Santa Cruz, November 11-13th 1999.

Cohen, A. I. and Jones, A. L. (1978) 'Brand marketing in the new retailing environment', *Harvard Business Review*, 56 (5), 141-148.

Colborne, R. (1996) *Visual Merchandising: The Business of Merchandise Presentation*, Delmar Publishers.

Cole, N. (2001) 'John Lewis adds buy.com UK to online portfolio' *The Independent*, 6 February 2001.

Coleman, C. (2000) 'Saks to spin off trophy cabinet it bought', *The Wall Street Journal*, 20 July, pA6.

Commons, J. R. (1931) 'Institutional economics', *American Economic Review*, 21, 648-657.

Commons, J. R. (1936) 'Institutional economics', Papers and Proceedings of the Forty-eighth Annual Meeting of the American Economic Association, March 1936, *American Economic Review*, 237-249.

Converse, P. D., Reyer, K. D., White, W. L., Warshawer, W. W. (1929) 'Marketing', Papers and Proceedings of the Forty-First Meeting of the American Economic Association, March, 1929, *The American Economic Review*, 19 (1), 37-44.

Copeland, M. T. (1920) 'Scope and content of a course in marketing', *The Journal of Political Economy*, 28 (5), 375-398.

Converse, P. D., Reyer, K. D., White, W. L., Warshawer, W. W. (1929) 'Marketing'. Papers and Proceedings of the Forty-first Annual Meeting of the American Meeting of the American Marketing Economic Association, March 1929, *The American Economic Review*, 19 (1), 37-44.

Conzen, M. (1977) 'The maturing urban system in the US, 1840-1910', *Annals of the Association of American Geographers*, 67, 88-108.

Corbridge, S. Martin, R., Thrift, N. (eds.) (1994) *Money, Power and Space*, Blackwell, Oxford.

Cormode, L. and Hughes, A. (1999) 'The economic geographer as a situated researcher of elites', *Geoforum*, 30, 299-300.

Cotterill, R. W. (1999a) *An Antitrust Economic Analysis of the Proposed Acquisition of Supermarkets General Holdings Corporation by Ahold Acquisitions Inc.*, Food Marketing Policy Center, Research Report No. 46, April 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill, R. W. (1999b) *Continuing Concentration in the U.S.: Strategic Challenges to an Unstable Status Quo*, Food Marketing Policy Center, Research Report No. 48, August 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill, R. W. (1999c) *Continuing Concentration in Food Industries Globally: Strategic Challenges to an Unstable Status Quo.*, Food Marketing Policy Center, Research Report No. 49, October 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill, R. W., Dhar, T. P. and Franklin, A. W. (1999) *Post Merger Price Conduct: A Case Study of Pricing in Connecticut Markets After the 1996 Royal Ahold – Stop & Shop Merger.*, Food Marketing Policy Center, Research Report No. 47, October 1999. University of Connecticut, Department of Agricultural and Resource Economics

Court, D. C., Freeling, A., Leiter, M. G. and Parsons, A. J. (1997) 'If Nike can "just do it," why can't we?' *The McKinsey Quarterly*, No. 3, 24-35.

Court, D. C., Leiter, M. G. and Loch, M. A. (1999) 'Brand leverage', *The McKinsey Quarterly*, No. 2, 100-110.

Coyle, D. (1998) *The Weightless World: Strategies for Managing the Digital Economy*, MIT Press, Cambridge, MA.

Crang, M. (1998) *Cultural Geography*, Routledge, London.

Crang, P. (1997) 'Cultural Turns and the (Re)Constitution of Economic Geography'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp.3-15.

Crask, M. R. (1980) 'Department stores versus discount stores: an academic's point of view'. In R. W. Stampfl and E. Hirschman (eds.), *Competitive Structure in Retail Markets: The Department Store Perspective*, Proceedings of the American Marketing Association, pp33-42.

Crawford, F. A. (1998) 'M&A: the right combination for you?', *Ernst and Young's Retail News*, Summer 1998, 1-3.

Crewe, L. (1996) 'Material culture: embedded firms, organizational networks and the local economic development of a fashion quarter', *Regional Studies*, 30 (3), 257-272.

Crewe, L. (2000) 'Geographies of retailing and consumption', *Progress in Human Geography*, 24 (2), 275-290.

Crewe, L. and Beaverstock, J. (1998) 'Fashioning the city: cultures of consumption in contemporary urban spaces', *Geoforum*, 29 (3), 287-308.

Crewe, L. and Davenport, E. (1991) 'The puppet show: changing buyer-supplier relationships within clothing retailing, *Transactions of the Institute of British Geographers N. S.*, 17, 183-197.

Crewe, L. and Gregson, N. (1998) 'Tales of the unexpected: exploring car boot sales as marginal spaces of contemporary consumption', *Transactions of the Institute of British Geographers N. S.*, 23 (1), 39-53.

Crites, J. J. (1992) 'The next chapter in department store retailing', *Chain Store Age Executive*, 1st August, p24A.

Crossick, G. and Jaumain, S. (eds.) (1999a) *Cathedrals of Consumption: The European Department Store, 1850 1939*, Ashgate Publishing, Aldershot

Crossick, G. and Jaumain, S. (1999b) 'The world of the department store: distribution, culture and social change'. In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp1-45.

Dalkir, S. and Warren-Boulton, F. R. (1998) 'Are superstores a relevant market? Staples and Office Depot'. In John E. Kwoka, Jr. and Lawrence J. White (eds), *The Antitrust Revolution: The Role of Economics*, 3rd Ed., Oxford University Press, New York..

Dameron, K. (1935) 'The retail department store and the NRA', *Harvard Business Review*, 13, 261-270.

Davidson, W. R., Bates, A. D. and Bass, S. J. (1976) 'The retail life cycle', *Harvard Business Review*, 54 (6), 89-96.

Davis, D. (1966) *A History of Shopping*, Routledge, London.

Davis, G. (1990) 'Two ways in which retailers can be brands', *International Journal of Retail and Distribution Management*, 22 (2), 12-17.

Davis, M. (1999) *A New Chapter (11): Bankruptcy Process Can Provide a Fresh Start.* Unpublished manuscript. Arthur Anderson Knowledge Space (www.knowledgespace.com).

Davis, S. and Botkin, J. (1994) 'The coming of knowledge based business', Harvard Business Review, September/October 1994. Reprinted in Tapscott, D. (ed.) (1999) *Creating Value in the Network Economy*, Harvard Business School Press, Cambridge, MA., pp 3-12.

Dawes, J. and Rowley, J. (1998) 'Enhancing the customer experience: contributions from information technology', *Management Decision*, 36 (5), 350-357.

Dawson, J. A. (1974) 'The suburbanization of retail activity'. In J. H. Johnson (ed.) *Suburban Growth - Geographical Processes at the Edge of the Western City*, John Wiley and Sons, London, 155-175.

Dawson, J. (2000) 'Retailing at century end: some challenges for management and research', *International Review of Retail, Distribution and Consumer Research*, 10 (2), 119-148.

Dear, M. and Flusty, S. (1998) 'Postmodern urbanism', *Annals of the Association of American Geographers*, 88 (1), 50-72.

Deloitte and Touche (1998a) *United States Department Store Industry*, Unpublished Report, New York.

Deloitte and Touche (1998b) *Selected E-Business Issues – Perspectives on Cyberspace*, Deloitte and Touche Tohmatsu, New York.

Deloitte and Touche (1999) *The E-Business Tidal Wave – Perspectives on Business in Cyberspace,* Deloitte and Touche Tohmatsu, New York.

Denis, D. J. (1994) 'Organizational form and the consequences of highly leveraged transactions: Kroger's recapitalization and Safeway's LBO', *Journal of Financial Economics*, 36, 193-224.

Deutsche Bank (2000) *Department Stores in Europe – A New Dawn?* Europe Non Food Retail Equity Research, Deutsche Bank AG, London, 1 June.

Diamond, J. and Diamond, E. (1998) *Contemporary Visual Merchandising*, Prentice Hall, New Jersey.

Dicken, P. (1990) 'The geography of enterprise. Elements of a research agenda'. In M de Smidt and E. Wever (eds.) *The Corporate Firm in a Changing World Economy: Case Studies in the Geography of Enterprise*, Routledge, London, pp.234-245.

Dicken ,P. and Thrift, N. (1992) 'The organization of production and the production of organization: Why business services matter in the study of geographical industrialization', *Transactions of the Institute of British Geographers N. S.*, 17, 279-291.

Dillard's, Inc. Press Release (1998a) *Dillard's, Inc and Mercantile Store Company Receive Second Request Federal Trade Commission*, June 4, 1998

Dillard, Inc. Press Release (1998b) *Belk, Inc. and Dillard, Inc. Agree to Exchange Stores*, July 14, 1998

Dillard's, Inc. Press Release (1998c) *Dillard's, Inc. to sell 26 locations to Proffitt's, Inc. and The May Department Stores Company*, August 3, 1998

Display and Design Ideas (1999) 'Editorial – department stores: a comeback', *Display and Design Ideas*, September 1999.

Doel, C. (1996) 'Market development and organizational change: the case of the food industry'. In N. Wrigley and M. Lowe (eds.) *Retailing, Consumption and Capital: Towards the New Retail Geography*, Longman, Harlow, pp 48-67.

Doel, C. (1999) 'Towards a supply-chain community? Insights from governance processes in the food industry', *Environment and Planning A*, 69-85.

Doherty, A. M. (1999) 'Explaining international retailer's market entry mode strategy: internationalization theory, agency theory and the importance of information asymmetry', *The International Review of Retail, Distribution and Consumer Research*, 9 (4), 379-402.

Doody, A. F. and Davidson, W. R. (1967) 'Next revolution in retailing', *Harvard Business Review*, 45 (3), 4-188.

Domosh, M. (1988) 'The symbolism of the skyscaper. Case studies in New York's first tall buildings', *Journal of Urban History*, 14 (3), 321-345.

Domosh, M. (1996a) *Invented Cities*, Yale University Press, New Haven.

Domosh, M. (1996b) 'The feminized retail landscape: Gender ideology and consumer culture in 19th century New York City. In N. Wrigley and M. S. Lowe, (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Domosh, M. (1998) 'Those "gorgeous incongruities": polite politics and public space on the streets of nineteenth century New York City', *Annals of the Association of American Geographers*, 88 (2), 209-226.

Donaldson, G. (1994) *Corporate Restructuring: Managing the Change Process from Within*, Harvard Business Review Press, Cambridge, MA.

Douglas, C. (1999) 'Organisational redesign: the current state and projected trends', *Management Decision*, 37 (8), 621-627.

Dowling, R. (1993) 'Femininity, Place and Commodities: a retail case study', *Antipode*, 25, 295-319.

Doyle, S. A. and Broadbridge, A. (1999) 'Differentiation by design: the importance of deign in retailer positioning and differentiation', *International Journal of Retail and Distribution Management*, 27 (2), 72-82.

Drucker, P. F. (1986) *Innovation and Entrepreneurship*, Harper and Row, New York.

Ducatel, K. and Blomley, N. (1990) 'Rethinking retail capital', *International Journal of Urban and Regional Research*, 14, 207-227.

Dunne, P. and Kahn, R. (1997) 'Retailing in the USA: an interpretation of current trends', *International Journal of Retail and Distribution Management*, 25 (8), 275-281.

Dunning, J. H. (1999) 'Globalization, technological change and the spatial organization of economic activity'. In A. Chandler Jr., P. Hagstrom and O. Solvell (eds.) (1999) *The Dynamic Firm. The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press, Oxford, pp 289-314.

Dvorak, R. E. and van Paasschen, F. (1996) 'Retail logistics: One size doesn't fit all', *The McKinsey Quarterly*, No. 2, 120-129.

Eccles, R.G., Lanes, K. L., Wilson, T.C. (1999) 'Are you paying too much for that acquisition?', *Harvard Business Review*, 77: (4) 136-

The Economist (1998) 'Retailing takeovers: Saks addict, *The Economist*, 11 July 1998.

The Economist (1999) 'The real internet revolution: as bricks and mortar and internet retailers join battle for business on the web, it is the brick and mortar firms that are likely to win', *The Economist*, 21 August 1999.

Eisner, M. and Meier, K. (1990) 'Presidential control versus bureaucratic power: explaining the Reagan revolution in antitrust' *American Journal of Political Science* 34 (1) 269-287.

England, W. B. (1953) 'Automatic merchandising', *Harvard Business Review*, 31 (6), 86-94.

Ernst and Young LLP (1998) *Retail IT – Ernst & Young's 17th Annual Survey of Retail Information Technology*, Ernst and Young LLP.

Ernst and Young (1999) *The Second Annual Ernst & Young Internet Shopping Study: The Digital Channel Continues to Gather Steam*, Ernst & Young LLP, New York and London.

Eroglu, S. and Machleit, K. (1990) 'An empirical study of retail crowding: antecedents and consequences', *Journal of Retailing*, 66, 201-221.

Evans, P. and Wurster, T. (1997) 'Strategy and the new economics of information', *Harvard Business Review*, 75 (5), 70-

Evans, P. and Wurster, T. (1999) 'Getting real about virtual commerce', *Harvard Business Review*, 77 (6), 84-98.

Ewing, S. and Ewing, E. (1982) *Channels of Desire*, McGraw-Hill, New York.

Faircloth, A. (1998) 'Confederates take Fifth Avenue', *Fortune*, 12 October 1998, 152-156.

Falk, D. R. (1929) 'Central buying by department store mergers', *Harvard Business Review*, 8, 265-273.

Fama, E. F. (1980) 'Agency problems and the theory of the firm', *Journal of Political Economy*, 88, 288-307.

Fama, E. and Jensen, M. (1983) 'The separation of ownership and control', *Journal of Law and Economics*, 26, 301-325.

Featherstone, M. (1983) 'Consumer culture: an introduction', *Theory, Culture and Society*, 1 (3), 4-9.

Federal Trade Commission Press Release (1997) *FTC Chairman Discusses Merger Wave and Merger Enforcement at the FTC; Focus is Staples and Boeing*, September 23, 1997. Transcript available (http://www.ftc.gov/opa/1997/9709/pitmerg.htm)

Federated Department Stores, Inc. Press Release (1998) *Federated Launches Internet Subsidiary*, June 26, 1998.

Federated Department Stores, Inc. Press Release (1999) *Federated to Acquire Fingerhut; Acquisition to Strengthen/Complement Catalog and Internet Businesses*, February 11, 1999.

Federated Department Stores, Inc. Press Release (2000) *Federated Announces Plans for Fingerhut Downsizing; Steps Taken to Increase Cash Flow and Earnings of Fingerhut Core Catalog Operation*, October 13, 2000.

Federated Department Stores (1999a) *Federated Department Store History*. http://www.federated-fds.com/company/his.html, accessed on 23rd June.

Federated Department Stores (1999b) *1998 Annual Report*, Cincinnati, Ohio.

Federated Department Stores (1999c) 'What is Fingerhut?', *Coast to Coast*, 5 (3), 6-9, Federated Department Stores, Cincinnati, OH.

Federated Department Stores (1999d) *1999 Corporate Fact Book*, Cincinnati, OH,

Federated Department Stores (2000) 'Thisit: a different approach to juniors', *Federated Department Stores Inc. Coast to Coast*, Vol. 6 Issue 2, pp1, 6-7.

Ferguson, P. P. (1994) 'The flaneur on and off the streets of Paris'. In Tester, K. (ed.), *The Flaneur*, Routledge, London.

Fernie, J. (1994) 'Quick response: an international perspective', *International Journal of Physical Distribution and Logistics Management*, 24 (6), 38-46.

Fernie, J. and Fernie, S. (1997) 'The development of a US retail format in Europe: the case of factory outlet centres', *International Journal of Retail and Distribution Management*, 25, 342-350.

Ferry, J. (1960) *A History of the Department Store*, Macmillan, New York.

Fields, R. (2000) 'Dot-coms' hope to end on a more positive note Internet: an increasing number of web firms are dropping the suffix, which has become identified with financial failure', *Los Angeles Times*, 18 December, p C-1.

Filene, E. A. (1930) *The Model Stock Plan*, McGraw-Hill, New York.

Fiorito, S. S., May, E. G. and Straughn, K. (1995) 'Quick response: components and implementation', *International Journal of Retail and Distribution Management*, 23 (5), 12-21.

Fisher, M., Raman, A. and McClelland, A. (2000) 'Rocket science retailing is almost here. Are you ready?', *Harvard Business Review*, 78 (4), 115-127.

Fishman, R. (1982) *Urban Utopias in the Twentieth Century: Ebenezer Howard, Frank Lloyd Wright and Le Corbusier*, MIT Press, Cambridge, MA.

Fishman, R. (1987) 'American suburbs/English suburbs: A Trans-Atlantic Comparison', *Journal of Urban History*, 13 (3), 237-251.

Fligstein, N. (1990) *The Transformation of Corporate Control*, Harvard University Press, Cambridge, MA.

Forsyth, J. N. (1993) 'Department store restructure for the 1990s', *Chain Store Age*, 1 August, p29A.

Forsyth, J., Gupta, S., Haldar, S., Kaul, A. and Kettle, K. (1999) 'A segmentation you can act on', *The McKinsey Quarterly*, No. 3, 1999, 7-15.

Forty, A. (1986) *Objects of Desire. Design and Society 1750-1980*. Thames and Hudson, London.

Foster, M. (1979) 'City planners and urban transportation - the American response', *Journal of Urban History*, 5 (3), 365-396.

Fraser, C. E. (1925) 'Can the small merchant compete with the large store?', *Harvard Business Review*, 3 (4), 456-465.

Fraser, W. H. (1981) *The Coming of the Mass Market, 1850-1914*, MacMillan, London.

Frazier, M. (1999) 'Bricks-and-mortar man', *Cincinnati Business Courier*, October 18, 1999.

Freathy, P. (2000) 'The organisation of working time in large UK food retail firms'. In Baret, C. Lehndorf, S. and Sparks, L. (eds.), *Flexible Working and Food Retailing: A comparison between the United Kingdom and France*, Routledge, London pp.83-113.

Freathy, P. and Sparks, L. (1996) 'Understanding retail employment relations'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp178-195.

Fredrikson, C. (1997) 'The making of a Swedish department store culture'. In P. Falk and C. Campbell (eds.) *The Shopping Experience*, Sage Publications, London, pp111-135.

French, S. (2000) 'Re-scaling the economic geography of knowledge and information: constructing life assurance markets', *Geoforum*, 31, 101-119.

Frisch, M. H. (1969) 'The community elite and the emergence of urban politics: Springfield, Massachusetts'. In S. Thernstrom, R. Sennett (eds.), *Nineteenth Century Cities - Essays in the New Urban History*, Yale University Press, 277-296.

Galbraith, J. K. (1991) *The Affluent Society*, Fourth Edition, Penguin Books, London.

Gardner, C. and Sheppard, J. (1989) *Consuming Passion: The Rise of Retail Culture*, Unwin Hyman, London.

Garner, B. J. (1966) 'The internal structure of shopping centres', *Northwestern University, Studies in Geography*, 12.

Gentle, C. and Marshall, N. (1992a) 'The deregulation of the financial services industry and the polarization of regional economic prosperity', *Regional Studies*, 26 (6), 581-586.

Gentle, C. and Marshall, N. (1992b) 'Corporate restructuring in the financial services industry: converging markets and divergent organisational structures', *Geografiska Annaler*, 74B, 87-104.

George, M., Freeling, A. and Court, D. (1994) 'Reinventing the marketing organisation', *The McKinsey Quarterly*, No. 4, 43-52.

George, K. and Jacquemin, A. (1992) 'Dominant firms and mergers' *The Economic Journal* 102 (410) 148-157

Gertler, M. S. (1995) 'Being there: proximity, organisation and culture in the development and adoption of advanced manufacturing technologies', *Economic Geography*, 71, 1-26.

Gertler, M. S. (1997) The invention of regional culture'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp 47-58.

Ghosh, S. (1998) 'Making business sense of the Internet', *Harvard Business Review*, 76 (2), 126.

Gibson-Graham, G. K. (1996) *The End of Capitalism (as we knew it)*, Blackwell, Oxford.

Giddens, A. (1991) *The Consequences of Modernity*, Polity Press, London.

Gillan, S., Kensinger, J. and Martin, J. (2000) 'Value creation and corporate diversification: the case of Sears, Roebuck & Co.', *Journal of Financial Economics*, 55, 103-137.

Glaeser, E., Kolko, J. and Saiz, A. (2001) 'Consumer city', *Journal of Economic Geography*, 1 (1), 27-50.

Glennie, P. and Thrift, N. (1996) 'Consumption, shopping and gender'. In N. Wrigley and M. S. Lowe, (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Goheen, P. G. (1998) 'Public space and the geography of the modern city', *Progress in Human Geography*, 22 (4), 479-496.

Gold, P., Woodliffe, L. (2000) 'Department stores in Spain: why El Corte Ingle´s succeeded where Galerías Preciados failed', *International Journal of Retail & Distribution Management*; 28 (8) 2000, 333 - 340.

Goldman, A. (1975) 'Stages in the development of the supermarket', *Journal of Retailing*, 51 (4), 49-64.

Goldman, A. (2000) 'Federated's risks pay off, but online bet is hard sell', *LA Times*, Sunday April 2.

Goldman Sachs (1996) *Department Stores: Rediscovering the Reinvented* Goldman Sachs Investment Research New York May 3

Goldman Sachs (1999) *Department Stores: Loss of Market Share – A Blight with Few Apparent Remedies* Goldman Sachs Investment Research New York May 7.

Gort, M. (1966) 'Diversification, mergers and profits'. In W. Alberts and J. Segal (eds.), (1966) *The Corporate Merger*, University of Chicago Press, Chicago, pp 31-43.

Goss, J. (1993) 'The magic of the mall: An analysis of form, function and meaning in the Contemporary Retail Built Environment', *Annals of the Association of American Geographers*, 83, 18-47.

Goss, J. (1999) 'Once-upon-a-time in the commodity world: An unofficial guide to mall of America', *Annals of the Association of American Geographers*, 89 (1), 45-75.

Graff, T. O. (1998) 'The locations of Wal-Mart and Kmart supercenters: contrasting corporate strategies', *Professional Geographer*, 50 (1), 46-57.

Graff, T. O. and Ashton, D. (1994) 'Spatial diffusion of Wal-Mart - contagious and reverse hierarchical elements', *Professional Geographer*, 46, (1), 19-29.

Graham, S. (1998) 'The end of geography or the explosion of place? Conceptualizing space, place and information technology', *Progress in Human Geography*, 22 (2), 165-185.

Gramsci, A. (1971) *Selections from Prison Notebooks,* Laurence and Wishart, London.

Grant, L. (1996) 'Miracle or mirage on 34th St.', *Fortune*, February 5.

Green, M. B. (1990) *Mergers and Acquisitions. Geographical and Spatial Perspectives*, Routledge, New York.

Gregson, N., Longstaff, B. and Crewe, L. (1997) 'Excluded spaces of regulation: car boot sales as an enterprise culture out of control?', *Environment and Planning A*, 29 (10), 1717-1737.

Griffen, C. E., Copeland, M. T., Clark, F. E., Filene, E. A., Beckman, T. N., Tosdal, H. R. and Schmalz, C. N. (1928) 'Marketing', Papers and Proceedings of the Fortieth Annual Meeting of the American Economic Association, March 1928, *The American Economic Review*, 18 (1), 17-28.

Gross, W. (1964) 'Strategies used by major department stores to compete with low margin retailers', *Journal of Retailing*, 40 (2), 11-28.

Gruen, V. (1963) 'Who is to save our cities?', *Harvard Business Review*, 41 (3), 107-115.

Guidera, J. (2000) 'FTC rejects bid by Kroger to buy Winn-Dixie stores', *Wall Street Journal*, 5 June, p A6

Gulati, R. and Garino, J. (2000) 'Get the right mix of bricks and clicks', *Harvard Business Review*, 78 (3), 107-117.

Gurley, J. W. (1999) 'There's no business like Net business', *Fortune*, , 11 October 1999, Vol. 140, No.7, p302.

Guy, C. M. (1988) 'Information technology and retailing: the implications for analysis and forecasting'. In N. Wrigley (ed.) (1988), *Store Choice, Store Location and Market Analysis*, Routledge, London, pp305-322.

Guy, C. (1998) 'Alternative-use valuation, open A1 planning consent, and the development of retail parks', *Environment and Planning A*, 1998, 30, 37 - 47.

Habermas, J. (1989) *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society.* Translated by Thomas Burger with the assistance of Frederick Lawrence, Polity Press, London.

Hagel, J. and Rayport, J. (1997) 'The coming battle for customer information', *Harvard Business Review*, 75 (1), 53 - +.

Hajewski, D. (2000a) 'Saks takes a hit, shifts operations', *Milwaukee Journal Sentinel*, 18 February.

Hajewski, D. (2000b) 'Saks merger was mistake, analysts say Wall Street not surprised by decision to split up department store chain', *Milwaukee Journal Sentinel*, 21 July.

Haleblian, J. and Finkelstein, S. (1999) 'The influence of organizational acquisition experience on acquisition performance', *Administrative Science Quarterly*, 44 (1), 29-56.

Halford, S and Savage, M. (1995) 'Restructuring organisations, changing people: gender and restructuring in banking and local government', *Work, Employment and Society*, 9, 97-122.

Halford, S. and Savage, M. (1997) 'Rethinking restructuring: embodiment, agency and identity in organisation change'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp.108-117.

Hall, E. T. (1966) *The Hidden Dimension*, Doubleday, Garden City, New York.

Hallsworth, A. G. (1991) 'The Campeau takeovers: the arbitrage economy in action', *Environment and Planning A*, 23, 1217-1223.

Hallsworth, A. G. (1992) *The New Geography of Consumer Spending*, Belhaven, London.

Hallsworth, A. G. (1999) 'Waiting for WalMart?'. *Environment and Planning A*, 31, 1331-1336.

Hallsworth, A. G. and Taylor, M. (1996) ' "Buying power" - interpreting retail change in a circuits of power framework', *Environment and Planning A*, 28, 2125-2137.

Hallsworth, A. G. (1997) 'Rethinking retail theory: Circuits of power as an integrative paradigm', *Geographical Analysis*, 29 (4), 329-338.

Hammer, M. and Champy, J. (1993) *Reengineering the Corporation. A Manifesto for Business Revolution*, Nicholas Brealey, London.

Hanchett-Thomas, W. (1996) 'US tax policy and the shopping center boom of the 1950s and 1960s', *American Historical Review*, 101 (4), 1082-1110.

Handy, C. (1995) *The Age of Unreason*, Arrow, London.

Handy, C. (1996) *Beyond Certainty*, Arrow, London.

Hansen, M., Chesbrough, H., Nohria, N. and Sull, D. (2000) 'Networked incubators – hothouses of the New Economy', *Harvard Business Review*, 78 (5), 74-84.

Hansen, T. and Skytte, H. (1998) 'Retailer buying behaviour: a review', *The International Review of Retail, Distribution and Consumer Research*, 8 (3), 277-301.

Haraway, D. (1991) *Simians, Cyborgs, and Women: The Reinvention of Nature*, Routledge, New York.

Harrington, J., Barnes, T., Glasmeier, A., Hanink, D., Rigby, D. (1999) *Economic Geography: Reconceiving "The Economic" and "The Region"*, Economic Geography Submission to the GIA 2nd Edition, 28 April 1999. Available on Association of American Geographers website (http://www.ucc.uconn.edu/~wwwgeog/Econ_reg.pdf), accessed 31 October 2000.

Harris, L. (1994) *Merchant Princes: An Intimate History of Jewish Families Who Built Great Department Store*, Kodansha Globe International.

Harrison, B. (1994) *Lean and Mean: The Changing Landscape of Corporate Power in the age of Flexibility*, Basic Books, New York.

Harrison, B. and Bluestone, B. (1988) *The Great U-Turn: Corporate Restructuring and the Polarizing of America*, Basic Books, New York.

Harvey, D. (1978) 'The urban process under capitalism: A framework for analysis', *International Journal of Urban and Regional Research*, 2, 101-131.

Harvey, D. (1982) *The Limits to Capital*, Basil Blackwell, Oxford.

Harvey, D. (1985a) *Consciousness and the Urban Experience: Studies in the History and Theory of Capitalist Urbanization*, Basil Blackwell, Oxford.

Harvey, D. (1985b) 'The geopolitics of capitalism'. In D. Gregory and J. Urry (eds.) *Social Relations and Spatial Structures*, MacMillan, London, pp128-163.

Harvey, D. (1989) *The Condition of Postmodernity: An Enquiry into the Origins of Cultural Change*, Basil Blackwell, Oxford.

Harvey, D. (1999) 'On fatal flaws and fatal distractions', *Progress in Human Geography*, 23 (4), 557-566.

Harvey, D. and Chatterjee, L. (1974) 'Absolute rent and the structuring of space by Governmental and financial institutions', *Antipode*, 6, 22-36.

Hatgis, M. (1996) *Selling Childhood. The Merchandising of Toys in the American Department Store, 1860-1929*, MA Thesis, Royal College of Art.

Hauser, P. M. and Taeuber, C. (1945) 'The changing population of the United States', *The Annals of the American Academy of Political and Social Science*, Vol. 237 (Jan.).

Hausman, J. A. and Leonard, G. K. (1997) *Document Versus Econometrics in Staples*, Mimeo. Transcript available at (http://www.antitrust.org/cases/staples/hausleon.html).

Hawkins, E. R. (1945) 'Operating results of department and speciality stores in 1943; Expenses and profits of limited price stores in 1943; Chains and independents; An analysis of operating data for small department stores, 1938-42 (Review)', *Journal of the American Statistical Association*, 40 (231), 404-407.

Hayek, F. A. (1945) 'The use of scientific knowledge in society', *American Economic Review*, 35 (4).

Hazel, D. (1998) 'Industry gives thumbs up to Proffitt's/Saks merger', *Shopping Centers Today*, October 1998.

Healey, M. and Rawlinson, M. (1993) 'Interviewing business owners and managers: a review of methods and techniques', *Geoforum*, 24, 339-355.

Helman, D. and de Chernatony, L. (1999) 'Exploring the development of lifestyle retail brands', *Service Industries Journal*, 19 (2), 49-68.

Henderson, T. and Mihas, E. (2000) 'Building retail brands', *The McKinsey Quarterly*, No. 3, 110-117.

Hendrickson, R. (1979) *The Grand Emporiums: The Illustrated History of America's Great Department Stores*, Stein and Day, New York.

Henry, N. and Pinch, S. (2000) 'Spatialising knowledge: placing the knowledge community of Motor Sport Valley', *Geoforum*, 31 (2), 191-208.

Herbert, S. (2000) 'For ethnography', *Progress in Human Geography*, 24 (4), 550-568.

Herod, A. (1994) 'Gender issues in the use of interviewing as a research method', *Professional Geographer*, 45, 305-317.

Herod, A. (ed.) (1998) *Organizing the Landscape: Geographical Perspectives on Labor Unionism*, University of Minnesota Press, Minnesota.

Herod, A. (1999) 'Reflections on interviewing foreign elites: praxis, positionality, validity, and the cult of the insider', *Geoforum* 30 (4), 313-327.

Hess, M. (1952) *Every dollar counts. The Story of the American Department Store*, New York.

Hill, C., Hitt, M. and Hoskisson, R. (1992) 'Cooperative versus competitive structures in related and unrelated diversified firms', *Organization Science*, 3, 501-521.

Hippel, E. (1999) '"Sticky information" and the locus of problem solving: implications for innovation'. In A. Chandler Jr., P. Hagstrom and O. Solvell (eds.) (1999) *The Dynamic Firm. The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press, Oxford, pp 60-77.

Hochschild, A. R. (1983) *The Managed Heart: Commercialization of Human Feeling*, University of California Press, London.

Hogan, B. A. (1994) 'Death of department stores exaggerated, experts say', *Shopping Centers Today*, March 1994, p1, 28.

Hollander, S. C. (1983) 'Who and what is important in retailing and marketing history'. In S. C. Hollander and R. Savitt (eds.), *Proceedings of the First North American Workshop on Historical Research In Marketing*, East Lansing, MI: Department of Marketing and Transportation Administration, Michigan State University, pp35-40.

Honeycombe, G. (1984) *Selfridges: Seventy Five Years. The Story of the Store*, Park Lane Press, London.

Hood, C. (1996) 'Changing perceptions of public space on the New York Rapid Transit System', *Journal of Urban History*, 22 (3), 308-331.

Hopkins, J. S. (1990) 'West Edmonton Mall: landscape of myths and elsewhereness', *Canadian Geographer*, 34, 2-17.

Hopwood, A. G. (1983) 'On trying to study accounting in the contexts in which it operators', *Accounting, Organizations and Society*, 8, 287-305.

Hosgood, C. P. (1999) '"Doing the shops" at Christmas: women, men and the department store in England, c.1880-1914', In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp97-115.

Housiaux, K. (1999) *Re-Conceptualising Consumption: A Geography of Masculinity.* Unpublished PhD thesis, Department of Geography, University of Southampton.

Hower, R. M. (1943) *History of Macy's of New York 1858-1919. Chapters in the Evolution of the Department Store,* Harvard University Press, Cambridge.

Huff, L. A. (1993) 'Restructuring corrects problems with fixed assets', *Chain Store Age,* 1 August, p19A.

Hughes, A. (1996) 'Retail restructuring and the strategic significance of food retailers' own labels: a UK -USA comparison', *Environment and Planning A,* 28, 2201-2226.

Hughes, A. (1999a) 'Constructing competitive spaces: on the corporate practice of British retailer-supplier relationships'. *Environment and Planning A,* 31, 819-839.

Hughes, A. (1999b) 'Constructing economic geographies from corporate interviews: insights from a cross-country comparison of retailer-supplier relationships', *Geoforum* 30 (4), 363-374.

Hughes, A. (2000) 'Retailers, knowledges and changing commodity networks: the case of the cut flower trade', *Geoforum,* 31 (2), 175-190.

Hughes, A. and Cormode, L. (1998) 'Researching elites and elite spaces', *Environment and Planning A,* 30, 2098-2100.

Hughes, A., Mueller, D. and Singh, A. (1980) 'Hypotheses about mergers'. In D. Mueller (ed.) (1980) *The Determinants and Effects of Mergers,* Oelgeschlager, Gunn and Hain, Cambridge, MA, pp 27-66.

Hughes, C. (2000) 'City fears rash of profits warnings as watchdog bars selective briefings', *The Independent,* Monday 4 December, 2000.

Hurst, D. K. (1995*) Crisis and Renewal - Meeting the challenge of organizational change,* Harvard University Press, Boston, MA.

Hutter, M. (1987) 'The downtown department store as a social force', *The Social Science Journal,* 24 (3), 239-246.

Iansiti M, MacCormack A. (1997) 'Developing products on internet time', *Harvard Business Review,* 75, (5), 108-&

Incandela, D., McLaughlin, K, Smith Shi, C. (1999) 'Retailers to the world', *The McKinsey Quarterly,* No. 3, 84-97.

Jackson, P. (1993) 'Towards a cultural politics of consumption'. In J. Bird, B. Curtis, T. Putman, G. Robertson, L. Tickner (eds.), *Mapping the futures: Local cultures, global change,* Routledge, London.

Jackson, P. and Holbrook, B. (1995) 'Multiple meanings: consumption and the cultural politics of identity', *Environment and Planning A,* 27, 1913-1930.

Jackson, P., Lowe, M., Miller, D. and Mort, F. (eds.) (2000) *Commercial Cultures,* Berg, London.

Jackson, P. and Taylor, J. (1996) 'Geography and the cultural politics of advertising', *Progress in Human Geography,* 20, 356-371.

Jackson, P. and Thrift, N. (1994) 'Geographies of consumption'. In D. Miller (ed.), *Acknowledging Consumption,* Routledge, London, 204-237.

Jefferys, J. B. (1954) *Retail Trading in Britain 1850-1950,* Cambridge University Press, Cambridge.

Jensen, M. C. (1986) 'Agency costs of free cash flow, corporate finance, and takeovers', *American Economic Review,* 76 (2), 323-329.

Jensen, M. C. (1988a) 'The takeover controversy: analysis and evidence'. In J. Coffee, L. Lowenstein, S. Rose-Ackerman (eds.) (1988) *Knights, Raiders and Targets: Analysis and Evidence,* Oxford University Press, Oxford, pp314-354.

Jensen, M. C. (1988b) 'Takeovers: their causes and consequences', *Journal of Economic Perspectives,* 2 (1), 21-48.

Jensen, M. C. (1989a) 'The eclipse of the public corporation', *Harvard Business Review,* 67 (5), 61-74.

Jensen, M. C. (1989b) 'Active investors, LBOs and the privatisation of bankruptcy', *Journal of Applied Corporate Finance,* 2 (1), 35-44.

Jensen, M. C. (1991) 'Corporate control and politics of finance', *Journal of Applied Corporate Finance*, 4 (2), 13-33.

Jenson, M. and Chew, D. (1995) 'U.S. corporate governance: lessons form the 1980s'. In P. Bernstein (ed.), *The Portable MBA in Investment* (1995), John Wiley & Sons, 377-406.

Jensen, M. and Meckling, W. (1976) 'Theory of the firm: managerial behavior, agency costs and ownership structure', *Journal of Financial Economics*, 3, 305-360.

Jensen, M. and Meckling, W. (1992) 'Specific and general knowledge, and organizational structure'. In L. Werin and H. Wijkander (eds.), *Contract Economics*, Blackwell, Oxford, pp251-274.

Jones, K. and Biasiotto, M. (1999) 'Internet retailing: current hype or future reality?', *International Review of Retail Distribution and Consumer Research*, 9 (1), 69-79.

Jones, K. and Simmons, J. (1987) *Location, Location, Location*, Methuen, Toronto.

Jones, K. and Simmons, J. (1990) *The Retail Environment*, Routledge, London.

Kaikati, J. G. (1985) 'Don't discount off-price retailers', *Harvard Business Review*, 63 (3), 85-92.

Kanter, R. M. (1985) *The Change Masters*, Unwin, London.

Kaplin, S. N. (1990) 'Campeau's acquisitions of Federated: value destroyed or value added', *Journal of Financial Economics*, 25 (2), 191-212.

Kaplin, S. N. (1994) 'Campeau's acquisitions of Federated: post-bankruptcy results', *Journal of Financial Economics*, 35 (1), 123-136.

Kara, A. and Kaynak, E. (1997) 'Markets of a single customer: exploiting conceptual developments in market segmentation', *European Journal of Marketing*, 31 (11/12), 873-895.

Katz, C. (1992) 'All the world is staged: intellectuals and the projects of ethnography', *Environment and Planning D: Society and Space*, 10, 495-510.

Kaufman, L. (2000) 'On the Avenue, off the Avenue: Saks is getting an annulment', *New York Times*, 20 July, p1, Column 1.

Kaufman, L. (2001) 'Saks Inc. says it won't split up, for now', *New York Times*, 9 February, p 1, Column 2.

Kaufman, M. (1932) 'Present day department store organization', *Harvard Business Review*, 11, 244-252.

Kay, J. A. (1991) 'Economics and business' *The Economic Journal* 101 (404) 57-63

Keeble, D., Lawson, C., Moore, B. and Wilkinson, F. (1999) 'Collective learning processes, networking and "institutional thickness" in the Cambridge region', *Regional Studies*, 33 (4), 319-332.

Keith, M. (1992) 'Angry writing: (re)presenting the unethical world of the ethnography', *Environment and Planning D: Society and Space*, 10, 551- 568.

Keller, K. L. (1999) 'Managing brands in the long run: brand reinforcement and revitalization strategies', *California Management Review*, 41 (3), 102-124.

Kelly, K. (1998) *New Rules for the New Economy*, Viking, New York.

Kerns, S. (1983) *The Culture of Time and Space, 1880-1918*, Weidenfield and Nicolson, London.

Kersten, E. W. Jr. and Ross, D. R. (1968) 'Clayton: A new metropolitan focus in the St. Louis area', *Annals of the Association of American Geographers*, 58 (4), 637-649.

Keyes, L. S. (1995) 'The horizontal merger guidelines of 1992' *Review of Industrial Organization* 10 143-159

Kirchmaier, T. (2001) 'Creating value when less is more', *Financial Times*, 7 February, p 17.

Kitchin, R. M. (1998) 'Towards geographies of cyberspace', *Progress in Human Geography*, 22 (3), 385-406.

Kletter, M. (1999) 'Department stores travelling a new path: the road to hipness', *Women's Wear Daily*, Tuesday, October 5, 1999, p22-23.

Knights, D. and Willmott, H. (2000) 'The reengineering revolution? An introduction'. In D. Knights and H. Wilmott (eds.) *The Reengineering Revolution: Critical Studies of Corporate Change*, Sage, London, pp 1-25.

Kohler, A. (2000) 'The end of the new economy', *Australian Financial Review*, 28 November 2000, p 50.

Kotler, P. (1972) 'What consumerism means for markets', *Harvard Business Review*, 50 (3), 48-57.

KPMG (1999) *Unlocking Shareholder Value: The Keys to Success, Mergers and Acquisitions.* A Global Research Report, KPMG International, November 1999.

Kremer, M. (1991) 'Private label at Dayton Hudson Department Store Company', *Harvard Business School Case* No. 9-589-120.

Kumar, N. (1996) 'The power of trust in manufacturer-retailer relationships', *Harvard Business Review*, 74 (6), 92-106.

Kumar, N. (1997) 'The revolution in retailing: from market driven to market driving', *Long Range Planning*, 30 (6), 830-835.

International Association of Department Stores (1999) *Definition of Department Stores*, http://www.iads.org/html/indexs.htm, accessed on 28th May 1999.

International Council of Shopping Centers (1998) *Retail Consolidation*, White Paper, June 1998.

Izraeli, D. (1973) 'The three wheels of retailing: a theoretical note', *European Journal of Marketing*, 7 (1), 70-74.

Labaton S (2001) 'Looser policy likely on antitrust security' *New York Times*, 1 January, p 3.

Labor, W. (1997) 'The social stratification of (r) in New York City department stores'. In N. Coupland and A. Jaworski (eds.), *Sociolingusitics: A Reader*, St. Martins Press, New York, p168-178.

Laermans, R. (1993) 'Learning to consume: Early department stores and the shaping of modern consumer culture, 1860-1914', *Theory, Culture and Society*, 10, 79-102.

Lambert, R. S. (1938) *The Universal Provider, a study of William Whiteley and the rise of the London department store*, London/Toronto.

Lancaster, B. (1995) *The Department Store - A Social History*, Leicester University Press, London.

Lane, P., Cannella, A, Lubatkin, M. (1998) 'Agency problems as antecedents to unrelated mergers and diversification', *Strategic Management Journal*, 19, 555-578.

Larson, P. D. and Lusch, R. F. (1990) 'Quick response retail technology: integration and performance measurement', *International Review of Retail, Distribution and Consumer Research*, 1, 17-35.

Lash, S. and Urry, J. (1994) *Economies of Signs and Space*, Sage Publications, London.

Laulajainen, R. (1987) *Spatial Strategies in Retailing*, D. Reidel Publishing, Dordrecht, Netherlands.

Laulajainen, R. (1988) 'The spatial dimension of an acquisition', *Economic Geography*, 64, 171-187.

Laulajainen, R. (1990) 'Defense by expansion', *Professional Geographer*, 42 (3), 277-288.

Laulajainen, R. (1991) 'Two retailers go global', *International Review of Retail, Distribution and Consumer Research*, 1, 607-626.

Laulajainen, R. and Stafford, H. (1995) *Corporate Geography – Business Location Principles and Cases*, Kluwer Academic Publishers, Dordrecht, Netherlands.

Lawrence, J. C. (1992) 'Geographical space, social space and the realm of the department store', *Urban History*, 19, 64-83.

Le Corbusier (1987) [1925] *The City of To-morrow and its Planning.* Translated from the 8th French edition of Urbanisme and with an introduction by Frederick Etchells, Dover, New York.

Leach, W. R. (1984) 'Transformation in a culture of consumption: women and department stores, 1890-1925', *Journal of American History*, 71, 319-342.

Leach, W. R. (1989) 'Strategists of display and the production of desire'. In S. J. Bronner (ed.); *Consuming Visions. Accumulation and Display of Goods in America, 1880-1920*, W. W. Norton & Company, New York.

Leach, W. (1993) *Land of Desire: Merchants, Power, and the rise of a New American Culture*, Pantheon Books, New York.

Leamer, E. E. (2000) Commentary cyclically, we're back to the past', *Los Angeles Times*, 6 December, p B-9.

Lears, T. J. (1981) *No Place of Grace*, Pantheon, New York.

Lee, R. (1987) 'Restructuring'. In R.H. Johnston, D. Gregory, D. M. Smith (eds.) *The Dictionary of Human Geography*, 2nd Edition, Basil Blackwell, Oxford.

Lee, R. (1994)'Restructuring'. In R.H. Johnston, D. Gregory, D. M. Smith (eds.) *The Dictionary of Human Geography*, 3rd Edition, Basil Blackwell, Oxford.

Lehmann-Haupt, C. (1996) 'How a landmark of American merchandising deflated its own balloon', *New York Times*, November 18, 1996, p C14.

Leiss, W. (1983) 'The icons of the marketplace', *Theory, Culture and Society*, 1 (3), 10-21.

Leslie, D. and Reimer, S. (1999) 'Spatializing commodity chains', *Progress in Human Geography*, 23 (3), 401-420.

Lewis, B. W. (1935) 'Berle and Means on the modern corporation', *Journal of Political Economy*, 43 (4), 548-554.

Lewis, W. A. (1945) 'Competition in retail trade', Economica, n. s., Vol. 12, 202-234. Reprinted in K. A. Tucker and B. S. Yamey (1973) *Economics of Retailing*, Penguin Education, Middlesex.

Ley, D. (1996) *The New Middle Class and the Remaking of the Central City*, Clarendon Press, London.

Leyshon, A. (1992) 'The transformation of regulatory order - regulating the global economy and environment, *Geoforum*, 23 (3), 249-267.

Leyshon, A. and Thrift, N. (1993) 'The restructuring of the UK financial services industry in the 1990s - A reversal of fortune?', *Journal of Rural Studies*, 9 (3), 223-241.

Leyshon, A. and Thrift, N. (1995) 'Geographies of financial exclusion: financial abandonment in Britain and the United States', *Transactions of the Institute of British Geographers*, 20, 312-41.

Leyshon, A. and Thrift, N. (1997) *Money Space: Geographies of Monetary Transformation*, Routledge, London.

Leyshon, A. and Thrift, N. (1999) 'Lists come alive: electronic systems of knowledge and the rise of credit scoring in retail banking', *Economy and Society*, 28 (3), 434-466.

Leyshon, A., Thrift, N. and Pratt, J. (1998) 'Reading financial services: texts, consumers, and financial literacy', *Environment and Planning D: Society and Space*, 16 (1), 29-55.

Leyshon, A. and Tickell, A. (1994) 'Money order - the discursive construction of Bretton Woods and the making and breaking of regulatory space', *Environment and Planning A*, 26 (12), 1861-1890.

Lindquist, J. (1974) 'Meaning of image: survey of empirical and hypothetical evidence', *Journal of Retailing*, 50, 29-38.

Lockley, L. C. (1942) 'Operating results of department and speciality stores in 1941; Department store financial requirements, 1920-1940 (Review)', *Journal of American Statistical Association*, 37 (220), 555-556.

Loomis, C. J. (1990) 'The biggest looniest deal ever', *Fortune*, June 18.

Loomis, C. J. (1997) 'Ten years after', *Fortune*, February 17.

Lovering, J. (1989) 'The restructuring debate'. In R. Peet and N. Smith (eds.), *New Models in Geography, Volume One*, Unwin Allen, London, pp198-223.

Lovering, J. (1999) 'Theory led policy: the inadequacies of the, new regionalism', *International Journal of Urban and Regional Research*, 23 (2), 379-395.

Lowe, M. S. (1993) 'Local hero: an examination of the role of the regional entrepreneur in the regeneration of British regions'. In G. Kearns and C. Philo (eds.) (1993) *Selling Places: The City as Cultural Capital, Pat and Present*, Permagon Press, Oxford, pp 211-230.

Lowe, M. S. (1998) 'The Merry Hill regional shopping centre controversy: PPG6 and new urban geographies', *Built Environment*, 24, 57-69.

Lowe, M. and Wrigley, N. (1996) 'Towards the new retail geography'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp3-30.

Lowry, J. R. and Wahlr, R. G. (1993) 'Department store organization, functional divisions and operating systems', *International Journal of Retail and Distribution Management*, 21 (7), 28-36.

Luchansky, B. and Gerber, J. (1993) 'Constructing state autonomy: The Federal Trade Commission and the Celler-Kefauver Act' *Sociological Perspectives* 36 (3) 217-240

Lynch, J. E. (1990) 'The impact of EPoS on marketing strategy and retailer-supplier relationships', *Journal of Marketing Management*, 6, 157-168.

MacPherson, K. L (ed.) (1998) *Asian Department Stores*, University of Hawaii Press, Hawaii.

McBride, T. M. (1978) 'A woman's world: department stores and the evolution of women's employment, 1870-1920', *French Historical Studies*, Vol. X, Fall.

McCloud, J. (1997) 'Department stores get new lease on life', *Shopping Center World*, January 1997, 16-18.

McCracken, G. (1990) *Culture and Consumption. New Approaches to the Symbolic Character of Consumer Goods and Activities*, Indiana University Press, Bloomington.

McDowell, L. (1992) 'Valid games? A response to Erica Schoenberger', *Professional Geographer*, 44, 212-215.

McDowell, L. (1997) *Capital Culture: Gender at Work in the City*, Blackwell, Oxford

McDowell, L. (1998) 'Elites in the City of London: some methodological considerations', *Environment and Planning A*, 30, 2133-2146.

McDowell, L. and Cort, G. (1994) 'Missing subjects: gender, power and sexuality in merchant banking', *Economic Geography*, 70 (3), 229-251.

McGinnis, T. (2000) 'Old dogs, new tricks established companies may be better positioned than new dot-coms to sell in an online world. Here are some nimble but cheap old-timers', *Forbes*, 30 October, p 396.

McGoldrick, P. J. and Sandy, S. L. Ho. (1992) 'International positioning: Japanese department stores in Hong Kong', *European Journal of Marketing*, 26 (8/9), 61-73.

McGrath-Champ, S. (1999) 'Strategy and industrial restructuring', *Progress in Human Geography*, 23 (2), 236-252.

McKennea, R. (1995) 'Real time marketing', *Harvard Business Review*, 73: (4) 87-95.

McKinnon, A. (1990) 'The advantages and disadvantages of centralised distribution'. In J. Fernie (ed.) (1990) *Retail Distribution Management – A Strategic Guide to Developments and Trends*, Kogan Page, London, pp75-89.

McKinnon, A. and Campbell, J. (1998) *Quick Response in the Frozen Food Supply Chain*, Christian Salvesen Logistics Research Paper, School of Management, Heriot-Watt University, Edinburgh no. 2 1998 .

McLaughlin, E. W., Perosio, D. J. and Park, J. L. (1998) 'Retail logistics and merchandising in the USA: current status and requirements in the year 2000', *International Journal of Retail and Distribution Management*, 26 (2), 97-105.

McLachlan, M. (1998) 'Showing Off', *Display and Design Ideas*, May 1998.

McLachlin, M.(1999) 'Time for a makeover', *Display and Design Ideas*, March 1999.

McNair, M. P. (1931) 'Trends in large scale retailing', *Harvard Business Review*, 10, 30-39.

McNair, M. P. and May, E. G. (1953) 'Department store expense control', *Harvard Business Review*, 31 (3), 113-127.

McNair, M. P. (1958) 'Significant trends and developments in the post war period'. In A. B. Smith (ed.), *Competitive Distribution in a Free High Level Economy and Its Implications for the University*, University of Pittsburgh Press.

McNair, M. P. (1964) *Change and Challenge in the Department Store Industry.* A speech delivered at a testimonial dinner given in Professor Malcolm McNair's honour by the National Retail Merchant Association, October 5th, 1964, New York City.

McNair, M. P. and May, E. G. (1963) *The American Department Store 1920-1960. A performance analysis based on the Harvard Reports*, Bureau of Business Research Bulletin No. 166, Harvard University Graduate School Of Business Administration, Boston, MA.

McNair, M. P. and May, E. G. (1978) 'The next revolution of the retailing wheel', *Harvard Business Review*, 56 (5), 81-91.

R. H. Macy (1994) *The Turnaround of Macy's: Company Profile*, R. H. Macy, New York.

Malone, T. W. and Laubacher, R. J. (1998) 'The dawn of the E-lance economy', Harvard Business Review 76 (5). Reprinted in Tapscott, D. (ed.) (1999) *Creating Value in the Network Economy*, Harvard Business Review Press, Boston. MA, pp55-68.

Maltz, E. and Srivastava, R. (1997) 'Managing retailer-supplier partnerships with EDI: evaluation and implementation, *Long Range Planning*, 30, 862-876.

Management Horizons (1995) *Retailing 2005 - New Rules, New Roles, New Relationships in Food, Drug and Mass Retailing.* Price Waterhouse LLP.

Manners, G. (1965) 'Urban expansion in the United States', *Urban Studies*, 2, 51-66.

Marchand, R. (1985) *Advertising the American Dream: Making Way for Modernity 1920-1940*, University of California Press, Berkeley.

Marcus, L. S. (1978) *The American Store Window*, New York.

Marcus, S. (1975) *Minding the Store. A Memoir*, Elm Tree Books, London.

Marden, P. (1992) "Real' regulation reconsidered' *Environment and Planning A* 24 751-767

Markin, R., Lillis, C. and Narayana, C. (1976) 'Social psychological significance of store space', *Journal of Retailing*, 52, 445-460.

Markusen, A. (1996) 'Sticky places in slippery space: a typology of industrial districts', *Economic Geography*, 72, 293-313.

Markusen, A. (1999) 'Fuzzy concepts, scanty evidence and policy distance: the case for rigour and policy relevance in critical regional studies', *Regional Studies*, 33 (9), 869-886.

Marsden, T. and Wrigley, N. (1995) 'Regulation, retailing and consumption', *Environment and Planning A*, 27, 1899-1912.

Marsden, T. and Wrigley, N. (1996) 'Retailing, the food system and the regulatory state'. In N. Wrigley and M. S. Lowe (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Marsden T, Harrison M, Flynn A, (1998) 'Creating competitive space: exploring the social and political maintenance of retail power' *Environment and Planning A* 30, 481-98.

Marsden, T, Flynn A, Harrison M (2000) *Consuming Interests. The Social Provision of Foods*, UCL Press, London.

Marsh, P. (1994) *Capital Markets and Corporate Governance*, Oxford University Press, Oxford.

Marshall, J., Gentle, C., Raybould, S. and Coombes, M. (1992) 'Regulatory change, corporate restructuring and the spatial development of the British financial sector', *Regional Studies*, 26 (5), 453-467.

Martin, R. (1994) 'Statelesss monies, global financial integration and national economic autonomy: The end of geography?' In S. Corbridge, R. Martin and N. Thrift (eds.) *Money, Space and Power*, Basil Blackwell, Oxford.

Martin, R. and Sunley, P. (2001) 'Rethinking the "economic" in economic geography: broadening our vision or losing our focus?', *Antipode*, 32 (2), forthcoming.

Martineau, P. (1958) 'The personality of the retail store', *Harvard Business Review*, 36 (1), 47-55.

Marx, K. and Engels, F. (1848) *Manifesto of the Communist Party.* Available online at http://ro.com/~ltree/Manifesto.html, accessed 6th August 1999.

Massey, D. (1983) 'Industrial restructuring as class restructuring: Product decentralisation and local uniqueness', *Regional Studies*, 17, 73-89.

Massey, D. (1995) *Spatial Divisions of Labour: Social Structures and the Geography of Production*, 2nd Edition, Macmillan, Basingstoke.

Matthews, N. (1980) 'The department store versus the discount department store: A Practitioner's View'. In R. W. Stampfl and E. Hirschman (eds.), *Competitive Structure in Retail Markets: The Department Store Perspective*, Proceedings of the American Marketing Association, pp119-123.

May Department Stores Company (1999) *May 1998 Annual Report*, St Louis, IL.

May Department Stores Press Release (2000a) *The May Department Stores Company to Offer Comprehensive Internet Wedding Gift Registry Services through Equity Partnership with WeddingNetwork.com*, April 12, St Louis, IL.

May Department Stores Press Release (2000b) *The May Department Stores Company to Acquire David's Bridal Inc.*, July 3, St Louis, IL.

Mazur, P. M. (1924) 'Future developments in retailing', *Harvard Business Review*, 2, 434-446.

Mazur, P. M. (1925) 'The logic of department store organization', *Harvard Business Review*, 3, 237-296.

Mazur, P. M. (1927) *Principles of Organization Applied to Modern Retailing*, Harper and Bros., New York.

Mazur, P. (1928) *American Prosperity. Its Causes and Consequences*, Viking Press, New York.

Means, G. C. (1935) 'Price inflexibility and the requirements of a stabilizing policy', *Journal of the American Statistical Association*, 30 (190), 401-413.

Mellahi, K., Johnson, M. (2000) 'Does it pay to be a first mover in e-commerce? The case of Amazon.com', *Management Decision*, 38 (7), 445-452.

Merrill Lynch (1997a) *Proffitt's, Inc. Potential 20% grower without further acquisition*, Merrill Lynch & Co., New York, 8 December.

Merrill Lynch (1997b) *Proffitt's, Inc. CEO says: substantial growth ahead*, Merrill Lynch & Co., New York, 15 April.

Merrill Lynch (1997c) *Saks Holdings: New Buy Recommendation*, Merrill Lynch & Co., New York, 5 February.

Merrill Lynch (1998) *Expensive acquisition sharply increases risk of profit disappointment*, Merrill Lynch & Co., New York, 22 May

Merrill Lynch (1999a) *In Depth Report – Retailing. Daniel O'Connor, Management Ventures, Inc.*, Merrill Lynch & Co., New York, 12 July

Merrill Lynch (1999b) *Comment: Federated Department Stores Plans to be dominant e-commerce player within 2 years*, Merrill Lynch & CO., New York, 5 April.

Merrill Lynch (1999c) *Retailing – Broadlines Catalogers like Fingerhut make excellent e-commerce platforms for traditional retailers like Federated*, Merrill Lynch & Co., New York, 5 April.

Merrill Lynch (1999d) *Retailing – Brick-and-Mortar Retailers Enter the Fray*, Merrill Lynch & Co., New York, 8 April.

Merrill Lynch (1999e) *Retailing – Broadlines Personalization key to success for virtual retailers and bricks and mortar retailers*, Merrill Lynch & Co., New York, 9 July.

Merrill Lynch (1999f) *Governor likely to veto Bill that would stop supercenter and warehouse club growth in California*, Merrill Lynch & Co., New York, 15 September

Merrill Lynch (1999g) *Governor vetos "Big-Box" bill*, Merrill Lynch & Co., New York, 23 September

Merrill Lynch (2000a) *Saks Internet to be launched this summer, potentially profitable*, Merrill Lynch & Co., New York, 30 March.

Merrill Lynch (2000b) *Nordstrom Inc: Upgrade to Buy: A Quality Growth Stock without Premium Multiple*, Merrill Lynch & Co., New York, 24 April.

Merrill Lynch (2000c) *Retailing – Broadlines Registry sites are great gauges of retailer's speed of Internet implementation and success*, Merrill Lynch & Co., New York, 7 January.

Merrilees, B. and Fam, K. S. (1999) 'Effective methods of managing 'sales", *The International Journal of Retail, Distribution and Consumer Research*, 9 (1), 81-92.

Meyer, D. R. (1987) 'The national integration of regional economies, 1860-1920'. In Mitchell, R. D. and Groves, P. A., *North America - The Historical Geography of a Changing Continent*, Hutchinson Education, Rowman and Littlefield, London, pp321-346.

Miller, D. (1987) *Material Culture and Mass Consumption*, Basil Blackwell, Oxford.

Miller, D. (1998) *A Theory of Shopping*, Cornell University Press, New York.

Miller, D. (2001) *The Dialectics of Shopping*, University of Chicago Press, Chicago.

Miller, D., Jackson, P., Thrift, N., Holbrook, B. and Rowlands, M. (1998) *Shopping, Place and Identity*, Routledge, London.

Miller, M. (1981) *The Bon Marché: Bourgeois Culture of the Department Store, 1889-1920*, Princeton University Press, Princeton.

Miller, M. H. (1991) 'Leverage', *Journal of Finance*, 46 (2), 479-488.

Mills, C. W. (1952) *White Collar. The American Middle Classes*, Oxford University Press,New York.

Monks, R. G. (1998) *Vehicles for Disclosure:: How Well Do Existing Vehicles for Disclosure Serve the Needs of Shareholders and the Market?* Paper presented at Organization for Economic Co-operation and Development Symposium on The Role of Disclosure in Strengthening Corporate Governance and Accountability , February 13, 1998. Available at www.corporatelibrary.com, accessed 4 January 2001.

Monks, R. and Minow, N. (1995) *Corporate Governance*, Blackwell, Cambridge, MA.

Moore, C. M. (1995) 'From rags to riches – creating and benefiting from the fashion own-brand', *International Journal of Retail and Distribution Management*, 23 (9), 19-27.

Moore, C. and Lochhead, M. (1998) 'The management of retail design: demistifying the activity', *Journal of Consumer Studies and Home Economics*, 22 (2), 121-130.

Moore, J. F. (1993) 'Predators and prey: a new ecology of competition', *Harvard Business Review*, 71: (3) 75-86.

Morck, R., Shleifer, A. and Vishny, R. (1990) 'Do managerial objectives drive bad acquisitions', *Journal of Finance*, 45 (1), 31-48.

Morganosky, M. A. (1997a) 'Retail market structure change: implications for retailers and consumers', *International Journal of Retail and Distribution Management*, 25 (8), 269-274.

Morganosky, M. A. (1997b) 'Retailing and the Internet: a perspective on the top 100 U.S. retailers', *International Journal of Retail and Distribution Management*, 25 (11), 372-377.

Morganosky, M. and Crude, B. (2000) 'Large format retailing in the U.S.: a consumer experience perspective', *Journal of Retail and Consumer Services*, 7, 215-222.

Morgenson, G. (2000) 'Memo to analysts: thanks for nothing', *New York Times*, 3 December, p 1, Column 3.

Mort, F. (1996) *Cultures of Consumption – Masculinities and Social Space in Late Twentieth Century Britain*, Routledge, London.

J. P. Morgan (1998) *Company Report: May Department Stores - The Industry Standard*, J. P. Morgan Securities Inc., New York.

J. P. Morgan (1998a) *Proffitt's, Inc. Proffitt's – The Name Says It All*, J. P. Morgan Equity Research, New York, 18 June.

J. P. Morgan (2000a) *Saks Incorporated: Admission of Guilt on SFA*, J. P. Morgan Equity Research, New York, 20 July.

J. P. Morgan (2000b) *Saks Incorporated: Same Store Sales Breakout*, J. P. Morgan Equity Research, New York, 8 August.

Moukheiber, Z. (1998) 'A Pol's touch', *Forbes*, February 23 1998.

Moyer, R., Chatfield, R. and Sisneros, P. (1989) 'Security analyst monitoring activity: agency costs and information demands', *Journal of Financial and Quantitative Analysis*, 24 (4), 503- 512

Much, M. (1997) 'Can department stores' own apparel develop brand cachet?', *Investor's Business Daily*, Friday, April 4, 1997, pA3.

Mueller, W. Paterson, T. (1986) 'Policies to promote competition'. In B. W. Marion (ed.), *The Organization and Performance of the Food Industry*, Lexington Books, Lexington, MA.

Mullen, W. H. (1924) 'Some aspects of chain store development', *Harvard Business Review*, 3 (1), 69-80.

Muller, P. O. (1981) *Contemporary Suburban America*, Prentice-Hall, New Jersey.

Mullings, B. (1999) 'Insider or outsider, both or neither: some dilemmas of interviewing in a cross-cultural setting', *Geoforum* 30 (4), 337-350.

Mumford, L. (1940) *The Culture of Cities*, Secker and Warburg, London.

Murphy, A. (2001) 'The emergence of online food retailing: a stakeholder perspective', *Tijdschrift voor Econmische en Sociale Geographie*, Vol 92 (3), forthcoming.

Nava, M. (1996) 'Modernity's disavowel. women, the city and the department store'. In M. Nava and A O'Shea (eds.), *Modern Times: Reflections on a century of English modernity*, Routledge, London, pp 38-76.

New York Times (2000) 'Saks foresees profit in three years from web site', *New York Times*, February 19, 2000, p3.

Nixon, S. (1996) *Hard Looks - Masculinities, Spectatorship and Contemporary Consumption*, Routledge, London.

Nelson, R. L. (1958) *The Selection of Retail Locations*, Dodge, New York.

Nixon, S. (1996) *Hard Looks - Masculinities, Spectatorship and Contemporary Consumption*, Routledge, London.

Nonaka, I. And Takeuchi, H. (1999) 'A theory of the firm's knowledge-creation dynamics'. In A. Chandler Jr., P. Hagstrom and O. Solvell (eds.) (1999) *The Dynamic Firm. The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press, Oxford, pp 214-241.

Noyelle, T. J. (1987) *Beyond Industrial Dualism. Market and Job Segmentation in the New Economy*, Westview Press, Boulder.

Nord, P. G. (1986) *Paris Shopkeepers and the Politics of Resentment*, Princeton University Press, New Jersey.

Nordstrom, Inc. Press Release October 8 (1998) *Nordstrom Announces Partnership with Streamline*, October 8, 1998.

Nystrom, P. H. (1925) 'An estimation of the volume of retail business in the United States', *Harvard Business Review*, 3 (2), 150-159.

Nystrom, P. H. (1932) *The Economics of Retailing*, New York.

Nystrom, P. H. (1933) 'Retailing in retrospect and outlook', Proceedings of the American Statistical Association, March 1933, *Journal of the American Statistical Association (Supplement)*, 28 (1), 84-89.

O'Brien, R. (1992) *Global Financial Integration. The End of Geography*, Pinter, London.

O'Neil, P. (2001) 'Financial narratives of the modern corporation', Mimeo. Forthcoming in *Journal of Economic Geography*, 1 (2), 2001.

O'Neil, P. and Gibson-Graham, J. K. (1999) 'Enterprise discourse and executive talk: stories that destabilize the company', *Transactions of the Institute of British Geographers*, NS, 24 (1), 11-22.

Oesterle, D. (1997) 'Method to the merger madness: revisiting the '80s takeover boom', *Regulation – The Cato Review of Business and Government* 20 (2) 27-33

Oinas, P.(1999) 'Voices and silences: the problem of access to embeddedness', *Geoforum* 30 (4), 351-361.

Opler, T. and Titman, S. (1993) 'The determinants of leveraged buyout activity: free cash flow vs financial distress costs', *Journal of Finance*, 48 (5), 1985-1999.

Paine Webber Inc. (1999a) *Department Store Consolidation*, Paine Webber Inc. Equity Research, New York, December 1999.

PaineWebber Inc. (1999b) *nordstrom.com The Virtual Store Tour*, PaineWebber Inc. Equity Research, New York, July 15, 1999.

Palmer, D., Zhou, X., Barber, B. and Soyal, Y. (1995) 'The friendly and predatory acquisition of large U.S. corporations in the 1960s: the other contested terrain', *American Sociological Review*, 60 (4), 469-499.

Palmeri, C. (1997) 'Believe in yourself, believe in your merchandise', *Forbes*, September 08 Issue.

Palmeri, C. (1999) 'Filling big shoes', *Forbes*, November 15, 1999.

Park, J. (1999) 'Saks makes foray into Middle East', *Birmingham Business Journal*, 22 November, 1999.

Parker, H. R. (1968) 'The changing role of department stores', *Town and Country Planning Review*, 38, 55-64.

Parry, B. (1998) 'Hunting the gene-hunters: the role of hybrid networks, status, an chance in conceptualising and accessing 'corporate elites', *Environment and Planning A*, 30, 2147-2162.

Pascual, A. M. (2000) 'Still seeking synergy at Saks', *Business Week*, 3 July, p120.

Pasdermadjian, H. (1954) *The Department Store: Its Origins, Evolution and Economics*, Newman Books, London.

Peet, R. (1997) 'The cultural production of economic forms'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp.37-46.

Pegler, M. (1998) *Lifestyle Merchandising*, PBC International.

Pennington, A. L. (1980) 'The department store versus the speciality store'. In R. W. Stampfl and E. Hirschman (eds.), *Competitive Structure in Retail Markets: The Department Store Perspective*, Proceedings of the American Marketing Association, pp132-138.

Pennington, T. (1999) Macy's gets in shape', *Display and Design Ideas*, December 1999.

Peppers, D. and Rogers, M. (1997) *Enterprise One to One: Tools for Competing in the Interactive Age*, Doubleday Press, New York.

Perrons, D. (2000) 'Flexible working and equal opportunities in the United Kingdom: a case study from retail', *Environment and Planning A*, 32 (10), 1719-1734.

Phillips, C. F. (1937) 'The chain store in the United States and Canada', *The American Economic Review*, 27 (1), 87-95.

Phillips, L. A., Sternquist, B. and Mui, S. (1992) 'Hong Kong department stores: retailing in the 1990s', *International Journal of Retail and Distribution Management*, 20 (1), 16-24.

Phillips, M. (1992) 'Fairs, markets, peddlers and small scale retailing'. In J. Benson and G. Shaw (eds.), *The Evolution of Retail Systems c1800-1914*, Leicester University Press, p53-75.

Pinch, S. and Henry, N. (1999) 'Discursive aspects of innovation: the case of the British motor sport industry', *Environment and Planning A*, 31 (4), 665-682.

Pine, B. J. and Gilmore, J. H. (1999) *The Experience Economy. Work is Theatre and Every Business a Stage*, Harvard Business School Press, Boston, MA.

Pine, B. J., Peppers, D. and Rogers, M. (1995) 'Do you want to keep your customers forever?', *Harvard Business Review*, 73 (2), 103-114

Pitofsky, R. (2000) *The Nature and Limits of Restructuring in Merger Review.* Remarks by Robert Pitofsky, Chairman Federal Trade Commission, Cutting Edge Antitrust Conference, Law Seminars International, February 17, 2000, Empire Hotel, New York, N. Y. Transcript available (http://www.ftc.gov/speeches/pitofsky/restruct.htm)

Plummer, P. and Sheppard, E. (2001) 'Must emancipatory economic geography be qualitative? A response to Amin and Thrift', *Antipode*, 32 (2), forthcoming.

Poire, M. and Sabel, C. (1984) *The Second Industrial Divide: Possibilities for Prosperity*, Basic Books, New York.

Pomykala, J. (1997) 'Bankruptcy reform: principles and guidelines', *Regulation Magazine*, 20 (4), 41-48, Cato Institute.

Pomykala, J. (1997) 'Wrestling with bankruptcy, the economics and politics of reform', 4th quarter 1999, *The Milken Institute Review*, 1 (4), 41-47.

Porteous, D. (1999) 'The development of financial centres: location, information externalities and path dependence'. In R. Martin (ed.) (1999) *Money and the Space Economy*, Wiley, London, pp95-114.

Porter, J. (1999) *The Future of the Department Store Industry: Instore and Mail Order Strategies*, Financial Times Retail and Consumer, London.

Porter, M. E. (1980) *Competitive Strategy: Techniques for Analyzing Industries and Competition*, Free Press, New York.

Porter, M. E. (1987) 'From competitive advantage to corporate strategy', *Harvard Business Review*, 65 (6), 43-59.

Porter, G. and Livesay, H. C. (1989) [1971] *Merchants & Manufacturers*, Ivan R Dee, Inc., Chicago.

Prahalad, C. and Hamel, G. (1990) 'The core competence of the corporation' *Harvard Business Review*, May-June 1990 pp79-91.

Pratt, A. C. (2000) 'New media, the new economy and new spaces', *Geoforum*, 31, 425-436.

Prechel, H. (1994) 'Economic crisis and the centralization over the managerial process: corporate restructuring and neo-Fordist decision making' *American Sociological Review*, 59 (5), 723-745.

Pred, A. (1965) 'Industrialization, Initial Advantage and American Metropolitan Growth', *Geographical Review*, 55, 158-185.

Price Waterhouse Coopers LLP (1997) *Underperforming Retail Segments: The 1997 Holiday Outlook*, Carter Pate, Pricewaterhouse Coopers.

Price Waterhouse Coopers LLP (1999) *Softgoods Retailing: Embracing Brands, Expanding Reach, Enhancing Focus*, Retail Intelligence System: Management RIS Horizons, March 1999.

Proffitt's Inc. Press Release (1998a) Proffitt's Incorporated and Saks Holdings Inc. Announce Merger Agreement, 5 July, Birmingham AL.

The Progressive Policy Institute (PPI) (1998) *The New Economy Index*, June 1998[Accessed at http://www.neweconomyindex.org/introduction.html, on 2 February 2001].

Prudential Securities (1999) *SKS: Comments following a meeting with management*, Prudential Equity Research, 4 October 1999.

Prudential Securities (2000a) *Federated Department Stores – Company Update*, Prudential Securities Equity Research, January 27, 2000.

Prudential Securities (2000b) *Retailing Industry Report – A Close Look at Retailing's New Paradigm*, Prudential Securities Equity Research, March 9.

Pryke, M. (1994) 'Looking back on the space of a boom: (re)developing spatial matrices of the City of London', *Environment and Planning A*, 26 (2), 235-264.

Pryke, M. and Lee, R. (1995) 'Place your bets – towards an understanding of globalization, socio-financial engineering and competition within a financial center', *Urban Studies*, 32 (2), 329-344.

Quah, D. T. (1996) 'Why non-stick frying pans have lost the edge', Manuscript. Subsequently published in *Centre Piece: The Magazine of Economic Performance*, Centre for Economic Performance, London School of Economics, October

Quah, D. T. (1997) 'Increasingly weightless economies', *Bank of England Quarterly Bulletin*, February 1997, 49-56.

Quah, D. T. (1999) 'The weightless economy in growth', *The Business Economist*, 30 (1), 40-53.

Quah, D. T. (2000) 'Internet cluster emergence', Working Paper, London School of Economics, January 2000. Subsequently published in *European Economic Review*, 44 (4-6), 1032-1044.

Quelch, J. and Harding, D. (1996) 'Brands versus private labels: fighting to win', *Harvard Business Review*, 74 (1), 99-109.

Quick, R. (2000a) 'Returns to sender: having a physical store is a big advantage when it comes to dealing with dissatisfied customers', *Wall Street Journal*, 17 July, p R8.

Quick, R. (2000b) 'Federated to cut nearly 25% of jobs in struggling Fingerhut unit', *Wall Street Journal*, 16 October, p B4.

Quick, R. (2000c) 'Downsized: department stores and designer tenants jockey over real estate', *Wall Street Journal*, 31 October, p A1.

Rachman, D. and Fabes, K. J. (1992) 'The decline of the traditional department store', *Journal of Marketing Channels*, 1 (3), 39-59.

Radcliffe, S. (1994) '(Representing) post-colonial women: authority, difference and feminisms', *Area*, 26, 25-32.

Raff, D. M. G. (1991) 'Robert Campeau and Innovation in the Internal and Industrial Organization of Department Store Retailing: Are the '80s and '90s the '20s and '30s All Over Again (and Why Does it Matter)?', Paper presented at the 37th Annual Meeting of the Business Historical Conference, Toronto, March, 1991, *Business and Economic History*, Second Series, Volume 20, pp52-61.

Raff, D. and Temin, P. (1997) *Sears Roebuck in the Twentieth Century: Competition, Complementarities, and the Problem of Wasting Assets*, National Bureau of Economic Research Historical Paper No. 102, June 1997.

Rappaport, E. D. (1996) ' "The halls of temptation": gender, politics, and the construction of the department Store in late Victorian London', *Journal of British Studies*, 35, 58-83.

Rayport, J. and Sviokla, J. (1995) 'Exploiting the virtual value chain', *Harvard Business Review*, 73 (6), 75 - +.

Reekie, G. (1993a) *Temptations. Sex, Selling and the Department Store*, Allen and Unwin, Sydney.

Reekie, G. (1993b) 'Changes in the adamless eden: the spatial and sexual transformation of a Brisbane department store 1930-90'. In Shields, R. (ed.), *Lifestyle Shopping*, Routledge, London.

Reichheld, F. and Schefter, P. (2000) 'E loyalty: your secret weapon on the web', *Harvard Business Review*, 78 (4), 105-114.

Reid, M. (1995) 'A survey of retailing: Change at the check-out - Stores of Value', *The Economist*, 4 March 1995.

Reiferson, P. J. (1991) 'Federated Department Stores Inc.: managing in a hurricane', *Harvard Business School Case* Number 9-292-079.

Resseguie, H. E. (1962) 'The decline and fall of the commercial empire of A. T. Stewart', *Business History Review*, 36, 255-286.

Resseguie, H. E. (1965) 'Alexander Turney Stewart and the development of the department store 1823-1876', *Business History Review*, 39, 301-322.

Retail Systems (1998) 'Nordstrom develops unique internet strategy', *Retail Systems Alert Corp.* Posted at (www.retailsystems.com/TON/pubTON/Oct98/101298Nordstrom.html), accessed 23 November 1999.

Richardson, R., Belt, V., Marshall. N. (2000) 'Taking calls to Newcastle: the regional implications of the growth in call centres', *Regional Studies*, 34 (4), 357-369.

Riiber Knudson, T., Finskud, L., Hogna, E. (1997) 'Brand consolidation makes a lot of economic sense', *The McKinsey Quarterly*, No. 4, 189-193.

Rinehart, S. M. and Zizzo, D. (1995) 'The Canadian and US retailing sectors: important changes over the past 60 years', *Journal of Retail and Consumer Services*, 2 (1), 33-47.

Rodriguez-Pose, A. (2001) 'Killing economic geography by a "cultural turn" overdose. A reply to Amin and Thrift', *Antipode*, 32 (2), forthcoming.

Rogers, D. (1991) 'An overview of American retail trends', *International Journal of Retail and Distribution Management*, 19 (6), 3-12.

Roll, R. (1986) 'The hubris hypothesis of corporate takeovers', *Journal of Business*, 59, 197-216.

Romer, C. D. (1990) 'The great crash and the onset of the Great Depression', *The Quarterly Journal of Economics*, 105 (3), 597-624.

Rose, G. (1997) 'Situating knowledges: positionality, reflexiveness and other tactics', *Progress in Human Geography*, 21 (3), 305-320.

Rosenberg, L. J. (1988) *Dillard: The First 50 Years*, University of Arkansas Press, Fayetteville.

Rosenberg, L. J. and Hirschman, E. C. (1980) 'Retailing without stores', *Harvard Business Review*, 58 (4), 103-112.

Rosenof, T. (1997) *Economics in the Long Run. New Deal Theorists and their Legacies, 1933-1993*, University of North Carolina Press, London.

Rothchild J, (1991) *Going for Broke: How Robert Campeau Bankrupted the Retail Industry, Jolted the Junk Bond Market and Bought the Booming '80s to a Crashing Halt*, Beard Books, Washington DC.

Rousey, S. P. and Morganosky, M. A. (1996) 'Retail format change in US markets', *International Journal of Retail and Distribution Management*, 24 (3), 8-16.

Rowat, C. (1998) 'Cross docking: the move from supply to demand', *Distribution – The Magazine of Logistics Management*, August 1998.

Rowley, J. (1995) 'Multi media kiosks in retailing', *International Journal of Retailing and Distribution Management*, 23 (5), 32-40.

Rich, S. V. and Portis, B. (1963) 'Clues for action from shopper preferences', *Harvard Business Review*, 41 (2), 132-149.

Rublin, L. R. (2000) 'Returns to sender: having a physical store is a big advantage when it comes to dealing with dissatisfied customers', *Wall Street Journal*, 17 July, pR8.

Sabot, E. (1999) 'Dr Jekyl, Mr H(i)de: the contrasting face of elites at interview', *Geoforum* 30 (4), 329-335.

Said, E. (1984) [1978] *Orientalism: An Introduction*, Harmondsworth, Penguin.

Said, E. (1993) *Culture and Imperialism*, Vintage Books, London.

Saks, Inc. (2000a) *Saks Inc. 1999 Annual Report*, Birmingham, AL.

Saks, Inc. (2000b) *Saks Incorporated Second Quarter Results Conference Call,* August 16, 2000, 10 AM EST Transcript.

Saks Inc. (2000c) *Saks Incorporated SFA Spin Off Conference Call*, July 20, 2000, 10:30 AM EDT Transcript.

Saks, Inc. Press Release (1999) *Saks Incorporated Announces Plans for Saks Fifth Avenue's International Expansion Into Riyadh, Saudi Arabia*, November 12, 1999.

Saks Inc. Press Release (2000a) *Saks Incorporated Announces Planned Spin Off of Saks Fifth Avenue and Related Businesses*, 19 July, Birmingham AL.

Saks Inc. Press Release (2000b) *Saks Incorporated Announces Planned Consolidations of Two Divisions*, 17 February, Birmingham AL.

Saks Inc. Press Release (2000c) *Saks Incorporated: Reports Preliminary Operating Results for the Fourth Quarter and Year Ended January 29, 2000. Provides Future Growth Targets; Announces Planned Divisional Consolidations*, February 17, 2000.

Saks Inc. Press Release (2001) *Saks Incorporated: Announces Termination of Plans to Spin Off Saks Fifth Avenue Related Businesses*, February 3, 2001.

Salomon Smith Barney (2000a) *SKS: You say 1999 was a difficult year? Time for some action*, Salomon Smith Barney Equity Research, New York, 18 January.

Salomon Smith Barney (2000b) *SKS: Consolidating Home Offices: step in right direction*, Salomon Smith Barney Equity Research, New York, 17 February.

Salomon Smith Barney (2000c) *Department Stores: RL Announcement Creates More Headwind for Sector*, Salomon Smith Barney Inc., New York, Thursday, February 8, 2000.

Salomon Smith Barney (2000d) *Department Stores: RL Announcement Creates More Headwind for Sector*, Salomon Smith Barney Inc., New York, Thursday, February 8, 2000.

Salmon, W. J. and Cmar, K. A. (1987) 'Private labels are back in fashion', *Harvard Business Review*, 65 (3), 99-106.

Samson, P. (1981) 'The department store. Its past and its future: A review article', *Business History Review*, Vol. LV, 26-34.

Sassen, S. (2000) *The Global City: London, New York*, Tokyo, 2nd Edition, Princeton University Press.

Sauer, C. and Burton, S. (1999) 'Is there a place for department stores on the Internet?', *Journal of Information Technology*, 14, 387-398.

Savage, M. (1995) 'Walter Benjamin's urban thought: a critical analysis', *Environment and Planning D: Society and Space*, 13, 20-216.

Savitt, R. (1989) 'Looking back to see ahead: writing the history of American retailing', *Journal of Retailing*, 65 (3), 326-355.

Savitt, R. (1999) 'Innovation in American retailing, 1919-1939: improving inventory management', *The International Review of Retail, Distribution and Consumer Research*, 9 (3), 307-320.

Sayer, A. (1982) 'Explanation in economic geography', *Progress in Human Geography*, 6, 68-88.

Sayer, A. (1992) *Method in Social Science: A realist Approach*, Second Edition, Routledge, London.

Sayer, A. (1997) 'The dialectic of culture and economy'. In R. Lee and J. Wills (eds.) *Geographies of Economies*, Arnold, London, pp.16-26.

Schendel, D. (1993) 'Introduction to the summer 1993 special issue on "corporate restructuring"' *Strategic Management Journal* 14, 1-3

Serwer, A. E. (1996) 'The man who rained on Macy's parade', *Fortune*, December 9.

Schoenberger, E. (1988a) 'From fordism to flexible accumulation: technology, competitive strategies, and international location', *Environment and Planning D: Society and Space*, 6, 245-262.

Schoenberger, E. (1988b) 'Thinking about flexibility: a response to Gertler', *Transactions of the Institute of British Geographers N. S.*, 14, 98-108.

Scheonberger, E. (1991) 'The corporate interview as a research method in economic geography', *Professional Geographer*, 43, 180-189.

Schoenberger, E. (1992) 'Self-criticism and self-awareness in research: a reply to Linda McDowell', *Professional Geographer*, 44, 215-218.

Schoenberger, E. (1994a) 'Corporate strategy and corporate strategists: power, identity and knowledge within the firm', *Environment and Planning A*, 26, 435-451.

Schoenberger, E. (1994b) 'What is strategic about strategy?', *Environment and Planning A*, 26, 1010-1012.

Schoenberger, E. (1997) *The Cultural Crisis of the Firm*, Basil Blackwell, Oxford.

Schoenberger, E. (1999) 'The firm in the region and the region in the firm'. In T. J. Barnes and M. S. Gertler (eds.), *The New Industrial Geography: Regions, Regulation and Institutions*, Routledge, London, pp205-224.

Schultz, D. P. (1998) 'Acquisitions set the pace for retail chain growth', *Stores*, August 1998.

Schumpeter, J.A (1942), *Capitalism, Socialism, and Democracy*, Harper, New York.

The Seattle Times (1998) 'Editorial: urban design/Northgate Mall', *The Seattle Times*, Monday 19 April.

Sellers, P. (1999) 'Inside the first E-Christmas', *Fortune*, 1 February, 70-73.

Senn, A. (1996) 'Overcoming the fear of failure at Federated Systems Group', *Computer World*, 21st November 1996. Posted at (www.computerworld.com/home/online9697.nsf/All/961021fsg) , accessed on 11 January 2000.

Sennett, R. (1967) 'Middle class families and urban violence: the experience of a Chicago community in the nineteenth century'. In S. Thernstrom, R. Sennett (eds.), *Nineteenth Century Cities - Essays in the New Urban History*, Yale University Press, 386-420.

Sennett, R. (1977) *The Fall of the Public Man*, Knopf, New York.

Servaes, H. (1994) 'Do takeover targets overinvest', *Review of Financial Studies*, 7 (2), 253-277.

Seyhun, H. N. (1990) 'Do bidder managers knowlingly pay too much for target firms', *Journal of Business*, 63 (4), 439-464.

Shackleton, R. (1998) 'Exploring corporate culture and strategy: Sainsbury at home and abroad during the early to mid 1990s', *Environment and Planning A*, 30, 921-940.

Sharman, G. (1996) 'Nobody calls me General anymore! An interview with Gus Pagonis, Executive Vice President for Logistics, Sears', *The McKinsey Quarterly*, No. 3, 106-115.

Shaw, G. (1992) 'The evolution and impact of large scale retailing in Britain'. In J. Benson and G. Shaw (eds.), *The Evolution of Retail Systems c 1800-1914*, Leicester University Press, Leicester, pp135-165.

Shields, R. (1989) 'Social spatialisation and the built environment', *Society and Space*, 7 (2), 147-164.

Shields, R. (ed.) (1992) *Lifestyle Shopping*, Routledge, London.

Shleifer, A. and Vishny, R. (1988) 'Large shareholders and corporate control', *Journal of Political Economy*, 94, 461-488.

Shleifer, A. and Vishy, R. (1997) 'A survey of corporate governance', *Journal of Finance*, LII (2), 737-783.

Shugart, W. F.(1998) 'The government's war on mergers: the fatal conceit of antitrust policy' *Policy Analysis* No. 323 Washington DC: Cato Institute October 22 1998

Sibley, C. (1990) *Dear Store: An Affectionate Portrait of Rich's*, Peachtree Publications.

Silverman, D. (1986) *Selling Culture: Bloomingdale's, Diana Vreeland and the New Aristocracy of Taste in Reagan's America*, Pantheon Books, New York.

Simmel, G. (1967) [1903] 'The metropolis and mental Life'. In R. Sennett (ed.) *Classic Essays on the Culture of Cities*, Appelton-Century-Cofts, New York, pp.47-60

Simone, J. (1991) 'Department stores: girding for the 21st Century', *Visual Merchandising and Store Design*, September 1991, p56-59, p78-83.

Skrovan, S. and Robinson, S. (1995) 'Department stores: re-engineering a mature industry', *Chain Store Age*, 1 August, p25A.

Smith, A. (1776) *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book One. Accessed at http://www.shef.ac.uk/uni/projects/gpp/Tapestry/society/aninqu1.html, 14th June 1999.

Smith, D. (1998) 'Dillard's defies past to buy Mercantile', *Arkansas Business*, May 25 1998 (Cover Story)

Smith, M. D. (1998) 'The empire filters back: consumption, production, and the politics of Starbucks coffee', *Urban Geography*, 17 (6), 502-524.

Smith, S. (1988) 'How much change in store? The impact of new technologies and labour processes on manager and staffs in retail distribution'. In D. Knights and H. Willmott (eds.) (1988), *New Technology and the Labour Process*, Macmillan, London, pp143-162.

Smith, D. and Sparks, L. (1993) 'The transformation of physical distribution in retailing', *International Review of Retail, Distribution and Consumer Research*, 3, 35-64.

Soja, E. (1985) 'The spatiality of social life: towards a transformative retheorisation'. In D. Gregory and J. Urry (eds.) *Social Relations and Spatial Structures*, MacMillan, London, pp90-127.

Sorkin, M. (ed.) (1992) *Variations on a theme park: The new American City and the end of public space*, The Noonday Press, New York.

Sparks, L. (1994) 'Delivering quality: the role of logistics in the post-war transformation of British food retailing. In G. Jones and N. J. Morgan (eds.) *Adding Value: Brands and Marketing in Food and Drink*, Routledge, London, pp310-335.

Sparks, L. (1995) 'Restructuring Scottish grocery retailing: the rise and demise of Shoprite and Wm Low', *International Journal of Retail and Distribution Management*, 23(10), 28-36.

Sparks, L. (1996) 'Investment recommendations and commercial reality in Scottish grocery retailing', *Service Industries Journal*, 16 (2), 165-190.

Sparks, L. (1997) 'From coca-colonization to copy-cotting: the Cott Corporation and retailer brand soft drinks in the UK and U.S., *Agribusiness*, 13, 153-167.

Saricio, F. J. (1964) *A Geographic View of a New Retailing Phenomenon.* Paper presented at the 60th Annual Meeting of the Association of American Geographers, New York, 29th March - 1st April 1964.

Spector, R. and McCarthy, P. D. (1995) *The Nordstrom Way: The Inside Story of America's #1 Customer Service Company*, John Wiley, New York.

Spiekerman, U. (1999) 'Theft and thieves in German department stores, 1895-1930: a discourse of morality, crime and gender', In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp135-159.

Spurgeon, D. (2000) 'Saks plans store in Saudi Arabia in an expansion', *Wall Street Journal*, 8 November, p B1.

Stalder, F. (1998) 'The network paradigm: social formations in the age of information', *The Information Society*, 14(4).

Stanback, T. M. (1989) *The Changing Face of Retailing.* Unpublished Research Report, Columbia University, CLA, New York.

Stancill, J. (1977) 'Search for the leveraged buyout', *Harvard Business Review*, 55 (4), 8-12.

Stedman, G. H. (1955) 'The rise of shopping centers', *Journal of Retailing*, 31, 11-26.

Stern, L. Weitz, B. (1997) 'The revolution in distribution: challenges and opportunities' *Long Range Planning* 30 (6) 823-829

Sternberg, E. (1998) *Corporate Governance: Accountability in the Marketplace*, Institute of Economic Affairs, London.

Sternleib, G. (1962) *The Future of the Downtown Department Store*, Joint Center for Urban Studies of the Massachusetts Institute for Technology and Harvard University, Harvard University Press, MA.

Sternlieb, G. and Hughes, J. (1987) 'The demise of the department store', *American Demographics*, Aug 1987, p31-33, 59.

Sternquist, B. (1997) 'International expansion of U.S. retailers', *International Journal of Retail and Distribution Management*, 25 (8), 262-268

Sternquist, B. (1998) *International Retailing*, Fairchild Publishers.

Sternquist, B. and Byoungho Jin (1998) 'What sets the United States retail industry apart from other countries?' *Korean Distribution Journal* (In Korean) December

Sternquist, B. and Byoungho Jin (1999a) 'The department store industry in United States'. *Korean Distribution Journal* (In Korean) February.

Sternquist, B., Chung, J. and Ogawa, T. (2000) 'Japanese department stores – does size matter in supplier-buyer relationships?', In M. R. Czinkota and M. Kotabe (eds.), *Japanese Distribution Strategy*, Business Press, Thompson Learning, pp64-80.

Stewart, G. and Glassman, D. (1988) 'The motives and methods of corporate restructuring: part two', *Journal of Applied Corporate Finance*, 1 (2).

Storper, M. (1993) 'Regional worlds of production: learning and innovation in the technology districts of France, Italy and the USA', *Regional Studies*, 27 (5), 433-455.

Storper, M. (1997) *The Regional World: Territorial Development in a Global Economy*, Guilford Press, New York.

Storper, M. and Salais, R. (1997) *Worlds of Production: The Action Frameworks of the Economy*, Harvard University Press, Cambridge, MA.

Stuart, A. (2000) 'Clicks and bricks', *CIO Magazine*, March 15 2000, Cover Story.

Sturdivant, F. D. (1968) 'Better deal for ghetto shoppers', *Harvard Business Review*, 46 (2), 130-139.

Swinyard, W. R. (1997) 'Retailing trends in the USA: competition, consumers, technology and the economy', *International Journal of Retail and Distribution Management*, 25 (8), 244-255.

Taggart, R. (1988) 'The growth of the 'junk' bond market and its role in financial takeovers'. In A J Auerbach (ed.) *Mergers and Acquisitions*, University of Chicago Press, Chicago, pp 5-24

Tallman, G. B. and Blomstrom, B. (1960) 'Soft goods join the retail revolution', *Harvard Business Review*, 38 (5), 133-143.

Tallman, G. B. and Blomstrom, B. (1962) 'Retail innovations challenge manufacturers', *Harvard Business Review*, 40 (5), 130-141.

Tapscott, D. (ed.) (1999a) *Creating Value in the Network Economy*, Harvard Business School Press, Cambridge, MA.

Tapscott, D. (1999b) 'Introduction'. In Tapscott, D. (ed.) (1999) *Creating Value in the Network Economy*, Harvard Business School Press, Cambridge, MA, pp vii-xxvi.

Tapscott, D. and Carson, A. (1993) *Paradigm Shift*, McGraw Hill, New York, NY.

Tarver, J. D. (1957) 'Suburbanization of retail trade in the standard metropolitan areas in the US, 1948-1954', *American Sociological Review*, 22, 427-453.

Tedlow, R. S. (1995) 'Nineteenth century retailing and the rise of the department store', *Harvard Business School Case* No. 9-384-022.

Tedlow, R. S. (1996) *New and Improved : The Story of Mass Marketing in America*, Harvard Business School Press, Cambridge MA.

Teece, D. J. (2000) 'Strategies for managing knowledge assets: the role of firm structure and industrial context', *Long Range Planning*, 33, 35-54.

Temin, P. (1975) *Causal Factors in American Economic Growth in the Nineteenth Century*, Studies in Economic and Business History, Macmillan Press, London.

Thernstrom, S. (1967) 'Immigrants and WASPS: ethnic difference in occupational mobility in Boston, 1890-1940', In S. Thernstrom, R. Sennett (eds.), *Nineteenth Century Cities - Essays in the New Urban History*, Yale University Press, 125-164.

Thomas, R. E. (1970) 'Changes in the distribution systems of western industrial economies', *British Journal of Marketing*, 4 (Summer), 62-69.

Thompson, J. B. (1993) 'The theory of the public sphere', *Theory, Culture and Society*, 10, 173-189.

Thorne, M. L. (2000) 'Interpreting corporate transformation through failure', *Management Decision*, 38 (5), 305-314.

Thrift, N. (1985) 'Flies and germs: a geography of knowledge'. In D. Gregory and J. Urry (eds.) *Social Relations and Spatial Structures*, Macmillan, London, pp366-403.

Thrift, N. (1994) 'On the social and cultural determinants of international financial centres: The case of the City of London'. In S. Corbridge, R. Martin and N. Thrift (eds.) *Money, Space and Power*, Basil Blackwell, Oxford.

Thrift, N. (1996) 'New urban areas and old technological fears: reconfiguring the goodwill of electronic things', *Urban Studies*, 33, 1463-1493.

Thrift, N. (1997) 'The rise of soft capitalism', *Cultural Values*, 1, 57.

Thrift, N. (2001) 'Animal spirits. performing cultures in the new economy', *Annals of the Association of American Geographers*, Forthcoming.

Thrift, N. and Olds, K. (1996) 'Refiguring the economic in economic geography', *Progress in Human Geography*, 20 (3), 311-337.

Tickell, A. (2000) Global rhetorics, national politics: pursuing bank mergers in Canada', *Antipode*, 32 (2), 152-175.

Tickell, A. and Peck, J. (1992) 'Accumulation, regulation and the geographies of post-Fordism: missing links in regulationist research', *Progress in Human Geography*, 16, 190-218.

Tiersten, L. (1999) 'Marianne in the department store: gender and the politics of consumption in turn-of-the-century Paris', In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp116-134.

Tolman, C. P. (1928) 'American prosperity: its causes and consequences (Book Review)', *The American Economic Review*, 8 (4), 754-756.

Trachtenberg, A. (1982) *The Incorporation of America: Culture and Consumption in the Guilded Age*, Hill and Wang, New York.

Trachtenberg, J. A. (1996) *The Rain on Macy's Parade*, Times Books, New York.

Traub, M. (1994) *Like No Other Store...The Bloomingdale's Legend and the Revolution in American Marketing*, Times Books, New York.

Treadgold, A. (ed) (1991) *The City View of Retailing*, Oxford University Press, London.

Twyman, R. W. (1954) *History of Marshall Field & Co.*, University of Philadelphia Press, Philadelphia.

Uchitelle, L. (2000) 'Can the New Economy navigate rougher waters?', *The New York Times*, 18 December 2000, p 1 Column 5.

Underhill, P. (1999) *Why We Buy – The Science of Shopping*, Simon & Schuster, New York.

U.S. Dept. of Commerce (2000) *Revisions to Monthly Retail Sales and Inventories Series*, United States Department of Commerce News, U.S. Census Bureau, Washington D.C

Vaiou, D. (1993) 'Gender division in urban space: beyond the rigidity of dualistic classifications', *Antipode*, 24 (4), 247-262.

Valentine, D. (1995) *Horizontal Issues: What's Happening and What's on the Horizon*, Mimeo, Federal Trade Commission, December 8, 1995. Transcript available (http://www.ftc.gov/speeches/other/dvhorizontalissues.htm)

Valentine, D. A. (1996) *The Evolution of U.S. Merger Law.* Prepared remarks of Debra A. Valentine, Assistant Director for International Antitrust, Federal Trade Commission, INDECOPI Conference, August 13, 1996. Transcript available (http://www.ftc.gov/speeches/other/dvperumerg.htm)

Vanderbeck, R. and Johnson, J. (2000) ' "That's the only place you can hang out": urban young people and the space of the mall', *Urban Geography*, 21 (1), 5-25.

Vance, J. E. Jr. (1970) *The Merchant's World: The Geography of Wholesaling*, Prentice-Hall, New Jersey.

Vance, J. E. Jr. (1972) 'California and the search for the ideal', *Annals of the Association of American Geographers*, 62, 185-210.

Vance, S. S. and Scott, R. V. (1994) *Wal-Mart : A History of Sam Walton's Retail Phenomenon*, Twayne's Evolution of Modern Business Series, No 11, Twayne Publishers.

Veblen, T. (1899) *The Theory of the Leisure Class.* Accessed at http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3ll3/veblen/leisure/index.html, on 24th August 1999

Venkatesh, A. (1998) 'Cybermarketsscapes and consumer freedoms and identities', *European Journal of Marketing*, 32 (7/8), 664-676.

Veverka, M. (2000) 'Is tech bottoming? Will Amazon run out of cash?', *Barrons*, 11 December, p 60.

Viscusi, W. Vernon, J. and Harrington, J. (1995) *Economics of Regulation and Antitrust*, Second Edition, MIT Press, Cambridge, MA.

Wagman, A. J. (1991) 'Department store industry reshuffles deck', *Chain Store Age Executive*, 1st August 1991, p. 22A.

Walker, A. (1913) 'Scientific management applied to commercial enterprises', *The Journal of Political Economy*, 21 (5), 388-399.

Walker, R. (1978) 'The transformation of urban structure in the nineteenth century and the beginnings of subrbanization'. In K. Cox (ed.), *Urbanization and Conflict in Market Societies*, Maroufa Press, Chicago.

Walker, R. (1989) 'A requiem for corporate geography: new directions in industrial organisation, the production of place and uneven development', *Geografiska Annaler*, 71 B: 43-68.

Wall, M., Sommers, M. and Wilcock, A. (1994) 'The retail buying of fashion goods: underlying themes of the sourcing process', *International Review of Retail, Distribution and Consumer Research*, 2, 133-150.

Wall Street Journal (2000) 'Delhaize America Inc.: Supermarket concerns plan to sell Hannaford stores' *Wall Street Journal* 1 June pC14

Wall Street Journal (2001a) Editorial: 'The dot com meltdown', *The Wall Street Journal*, 4 January, p A18.

Wall Street Journal (2001b) 'May agrees to buy nine stores from Saks', *Wall Street Journal*, 31 January, p B-2.

Walsh, C. (1999) 'The newness of the department store: a view from the eighteenth century', In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp46-71.

Wanamaker, J. (1900) 'The evolution of mercantile business', *Annals of the American Academy of Political and Social Science*, Supplement, 123-135.

Ward, D. (1964) 'A comparative historical geography of streetcar suburbs in Leeds, England and Boston, Mass.', *Annals of the Association of American Geographers*, 66, 323-36.

Ward, D. (1966) 'The industrial revolution and the emergence of Boston's Central Business District', *Economic Geography*, 42, 152-171.

Ward, D. (1971) *Cities and Immigrants: A Geography of Change in 19th Century America*, Oxford University Press, New York.

Ward, D. (1981) 'The ethnic ghetto in the US: past and present', *Transactions of the Institute of British Geographers*, 7, 257-275.

Ward, D. (1984) 'The progressives and the urban question: British and American responses to the inner city slums, 1880-1920', *Transactions of the Institute of British Geographers*, 9, 299-314.

Ward, D. (1987) 'Population growth, migration and suburbanization, 1860-1920'. In R. D. Mitchell and P. A. Groves, *North America - The Historical Geography of a Changing Continent*, Hutchinson Education, Rowman and Littlefield, London, pp 299-320.

Ward, K. and Jones, M. (1999) 'Researching local elites: reflexivity, `situatedness' and political-temporal contingency', *Geoforum* 30 (4), 301-312.

Ward, S. V. (ed.) (1992) *The Garden City: Past, Present and Future*, E & FN Spon, London.

Warner, S. B. (1978) *Streetcar Suburbs: Process of Growth in Boston, 1870-1900*, Harvard University Press, Massachusetts.

Warren-Boulton, F. and Dalkir, S. (1997) *How Do You Know An Office Superstore? Staples and Office Depot.* Mimeo. Transcript available at (http://www.antitrust.org/cases/staples/newvers.html)

Weber. A. F. (1963) [1899] *The Growth of Cities in the Nineteenth Century*, Cornell University Press, New York.

Weber, D. (1999) 'Selling dreams: advertising strategies from grand magasins to supermarkets', In G. Crossick and S. Jaumain (eds.), *Cathedrals of Consumption: The European Department Store, 1850-1939*, Ashgate Publishing, Aldershot, pp160-188.

Weber, R. N. (1997) *Governance and Obligation: A Legal-Institutional Approach to the Restructuring of the US Defense Industry.* Working Paper, Department of City and Regional Planning, Cornell University, NY.

Wells, R. M. (1999a) 'Nordstrom on the web', *The Seattle Times*, Thursday, March 18, 1999.

Wells, R. M. (1999b) 'Nordstrom finds a fit online', *The Seattle Times*, Wednesday, August 25, 1999.

Werden, G. (2000) 'Market delineation under the merger guidelines: monopoly cases and alternative approaches' *Review of Industrial Organization* 16 211-218

Wiebe, R. H. (1967) *The Search for Order, 1877-1920*, Hill and Wang, New York.

Wileman, A. (1993) 'Destination retailing: high volume, low gross margin, large-scale formats', *International Journal of Retail and Distribution Management*, 21 (1), 3-9.

Wileman, A. and Jary, M. (1997) *Retail Power Plays: from trading to brand leadership*, Macmillan Business, Basingstoke.

Williams, R. (1961) *The Long Revolution*, Columbia University Press, New York.

Williams, R. (1982) *DreamWorlds: Mass Consumption in Late Nineteenth Century France*, University of California Press, Los Angeles.

Williamson, O. (1987) *Antitrust Economics: Mergers, Contracting, and Strategic Behavior*, Basil Blackwell, Oxford.

Wills, J. (1996) 'Uneven reserves: geographies of banking trade unionism', *Regional Studies*, 30 (4), 359-372.

Wills, J. and Lincoln, A. (1999) 'Filling the vacuum in new management practice? Lessons from US employee-owned firms', *Environment and Planning A*, 21, 1497-1512.

Wills, J. and Lee, R. (eds.) (1997) *Geographies of Economies*, Edward Arnold, London.

Wilson, D. (1992) *A Strategy of Change – Concepts and Controversies in the Management of Change*, Routledge, London.

Wilson, E. (1991) *The Sphinx in the City. Urban Life, The Control of Disorder and Women*, Virago Press, London.

Wilson, M. (2000) 'Sephora's strategic revolution', *Chain Store Age*, 1 September, p50.

Wolff, J. (1985) 'The invisible flaneuse: women and the literature of modernity', *Theory, Culture and Society*, 2, 37-46.

Wood, B. and Anderson, J. (1993) 'The politics of U.S. antitrust legislation' *American Journal of Political Science* 37 (1) 1-39

Woods, M. (1998) 'Rethinking elites: networks, space and local politics', *Environment and Planning A*, 30, 2101-2119.

Wood, S. and Wrigley, N. (2001) *Equity Analysts, Financial Knowledge, the Firm and Economic Geography.* Paper presented to the Association of American Geographers Annual Meeting, 27 February – 2nd March 2001, New York City.

Wrigley, N. (1987) 'The concentration of capital in UK grocery retailing', *Environment and Planning A*, 19, 1283-1288.

Wrigley, N. (1988) 'Retail Restructuring and Retail Analysis'. In N. Wrigley (ed.) *Store Choice, Store Location and Market Analysis*, Routledge, London.

Wrigley, N. (1991) 'Is the golden age of British grocery retailing at a watershed?', *Environment and Planning A*, 23, 1537-1544.

Wrigley, N. (1992) 'Antitrust legislation and the restructuring of grocery retailing in Britain and the USA', *Environment and Planning A*, 24, 727-41.

Wrigley, N. (1993a) 'Abuses of market power? Further reflections on UK food retailing and the regulatory state', *Environment and Planning A*, 25, 1545-1557.

Wrigley, N. (1993b) 'Retail concentration and the internationalization of British grocery retailing'. In R. Bromley and C. Thomas (eds.), *Retail Change*, UCL Press, London, pp41-68.

Wrigley, N. (1996) 'Sunk costs and corporate restructuring: British food retailing and the property crisis'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp116-136.

Wrigley, N. (1997) 'Foreign retail capital on the battlefields of Connecticut: competition regulation at the local scale and its implications', *Environment and Planning A*, 29, 1141-1152.

Wrigley, N. (1998a) 'European retail giants and the post-LBO reconfiguration of U.S. food retailing', *International Review of Retail, Distribution and Consumer Research*, 8, 127-146.

Wrigley, N. (1998b) 'Understanding store development programmes in post-property-crisis UK food retailing', *Environment and Planning A*, 30, 15-35.

Wrigley, N. (1998c) 'How British food retailers have shaped food choice'. In A. Murcott (ed.), *The Nations Diet – The Social Science of Food Choice*, Longman, London, pp112-128.

Wrigley N. (1999a) 'Leveraged restructuring and the economic landscape: the LBO wave In U.S. food retailing'. In R. L. Martin (ed) *Money and the Space Economy* (John Wiley, Chichester) pp185-204

Wrigley, N. (1999b) 'Market rules and spatial outcomes: Insights from the corporate restructuring of U.S. food retailing', *Geographical Analysis*, 31 (3), 288-309.

Wrigley, N. (2000a) 'Strategic market behaviour in the internationalization of food retailing: interpreting the third wave of Sainsbury's US diversification', *European Journal of Marketing*, 34 (8), 891-918.

Wrigley, N. (2000b) 'The globalization of retail capital: themes for economic geography'. In Clark, G. L., M. S. Gertler, M. Feldman (eds.), *Handbook of Economic Geography*, Oxford University Press, Oxford.

Wrigley, N. (2000c) 'Transforming the corporate landscape of U.S. food retail: market power, financial re-engineering, and regulation', *Tijdschrift voor Econmische en Sociale Geographie*, Vol 92 (3), forthcoming.

Wrigley, N. (2001) 'Local spatial monopoly and competition regulation: reflections on recent UK and US rulings', *Environment and Planning A*, 33, 189-194.

Wrigley, N. and Lowe, M. S. (eds.) (1996), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Wrigley, N. and Lowe, M. S. (2000) *Reading Retail: A Geographical Perspective on Retailing and Consumption Spaces*, London: Arnold.

Yalch, R. and Spangenberg, E. (2000) 'The effects of music in a retail setting on real and perceived shopping times', *Journal of Business*, 49 (2), 139-147.

Yeung, H. (1994) 'Critical reviews of geographical perspectives on business organizations and the organization of production: towards a network approach', *Progress in Human Geography*, 18 (4), 460-490.

Yeung, H. (1995) 'Qualitative personal interviews in international business research: some lessons from a study of Hong Kong transnational corporations', *International Business Review*, 4 (3), 313-339.

Yeung H.. (1998) 'Capital, state and space: contesting the borderless world', *Transactions of the Institute of British Geographers*, 23 (3), 291-309.

Yeung, H. (2000a), *Reconceptualising the "Firm" in New Economic Geographies: An Organisational Perspective*, Paper Presented at the Workshop on "'The Firm' in Economic Geography", University of Portsmouth, U.K., 9-11 March 2000.

Yeung, H. (2000b), 'Organising "the firm" in industrial geography I: networks, institutions and regional development', *Progress in Human Geography*, 24(2), pp.301-15.

Yeung, H. (2000c) *Practicing New Economic Geographies? Some Methodological Considerations.* Paper presented at RGS/IBG Annual Conference, University of Sussex, 4 –7 January 2000.

Yeung, H. (2000d) 'Embedding foreign affiliates in transnational business networks: the case of Hong Kong firms in SE Asia', *Environment and Planning A*, 32 (2), 201-222.

Yeung, H. (2001a) 'Regulating "the firm" and socio-cultural practices in industrial geography II', *Progress in Human Geography*, 25 (2), in press.

Yeung, H. (2001b) 'Does economics matter for/in economic geography', *Antipode*, 32 (2), forthcoming.

Yeung, H., Poon, J., Perry, M. (2001) 'Towards a regional strategy: the role of regional headquarters of foreign firms in Singapore, Mimeo. Forthcoming in *Urban Studies*, 38 (1).

Yip, G. (1982) 'Diversification entry: internal development versus acquisition', *Strategic Management Journal*, 3 (4), 331-345.

Yoh, E. and Gaskill, L. R. (1999) 'U.S. retail executives' perspectives on the future of retailing', *Journal of Fashion Marketing and Management*, 3 (4), 324-336.

Zecher, I. L. (1998) 'Striking the best deal', *Ernst and Young's Retail News*, Summer 1998, 4-6.

Zola, E. (1998) [1883] *The Ladies Paradise*, Oxford World Classics, Oxford University Press, Oxford, with introduction by Brian Nelson.

Zukin, S. (1991) *Landscapes of Power: From Detroit to Disneyworld,* University of California Press, Berkeley.

Zukin, S. (1995) *The Cultures of Cities*, Blackwell, Cambridge.

Zukin, S. and Dimaggio, P. (1990) 'Introduction'. In S. Zukin and P. Dimaggio (eds.), *Structures of Capital: The Social Organisation of the Economy*, Cambridge University Press, pp1-36.

APPENDIX VI Publications Directly Arising from Thesis

i) 'Regulatory Constrained Portfolio Restructuring: The US Department Store Industry in the 1990s', *Environment and Planning A*, accepted for publication – in press.

ii) 'Organisational Restructuring, Knowledge and Spatial Scale: The Case of the US Department Store Industry, *Tijdschrift voor Econmische en Sociale Geographie*, Vol. 92, No. 3, accepted for publication - in press.

iii) Book Review of Marsden, T., Flynn A., Harrison, M. (2000) 'Consuming Interests: The Social Provision of Foods', UCL Press, *Progress in Human Geography*, Vol. 25, No. 1, pp137-8.

Regulatory Constrained Portfolio Restructuring: The US Department Store Industry in the 1990s

Abstract

The US department store industry has undergone a recent round of strategic acquisition-based portfolio restructuring. This paper analyses one such acquisition, studying how its geography is restructured in the pre-merger stage to conform to the Federal Trade Commission's 'fix-it-first' policy and to improve the strategic fit of the transaction. The article then investigates evidence, and analyses the effects, of a new era of stricter FTC enforcement, where divestiture may no longer be sufficient in cases of horizontal market overlap. Fundamentally, the paper considers the nature of 'real' regulation in action, as rules partially dictate investment decisions.

Keywords: retail, regulation, antitrust, divestiture

Steve Wood
Department of Geography, University of Southampton, SO17 1BJ
Email: S.M.Wood@soton.ac.uk

Revised February 2001.

Forthcoming in *Environment and Planning A*

INTRODUCTION

There are numerous forms of corporate restructuring a firm may adopt in order to succeed in competitive markets. These have been well documented within the economic geography literature (e.g. Clark, 1993b; 1994; Clark *et al.*, 1992; McGrath-Champ, 1999). First, an organisation may pursue financial restructuring; changing the capital structure of the firm to increase shareholder value. High leverage restructurings (LBOs and leveraged recapitalisations) in particular, have met with varied levels of success across different industries and firms (Bowman *et al.*, 1999). Second, a firm may restructure organisationally, redesigning its operations to align with the firm's strategy (cf. Porter, 1980). Finally, and most obviously, a firm may restructure its portfolio of business units to sharpen its focus by disposing of units peripheral to its broader goals and core operations, eliminating under-performing units, or alternatively acquiring other operations and integrating either horizontally or vertically (see Bowman *et al.*, 1999; Bowman and Singh, 1993; Green, 1990). It is this latter form of restructuring which provides the focus of this paper.

Portfolio restructuring clearly does not operate within a regulatory vacuum. In the United States it takes place within the context of antitrust legislation and its enforcement (see Wrigley, 1992 for a review of antitrust regulation in the retail industry). This paper uses the example of the US department store industry in the 1990s to explore issues of portfolio restructuring operating in a regulatory constrained environment, considering in particular how difficulties with managing spatial strategic fit are negotiated through interaction with competitors in local markets[58]. This geographical analysis of portfolio restructuring, interacting with governance and competition policy, provides an example of what Gordon Clark (1992a) has labelled 'real' regulation. In addition, it provides a perspective on the implementation of US antitrust legislation, and the implications of reinterpretations of antitrust regulation for future merger and acquisition activity within the US retail industry.

---

[58] This research is based in part on two extensive periods of US fieldwork during January and March/April 2000, consisting of over 30 interviews with leading industry executives at department store retailers including Bloomingdale's, Saks Incorporated, and Macy's, academics, and equity analysts at Goldman Sachs, Merrill Lynch and Schroders. This material was triangulated with industry reports, press releases and the retail press. Interview quotations are numbered to protect the anonymity of respondents where this was requested.

FORMS OF PORTFOLIO RESTRUCTURING

There are a number of situations where a firm may choose to adopt a strategy of portfolio restructuring. First, it may adopt an aggressive acquisition policy of *related businesses*, purchasing similar firms in order to increase market dominance and economies of scale. Bergh (1997) identifies three principal benefits of such a transaction. First, there may be the prospect of synergies, both operational and financial. Second, governance efficiencies may result where the acquired businesses may be more efficiently managed in the parent firm's governance system. As Hill et al. (1992) suggest, the acquirer may be 'able to achieve a more efficient allocation of capital resources between divisions, and police the efficiency of divisions more effectively than the stock market could were each division an independent firm' (p503). Third, managerialism benefits may result whereby the corporation achieves market power and increases in organisational size as a result of the acquisition.

Alternatively, the firm may adopt an acquisition policy of related businesses as a defensive strategy - possibly leveraging up to fend off potential acquirers (Laulajainen, 1990). In a market where there are few acquisition targets, the firm may be prepared to pay a premium for any remaining candidates (Wrigley, 1999b). This premium may be worth paying if the acquisition improves the firm's position in the market and prevents a competitor from pre-empting it.

Third, portfolio restructuring may entail disposing of units peripheral to its core business. Such divestiture might be to raise capital for other acquisitions or to rid itself of under-performing divisions, although they are likely to incur what Clark and Wrigley (1995; 1997) refer to as 'exit sunk costs'. This would have the effect of sharpening focus, but at the expense of increasing dependence on the core operation.

Finally, the firm may diversify its portfolio through the purchase of units *not related* to its core business. This is likely to act as coinsurance for the acquirer, enabling the balancing of revenue cyclicalities, substantially reducing risk (Bergh, 1997). Such a defensive manoeuvre may shift emphasis away from a faltering core operation, allowing entry to a growth industry, or alternatively, be a strategy to increase revenue to fund the core operation (Chung and Weston, 1982; Gort, 1966; Hughes *et al.*, 1980). However, unrelatedness often represents a barrier to realising operational and financial synergies, and as such, 'a high proportion of unrelated acquisitions are divested shortly after purchase' (Bergh, 1997, p726).

PORTFOLIO RESTRUCTURING AND THE US DEPARTMENT STORE INDUSTRY

All of these methods of portfolio restructuring have been characteristic of the US department store industry over the last few turbulent decades. During the 1960s and 1970s, with the impression that the future of the conventional department store looked bleak, department stores adopted strategies of portfolio diversification, acquiring businesses from other sectors, including discounters, supermarkets and speciality stores (Bluestone *et al.*, 1981; Laulajainen, 1987; 1988; Traub, 1994). The industry, in this respect, was characteristic of the so-called conglomerate merger wave of the period (Clark, 1992b; Fligstein, 1990; Schendel, 1993).

During the mid to late 1980s the department store industry underwent a period of portfolio restructuring principally driven by financial restructuring imperatives. This portfolio restructuring was principally motivated by opportunities for individuals and firms to acquire retailers with little equity through significant changes in the capital structure of the target. The US department store industry was one of the most notable casualties of the over-leveraging and debt-burdening characteristic of 'junk' bond financing. Firstly, between 1986 and 1988, Federated, and Allied, two of the largest department stores, were acquired by Canadian real estate virtuoso, Robert Campeau in a highly leveraged acquisition, underpinned by money from the coffers of Citibank and First Boston (see Hallsworth, 1991; Kaplin, 1990, 1994; Rothchild, 1991). Eventually, after substantial divestiture to pay down the debt, the corporation collapsed, and Federated/Allied filed for Chapter 11 bankruptcy protection in January 1990. The poor state of the sector was compounded by the failed leveraged buy-out of R. H. Macy for $3.5 billion in 1986, which ended in Chapter 11 protection in 1992. Indeed, before the buyout, the business had $1.48 billion in shareholder equity ($1 of debt for every $11 in equity), after the takeover, the ratio was $3.15 billion in debt and $290 million in equity (or $10 in debt for each dollar of equity) (see Lehmann-Haupt, 1996; Serwer, 1996; Trachtenberg, 1996). This portfolio restructuring was driven more by the theory of financial restructuring where the pressure of high interest debt payments would force managers to focus on the core business, and not squander cash flows in presumably less rewarding diversification projects (see Bethel and Liebeskind, 1993, p10; Bowman and Singh, 1993; Jensen, 1986; 1989). However, the department store industry proved to have too cyclical a cash flow for successful leveraging, especially at the levels owed. Furthermore, the luxury-oriented nature of many of the more upscale department stores was in direct opposition to the pressure to aggressively cut operating margins. This experience can be contrasted with numerous successful leveraged buy-outs in the supermarket industry which were characterised by non-cyclical cash flow (cf. Denis, 1994; Wrigley, 1999a; 1999b).

Strategic Acquisition-Based Portfolio Restructuring

Since the late 1980s, there has been a movement away from holding a diversified conglomerate of separate retail businesses and a focus on acquisition based portfolio restructuring throughout the department store industry, concentrated on acquiring rival department store operators rather than retailers in other sectors (Table 1). This de-conglomeration trend has been characteristic of US industry more widely, as 'divestitures of segments of the firm now deemed peripheral to the company's core operations are motivated by...a systematic strategic analysis that there are weak (or no) synergies among broadly diversified activities' (Harrison, 1997, p40; see also Prahalad and Hamel, 1990). Michael Porter (1987) provides justification for this by suggesting that diversification is only effective when there is the opportunity to share resources and transfer skills across the portfolio of businesses (see also Chang and Singh, 1999). This is difficult across such diverse segments as department stores and supermarkets, and, to a less extent, discounters. Unlike the 1960s and 1970s, department store firms no longer attempted to construct a broad array of retailing operations across a conglomerate portfolio, but instead pursue strategic acquisitions[59]. As the Director of the Federal Trade Commission (FTC) has acknowledged:

What is remarkable about this merger trend, in addition to its sheer volume, is also the nature of the acquisitions. In the 1980s, many mergers were prompted by financial market considerations. To a far greater extent, today's mergers appear to be motivated by *strategic considerations* (Baer, 1997, my emphasis).

Explaining the Acquisition-Based Restructuring of the 1990s

In the same way as the easy finance from high yield corporate bonds and private pension fund investment freed from its regulatory constraints (see Clark, 1993a; Wrigley, 1999b) paved the way for the great wave of financial re-engineering of US industries during the 1980s, so there are general, and industry specific, factors underpinning the mid-late 1990s merger wave in the department store sector. Fundamentally, there was negative net growth in the industry. Over three decades, conventional department stores lost market share to discount stores such as K-Mart and Wal*Mart (**Figure 1**), and speciality store such as Limited and Gap (Porter, 1999; Rachman and Fabes, 1992; Rousey and Morganosky, 1996). Therefore, although consolidation increased the individual market shares of retailers within the industry, this took place within a sector that has been declining in real terms. For example, whilst Federated Department Stores increased its share of *conventional department store sales* from 14.8% of industry sales in 1989 to 23.8% in 1999, its share of *GAF* (general merchandise, furniture and apparel sales) has declined from 2.1% to 1.8% (see **Table 2**). **Table 3**, for example, contrasts the slow growth of conventional department stores with the spiralling success of discount stores through the 1990s, as the latter ate their way into the traditional apparel heartland of the conventional department store. Squeezed between alternative retail formats, department stores were forced, in effect, to consider acquiring their competitors to maintain their market position (Dunne and Kahn, 1997). Within this hostile environment, many regionally based department store chains in the US were prepared to accept consolidation with sympathetic, larger operators to save themselves from insolvency.

The restructuring period of the mid-late 1980s principally involved the national operators who acquired, and integrated, the large multiregionally and regionally dominant chains with attractive locations and strong market shares in major metropolitan markets. By the early 1990s, however, there were few remaining large department store operators left to be acquired, although there remained a fragmented smaller *regional* industry of small chains, both publicly and privately owned across the country, previously too insignificant to attract larger players. Firms such as Alabama based Proffitt's began to exploit this niche, in turn creating a second wave of consolidation in the industry (see **Table 1**).

For this second wave of acquisition based restructuring to be successful, the department store firms had to leverage their increased market power in two fundamental ways. First, capital concentration allowed the leading department stores to realise considerable cost savings through economies of scale by demanding discounts through large scale purchasing (cf. Stern and Weitz, 1997). This is now a necessity in the conventional department store sector, as acknowledged by Michael Gould, Chairman of Bloomingdale's:

If you are a stand alone business today in the department store world then you are a $1 billion business then – what do you mean – what do you stand for? Let's say you are a $1 billion chain store in Pennsylvania – what's their power when they go into the marketplace...they go to Tommy Hilfiger or they go to Nautica – what's their power when they are up against $16 billion Federated or $14 billion May Company? Awful difficult! Better figure you are going to win on something unique, but I don't think they are big enough to win on service (Interview 16).

[59] The exception to this rule has been the Target Corporation (formally Dayton Hudson Corp.) which has successfully built up a thriving discount business alongside their three department store operations.

Second, the new portfolio of department store chains had to be organisationally restructured to eliminate duplication of core back office functions, centralising those operations the customer not see (Wood, 2001). These cost savings increase when operational expertise passes throughout the new firm in a process known as 'knowledge transfer' (see Merrill Lynch, 1999a). The difficulty of this reorganisation should not be underestimated - a recent study by KPMG found that 83% of mergers were unsuccessful in producing any business benefit as regards shareholder value (KPMG, 1999).

It is in this rapidly consolidating environment that the conventional department stores found themselves during the 1990s. Such portfolio restructuring did not occur however in an aspatial or unregulated environment. Instead, it had to operate within the boundaries set by the Federal Trade Commission, in addition to those set by the competitive restraints of the market. For Gordon Clark, 'real regulation' of this type must be understood as 'derived through the interplay between economics and political culture and then mediated through institutional practices' (Clark, 1992a, p 622). It is consequently necessary to understand these embedded regulatory conditions before analysing the strategic execution of merger activity in the sector and prescribing future solutions.

A BRIEF HISTORY OF US ANTITRUST REGULATION AND ITS IMPACT ON THE RETAIL INDUSTRY

US competition regulation has been a contested issue since the late 19th Century. There was an awareness of the virtues of economic competition in industry - it limited excessive concentration of power, dispersing benefits broadly along the contours of the market. It also provided a mechanism for the upward mobility for new market entrants to challenge the primacy of old competitors (Wood and Anderson, 1993, p1). However, it was also appreciated that:

Free from outside interference, competitors often collude or resort to unfair practices to restrict competition. They may erect barriers to market entry to preserve their position. They may also seek a large market share in order to suppress the operation of market pricing mechanisms. Thus, competition does not maintain itself. Government action often becomes necessary to preserve or restore economic competition (Wood and Anderson, 1993, p3)

Hence there was a need for the state to interfere with the working of the market mechanism to produce outcomes as near as possible to those demanded by neo-classical economics. The difficulty came in what form this action took, and how laws and statutes could be drafted to accommodate the smooth operation of the economy and ensure competitive industries.

At the heart of the US antitrust legislation is the *Sherman Act* passed in 1890, as a reaction against the predominant cartelisation and centralisation of market power prevailing in the United States at the end of the 19th Century. The act consisted of two main sections. The first, prohibited all contracts, combinations, and conspiracies in restraint of trade, whilst the second, prohibited monopolisation and attempts to monopolise (see Audretsch, 1989). The inability of the *Sherman Act* to control merger activity, however, was evident in the great merger wave that occurred at the turn of the century (Audretsch, 1989). Indeed, the *Sherman Act* was not drafted expressly to deal with mergers. As Valentine (1996) suggests, the act was successful in eliminating trusts and holding companies as vehicles for cooperation among companies although 'the Supreme Court did not extend its reach to mergers unless it could be shown that their very purpose was to restrain trade. Not surprisingly, businesses and barons adapted their technique and the US saw its first great merger wave in the 1890s, after and perhaps because of the *Sherman Act*' (Valentine, 1996). The *Clayton Act* was consequently passed in 1914 to clarify and supplement the *Sherman Act*. It attempted to solve the difficulty inherent in the 19th Century legislation, which applied only to mergers when the merging firms were on the verge of attaining substantial monopoly power. The revised Section 7, the part of the *Clayton Act* relevant to mergers, thus read:

That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or part of the stock or other share capital of another corporation engaged also in commerce where the effect of such an acquisition *may* be to substantially lessen competition between [the two firms] or to restrain such commerce in any section or community or tend to create a monopoly of any line of commerce (cited in Viscusi *et al.*, 1995, p197, my emphasis).

This represented a notable shift in emphasis, with Congress coming down on the side of interventionist policy. It did not require proof that an acquisition definitely would lessen competition substantially, but only a reasonable probability that it would (Valentine, 1996). A second wave of mergers took place between 1916 and 1929. As Viscusi *et al.* (1995) suggest, because monopolistic mergers were effectively eliminated, there was a move towards the creation of oligopolies. This trend was truncated by the Great Depression of the 1930s, but was followed by a third merger wave after the Second World War (Viscusi *et al.*, 1995). There was yet again a legislative response to the consolidations. In 1950, the *Celler-Kefauver Act* was passed. This revision of Section 7 of the Clayton Act explicitly prohibited the acquisition of another firm's physical assets if the effect was to substantially lessen competition or tend to create a monopoly (Shugart, 1998). In the process it finally closed a loophole inherent in the *Clayton Act*, which prevented it from applying either expressly, or by judicial construction, to the acquisition of assets or to vertical or conglomerate mergers - hence the law could easily be circumvented through the acquisition of a firm's assets instead of its stock (see Audretsch, 1989; Luckansky and Gerber, 1993; Valentine, 1996). The *Celler Kaufaver* revision further armed the FTC to take action, as the 'emphasis on the concepts of "substantial lessening of competition" and "tendency to create monopoly" demonstrated Congressional concern at preventing mergers that might lead to monopoly power at some time in the future' (Audretsch, 1989, p41).

During this post-war period, a structure-conduct-performance (SCP) framework was adopted by the FTC when analysing the threat of anti-competitive conditions (Eisner and Meier, 1990; Kay, 1991; Williamson, 1987). This framework suggested that industrial structure had a direct impact on the conduct of constituent firms. As such, in concentrated industries, with barriers to entry, major firms possessed the capacity to form and maintain collusive arrangements through adoption of a range of pricing, output and promotional policies ensuring supracompetitive profits. Such a structural approach to policy accepted the causal link between structure, conduct and performance, with action based on the premise that if the state corrected market structure, market conduct and performance would look after themselves (George and Jacquemin, 1992). This prompted the FTC to make decisions based on simple statistical measurements, easing decision-making, where clear-cut rules were troublesome to establish. Levels of concentration in industries and sectors were therefore the means by which the FTC acted.

Because concentration was casually related to the existence and abuse of market power, an arithmetic representation of market structure (e.g. market concentration figures) could identify probable violations and define the limits of legality. Undoubtedly, the acceptance of the framework was also tied to popularist implications. Through its focus on concentrated economic power, its assumption that this power prompted abusive forms of conduct, and its reaffirmation of open markets with multiple small actors, it provided technical justifications for...anti-big business goals (Eisner and Meier, 1990, p272).

Eisner and Meier suggest that the most striking display of Congress's adherence to the structure-conduct-performance framework came in the late 1960s, when national deconcentration programmes were considered. Such initiatives would have compelled major firms in concentrated industries to divest substantial parts of their holdings to achieve certain given concentration levels.

From National Concentration to Local Analysis of Horizontal Market Overlap

The more systematic analysis of merger activity due to the structure-conduct-performance interpretation of the *Celler-Kefauver Act* is clearly evident during the post-war period with considerable implications for the analysis of mergers in the retail industry. The landmark ruling on the Brown Shoe case of 1962 was particularly important In this case, the Brown Shoe Company's acquisition of G.R. Kinney was declared unlawful as a result of competition being impaired in 270 cities or submarkets where both Brown and Kinney operated retail shoe outlets – despite the fact that merger would have created a shoe retailer with a mere 2% national market share (Shugart, 1998). This was due to a revised interpretation of market structure being adopted by the FTC. Crucially, instead of identifying national concentration levels, a new approach of identifying local market concentrations when investigating mergers was adopted. This method of analysis was then reinforced as a result of a ruling in 1966 on the proposed Von Grocery Company - Shopping Bag merger (Wrigley, 1992; 1997). In this instance, the Supreme Court refused the merger of two grocery chains holding a combined share of just 7.5% of the grocery market in Los Angeles (Valentine, 1996). The justification for this refusal was because;

mergers involving small combined market shares were prohibited by Section 7 when they involved the leading seller in a market experiencing a trend towards centralisation (Mueller and Patterson, 1986, p386; cited by Wrigley, 1992, p739).

It was clear that the FTC had changed its spatial scales of analysis[60]. Indeed, Clinton-administration FTC Chairman, Robert Pitofsky cites the conclusions of the Brown Shoe case as continuing to set the precedent today:

...if two retailers, one operating primarily in the eastern half of the Nation, and the other operating in the West, competed in but two mid-Western cities, the fact that the latter outlets represented but a small share of each company's business would not immunize the merger in those markets in which competition might be adversely affected (cited by Pitofsky, 2000).

As a result of *Celler-Kefauver*, the 1960s saw the forestalling of a number of mergers in the department store industry. Often this took the form of a ban on horizontal mergers for 10-15 years following the horizontal acquisition of another department store chain. The effect was to push department stores to acquire retailers outside of their expert market segments through the purchase of discounters and speciality stores. Alternatively, if an FTC enforcement banned *any* acquisition, the focus shifted to organic expansion in greenfield localities and thus the establishment of branches (Laulajainen, 1987, see Table 4). As suggested more generally, an 'unintended consequence of the (*Celler-Kefauver*) act was to encourage firms to merge into...unrelated industries. Indeed, the law made it attractive to choose merger candidates that were quite distant' (Fligstein, 1990, p222).

During this period of regulatory tightening, dissenting voices originated from academics at the University of Chicago, who were advocates of a reduction in antitrust action. Especially during the 1970s, the 'Chicago School' was instrumental in making the case for a movement away from merger guidelines focused on market structure analysis toward a greater emphasis on the procompetitive effects of mergers (Eisner and Meier, 1990; Wrigley, 1992). The argument mounted was that the burden of proof should come from the regulator when arguing for market intervention (Fligstein, 1990; Wood and Anderson, 1993).

Weakening of Enforcement and 1980s Financial Re-Engineering

Chicago School views were used during the early years of the Reagan administration to support deregulation and monetarist policies of economic development (Oesterle, 1997; Wrigley, 1992). This period was subsequently characterised by a relaxation in antitrust enforcement which reverted to a goal of preventing mergers that may enhance or create market power or facilitate its exercise - away from a decision based exclusively on concentration per se (Keyes, 1995; Valentine, 1996). These regulatory conditions coincided with the rise of new financial instruments and markets, specifically the high-yield bond market, to partly provide the environment for the fourth merger wave in the 1980s, where the total value of transactions increased from $50 billion in 1983 to over $200 billion in 1988 (Viscusi et al., 1995, p198, see also Taggart, 1988). This decade was accordingly characterised by financial restructuring, during a period Clark refers to as the 'arbitrage economy' (Clark, 1989a, see also Baker and Smith, 1998; Bartlett, 2000; Hallsworth, 1991; Oesterdale, 1997).

The 'Fix-it First' Regulatory Environment of the 1990s

By the late 1980s, in response to mounting public and Congressional criticism of the FTC's relaxed stance to retail mergers, there were signs of a retightening of antitrust enforcement (Wrigley, 1997). In particular, the State of California challenged the food retail industry merger of American Stores and Lucky Stores, Inc. in 1988 (Chevalier, 1995; Wrigley, 1997). The challenge was successfully carried to the Supreme Court in 1991, and American Stores was forced to divest its entire 145 store Alpha Beta chain in California (Cotterill, 1999b, p4; Wrigley, 1997). This was indicative of a new era of antitrust conditions for retail horizontal acquisitions during the 1990s, whereby the onus was on the acquirer to produce an acceptable strategic fit of acquisition to pre-empt any FTC action.

---

[60] See Cotterill (1999b, p2; 1999c, p3) for recent comments on the importance of investigating local market effects.

The FTC, throughout the 1990s, essentially adopted a 'fix-it-first' approach, not necessarily opposing mergers in which the acquiring firm committed in advance (under the spirit of the *Celler-Kefauver Act*) to divest itself of horizontal market overlaps that might be deemed anti-competitive at the local level (Wrigley,1999b, p304). This approach was practical because the 1976 *Hart Scott Rodeno Act* compelled all proposed mergers of considerable size to be submitted to the FTC for consideration, allowing all mergers to be subject to the same level of investigation (Baer, 1996).

The retail regulatory environment of the 1990s was, therefore, characterised by a two-component policy. The first component of this was the FTC's 'fix it first' policy – whereby the retailers had to divest horizontal market overlaps deemed to be anticompetitive at the local level in order to gain FTC approval of the merger. This involved, as George Strachan of Goldman Sachs observed, the acquirer making 'some strategic decisions regarding what the likely outcome of the FTC will be'. In its turn 'the acquirer probably makes an educated guess as to what the FTC is likely to demand and they try to accommodate the most obvious overlaps before the FTC orders them to do so. It is probably built into their plan before the FTC has even announced it' (Interview 8).

This anticipation of future enforcement through the 'fix-it-first' approach is echoed by Daniel Barry, equity analyst at Merrill Lynch:

You think about the FTC and what they might do – you get the lawyers opinion – but you don't talk to the FTC. After it's done you go to the FTC. The FTC has a certain number of days with which they have to issue an opinion so if they want to stop it or attempt to stop it then they have that many days to do it. At that point they start negotiating and you may end up selling stores (Interview 6).

Second, the merger had to be approved by the State Attorney General in the individual State in which it was occurring, even if clearance was granted by the FTC. Indeed the American – Lucky Stores divestiture was insisted on at the level of the Attorney General, as were the divestitures in Massachusetts and Connecticut in 1995/6 in the case of the mergers of Stop & Shop and Purity Supreme and between Royal Ahold and Stop & Shop, even though the FTC had provisionally agreed the transactions[61] (Wrigley, 1997). As Professor David Rachman of Baruch College, New York suggested:

Basically there is another level that nobody talks about, that even if the FTC approves mergers, here are these State Attorney Generals get involved with these things and sometimes they get nasty. They fight. I happen to be involved in one. Some clerk in the main office of the Attorney General he said "they shouldn't let them do that" and they put forward some stipulation and before you know it there is an uproar going on even though the FTC has approved the merger (Interview 21).

This two-component policy was the regulatory framework that the US department store had to negotiate during the 1990s (see Figure 2). The following case study serves to evoke the internalisation of the 'fix-it-first' approach demanded by the FTC, which department store retailers had to realise in their portfolio restructuring strategies. In addition, it underlines how proposed acquisitions had to be negotiated and adjusted with, and between, other retailers in the surrounding area to result in an acceptable strategic fit. The extent to which divestitures and store swaps were pre-emptive of those insisted on by the FTC and the individual State Attorney Generals, and how much they were due to creating an improved strategic fit, is unclear and will be discussed in the following sections.

REGULATORY CONSTRAINED PORTFOLIO RESTRUCTURING IN ACTION - THE DILLARD'S – MERCANTILE STORES ACQUISITION

On May 18th 1998, Dillard's announced an agreement to acquire Mercantile Stores for $2.9 billion in cash. Under this agreement, Dillard's, the 3rd largest conventional department store, with sales of over $6.5 billion in

[61] This influence was most recently seen in September 1999, when the whole of the US retail industry waited to hear whether the Attorney General of California would ban all supercentre and warehouse club stores over 100,000 square feet (see Merrill Lynch, 1999b; 1999c for assessments). Although this was eventually vetoed, it showed the power of individual states in regulating their economic landscape hand-in-hand with the FTC.

fiscal 1997, proposed to take, in one bite, the 7th largest chain, which had 1997 sales of over $3 billion across its 106 department and home fashion stores under 13 different names in 17 states.

Examining the Logic of the Deal

The proposed deal was completely contrary to Dillard's previous strategy of paying bargain-basement prices for extremely small regional chains which did not attract the larger industry consolidators of Federated and May (see D. Smith, 1998 and Rosenberg, 1988). In addition, there were considerable challenges and question marks concerning the strategic fit between Dillard's and Mercantile. Dillard's had for 15 years adopted a policy of every day value pricing and did not promote merchandise excessively. This was the opposite to the highly promotional Mercantile Stores. In essence, the two department stores were at opposite ends of the value-luxury spectrum. As Linda Kristiansen, Retail Analyst for Schroder's Capital Management commented:

I can't think of two more opposite companies than Mercantile and Dillard's in terms of their markdown philosophy so I think that this was a real problem for Dillard's. It was set up from the beginning to be a real disaster (Interview 14).

A third major concern was the high price Dillard's proposed to pay (see **Table 5**). In essence the acquisition was highly defensive – Dillard's was proposing to acquire Mercantile to avoid its competitors gaining leading market shares in markets in which Dillard's was also present. As an industry source commented:

So basically Dillard deliberately overpaid for Mercantile and I think they did it as a defensive move because they (were) trying to keep Saks and Federated from taking...(these)... spots. So even though they overpaid and they never get a good return on the investment, it might have been better for the shareholder in the long run, from a defensive standpoint, to have taken it over and go through all the problems they are going through than to let a competitor take those spots (Interview 6).

Dillard's – Mercantile and 'Fix-it-First'

This case study displays how retailers learned in the 1990s to operate within the remit of the FTC 'fix-it-first' policy, thus avoiding any adverse regulatory enforcement by the FTC. Second, it shows how the geography of portfolio restructuring can be reworked, whilst still in the merger negotiation stage, through divestitures and store swaps with competitors. In particular, two events demonstrate the willingness of Dillard's to take action ex-ante of regulatory enforcement (see **Figure 3**).

a) *The Belk exchange*

On July 19, 1998, Belk, the largest privately owned US department store, with coverage principally in the South Eastern United States, agreed to exchange with Dillard's seven Mercantile Stores located in Florida and South Carolina, for nine Belk stores – eight located in Virginia and one in Tennessee (Dillard Press Release, July 14, 1998). This action made up half of the Dillard strategy to pre-empt any FTC antitrust action. The transaction also produced a strategic fit appropriate for Belk as it gave them a strong first time presence in the Jacksonville, Florida market and enabled them to enter the Columbia, South Carolina market with three stores.

For Dillard's, the transaction represented an agreement that would avoid duplication of stores in certain geographical areas improving the strategic fit for the corporation. It represented Dillard's first entry into the Chattanooga, Tennessee and Wilmington and Hickory, North Carolina markets and increased its presence in the Richmond and Tidewater markets. The Dillard CEO, Bill Dillard, hailed this as a win-win exchange: "It's rare that we can make the deal that so clearly benefits both parties. When we add the Belk stores to our existing stores, we will be able for the first time to offer our Virginia customers a full assortment of Dillard's merchandise in competitively sized stores. Chattanooga is a long sought-after addition to our already strong Tennessee stores, and Hickory and Wilmington will enable us to continue our aggressive growth strategy in North Carolina. On the other side of the coin, Jacksonville and Columbia fit naturally into Belk's geographical strategy, and we welcome them into these markets".

A major factor that made the store swap so successful was the similar average square footage between Belk and Dillard's and the same upper middle class target customer, indicative of an up-market conventional department store. The strategy ensured that there would be minimal competition loss in specific spaces in the light of the transaction, appeasing the FTC, and producing a much-improved strategic fit for both retailers.

b) *Pre-emptive divestitures to Proffitt's and May Company*

In August 1998, Dillard's followed the coup of the Belk store swaps with the announcement that it was divesting some of the acquired Mercantile locations to Proffitt's Inc. and May Company, again to pre-empt any

FTC regulatory enforcement and improve the geography of the acquisition. Under this agreement, Proffitt's acquired 15 former Mercantile stores in several markets including Nashville, Tennessee and Orlando, Florida, whilst May Company, on the other hand, agreed to acquire 11 former Mercantile locations in markets which included Kansas City, Missouri and Colorado Springs, Colorado. Critically, the stores sold were located primarily in markets in which Dillard had a strong presence *prior* to the Mercantile acquisition, especially around Kansas City, Nashville and Orlando. Such action prevented Dillard, therefore, from enjoying a localised monopoly in conventional department store retailing in the specific locales but equally ensured no cannibalisation of sales.

The Federal Trade Commission and Defining the Department Store Industry

Although Dillard's acquisition of Mercantile was of itself strategically questionable, the execution of the consolidation, provides an extremely interesting case study of a firm tailoring an acquisition to conform to the FTC's 'fix-it-first' policy secondly, producing an improved strategic fit beyond that evident in the pre-merger geography. The extent to which the store swaps and divestitures were pre-empting antitrust action or to what degree they were initiated to improve the deals' overall strategic fit is not immediately obvious. It is dependent on the perceptions of the firm regarding how the FTC might chose to interpret the boundaries of the conventional department store industry.

As Shugart (1998) recently noted, narrowly drawn market boundaries, which only include a few retailers, increase the probability that a proposed merger between any two sellers in that market will be challenged. Conversely, if the market definition is more broadly defined, the greater number of competitors dilutes the impact of any merger on their reported market shares. There are two perspectives the FTC could have adopted in this case. First, it could have viewed the conventional department store sector as an industry of itself. Such an interpretation would have suggested a highly concentrated market, and the need for antitrust action. **Table 2** for example suggests that, in 1999 Dillard's possessed nearly 16% of the total industry. However, as previously noted, the conventional department store sector had faced vigorous competition during the 1980s and 1990s and seen substantial sales decline in the face of discount and speciality stores, driving consolidation in the sector. This suggests that a broader definition of the market for conventional department stores is more appropriate given a situation where, as Terry Lundgren, President of Federated Department Stores, acknowledged '(c)ompetition used to be defined more directly as department store versus department store. Today it is department store versus everyone' (Interview 23). That broader conception of the market comes in the form of the GAF (General merchandise, furniture and apparel sales) statistic of what, in 1999, Dillard's accounted for only 1.1% (**Table 2**).

There is considerable evidence to suggest that FTC prudently adopted the GAF approach rather than the conventional department store definition of the market in its consideration of mergers in the industry in the 1990s. Perhaps the best evidence of this comes from two acquisitions undertaken by a post-bankruptcy Federated. In 1994, Federated acquired Macy's, giving it a significant increase in the number of stores in New York, the south-east, and a major breakthrough on the west coast. The Macy acquisition was quickly followed by the purchase of the troubled Broadway Stores, also a west coast, Californian operator in 1995. As a result, and as evident from **Figure 4**, there was considerable market overlap in California, yet the reaction of the FTC was muted. As Vice President of Federated Department Stores, Carol Sanger noted in terms of FTC – required divestitures:

With the Macy's there was none. None that was FTC .....In California it was a different story because .... we were there with Macy's, and then with Broadway, the question was for the FTC, who was our competition? And there were some in the FTC who wanted to say that only department stores - we only competed against department stores. Well that's ludicrous, we compete against anybody who sells anything. And by the broader definition of competitor, Wal*Mart's our competitor, K-Mart's our competitor, Penney's and Sears are our competitors so our definition of who our competitors are was key in that whole decision and ultimately the decision was that all retail is the marketplace that you have to look at. You can't say that we only compete against May Company, we compete against Sears, Penney's and Limited and Gap and we compete against speciality stores and shoe stores....We had to divest ourselves of four I think! (Interview 3)

In this light, it is clear that the Dillard's - Mercantile pre-merger adjustments during the Summer of 1998 were driven as much by strategic market fit considerations as they were by the 'fix-it-first' policy of the FTC, given the likely use of the GAF figure by the FTC to interpret industry boundaries. It was this dual motivation of 'fix-it-first' and strategic market fit that drove pre-merger divestitures and store swaps.

Throughout the 1990s the 'fix it first' approach has represented the understood policy of the FTC in which retailers have understood their responsibilities and acted accordingly. Recent developments from two proposed consolidations however signal a harsher reading by the FTC of merger policy and a divergence away from this

status quo. This has vast implications for the outcomes of portfolio restructuring in the conventional department store sector in particular and the US retail industry more generally.

RECENT DEVELOPMENTS IN ANTITRUST INTERPRETATION: A NEW PARADIGM OF FTC ENFORCEMENT?

Recent developments in US retail industry regulation have cast doubt over the continuing implementation of the 'fix-it-first' approach in dealing with horizontal market overlaps. It is widely believed that precedents have been set by the FTC's response in recent cases; the first dealing with the definition of markets, and the second, with divestiture as a policy for ensuring local competitiveness.

Defining Markets: The Staples – Office Depot Precedent

The first case relates to the proposed merger in 1997 between the first and second largest US office superstore chains; Staples and Office Depot. Staples offered to divest itself of its horizontal market overlaps, yet the case was taken to court and effectively killed off when, in June 1997, the federal district court in Washington, DC granted the FTC's request for a preliminary injunction blocking the merger (Baker, 1997).

The rationale for the refusal, according to the FTC, was that they had evidence that Staples raised prices and was thus uncompetitive in areas where it was the only office superstore in town. Such assumptions relied on complex econometric calculations of past experience (see Baker 1997; 1999). The case however, had far broader connotations for the rest of the retail industry and represented an important change in practice by the antitrust authorities. Office superstores, in this instance, were essentially being regarded by the FTC as a separate retail category independent of all other forms of retail (Warren-Boulton and Dalkir, 1997, see also Dalkir and Warren-Boulton, 1998; Werden, 2000). However, as Shugart (1998) notes, had the market included sales of office products at independent, mail order and discount retailers, then the Staples and Office Depot's combined market share would have represented a mere 5%.

The case was indicative of a much stricter interpretation of industry boundaries by the FTC. Instead of the market being defined by all sales of the product, it is defined on the basis of the retail format. This is the exact opposite to what has traditionally occurred with the 'fix-it-first' policy in the department store industry throughout the 1990s.

Ineffective Divestiture: The Ahold – Pathmark Precedent

The second case relates to the FTC's harsh stance in late 1999 on the proposed merger between Royal Ahold, the 4th largest food retailer in the US and leading operator in the Boston and Washington DC corridor, and Pathmark (a subsidiary of Supermarkets General Holding Corporation), the market leader in the metropolitan areas of New York and New Jersey (Wrigley, 2001). Ahold had previously made a large number of successful acquisitions in the US and divested enough stores under the 'fix it first' approach to appease the FTC (see Wrigley, 1998; 1999a; 1999b). However, as Cotterill (1999a) suggests, such divestitures had often been ineffectual in terms of maintaining local market competitiveness. In an analysis of the performance of divested stores from Ahold's previous acquisition of Stop & Shop in 1996, Cotterill suggests that 'the stores divested have suffered major sales declines, but that the stores retained by the Royal Ahold have made major gains' (Cotterill, 1999a, p9, see also Cotterill *et al.*, 1999). In effect, it seems that retailers such as Ahold had been able to 'cherry pick' stores for divestiture, thereby divesting the least desirable store in each location (Cotterill, 1999a, p9). In addition, Cotterill suggests that merging firms should not be allowed to divest to weak competitors from whom they can rapidly recapture market share. In short he suggests that the 'fix-it-first' approach in the food retail industry has produced divestiture orders that have not protected consumers from increased concentration and the exercise of market power (Cotterill, 1999a, p9). The FTC accepted such evidence, and effectively blocked the Pathmark acquisition. Ahold consequently walked away from the deal, citing a significant change in policy by the FTC. Indeed, as Wrigley (2001) suggests, by mid 2000 there was mounting evidence of the tougher enforcement, as first the FTC decided to seek an injunction against the acquisition of 74 Winn-Dixie grocery stores in Texas by leading US grocery retailer, Kroger, citing its likely effect on prices and consumer welfare (see also Guidera, 2000) and, second, as it forced the 6th largest US food retailer, Delhaize America, to divest or close the entire southeast division of its Hannaford Brothers acquisition to gain regulatory approval (Wall Street Journal, 2000; Wrigley, 2001).

Interpreting the Evidence

There are two issues raised by these recent cases of FTC enforcement that have implications for future portfolio restructuring in the retail industry. First there is evidence that the method of defining markets and industry segments is becoming more restrictive. Second there is evidence of a significant shift in the 'fix-it-first'

approach - no longer being enough to divest horizontal market overlaps to pre-empt FTC enforcement. Instead it is suggested by Cotterill (1999d) that divestiture is not a permanent prophylactic for market power. The FTC apparently agrees with this and has now shifted the bar towards tougher enforcement. 'It now seems to require more than a static divestiture that provides "numerical" parity to a competitive norm at the divestiture date. The momentum of the acquirer that will continue and may well increase after a merger is now factored in and this momentum factor requires a more substantial divestiture or outright challenge' (Cotterill, 1999d). Numerous statements coming from the FTC have supported this opinion.

On the subject of defining markets, literature from the FTC indicates the adoption of a more active and malleable view of market boundaries. As FTC Director William Baer suggests, the emphasis has moved from market *definition*, toward analysing market *interaction*:

But the fact that we take a hard look at the actual competitive interactions within a market, rather than considering our job done as soon as the market is defined, should not be a basis for criticism but a reflection of the fact that we are doing our job. When we find unique relationships among products made by the merging firms, as evidenced by how the firms behave in the marketplace and by quantitative analysis of past pricing behavior, we have a merger that poses problems. And the issue of the precise market definition becomes and should become secondary (Baer, 1997).

This active definition and subsequent reaction is reinforced by comments by FTC Chairman, Robert Pitofsky (2000), who suggests that consideration will be given to whether the merger is part of a greater merger wave, rather than viewing the case in isolation.

On the subject of divestitures, it is clear there are considerable developments. Pitofsky (2000) recently suggested that considerable problems are likely to remain even if *all* horizontal market overlaps are eliminated. Indeed, the issue of the *quality* of the divestitures has been central to recent FTC concerns. Baer (1996; 1997) suggests that in future there will be moves to speed the divestiture process if it is necessary. Secondly, Baer (1996) advocates the increased the use of what he describes as the enforcement of *crown jewel divestitures*, where the Commission prescribe the divestiture of specified holdings. He acknowledges that in numerous cases, divestitures have been ineffectual, as acquirers have 'been able to frustrate the viability of a divestiture....by not transferring all the necessary technology or know-how' (Baer, 1996). As Pitofsky (2000) has suggested 'the bottom line is the divestiture must be effective and consumer welfare should not be asked to bear an unreasonably high risk that accomplished an uncertain and questionable undertaking'. Frequently, this has not been the case with the 'fix-it-first' approach as 'history has now shown that the antitrust authorities overwhelming preference for a 'fix-it-first' conciliatory approach to mergers in an industry has produced a series of ineffectual divestitures that have rationalized the positions of leading chains, often enabling them to expand market share in the post merger period, thereby resulting in increased rather than lower concentration' (Cotterill, 1999a, p2).

It is uncertain as to whether the stricter enforcement and narrowing of market definition by the FTC will be carried through into rulings on portfolio restructuring in the department store industry. It is suggested that food retailing represents more of a political arena for state intervention, and that department store retailing operates in much more of a backwater. Indeed, an Ernst & Young analyst suggested, '(t)hey (the FTC) are not as sensitive as they are in apparel as they are in food. Food is a very sensitive thing, much more sensitive than apparel is....I don't know, they blow hot and cold. It just depends on the political – it is all very political of course' (Interview 18). There is certainly a convincing argument that the FTC is likely to retain the working definition of the competitive market for the conventional department store industry in terms of GAF as

This industry needs all the help it can get frankly. They are not dominating anything and certainly not in a position to name prices (Interview 8).

As one prominent department store CEO suggests, even high market concentrations in the conventional department store industry do not represent dominant market power beyond the tolerance of the FTC:

I think what the FTC has historically done is smart and appropriate and that is they have looked at retail as a broader issue than just department stores. Our competitor for our business is not just another department store. Department stores in the aggregate...in a typical market, department stores may in the aggregate have 25% of the general merchandise, apparel & furniture – the GAF figure, so clearly 75% of the competition is not department stores. It is other forms of retail. So the FTC appropriately has looked at these from that perspective and concluded that even after the merger of the two companies that the share market they have is not counter to the beliefs of the FTC (Interview 12).

IMPLICATIONS FOR FUTURE DEPARTMENT STORE CONSOLIDATION

Until the end of the 1990s, under the prevailing ethos of the FTC's 'fix-it-first' approach, US retailers accepted that they would have to divest a given number of stores in order to conclude mergers and acquisitions. Essentially, this represented to them, what Clark and Wrigley (1995) would regard as a sunk cost to barrier to entry in a given market area[62]. The recent hardening of the FTC stance may surpass a threshold of tolerance for these sunk costs and lead to a possible decline in horizontal mergers in the retail industry. Certainly for Royal Ahold the threshold was exceeded and they walked away. However, within the department store industry the number of potential acquisitions has declined, as few regional chains are left. Consequently, as in the case of food retailing, the small number of acquisition candidates for department store acquirers 'effectively places a premium on chains that can offer to strategic buyers limited risk of extensive FTC-required divestment of stores. But conversely, because of the pre-existing geographies of major firms seeking to grow by acquisition and the regulatory risks of market overlap, such targets have, in practice, a strictly limited number of potential partners' (Wrigley, 1999b, p304). These potential partners are, by virtue of the considerable acquisition activity, clearly large entities. Consequently any merger will inevitably involve considerable market overlap. This would undoubtedly lead to a situation whereby any acquisition would undoubtedly trigger FTC action, with possible refusal through litigation. The only solution for such a situation would be for the leading department stores to adopt a strategy of joint acquisitions, effectively sharing the target in their unpenetrated markets where antitrust enforcement would not apply. This could possibly lead to another era of portfolio restructuring where the large department stores firms are once again broken up and shared out. Conversely, the tightened regulatory environment could serve to stabilise the industry, as emphasis turns of organisational restructuring of the existing store portfolios.

However, what must now be factored into the picture is the arrival of the Bush Administration in early 2001 and the expectation of looser antitrust scrutiny under a Republican appointed FTC Chairman. As the *New York Times* commented, 'most policy makers and corporate chiefs expect a loosening of antitrust policy. Economic advisers to President-elect George W. Bush have been critical of the Clinton administration for being too aggressive, particularly in its pursuit of monopolists' (Labaton, 2001, p 3). Clearly, the direction of antitrust policy remains a controversial and contested area of US economic and political concern.

CONCLUSION

This paper has illustrated, through the example of the US department store industry, the role of the regulatory state in portfolio restructuring. As Laulajainen suggested, over a decade ago, '(i)t is not just the willingness of the target to get acquired or the aggressor's capacity to place a hostile bid. It is as much a question of the FTC's attitude to the deal, which, in turn, is dependent on the political climate in general' (Laulajainen, 1987, p170). It is evident that the investment decisions by firms do not occur in a regulatory vacuum and instead regulation does, to an extent, dictate investment decisions (cf. Christopherson, 1993; 1999). The difficulty comes in interpreting state rules and, more broadly, theorising what role the state should have.
What is clearly the issue, however, is the extent to which the state (at all levels) ought to have the size, roles, and functions that it currently has, given competing normative claims regarding the proper role of the state in relation to the market (Clark, 1992a, p615).

In addition, it is clear that market consequences cannot be read off investment rules. As Clark (1990) suggests, it is only in specific market contexts that the meaning of rules is determined and defined. Whilst the rules themselves may not change, the consideration and theorising of them may. Indeed, 'interpretations of rules and procedures are always vulnerable to changing circumstances and competing arguments about the significance of changing circumstances for the integrity of the rules; how those circumstances are accommodated within the institutional context is an issue of considerable dispute' (Clark, 1992a, p620). As such, 'rules of adjudication are often unstable and fragmented. Reality as the unidimensional empirical facts of legal positivism is an implausible reference point for determining the plausibility of competing interpretations, and interpretations are political acts – contested over as representations of political interests' (Clark, 1989b, p217). There must not be confusion over the substantive *content* of regulation and the *result* of the legal-regulatory process (see Clark, 1992b, p721). Indeed, '(a)lthough the process of corporate restructuring in retailing is clearly contingent upon the legislation which governs competition in the industry, corporate restructuring and its spatial expression, in turn, transform that regulatory environment' (Wrigley, 1992, p748). This leads one to a less rigid dichotomy between regulation as economic imperative and regulation as social practice - as Marden (1992) suggests, very much a false dichotomy as laws and regulations are continually re-interpreted and reviewed as conditions and political ideologies mutate over time (cf. Marsden and Wrigley, 1995; 1996; Marsden *et al.*, 1998; 2000; Wrigley, 1993). It is in this environment the retailer is challenged to undertake portfolio restructuring.

---

[62] A sunk cost is regarded as those costs to the firm which are irrevocably committed to a particular use, and therefore not recoverable in the case of exit (Clark and Wrigley, 1995, p 205).

ACKNOWLEDGEMENTS

This project is part of the larger project; 'The Restructuring of the US Department Store Industry', supported by the John Lewis Scholarship at the Department of Geography, University of Southampton. The author is grateful to all those who participated in the research and especially Daniel Barry of Merrill Lynch, New York, George Strachan, Goldman Sachs, New York, and Linda Kristiansen of Schroder Capital Management, New York. I thank Professors Neil Wrigley and Howard Biederman for insightful discussions on many of the subjects surrounding this work. I am also grateful for the comments from the three referees of the original manuscript. All omissions and errors remain my own.

REFERENCES

Audretsch D B, 1989, *The Market and the State. Government Policy Toward Business in Europe, Japan and the United States* (Harvester Wheatsheaf, New York)

Baer W J, 1996, *Reflections on 20 years of Merger Enforcement Under the Hart-Scott-Rodino Act.* Prepared remarks of William J. Baer, Director, Federal Trade Commission before The Conference Board, Washington D.C., October 29, 1996 and The 35th Annual Corporate Counsel Institute, Northwestern University Law School, Corporate Law Center, San Francisco, CA, October 31, 1996. Transcript available (http://www.ftc.gov/speeches/other/hsrspeec.htm).

Baer W J, 1997, *New Myths and Old Realities: Perspectives on Recent Developments in Antitrust Enforcement.* Prepared Remarks of William J. Baer, Director, Bureau of Competition, Federal Trade Commission, Before the Bar Association of the City of New York, New York, N.Y., November 17, 1997. Transcript available at (http://www.ftc.gov/speeches/other/bany.htm).

Baker J B, 1997, *Econometric Analysis in FTC v. STAPLES.* Prepared remarks of Jonathan B. Baker, Director, Bureau of Economics, Federal Trade Commission before American Bar Association's Antitrust Section, Economics Committee, Willard Hotel, July 18, 1997. Revised March 31, 1998. Transcript available at http://www.ftc.gov/speeches/other/stspch.htm).

Baker J B, 1999, 'Econometric Analysis in FTC v. STAPLES' *Journal of Public Policy and Marketing* 18 (1) 11-21

Baker G, Smith G, 1998, *The New Financial Capitalists: Kohlberg Kravis Roberts and the Creation of Corporate Value* (Cambridge University Press, Cambridge)

Bartlett S, 2000, *The Money Machine: How KKR Manufactured Power & Profits* (Replica Books, New York)

Bergh D D, 1997, 'Predicting divestiture of unrelated acquisitions: an integrative model of ex-ante conditions' *Strategic Management Journal* 18 (9) 715-731

Bethal J, Liebeskind J, 1993, 'The effects of ownership structure on corporate restructuring' *Strategic Management Journal* 14 15-31

Bluestone B, Hanna S, Kuhn L, Moore, 1981, *The Retail Revolution. Market Transformation, Investment and Labor in the Modern Department Store* (Auburn House, Boston)

Bowman E H, Singh H, 1993, 'Corporate restructuring: reconfiguring the firm', *Strategic Management Journal* 14 5-14

Bowman E, Singh H, Useem M, Bhadury R, 1999, 'When does restructuring improve economic performance?' *California Management Review* 41 (2) 33-54

Chang S, Singh H, 1999, 'The impact of modes of entry and resource fit on modes of exit by multibusiness firms' *Strategic Management Journal* 20 1019-1035

Chevalier J A, 1995, 'Capital Structure and Product-Market Competition: Empirical Evidence from the Supermarket Industry' *The American Economic Review* 85 (3) 415-435

Christopherson S, 1993, 'Market rules and territorial outcomes: the case of the United States' *International Journal of Urban and Regional Research* 17 274-288

Christopherson S, 1999, 'Rules as resources. How market governance regimes influence firm networks' In T J Barnes and M S Gertler (eds), 1999, *The New Industrial Geography: Regions, Regulation and Institutions* (Routledge, London) pp155-175

Chung K and Weston J, 1982, 'Diversification and mergers in a strategic long-range planning framework'. In M Keenan and L White (eds), 1982, *Mergers and Acquisitions: Current Problems in Perspective* (Lexington Books, Toronto) pp315-347

Clark G L, 1989a, 'Remaking the map of corporate capitalism: The arbitrage economy of the 1990s' *Environment and Planning A* 21 (8) 997-1000

Clark G L, 1989b, 'Law and the interpretive turn in the social sciences' *Urban Geography* 10 209-228

Clark G L, 1990, 'Autonomy of the National Relations Board' *Policy Studies Journal* 18 721-738

Clark G L, 1992a, 'Real Regulation: The Administrative State' *Environment and Planning A* 24 615-627

Clark G L, 1992b, 'Problematic status of corporate regulation in the United States: towards a new moral order' *Environment and Planning A* 24 705-725

Clark G L, 1993a, 'Costs and prices, corporate competitive strategies and regions' *Environment and Planning A* 25 5-26

Clark G L, 1993b, *Pensions and Corporate Restructuring in American Industry: A Crisis of Regulation* (John Hopkins University Press, Baltimore)

Clark G L, 1994, 'Strategy and Structure - Corporate Restructuring and the Scope and Characteristics of Sunk Costs' *Environment and Planning A* 26 (1) 9-32

Clark G L, McKay G, Missen G, Webber M, 1992, 'Objections to Economic Restructuring and the Strategies of Coercion: An Analytical Evaluation of Policies and Practices in Australia and the U. S.' *Economic Geography* 68 143-59

Clark G L, Wrigley N, 1995, 'Sunk costs: a framework for economic geography', *Transactions of the Institute of British Geographers* 20 204-223

Clark G L, Wrigley N, 1997, 'Exit, the firm and sunk costs: reconceptualizing the corporate geography of disinvestments and plant closure', *Progress in Human Geography* 21 (3) 338-358

Cotterill R W, 1999a, *An Antitrust Economic Analysis of the Proposed Acquisition of Supermarkets General Holdings Corporation by Ahold Acquisitions Inc.*, Food Marketing Policy Center, Research Report No. 46, April 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill R W, 1999b, *Continuing Concentration in the US: Strategic Challenges to an Unstable Status Quo*, Food Marketing Policy Center, Research Report No. 48, August 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill R W, 1999c, *Continuing Concentration in Food Industries Globally: Strategic Challenges to an Unstable Status Quo.*, Food Marketing Policy Center, Research Report No. 49, October 1999. University of Connecticut, Department of Agricultural and Resource Economics

Cotterill R W, Dhar T P, Franklin A W, 1999, *Post Merger Price Conduct: A Case Study of Pricing in Connecticut Markets After the 1996 Royal Ahold – Stop & Shop Merger.*, Food Marketing Policy Center, Research Report No. 47, October 1999. University of Connecticut, Department of Agricultural and Resource Economics

Dalkir S, Warren-Boulton F R, 1998, 'Are Superstores A Relevant Market? Staples and Office Depot'. In John E. Kwoka, Jr. and Lawrence J. White (eds), *The Antitrust Revolution: The Role of Economics*, 3rd Ed. (Oxford University Press, New York).

Denis D J, 1994, 'Organizational form and the consequences of highly leveraged transactions: Kroger's recapitalization and Safeway's LBO' *Journal of Financial Economics* 36 193-224

Deloitte and Touche, 1998, *United States Department Store Industry* Unpublished Report, Deloitte and Touche Tohmatsu, New York

Dillard, Inc. Press Release, July 14, 1998, *Belk, Inc. and Dillard, Inc. Agree to Exchange Stores*, July 14, 1998

Dunne, P, Kahn R, 1997, 'Retailing in the USA: an interpretation of current trends' *International Journal of Retail and Distribution Management* 25 (8) 275-281

Eisner M, Meier K, 1990, 'Presidential control versus bureaucratic power: explaining the Reagan revolution in antitrust' *American Journal of Political Science* 34 (1) 269-287

Federal Trade Commission Press Release, 1997, *FTC Chairman Discusses Merger Wave and Merger Enforcement at the FTC; Focus is Staples and Boeing*, September 23, 1997. Transcript available (http://www.ftc.gov/opa/1997/9709/pitmerg.htm)

Fligstein N, 1990, *The Transformation of Corporate Control* (Harvard University Press, Cambridge, MA)

George K, Jacquemin A, 1992, 'Dominant firms and mergers' *The Economic Journal* 102 (410) 148-157

Goldman Sachs, 1996, *Department Stores: Rediscovering the Reinvented* Goldman Sachs Investment Research New York May 3

Goldman Sachs, 1999, *Department Stores: Loss of Market Share – A Blight with Few Apparent Remedies* Goldman Sachs Investment Research New York May 7

Gort M, 1966, 'Diversification, mergers and profits'. In W. Alberts and J. Segal (eds.), 1966 *The Corporate Merger* (University of Chicago Press, Chicago) pp31-43.

Green M B. 1990, *Mergers and Acquisitions. Geographical and Spatial Perspectives* (Routledge, New York)

Guidera J, 2000, 'FTC rejects bid by Kroger to buy Winn-Dixie stores', *Wall Street Journal*, 5 June, pA6

Hallsworth A G, 1991, 'The Campeau Takeovers: The Arbitrage Economy In Action' *Environment and Planning A* 23 1217-1223

Harrison B, 1997, [1994] *Lean and Mean* (Guilford Publications, New York)

Hill C, Hitt M and Hoskisson R, 1992, 'Cooperative versus competitive structures in related and unrelated diversified firms' *Organization Science* 3 501-521

Hughes A, Mueller D, Singh A, 1980, 'Hypotheses about mergers'. In D. Mueller (ed.), 1980, *The Determinants and Effects of Mergers* (Oelgeschlager, Gunn and Hain, Cambridge, MA) pp27-66

Jensen M C, 1986, 'Agency costs of free cash flow, corporate finance, and takeovers' *American Economic Review* 76 (2) 323-329

Jensen M C, 1989, 'The eclipse of the public corporation' *Harvard Business Review* 67 (5) 61-74

Kaplin S N, 1990, 'Campeau's Acquisitions of Federated: Value Destroyed or Value Added' *Journal of Financial Economics* 25 (2) 191-212

Kaplin S N, 1994, 'Campeau's Acquisitions of Federated: Post-bankruptcy Results' *Journal of Financial Economics* 35 (1) 123-136

Kay J A, 1991, 'Economics and business' *The Economic Journal* 101 (404) 57-63

Keyes L S, 1995, 'The horizontal merger guidelines of 1992' *Review of Industrial Organization* 10 143-159

KPMG, 1999, *Unlocking Shareholder Value: The Keys to Success, Mergers and Acquisitions*. A Global Research Report, KPMG International, November 1999

Labaton S, 2001, 'Looser policy likely on antitrust security' *New York Times* 1 January p 3.

Lehmann-Haupt C, 1996, 'How a landmark of American merchandising deflated its own balloon', *New York Times*, November 18, 1996, pC14

Laulajainen R, 1987, *Spatial Strategies in Retailing* (D. Reidel Publishing, Dordrecht)

Laulajainen R, 1988, 'The spatial dimension of an acquisition' *Economic Geography* 64 171-187

Laulajainen R, 1990, 'Defense by expansion' *Professional Geographer* 42 (3) 277-288

Luchansky B, Gerber J, 1993, 'Constructing state autonomy: The Federal Trade Commission and the Celler-Kefauver Act' *Sociological Perspectives* 36 (3) 217-240

R H Macy, 1994, *The Turnaround of Macy's: Company Profile*, R. H. Macy, New York

McGrath-Champ S, 1999, 'Strategy and industrial restructuring' *Progress in Human Geography* 23 (2) 236-252

Marden P, 1992, ''Real' regulation reconsidered' *Environment and Planning A* 24 751-767

Marsden T, Wrigley N, 1995, 'Regulation, Retailing and Consumption' *Environment and Planning A* 27 1899-1912

Marsden T, Wrigley N, 1996, 'Retailing, the food system and the regulatory state'. In N. Wrigley and M. S. Lowe (eds), *Retailing Consumption and Capital: Towards the New Retail Geography* (Longman, London), pp33-47

Marsden T, Harrison M, Flynn A, 1998 'Creating competitive space: exploring the social and political maintenance of retail power' *Environment and Planning A* 30, 481-98

Marsden, T, Flynn A, Harrison M, 2000 *Consuming Interests. The Social Provision of Foods* (UCL Press, London)

Merril Lynch, 1997, *Proffitt's, Inc. Potential 20% grower without further acquisition*, Merrill Lynch & Co., New York, 8 December

Merrill Lynch, 1998, *Expensive acquisition sharply increases risk of profit disappointment*, Merrill Lynch & Co., New York, 22 May

Merrill Lynch, 1999a, *In Depth Report – Retailing. Daniel O'Connor, Management Ventures, Inc.*, Merrill Lynch & Co., New York, 12 July

Merrill Lynch, 1999b, *Governor likely to veto Bill that would stop supercenter and warehouse club growth in California*, Merrill Lynch & Co., New York, 15 September

Merrill Lynch, 1999c, *Governor vetos "Big-Box" bill*, Merrill Lynch & Co., New York, 23 September

Mueller W, Paterson T, 1986 'Policies to promote competition'. In B. W. Marion (ed.), *The Organization and Performance of the Food Industry* (Lexington Books, Lexington, MA)

Oesterle D, 1997 'Method to the merger madness: revisiting the '80s takeover boom', *Regulation – The Cato Review of Business and Government* 20 (2) 27-33

Paine Webber, Inc., 1999, *Department Store Consolidation*, Paine Webber Inc. Equity Research, New York, December 1999

Pitofsky R, 2000 *The Nature and Limits of Restructuring in Merger Review*. Remarks by Robert Pitofsky, Chairman Federal Trade Commission, Cutting Edge Antitrust Conference, Law Seminars International, February 17, 2000, Empire Hotel, New York, N. Y. Transcript available (http://www.ftc.gov/speeches/pitofsky/restruct.htm)

Porter M E, 1980 *Competitive Strategy: Techniques for Analyzing Industries and Competition* (Free Press, New York)

Porter M E, 1987, 'From competitive advantage to corporate strategy' *Harvard Business Review* 65 (3) 43-59

Porter J, 1999, *The Future of the Department Store Industry: Instore and Mail Order Strategies* (Financial Times Retail and Consumer, London)

Prahalad C, Hamel G, 1990, 'The core competence of the corporation' *Harvard Business Review*, May-June 1990 pp79-91

Proffitt's, Inc. Press Release, August 3, 1998, *Agrees to Acquire 15 Locations from Dillard's, Inc.* August 3 1998

Rachman D, Fabes K, 1992, 'The decline of the traditional department store' *Journal of Marketing Channels* 1 (3) 39-59

Rosenberg, L, J, 1988, *Dillard: the first 50 years* (University of Arkansas Press, Fayetteville)

Rousey S P, Morganosky M A, 1996, 'Retail format change in US markets' *International Journal of Retail and Distribution Management* 24 (3) 8-16

Rothchild J, 1991 *Going for Broke: How Robert Campeau Bankrupted the Retail Industry, Jolted the Junk Bond Market and Bought the Booming '80s to a Crashing Halt* (Beard Books, Washington DC)

Serwer A E, 1996, 'The man who rained on Macy's parade' *Fortune* December 9 p219

Schendel D, 1993, 'Introduction to the summer 1993 special issue on "corporate restructuring"' *Strategic Management Journal* 14, 1-3

Shugart W F, 1998, 'The government's war on mergers: the fatal conceit of antitrust policy' *Policy Analysis* No. 323 Washington DC: Cato Institute October 22 1998

Smith D, 1998, 'Dillard's defies past to buy Mercantile', *Arkansas Business* May 25 1998 (Cover Story)

Stern L, Weitz B, 1997, 'The revolution in distribution: challenges and opportunities' *Long Range Planning* 30 (6) 823-829

Taggart R, 1988, 'The growth of the 'junk' bond market and its role in financial takeovers'. In A J Auerbach (ed.) *Mergers and Acquisitions* (University of Chicago Press, Chicago) pp5-24

Trachtenberg J A, 1996 *The Rain on Macy's Parade* (Times Books, New York)

Traub M, 1994, *Like No Other Store: The Bloomingdale's Legend and the Revolution in American Marketing* (Times Books, New York)

US Dept. of Commerce, 2000, *Revisions to Monthly Retail Sales and Inventories Series*, United States Department of Commerce News, US Census Bureau, Washington D.C

Valentine D, 1995, *Horizontal Issues: What's Happening and What's on the Horizon*, Mimeo, Federal Trade Commission, December 8, 1995. Transcript available (http://www.ftc.gov/speeches/other/dvhorizontalissues.htm)

Valentine D A, 1996, *The Evolution of US Merger Law.* Prepared remarks of Debra A. Valentine, Assistant Director for International Antitrust, Federal Trade Commission, INDECOPI Conference, August 13, 1996. Transcript available (http://www.ftc.gov/speeches/other/dvperumerg.htm)

Viscusi W, Vernon J, Harrington J, 1995, *Economics of Regulation and Antitrust*, Second Edition (MIT Press, Cambridge, MA)

Wall Street Journal, 2000 'Delhaize America Inc.: Supermarket concerns plan to sell Hannaford stores' *Wall Street Journal* 1 June pC14

Warren-Boulton F, Dalkir S, 1997, *How Do You Know An Office Superstore? Staples and Office Depot.* Mimeo. Transcript available at (http://www.antitrust.org/cases/staples/newvers.html)

Werden G, 2000, 'Market delineation under the merger guidelines: monopoly cases and alternative approaches' *Review of Industrial Organization* 16 211-218

Williamson O, 1987, *Antitrust Economics: Mergers, Contracting, and Strategic Behavior* (Basil Blackwell, Oxford)

Wood B, Anderson J, 1993, 'The politics of US antitrust legislation' *American Journal of Political Science* 37 (1) 1-39

Wood S M, 2001, 'Organisational restructuring, knowledge and spatial scale: The case of the US department store industry', *Tijdschrift voor Economische en Sociale Geographie*, 92, in press.

Wrigley N, 1992 'Antitrust legislation and the restructuring of grocery retailing in Britain and the USA' *Environment and Planning A* 24 727-41

Wrigley N, 1993, 'Abuses of market power? Further reflections on U.K. food retailing and the regulatory state' *Environment and Planning A* 25 1545-1557

Wrigley N, 1997, 'Foreign Retail Capital on the Battlefields of Connecticut: Competition Regulation At The Local Scale and Its Implications' *Environment and Planning A* 29 1141-1152

Wrigley N, 1998, 'European retail giants and the post-LBO reconfiguration of US food retailing' *International Review of Retail, Distribution and Consumer Research* 8 127-146

Wrigley N, 1999a, 'Leveraged Restructuring and the Economic Landscape: The LBO Wave In US Food Retailing'. In R. L. Martin (ed) *Money and the Space Economy* (John Wiley, Chichester) pp185-204

Wrigley N, 1999b, 'Market rules and spatial outcomes: Insights from the corporate restructuring of US food retailing' *Geographical Analysis* 31 (3) 288-309

Wrigley N, 2001, 'Transforming the corporate landscape of US food retail: market power, financial re-engineering, and regulation', *Tijdschrift voor Econmische en Sociale Geographie*, 92 (3), forthcoming.

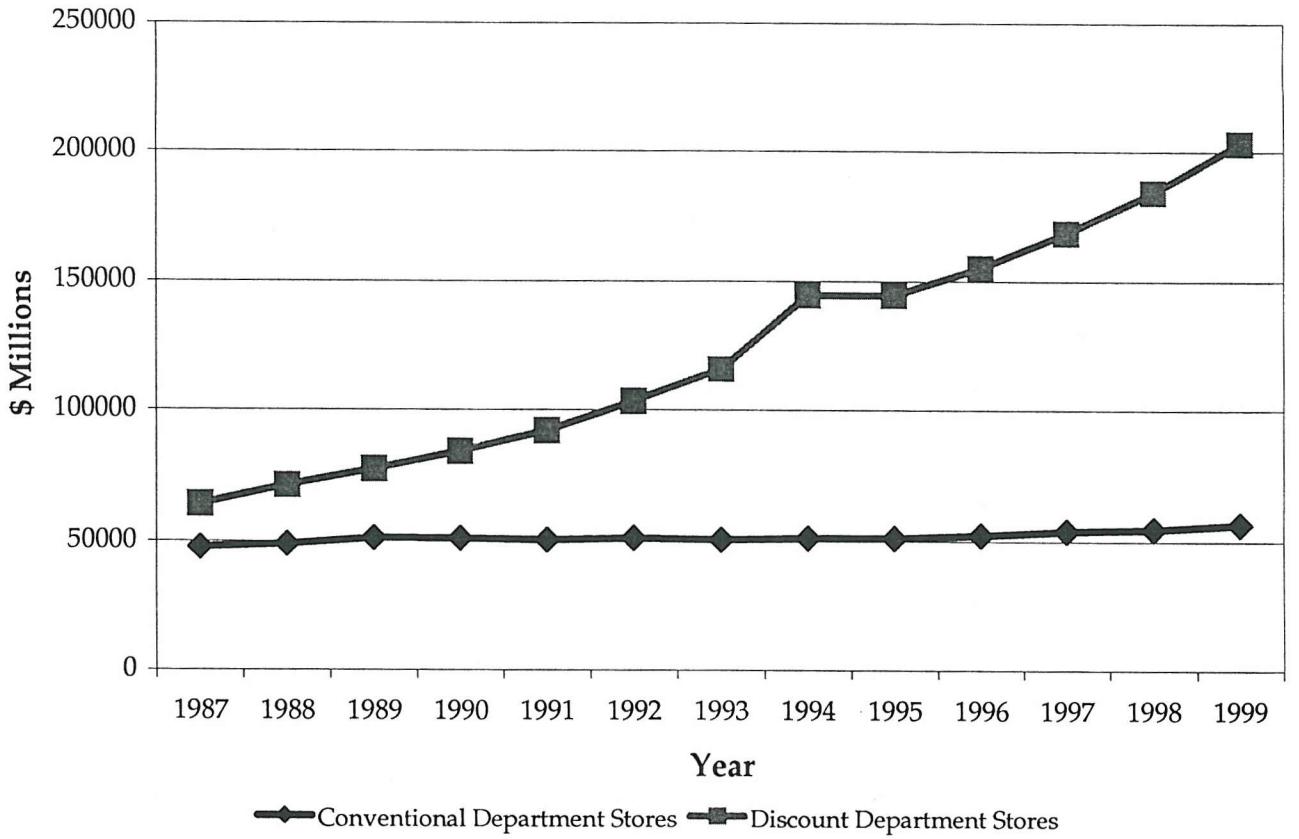
Table 1 Department Store Acquisitions of the 1990s.

Date	Acquirer	Acquired (Geographical Area)	Cost (If known)	No of Stores (If known)
1990	May	Thalhimers, (Richmond, Va.), Sibley's, (Rochester, N.Y.)	N/D	26
1990	Dayton Hudson	Marshall Field (Midwest)	$1.4 billion	N/D
Oct 1992-July 1993	Proffitt's	Hess (Southeast)	$24 million	18
March 1994	Proffitt's	McRae's (Southeast)	£212 million	28
1994	Bon-Ton	Hess	N/D	20
1994	May	10 stores from Hess (Northeast)	N/D	10
May 1994	Federated	Joseph Horne Co.	$116 million	10
Dec 1994	Federated	R. H. Macy	$4.1 billion	123
April 1994	Proffitt's	Parks-Belk	Less than $20 million	3
July 1995	May and J. C. Penney	Woodward and Woodward & Lothrop stores	Total Cost $460 million	21
Aug 1995	Federated	Broadway	$1.6 billion	82
April 1996	May	13 Strawbridge & Clothier stores (Philadelphia).	$479.5 million	13
Feb 1996	Proffitt's	Younker's (Midwest)	$258 million	51
October 1996	Proffitt's	Parisian (Southwest and Midwest)	$452 million	38
Nov 1996	Belk	Leggett Stores	$92 million	31
February 1997	Proffitt's	Herberger's (Midwest and Great Plains)	$154.9 million	40
January 1998	Proffitt's	Carson Pirie Scott (Midwest)	$956 million	55
March 1998	Proffitt's	Broady's (North Carolina)	N/D	6
May 1998	Dillard	Mercantile	$2.9 billion	103
August 1998	Gottschalks	The Harris Company (California)	$36.1 million	9
Sept 1998	Proffitt's	Saks Holdings (National)	$2.1 billion	96
October 1999	May	ZMCI (Utah, Idaho)	$52 million	14

Sources: various company reports and 10K's submitted to the Securities and Exchange Commission.

Strategic acquisition-based portfolio restructuring has set the pace for the 1990s department store industry. This has seen large stores acquire regional chains leaving very few available for purchase in the 21st century.

Figure 1 A Comparison of the Performance of Conventional and Discount Department Stores, 1987-1999



Source: data from US Department of Commerce (2000)

The conventional department store industry has gradually lost sales relative to the discount department stores (e.g. Target). This environment of minimal net growth has provided an inducement to consolidate.

Table 2 Major Department Store Retailers' Share of GAF Throughout the 1990s

	1989	1994	1995	1996	1997	1998	1999
Personal consumption exp.	$3,596.7	$4,716.4	$4,969.0	$5,237.5	$5,524.4	$5,848.6	$6,257.3
GAF sales (billions)	454.3	592.6	625.0	655.2	685.5	729.2	783.5
Department Store Sales (billions)	51.2	51.1	51.0	51.7	53.1	53.7	55.1
Federated Department Stores	$7.6	$13.9	$15	$15.2	$15.7	$15.4	$15.9
% of industry sales	14.8%	27.3%	29.5%	29.4%	29.5%	28.6%	28.8%
% of GAF sales	2.1	1.6	1.7	1.8	1.8	1.8	1.8
May Department Stores	$9.5	$9.8	$10.6	$11.7	$12.4	$13.1	$13.9
% of industry sales	18.5%	19.1%	20.8%	22.5%	23.3%	24.4%	25.2%
% of GAF sales	2.1	1.6	1.7	1.8	1.8	1.8	1.8
Dillard Department Stores	$3.0	$5.5	$5.9	$6.2	$6.6	$7.8	$8.7
% of industry sales	6.0%	10.8%	11.6%	12.0%	12.5%	14.5%	15.8%
% of GAF sales	0.7	0.9	0.9	1.0	1.0	1.1	1.1
Saks, Inc.	$0.1	$0.6	$1.3	$1.9	$3.5	$6.0	$6.4
% of industry sales	0.2%	1.2%	2.6%	3.7%	6.7%	11.1%	11.7%
% of GAF sales	0.0	0.1	0.2	0.3	0.5	0.8	0.8
FD/MA/DDS/SKS department stores	$20.2	$29.9	$32.9	$35.0	$38.2	$42.2	$44.8
% of industry sales	39.4%	58.4%	64.5%	67.7%	71.9%	78.7%	81.4%
% of GAF sales	4.4	5.0	5.3	5.3	5.6	5.8	5.7
Other department store operators	$31.0	$21.3	$18.1	$16.7	$14.9	$11.4	$10.3
% of industry sales	60.6%	41.6%	35.5%	32.3%	28.1%	21.3%	18.6%
% of GAF sales	6.8	3.6	2.9	2.6	2.2	1.6	1.3

NB: GAF – *General merchandise, furniture and apparel sales*
Source: adapted from Goldman Sachs estimates, April 2000

Table 3 Department Store Retailers v Discount Store Retailers' Share of GAF in the 1990s

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Total Retail Sales *$ billions* (a)	$1,844	$1,855	$1,951	$2,082	$2,248	$2,359	$2,502	$2,610	$2,729	$2,972
GAF Sales *$ billions* (a)	471.6	485.4	519.2	553.0	594.2	624.4	655.0	683.2	724.8	778.7
Department Store Sales *$ billions* (a)	51.2	50.6	51.3	50.7	51.6	51.4	52.5	53.9	54.9	56.6
% of GAF Sales	10.6%	10.4%	9.9%	9.2%	8.7%	8.2%	8.0%	7.9%	7.6%	7.3%
Discount Store Sales	N/D	N/D	N/D	122.0	146.1	161.9	171.9	187.4	205.0	N/D
% of GAF Sales	N/D	N/D	N/D	22.1%	24.6%	26.0%	26.2%	27.4%	28.3%	N/D

NB: GAF – *General merchandise, furniture and apparel sales*

Sources: adapted from Goldman Sachs (1996; 1999) unless otherwise stated.
(a) data from US Dept. of Commerce (2000).

Table 4 Diversification of Major Department Store Chains in the 1960s and 1970s

Corporation	**FTC ban**	**Major entry into**	
		Discount retailing	***Speciality retailing***
Allied	1965-1975	1961-1978	1979-early 1990s
Associated	1975 (divestment)	1972-1976	1916-
Macy's	None	1987- early 1990s	None
Federated	1965-1970	1968-early 1990s	1982-early 1990s
May's	1965-1975	1970-early 1990s	1979-early 1990s
Dayton Hudson	None	1962-present	1966-present
CHH	1966-1974	None	1969-acquired 1987

Source: adapted, with modifications from Laulajainen, 1987, p235. Additional data from R. H. Macy, 1994 and various company reports.

Figure 2 A Decision Flow For a Retail Horizontal Acquisition Under the FTC 'fix-it-first' Policy

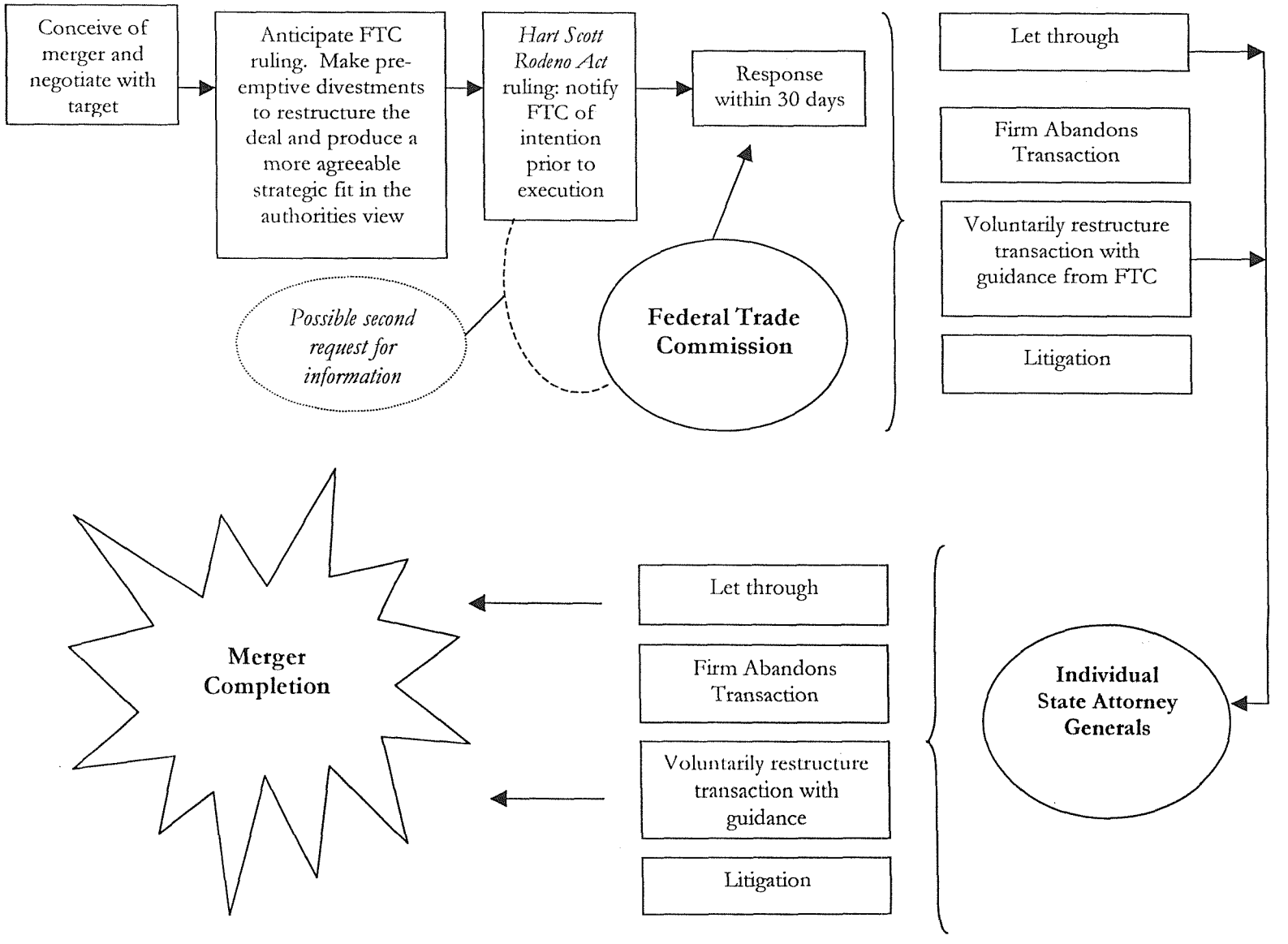


Table 5 Dillard's, Inc.'s Acquisition in Context

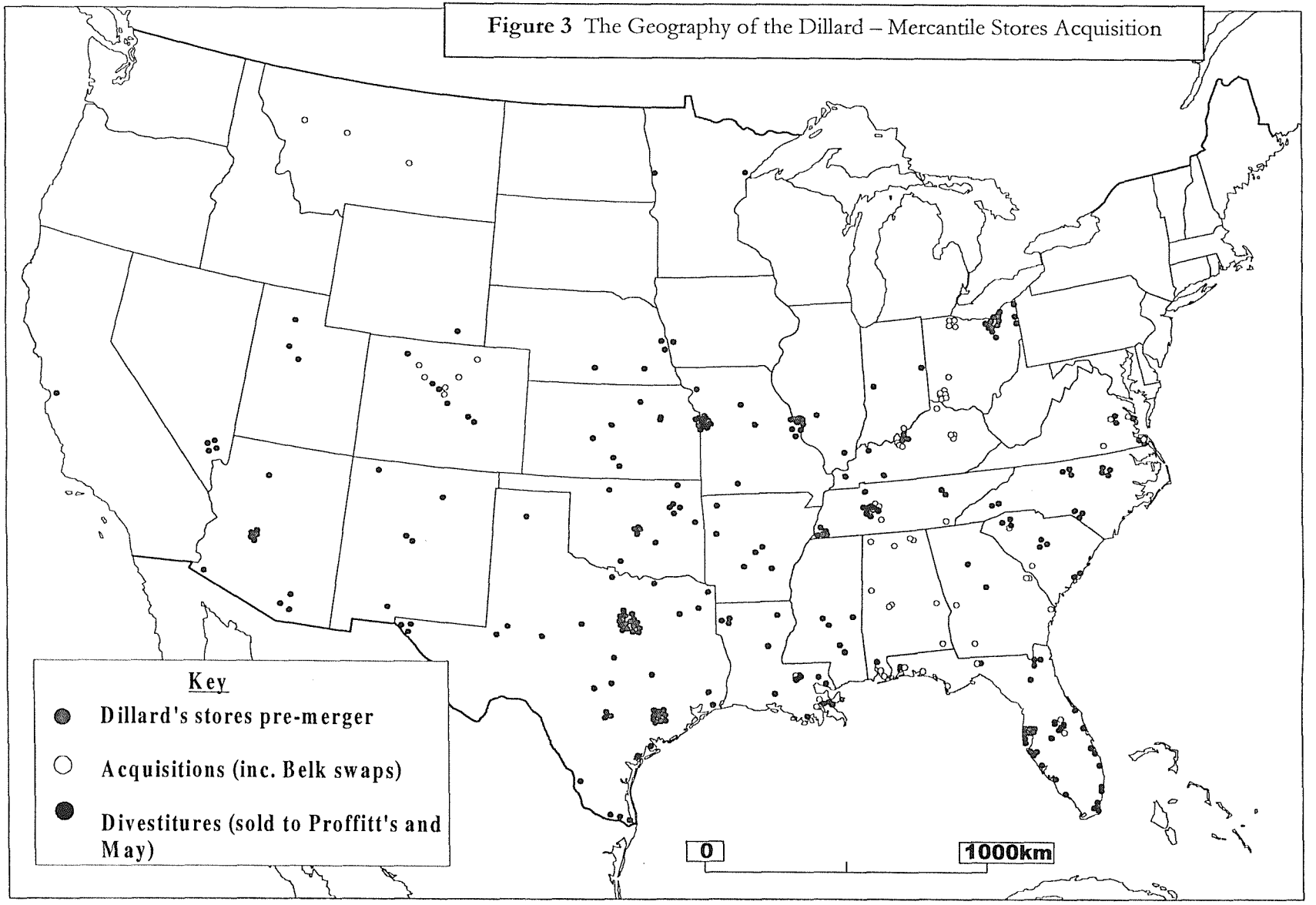
Acquirer	Acquired	Date	Enterprise Value to LTM Revenue (a)	Enterprise Value to LTM EBITDA (b)
Proffitt's	McRae's	Mar-94	0.8x	6.0x
Federated	Macy	Jul-94	0.7x	17.8x
May & JC Penney	Woodward	Jul-95	0.9x	30.9x
Federated	Broadway	Aug-95	0.8x	20.6x
Proffitt's	Younkers	Feb-96	0.5x	6.5x
May	Strawbridge	Apr-96	0.5x	9.4x
Proffitt's	Parisian	Oct-96	0.7x	9.2x
Proffitt's	Herberger's	Feb-97	0.6x	8.6x
Proffitt's	Carson	Jan-98	0.8x	9.2x
Dillard	**Mercantile**	**May-98**	**1.0x**	10.3x
Industry Average			**0.73x**	12.85

(a) LTM – Last Twelve Months

(b) EBITDA – Earnings Before Interest, Tax Deductions and Depreciation

Source: adapted from Merrill Lynch (1998) and Paine Webber (1999)

Figure 3 The Geography of the Dillard – Mercantile Stores Acquisition



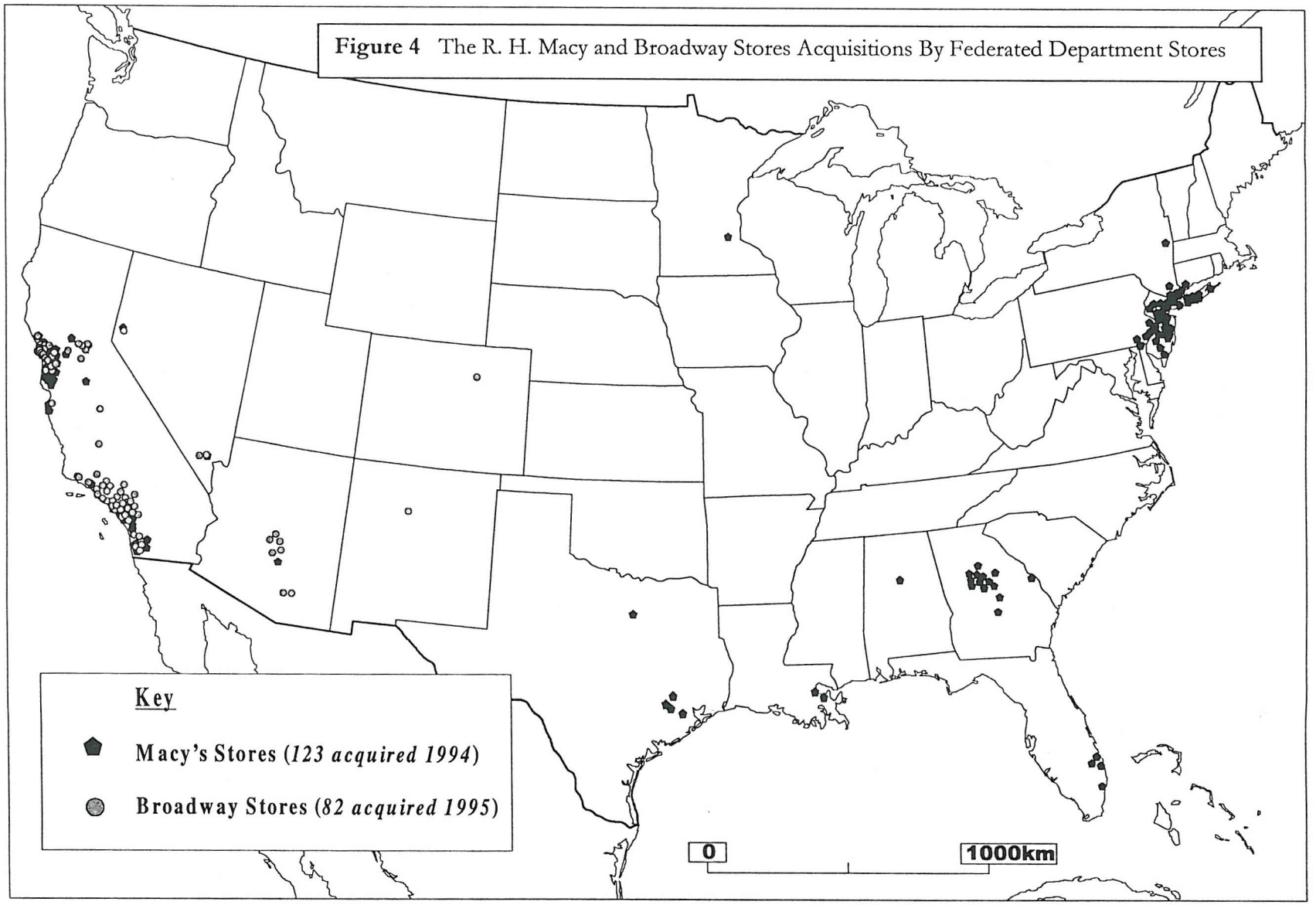


Figure 4 The R. H. Macy and Broadway Stores Acquisitions By Federated Department Stores

Organisational Restructuring, Knowledge and Spatial Scale: The Case of the U.S. Department Store Industry

Abstract

Recent economic geography literature has underlined the role of tacit/local knowledge in embedding firms within their locales, characterised by the work on "learning regions", "territorial embeddedness", "institutional thickness" and "new industrial spaces". This paper contributes to this theoretical debate, using evidence from organisational restructuring of the U.S. department store industry to argue that, in contrast, retailers are using codified/universal knowledge, supported by tacit/local knowledge to successfully operate their retail operations across a range of spatial scales. As such, no one form of knowledge is exclusively relied upon but rather a blend of knowledges reduces costs and increases responsiveness across space.

Keywords: organisational restructuring, scale, retail, knowledge

Steve Wood
Department of Geography, University of Southampton, SO17 1BJ
Email: S.M.Wood@soton.ac.uk

Prepared for forthcoming special issue of *Tijdschrift voor Econmische en Sociale Geographie* on New Geographies of Retailing, edited by Sallie Marston and Neil Wrigley, Vol. 92, No. 3

'The development of the spatial form of the organization cannot be divorced from the environment within which it operates' Milford Green, 1990, p24.

INTRODUCTION

In recent years the study of retail geography as a sub-discipline of economic geography has seen something of a renaissance. Geographers have moved away from traditional concerns focused solely on retail location, instead taking new and innovative approaches (see Crewe, 2000; Lowe and Wrigley, 1996 for reviews). Indeed, the 'new' retail geography, as christened by Wrigley and Lowe (1996, see also 2001), with its close linkages to wider theoretical perspectives on consumption spaces and commercial culture across the social sciences (see Jackson *et al.*, 2000), finds itself on the cutting edge of debates about the nature of contemporary society. As Hallsworth and Taylor (1996) suggest, the 'new' retail geography is a bold attempt to

...break free from the conception of retail studies as a minor subset of economic geography situated around retail logistics: an approach that has frequently been characterised by studies of retail catchment areas or models of store sales performance. The new retail geography is characterised by a more critical theoretical approach, driven by a recognition of the significance of factors of consumption as well as of production (p2125).

In essence, since the early 1990s there has been a reconstitution and repositioning of the subject within a wider multi-disciplinary 'hot-bed' of research. This reconstitution and repositioning has resulted in both cultural and economic readings of retail industry.

The new economic geography of retailing has produced a diverse array of work concerned with the transformation of retail capital and its geographical expression (see Lowe and Wrigley, 1996). A number of themes have achieved

prominence, particularly the reconfiguration of corporate structures (Sparks, 1995; Wrigley, 1998a; 1999a; 1999b) and the consequent restructuring of retailer-supplier interfaces (Doel, 1999; Hughes, 1999). Research incorporating these themes has increasingly taken the organisational and technological transformations of retail distribution and logistics seriously (Fernie, 1994; Sparks, 1994) and frequently analysed the social relations of production and labour relations in retailing (Christopherson, 1996; Freathy and Sparks, 1996). Over time, this literature has reviewed the role of retail restructuring in prompting the switching of retail capital, whether it be to alternative formats of distribution (Burt and Sparks, 1993; Fernie and Fernie, 1997), or alternative spaces in a national or international context (Shackleton, 1998; Wrigley, 2000a; 2000b). And in its turn, the spatial switching of retail capital is recognised to be influenced by regulation, whether this is through state restrictions on store location (Guy, 1998; Wrigley, 1998b), competition and consolidation (Wrigley, 1992; 2000c), or the role of the retailer in policing food safety (Marsden *et al.*, 2000; Marsden and Wrigley, 1995).

More broadly the 'cultural turn' characteristic of recent work in the social sciences has seen the new retail geography inflected with knowledges from a wide array of disciplines. Linkages have been forged with scholars in anthropology, cultural studies, sociology and cultural history (e.g. Jackson *et al.*, 2000; Miller *et al.*, 1998), as the subject has been positioned within the broader body of work in the humanities on consumption spaces and culture - both historical and contemporary (see Abelson, 1989; Mort, 1996; Miller, 1998; 2000; Nava, 1996). Historical accounts have often focused on late 19th Century and early 20th Century spaces of consumption – notably the department store (see for example Blomley's (1996) reading of Emile Zola's *Au Bonheur des Dames* and Domosh's (1996a) reading of the retail landscape of late 19th Century New York). More contemporary accounts have investigated particular consumption spaces and places such as the shopping mall and car boot sale (see Hopkins, 1990; Goss, 1993; 1999; Gregson *et al.*, 1997; Shields, 1992; M. Smith, 1996). Themes arising from contemporary consumption have been assessed through theoretical analyses of the cultural politics of contemporary advertising (Jackson and Taylor, 1996) and analysis of associated gender identities (see Jackson, 1993; Jackson and Holbrook, 1995). It is this eclectic perspective of economic and cultural aspects of retailing that have widened the appeal and relevance of the sub-discipline

This paper attempts to blend both of these economic and cultural conceptions of retailing to tackle an emerging debate within economic geography on the relationship between knowledge and spatial organisation. These issues particularly concern the battle between the role of tacit knowledge at the local level and codified knowledge at central nodes within the firm and their subsequent geographical expression. Interestingly, the new retail geography has been almost completely silent about the interplay between retail, knowledge and geography. The few contributions that have emerged tend to focus on the role of networks, cultures and commodity chains (Hughes, 2000; Leslie and Reimer, 1999) rather than the implications for the spatial organisation of the firm.

The U.S. department store industry has considerable potential to illuminate these theoretical debates on situated and universal knowledge in firms[63]. The sector has only been partially analysed in the literature of the new retail geography - essentially from a historical/cultural perspective (Crossick and Jaumain, 1999; Domosh, 1996b; Dowling, 1993; Nava, 1996; Reekie, 1993). In particular its economic geography has rarely been studied, the few exceptions being contributions from the 1980s (Bluestone *et al.*, 1981; Laulajainen, 1987; 1988; 1990). Moreover, recent studies of the department store in the management literature have essentially disregarded the U.S. sector (see Gold and Woodliffe, 2000; McPherson, 1998; Phillips *et al.*, 1992). In contrast, this paper focuses specifically on the U.S. industry to make a contribution both to the missing debate within the new retail geography on the relationship between the use and interpretation of commercial knowledge and its relation to the geographical organisation of the firm, and also to the economic geographies of this important sector of retailing during the 1990s.

GEOGRAPHIES OF KNOWLEDGE AND DISTANCE

The relationship between geography and knowledge is a complex one, subject to conflicting opinions in the literature of economic geography. One perspective suggests that the burgeoning of integrative information and communication technologies result in a disembedding of economic activity. Such interlinkages are viewed as heralding an economy where geography is of less importance (see O'Brien, 1992). As such, "expert systems" have separated space and time and had the effect of disembedding social systems (Giddens, 1991).

---

[63] This research is based on two extensive periods of US fieldwork during January and March/April 2000, consisting of over 30 interviews with leading industry executives at department store retailers including Bloomingdale's, Saks Incorporated, and Macy's, academics, and equity analysts at Goldman Sachs, Merrill Lynch and Schroders. This material was triangulated with industry reports, press releases and the retail press. Interview quotations are numbered to protect the anonymity of respondents where this was requested.

In direct response to the suggestions that place has become unimportant, a second perspective emphasises the role of local characteristics and the specificities of place that, in some instances, remain superior to the flattening effect of the integrative technologies (for example, those that drive successful financial centres, Martin, 1994; Porteous, 1999; Thrift, 1994). These characteristics and specificities have often been discussed in work which suggests the rise of new industrial spaces and the ties of tacit knowledge that bind them, characteristic of the literature of post-Fordism (Henry and Pinch, 2000; Storper, 1997; Storper and Salais, 1997). These 'learning regions', rich in territorial embeddedness, and institutional thickness (cf. Amin and Thrift, 1994) have often been used as models or caricatures of 'cultural embeddedness' (Zukin and Dimaggio, 1990) to which examples are sought to fit (Yeung, 2000a). In such formulations space is characterised as 'slippery', whilst place is 'sticky' to attract a spatial fix of capital in distinct locales (Markusen, 1996; cf. Harvey, 1982). Following from these literatures, there has been the rise of a renewed emphasis on regionalism (e.g. Lovering, 1999) and 'learning economies' (see French, 1999 for a review).

Within the context of the second perspective, a more holistic and eclectic view of the firm can be developed – one which recognises the embeddedness of economic and social action in place through business networks (Yeung, 1994; 2000b). Such views partially overcome the reductionist "theory of the firm" as '(a)lmost every economist now recognizes that the firm is more than a processor of information and efficient manager of transaction costs' (Amin and Thrift, 2000, p6; also cf. Walker, 1989). A network approach thus allows concepts of knowledge and sociality to come to the fore in the research programmes of economic geography, whilst retaining the recognition of macro-structural influences (see Yeung, 1994). The network approach contrasts with the approach evident in the 'geographical economics' coming out of mainstream economics (e.g. Krugman, 1998) that is hesitant to embrace these culturally informed notions to explain the spatial organisation and agglomeration of economic activity (Martin, 1999).

The economic geography of the late 1990s, demonstrated an understanding of the importance of both codified and tacit knowledge as a major influence on the geography of organisation. As such, some networks are relatively more localised 'because they are dependent on the traded and untraded interdependencies of geographical agglomeration achieved through territorial embeddedness', whilst other networks 'are controlled "at a distance" when the key actors are spatially distanciated from the sites where the empirical events happen. In all cases, however, a specific spatial configuration is created and connected to other configurations at smaller and larger geographical scales' (Yeung, 2000a, p23-24). It is these geographies of knowledge that, to an extent, have driven the spatialities of the department store industry which forms the focus of this paper. As Henry Yeung (2000a) recently suggested, territory and scale matter because they shape the constitution of the firm through their geographical effects on social actors and their network relations. Understanding the effects of these geographies of knowledge in driving these changes is essential to understanding the nature of the firm.

The example of the organisational restructuring of the department store industry provides evidence of networks of knowledge operating at a number of spatial scales, integrating to form a successful business operation. As Schoenberger (1999) suggests, different 'places' in the firm develop organisationally and geographically, with their own identities and ways of doing things. As such, the large firm is 'internally regionalised', where the corporate form transforms a number of knowledges between different spaces. Following Amin and Cohendet (1999), this paper finds that no one form of knowledge is exclusively relied upon. Instead, the firm mediates between a number a different spatial scales, across different operations and places resulting in a dual organisational structure whereby there is firstly, a highly integrated, network organisation driving the core competencies of the organization, and secondly, a hierarchical, divisional organisation that lies beyond the core competencies of the firm (Amin and Cohendet, 1999, p94).

ORGANISATIONAL RESTRUCTURING OF THE US DEPARTMENT STORE INDUSTRY

This paper focuses on the organisational restructuring of the U.S. department store industry during the 1990s. It centres on the renegotiation of spatial scales of organisation and rerouting of knowledges through new systems of operation. By the late 1990s, the department store sector was highly centralised, concentrated in a small number of influential firms (see **table 1**), which had been formed as a result of the 1980s financial re-engineering and the subsequent round of strategic consolidation wave of the 1990s.

The mid-late 1980s was characterised by department store financial restructuring, as the leading chains, including Federated, Macy's and Allied, were acquired in over-leveraged deals and found themselves in bankruptcy by the early 1990s (Hallsworth, 1001; Rothchild, 1991; Trachtenberg, 1996). In contrast, the 1990s was a period of renewed consolidation activity in the sector, where emphasis moved away from highly leveraged acquisitions

supported by little equity, to strategic mergers to expand market share. These consolidations were catalysed by the minimal net growth in the conventional department store sector due to intense competition from discount stores such as Wal-Mart and Target, and speciality stores such as Gap and Limited (Morganosky, 1997; Swinyard, 1997). In this way Federated acquired the bankrupt Macy's in 1994, and then the struggling Broadway Stores a year later, whilst Proffitt's consolidated many of the southern, regional department store chains (see **table 2**).

The Need to Renegotiate Scale in the 1990s

With their rapidly growing store portfolios, the major department store operators were faced with the task of rationalising and streamlining their organisational structures. In the past, U.S. department stores had operated as many as 15 divisions, each with its own buying, accounting, credit and distribution facilities. The high costs that resulted made the format increasingly uncompetitive vis a vis discount and speciality stores, which had made considerable investments in centralising their large organisations and cutting overheads (Christopherson, 1996). Department store companies simply had too many decentralised divisions with too many buyers, hampered by a bureaucratic decision-making process, often lacking a central theme. In addition, and particularly in the case of larger companies, there was a lack of information flow through the retailer-supplier interface due to a dearth of coordinated systems with consequent difficulties executing key trends across divisions (see Biederman, 1991).

Prior to the 1990s, department store firms were unable to operate in a centralised manner due to the spatial variations in demand surpassing any ability of organisational and technological interlinkage across space. As such, there was an emphasis on tacit/local market knowledge, above any centralising tendency, as markets were regarded as complex, 'each one differing from the other and for that matter having differences between themselves', whereby a 'knowledge of the makeup of these markets' was perceived as being 'essential for the most effective marketing' (Clark *et al.*, 1926, p252). It is for these reasons that prior to the development of complex technological infrastructures, knowledge was acquired and decisions made largely at the divisional decentralised spatial scale (see **figure 1**):

If we...agree that the economic problem of society is mainly one of rapid adaptation to changes in particular circumstances of time and place...decisions must be left to people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating all this knowledge to a central board which, after integrating all knowledge, issues its orders. We must solve it by some form of decentralization (Hayek, 1945, p524, cited by Jensen and Meckling, 1992, p252).

The late 1980s however saw the emergence of much-improved technological retail infrastructures and channels of communication that had the potential to overcome the costly duplication of the top management, merchandising and back office services (Abernathy *et al.*, 1999). These "expert systems" therefore offered the opportunity for realisation in the 1990s of what had been hypothesised for the sector in the 1920s, i.e. that the department store could 'combine the merits of centralized control which underlines the chain idea, and the decentralization of the department store' (Griffen *et al.*, 1928, p23). It is this tension between local/tacit knowledge and universal/codified knowledge in shaping geographies of organisation that provide the focus of this paper.

THE STRATEGIC ROLE OF TECHNOLOGY IN RETAILING

As Thrift (1985) noted all knowledge is time and space specific. This fact severely constrains the interpretation of information "at a distance" from economic activity where the knowledge is produced. For this reason, amongst others, the geography of U.S. department store retailing had become a highly decentralised activity. Merchants were locally embedded within their core markets, knew them well, and performed ably. The emphasis was on responding to tacit knowledge, or, what Thrift (1985) refers to as 'practical knowledge', as it is 'produced and reproduced in mutual interaction that relies on the presence of other human beings on a direct, face-to-face basis. Such knowledge is deeply *imbued with both historical and geographical specificity, taking its cues from local conditions*' (p373, my emphasis). The high costs of operating in such a decentralised fashion were not considered because there was no alternative. During the 1990s, however, Giddens' (1991) 'expert systems' have revolutionised the operational geography of retailing throughout the Western world. In many respects this has permitted the consolidation wave in the department store industry, as synergistic benefits are available to large firms taking advantage of technological systems, allowing the distribution system to react more rapidly and effectively to market needs and wants.

The Role of Expert Systems

Capital centralisation throughout the U.S. retail industry has been promoted by the use of technological systems. These systems offer the potential to reduce lead times and centralise order fulfilment "at a distance". To an extent this new capacity eliminates the trade off between the contravening tendencies of economies of scale and sensitivity of local markets (Aufreiter *et al.*, 1993). It also signals an increasing dependence on codified or empirical knowledge: 'distanciated, that is...removed in both time and space from the experiences and events it describes. Empirical knowledge does not depend for its acquisition on the presence of people, but it is transmitted through institutions and technologies which allow personal contact to be either by-passed or made specific to particular packets of information' (Thrift, 1985, p375-6). As Hippel (1999) suggests, firms may reduce the "stickiness" of knowledge by investing in technical expertise which converts tacit expertise to empirical or explicit knowledge through an easily transferable form of software "expert system". In grocery retailing this has represented 'an important shift from an earlier pattern in which the store managers played an important role in local merchandising decisions' (Bowlby *et al.*, 1992, p144-145; Burt, 2000; Smith, 1988; Sparks, 1994).

Electronic Data Interchange (EDI) has been at the forefront of retail innovations, enabling the inventory pipeline to move goods more swiftly between the manufacturer and the retailer. This 1980s innovation allowed communication between the retailer, vendor and manufacturer, concerning orders and demands. This innovation was executed via a network linkage between the retail point of sale terminal (POS) on the cash register, backward through the supply chain to the warehouse, and often the manufacturer, communicating sales data and thus demands (Fernie, 1994). With this more centralised administration of sales information, came the development of distribution centres, to which vendors and manufacturers could deliver case pack merchandise leaving the retailer to deliver to stores (Smith and Sparks, 1993). In the U.S. context, Wal*Mart is widely known to be the innovator of this form of cost cutting (see Vance and Scott, 1994). Such a strategy however relies on all the merchandise being easily scanned, interpreted and integrated into the expert systems. This requirement has been facilitated through the development of Universal Product Codes (UPCs) or "bar codes", which appeared in 1970 as a ten digit, non-descriptive, all-numeric code; the leading five digits were to identify the manufacturer, the trailing five digits the merchandise item (Abarnathy *et al.*, 1999). The UPC provided a universal medium whereby merchandise could be instantly identified and inputted into, and between, the expert systems with ease.

With a more networked supply chain, there was the potential for sales based ordering (SBO) where the supply of goods in store is driven by consumer purchases (see Fiorito *et al.*, 1995). A networked infrastructure has allowed Quick Response (QR) in retail distribution whereby 'the time between the sale and the replacement of goods on the retailer's shelf can decrease markedly; and retail inventories can be maintained at all levels which will meet consumers' demands' (Fiorito *et al.*, 1995, p 12). QR was a concept developed in 1985 by major U.S. retailers, their suppliers and IBM. The goal was to reduce inventories, increase on-sales, customer satisfaction and profits through faster and more frequent shipments. Computer links between the store, vendor and manufacturer shortened the time between a purchase by the consumer and the re-manufacturing, distribution and re-stocking of that same product in the same store (see Fernie, 1994). These EDI transactions are delivered via private, dedicated communication networks called Value Added Networks (VAN) or Intranets (see American Apparel Producers Network, 1999 for a summary).

Although QR was initiated by U.S. retailers, it was the U.K. food industry which developed and refined the system during the late 1980s - to an extent that by the mid 1990s the U.S. grocery retailers lagged up to 10 years behind the U.K (Wrigley, 1998c). These technological evolutions were initially adopted in the food industry because distribution is somewhat easier with basic, rapid inventory-turn merchandise. The infiltration of a quick response perspective has been slower in the department store industry, as the merchandise is considerably more expensive and involves considerably greater sunk cost and unpredictable demand. Furthermore, whilst retailers of basic merchandise are keen to project a consistent image and are thus more conducive to centralisation (Burt, 2000, p882), department store retailers often run a number of chains in different areas, each with their own regional identity and market positioning. Indeed, retailers differ in their applicability to new technologies as; '(m)ost large retailers are complex organizations that differ in degrees of centralization and formalization. How these organizational differences influence retailer buying behaviour remains unknown...' (Hansen and Skytte, 1998, p296). The organisational adaptation of department store retailers to these technological developments is now discussed through a case study of the speciality department store, Saks Fifth Avenue.

CASE 1 - THE EVOLUTION OF THE SAKS FIFTH AVENUE SUPPLY CHAIN

Saks Fifth Avenue is an upscale speciality department store with 61 stores across affluent cities of the United States. In 1998 it was acquired by Proffitt's, Inc., but since then has been run largely as an independent operating concern. This case study analyses how the supply chain of the firm has reacted to the revolutions in the relationship between knowledge and geography throughout the 1990s.

Figure 2 displays the quick response system of Saks Fifth Avenue, interlinking the retailer, vendor and distribution centre through the new technologies. Buyers in New York City receive sales data from the network of stores and undertake all of the ordering centrally. A purchase order is entered by the buyer or created by the Basic Automatic Replenishment Computer Model (BAR) for each store, according to each specific product line or Stock Keeping Unit (SKU), and sent to the vendor via Electronic Data Interchange (EDI). After 3-10 days, the vendor packs the merchandise. Prior to it being prepared for distribution to the distribution centre (DC), an Advanced Shipment Notice (ASN) is sent to the buyer in New York and the DC, again via EDI, to tell them it is soon to arrive. On arrival at the DC, the merchandise is immediately identified as it is coded with a Universal Product Code so it is clear to which store it is to be sent. Consequently, the merchandise does not have to remain in storage at the distribution centre. It is typically placed straight onto a truck destined for the store in a process known as "cross-docking" (Abernathy *et al.*, 1999). The quicker products can arrive in the store, the sooner they can be sold and the less time capital is tied up in inventory and can be invested in other merchandise (cf. Chandler, 1990).

The Conflict of Knowledge: Codified or Tacit?

The purchase order is determined through two different techniques. Firstly, there is the *dynamic system*, where sales data is fed into a computer system that analyses the information in terms of the "peaks and valleys" of historical sales performance and makes predictions of future demand. The buyer then confirms or adjusts the order, based on a number of factors including changes in the store capacity, or his/her tacit knowledge of the market or weather conditions, and sends the order. Alternatively, there is utilisation of the *automatic replenishment model*. Products that are ordered regularly are candidates for automatic replenishment based on sales information interpreted through "expert systems" without express input from the buyer. Basic merchandise is particularly applicable to this form of ordering as it is typically characterised by rapid turnover and predictable demand (see **table 3**).

The extent to which basic merchandise can be put on automatic replenishment, and not ordered manually by the buyers, has become a contested issue within these organisations. As Schoenberger (1994; 1997) has shown in a number of publications, individuals pursue self-interest in the firm, which may not necessarily be congruent with the strategic goals of the firm. Buyers are hesitant to give up control of a portion of their budget as this diminishes their responsibility within the organisation. This is in contrast to the *operational logic* evident in doing so. As the Director of Quick Response at Saks Fifth Avenue commented, automatic replenishment removes the emotional element that is *not* required for basic merchandise:

An emotional buy for a basic item – there is no emotion in basics. I mean it is white underwear – there's no emotion. It is a need. We are saying that buyers should be buying fashion, they shouldn't be buying basics. Basics: a computer can do it. You don't need a brain to do it. You don't need a taste level. It's black and white and that's it, but fashion is what we are training the buyers to be (Interview 2).

Even in areas where the buyer previously had control, the codified knowledge is conflicting with traditional tacit based knowledge. With more complex sales prediction packages, the buyers' sovereignty is threatened. Furthermore, with the interlinked supply chain there is the potential for the retailer to cut costs and allow the *vendor* to drive the system if they are given access to the sales data. This is dependent however on mutual trust sharing between the two parties. It is to these concerns the paper turns.

Vendor intensification

The ability of the retailer to offset costs and allow the vendor to drive the supply chain is dependent on an increase in the intensification of the relationship between the two parties. Indeed, at the start of the 1990s McKinnon argued grocery retailers were recognising that by 'concentrating responsibility for buying at head office, retail chains can strengthen their position *vis-à-vis* suppliers and economise on associated administrative and clerical work' (McKinnon, 1990, p80). Such U.K. retailers have successfully centralised and dominated the supply chain in this manner with the virtual elimination of independent merchants (Wrigley, 1991; 1993), increasing leverage with suppliers evident in the rise in numbers and quality of own-label products in recent years (Doel, 1999; Hughes, 1999).

U.S. department stores have sought to centralise and change the relationship between the vendor and the retailer. Indeed, the trend more generally throughout the 1990s U.S. retail industry was 'vendor intensification' (Ernst and Young LLP, 1998). Department stores have built long-term working relationships with key vendors as an alternative to a more arms-length adversarial model (Porter, 1999). It was envisaged that building such understanding with firms lower down the supply chain would help maintain a more reliable arrival of products, reducing the costs of overstocks, unplanned markdowns, out of stocks, and customer dissatisfaction. It was expected that this closer working would facilitate risk sharing, allowing large dominant department stores to pressure suppliers for 'markdown money', reducing profit loss due to slow selling merchandise (Sternquist and Byoungho, 1998). Vendor intensification was made a reality through the pooling of resources that occurred with consolidation, and general closer working of the divisions through the strategic use of technology.

Vendor Managed Inventory

The use of integrative technologies themselves require a closer working relationship between the retailer and vendor/supplier, with a certain amount of trust evoked in sensitive data sharing (Maltz and Srivastava, 1997). As Evans and Wurster (1997) have recently suggested '(w)hen companies conduct business with one another, the number of parties they deal with is inversely proportional to the richness of information they need to exchange' (p17). As large companies establish market sensitive organisational structures, the boundaries between companies will become less important (see Malone and Laubacher, 1998). With retailers now dominating the supply chain, they need to realise efficiencies can result if they work collaboratively, sharing market sensitive information to more accurately respond to changes in consumer demand (Kumar, 1996). This gradual move to a closer working relationship is starting to be seen in the supply chains of UK food retailing (Doel, 1999) and the UK apparel sector (Crewe and Davenport, 1992), where, if trust can be established, a mutually beneficial networked information-rich supply chain can result (see Wall *et al.*, 1994).

Removing the Tacit Knowledge with Vendor Managed Inventory

Saks Fifth Avenue have taken tentative steps toward vendor-managed inventory. Hitherto this has only been seen in cosmetics, with the vendor, Clinique, becoming responsible for collecting and interpreting the codified knowledge, and thus the buying of *their* products. The rationale for allowing Clinique to participate in vendor managed inventory is that they know their product better than any retailer would. This model of vendor managed inventory follows the pioneering progress of Wal*Mart, who were the first to produce such a relationship with Proctor and Gamble in the early-1990s (Moore, 1993). As mentioned, the most critical element in moving toward vendor managed inventory is establishing trust between the vendor and the retailer. As Ann Whitney, Director of Quick Response suggests:

No.1 you have to trust the vendor because he is spending your money but with that trust he also can give you the guarantee that if he gives you the wrong assortment of merchandise, or puts you into an overstocked position, that he will return that merchandise because the agreement up front is that if you give us too much, you own it – we are sending it back, and at your expense. That keeps them in line so they don't spend, they don't go crazy with our money (Interview 2).

This new vendor driven system replaces the conventional system of decentralised procurement of cosmetics for the department store retailer. Previously, ordering for cosmetics was undertaken at the branch level by individual department managers who took a stock count and ordered every week through a manual book keeping method which was very labour intensive. Supply chain specialists argue that this practice, based on local market tacit knowledge, could often result in 'emotional buys', not substantiated by sales information with personal tastes and preferences were overvalued.

CASE 2 - (RE) NEGOTIATING SCALE AT FEDERATED DEPARTMENT STORES

Federated manages a number of department store chains operating at varying price points across the U.S. (see **table 4**). The search for increased efficiencies in the organisational structure through centralisation started in the early 1990s, where current and newly acquired divisions were merged when they were in geographical proximity (see **table 5**). Such changes allowed immediate cost savings, eliminating duplication of core functions. These divisional consolidations were accompanied by a broader restructuring package exploiting economies of scale in buying but remaining sensitive to the immense geography of the trading area.

The initiatives by Federated were prompted by the substantial cost savings experienced by the May Department Store Company, which had, since the late 1980s, pursued a vigorous policy of the centralisation of resources and

provision of shared services. This made its acquisitions rapidly accretive to the extent that during the 1990s it was regarded as the most efficiently run department store chain in the U.S..

The Uncharted Road to Centralisation

The trend toward centralisation has not been a smooth process, and has proven a particularly contested terrain within Federated. In 1992, Federated launched the Federated Accelerated Sales & Stock Turn (FASST) plan as a means of helping the corporation and its vendors work together more effectively to manage merchandise inventories. This was the first step towards modernizing the firm with a new structure configured for the new millennium. The lynchpin of the new initiative was team buying, supplanting the previous strategy of autonomous buying by the divisions. Team buying reduced the merchandising and support staff, obtained volume discounts and established stronger relationships with fewer suppliers (Bailey, and Bernhardt 1996). Bailey and Bernhardt (1996) suggest that, in essence, the department store was conceptualised as an umbrella for a series of merchandise categories, or as a chain of speciality stores. Merchandising was organised under a 'Family of Business Arrangement', whereby each specific commodity area (e.g. sportswear, dresses, suits) was to receive direction from a team comprised of a visual director, marketing director and a director of stores. Each 'Family of Business' was broken down into a group of classifications, which then formed the basis of teams. This formation of teams did not however change the structure of the division's merchandising organisations. The segmented nature of the organisation essentially continued to exist. At this time, teams were expected to play a role in virtually every step of the merchandising process. They were expected to develop 70% of the assortment for each division with the mandate to plan, negotiate, select and price the merchandise, and then communicate and co-ordinate these decisions with the divisions which were left to develop 30 percent of the assortment on their own. Indeed, as Harry Frenkel, Vice President of Federated Merchandising Group, suggests, such early team initiatives were to have 'representatives from each division and then the corporate person here in Federated Merchandising to come and dictate what your assortment should look like; "here are the key items of your assortment". That was the direction ...(to) leverage the vendor base. You know, if we go in as a group, we got to buy much smarter' (Interview 10).

The principal challenge was finding the right balance between central control and local autonomy. Indeed, at the time Julie Forsyth observed in *Chain Store Age Executive Magazine*:

Department store companies are beginning to operate more like chain store operations and less like collections of various autonomous divisions....Many divisional functions are being centralised to reduce costs and streamline operations. Department store companies are also downsizing their operations through divisional mergers and selected store closings. Through the introduction of advanced information technology, companies are now better equipped to monitor cost structures, manage merchandise profitability, and re-attract disinterested consumers (Forsyth, 1993, p29A).

Consequently, Federated were broadening the merchandising process beyond divisional lines and were successful, to an extent, in leveraging merchandising knowledge across the firm. Despite this achievement there were difficulties with the 70% centralised and 30% decentralised arrangement as it stood by the end of 1993. Non-team members were left feeling disenfranchised and the process of getting apparel to market was too slow and cumbersome (Bailey and Bernhardt, 1996). Indeed, 'although the process of team allocation increased awareness of company-wide allocation patterns, team allocation to local stores proved to be highly ineffective because it lacked the knowledge of local markets' (Bailey and Bernhardt, 1996).

The flat performance of Federated in the recessionary years of 1992-3 caused a reassessment of the buying process. Top level executives of the firm and outside consultants, re-examined the merchandising structure, producing an alternative buying model for implementation in the fall of 1994, designed to reduce bureaucracy and more clearly define the chain of command. This revision reduced the mandatory 70/30 split of dominating control from Federated Merchandising Group, as FMG would instead provide a menu of selections of products from which the divisions could select. This arrangement maintained a consistency of selection and economies of scale, yet permitted flexibility in maintaining the divisions' own regional identities. These arrangements saw a reduction in the importance of teams, where they became increasingly advisory, avoiding effort duplication, where merchants had previously split their time between the divisions and their teams.

The need to remain sensitive to local markets and limit the cost saving though centralisation is clear. As Swinyard (1997) suggests, these innovations are rapidly changing the nature of the distribution system,

Competition, consumer changes and growing technology are converging to make micromarketing's historical attractiveness both achievable and profitable. It is a result of the flattening of the competitive landscape of the USA and is becoming a major retailer focus...Until just a few years ago retail firms were so strongly driven by distribution and operations efficiencies that chains had the same stock mix in Miami's year-round warm climate as they did in Minneapolis' cold one - winter coats and snow shovels in the autumn and swimming suits not until the spring (p251).

The reorganisation of 1994 effectively produced a model where Federated Merchandising Group supplied a matrix of core vendors from which the Federated divisions were strongly encouraged to select. As Vice President of Federated, Carol Sanger suggests, the merchandising group 'scouts the market and determines what everybody should look at when the divisions come in to go to market and makes some decisions based on economies of scale which make sense for us, but allow the divisions, where the customers see it, to have their own identity and that to us is ideal'. Each division *retains its identity* and conducts its own buying. There is recognition that there will be the need to purchase from some regional vendors *outside* of the universal matrix provided by FMG. This practice underlines the importance of embedding divisions in local markets and not wholly centralising. This importance of regional identity is made clear by the Vice President of FMG:

...we try to come up with the base and once again the divisions have to have some leeway because Burdines are in Florida so they need some specialised vendors to support their climate and environment – all that kind of stuff....Burdine's wants to be...'the Florida store'. It is different from Macy's which is in the mall right next door to them in Florida (Interview 10).

Equally, the Federated Merchandising Group (FMG) embed *themselves* within the fashion scene of New York City where all of the important vendors are based. Such proximity is essential to success in establishing the best prices and exclusive collections for their stores. Organisational restructuring is thus as much a story of territorial embeddedness and institutional thickness (cf. Amin and Thrift, 1994; Keeble *et al.*, 1999), as it is about conflating distance through expert systems (O'Brien, 1992).

Upscale and Uniqueness – Exceptions to FMG

Changes in the configuration of the merchandising within Federated are *not* applicable across the whole organisation. The corporation operates a number of divisions across differing income levels (see **table 4**). Firstly, there is Bloomingdale's, a speciality department store, upscale, and more in competition with the likes of Saks Fifth Avenue and Neiman Marcus. At the other end of the spectrum, there is Stern's, a chain department store – somewhat lower scale compared to the likes of Macy and Lazurus. As a result, it is problematic to include these stores within the broader FMG merchandising model, where the product assortments are more homogenous and targeted at the mid-scale, traditional department store chains. There remains therefore a considerable emphasis on completely independent regional divisional buying, where stores do not fit into the conventional department store model. Indeed, Federated Merchandising Group does not cater to Bloomingdale's or Stern's, as they buy completely independently focusing on upper and lower scale merchandise respectively. That said, they are incorporated into all of the Federated back-up support systems.

Centralising the Back Office Facilities

By the end of the 1990s, Federated was exhibiting a more centralised merchandising model to leverage the considerable scale of the organisation, yet at the same time, remain sensitive to the idiosycracies of geography and spatial variation. Such a tension between centralisation and decentralisation is less in evidence with the organisational restructuring of back office facilities. Federated have consolidated many behind-the-scenes operations and formed separate support services where aspatial expertise is required and assistance can be leveraged throughout the entire corporation. This has only occurred with any conviction in the 1990s (see **figure 3**). Terry Lundgren, President of Federated explained the rationale for the developments:

...we have a point of view that if the customer does not see it or feel it then it is an opportunity to be reduced or eliminated .... Every division used to have their own separate organisation – we don't need that anymore. Now we conceive it nationally in the east coast or west coast and move it to the various stores no matter if they are a Rich's store or a Lazurus store, a Bloomingdale's store or a Macy store...All of our technology, all of our systems, computer operations – every division used to have their own set up for that. Now there is one state of the art organisation outside of Atlanta that services all of the systems needs for our stores. One credit facility in Ohio services all of them (Interview 23).

Throughout the 1990s the role of these back-office systems has increased nationally throughout the organisation. Indeed, the changing role of Federated's Logistics and Operations (FLO) division is seen in **table 6**. Here the emphasis has been on divisional inclusion, as the group has become substantially more important, orchestrating a wider geographical field, more divisions and additional key responsibilities. As Deloitte and Touche reported in late 1998, prior to the support services' formation, it took Federated 3-5 days to move merchandise from its warehouses to the stores. By the end of the 1990s, because vendors tag and prepare most of their merchandise before they send it to Federated's automated distribution centres, the merchandise is on outbound trucks within a quarter of an hour. Over two thirds of the cartons they receive in their facilities each day are on the selling floor of the stores by the next morning.

Not only has the speed of this turnaround increased, but also the accuracy. The arrival of data sharing with vendors has allowed the right product to be in the right place, at the right time. Such sharing of commercially sensitive information allows the theory of Collaborative Planning Forecasting and Replenishment (CPFR) to become a reality. Federated initially pursued this in 1998 with a handful of suppliers via the 'First at Federated' programme. By 2000, collaborative practices were in place with a number of suppliers including Liz Claiborne, Pillowtex and several apparel resourcers (Reda, 2000). The data sharing effectively results in more of the demanded products to be in place at the right time, whilst carrying less inventory. This increases stock-turn and reduces the amount of time capital tied up in unproductive stock.

Re-emphasising Localisation

Codified knowledge has revolutionised the role of the buyer in the department store setting. Previously, the buyer used to visit each store. In many cases there were separate buyers at each store level. Today, buyers remain the *conceivers* of the grand plan whilst the branches become the *executers*. The buyer now has to envisage "the buy" and the presentation in store "at a distance":

Instead of going out to the individual stores....now they put it on a document and their vision now goes onto a piece of paper. That piece of paper gets sent to store via the Intranet and the stores execute their vision. So clearly it is still the merchant who has the vision, the store is the executor. The stores embellish that execution, take it to another level, but the merchant still is the one who conceives (Peter Sachse, Director of Stores, Macy's East, Interview 19).

Very few of the buyers will visit all of the stores. Instead, decisions are based on store profiles, where each location has a different model of capacity and demand. This practice has the partial effect of homogenising the selection across the chain as store managers are left to service the consumer. Even divisional head offices are left with only buying functions and human resources duties, as other back of the house functions are centralised by Federated itself. Again restructuring was a contested terrain, resisted within the stores, as 'in a big corporation you are always protecting your responsibilities and not giving them up and that is always a fight and a struggle within the industry' (Interview 10).

There remains, despite the centralising ethic of the 1990s, a need for localised attention, as some of the idiosycracies of the market are lost through at-a-distance conception. Firstly, as department stores carry high cost, luxury goods, more sensitive to spatial variations in demand, there is a greater need for local presence and tacit knowledge on the part of buyers than in the retailing of more standard and staple items. Department store buyers *do* spend a certain amount of time visiting stores to view how products are selling and how consumers receive merchandising. This may not be for all of the stores for which s/he is responsible, but viewing a cross-section remains critical. Secondly, it is still widely viewed that isolated codified knowledge of sales data and forecasting remains insufficient on which to make the merchandising decision exclusively. The fact that the buying function has been retained at the divisional level and not centrally pooled is indicative of the view that 'the customer changes and the weather changes are hard to simply put on a computer screen. We are in the fashion business. If we were just in the blender and toaster and business that would be easy.... so we have to understand the consumers changing lifestyles and be on top of that. It is different in California than it is in Brooklyn and I think that's important' (Terry Lundgren, President, Federated Department Stores, Interview 23). Some executives concede that the codified knowledge created "at a distance" cannot replace the tacit knowledge established in local market settings. Peter Sachse, Director of Stores for Macy's East admits:

What sells in Atlanta does not necessarily sell on Long Island. We run stores in Atlanta and Long Island. In order to be good at our jobs we need to know the nuances of those two marketplaces....But we are not as good as it, quite

frankly, as the people were who were in Atlanta when they woke up every morning, living in the city where they were selling the product...We have a sister division in Florida called Burdines, they wake up everyday and it is 80 degrees, when they are waking up and it is 80, our buyers are waking up and it is 20. *It is hard to think about short sleeve shirts that we need to buy and retail in south Florida when it is 20 degrees.* It is easy to think about them when it is 80, so again we get a little bit better at this every day. But do I think our buyers know the Florida market as well as the Florida buyers? No I don't believe they do. I think that Burdines buyers know their market better than our buyers. We have to get better at it....*So there is a fine line between centralisation and economies of scale and expertise in a particular marketplace.* Our folks I think do a terrific job. 87 stores, 87 different profiles. Every store has got a different profile; although we try to bunch them they still have different ones (Interview 19, my emphasis).

To overcome some of the difficulties that differing store profiles create there is a planning function within the divisions that allows individual stores to edit and tailor their mixes to their specific markets. This allows, what Swinyard (1997) regards a 'micromarketing'. There are consequently clear costs and benefits from operating at the centralised and decentralised spatial scales, as a trade off against these contravening tendencies is the result (see **table 7**).

THE DECENTRALISATION – CENTRALISATION DEBATE IN CONTEXT

The developments in the geographies of department store merchandising and operations feed into many of the recent debates on the geographies of knowledge in economic geography. This centres on the battle between the role of tacit knowledge at the local level and explicit knowledge at central nodal points (see French, 2000, p116). As has been acknowledged, the literature has made much of tacit knowledge at the level of the region, as research on industrial clusters and learning regions in terms of relational geographical proximity has increased. Such work, although informative and interesting, tends to overshadow the value in codified knowledge and explicit knowledge feeding from these decentralised spaces. Indeed, this paper has provided a commentary on the movement away from the wholly decentralised operations, as control has centralised and tacit knowledge is gradually becoming less valued. As such, I agree with the conclusions of Amin and Cohendet (1999) who set about questioning 'the separability of the two forms of knowledge and by suggesting that business networks largely dependent on local tacit knowledge and incremental learning may prove to be inadaptable in the face of radical shifts in markets and technologies' (p88).

The current challenge for department store retailers, as Dawson (2000) has noted more generally, is 'to enable the store management to maintain links to the buyers and strategists in head office as well as to the customers but within the structure of a very large firm' (p125). As the technologies available to retailers have developed, it has been increasingly possible to change tacit knowledge, on the trends and demands of the local market, to produce an abstraction of codified knowledge at a central nodal point. This transformation has had the effect of conflating distance, as capital replaces labour at the local level. These expert systems have the potential to determine the replenishment from basic items in department stores centrally, without the express attention of the buyer.

A Blend of Spatial Scales

Knowledge acquired exclusively at any one spatial level is likely to be inaccurate. As Schoenberger (1999) has suggested more generally, 'situated knowledge is mistaken for universal knowledge with all the errors that this can entail' (Schoenberger, 1999, p208; cf. Haraway, 1991). Even codified knowledge received "at a distance" at buying offices is acknowledged to be partial, as a company executive from Saks Fifth Avenue admitted:
We somehow need to come up with a better system than we are doing it because having the buyers, I do a lot of store training, so I travel across the country and listen to the stores problems, when you have someone in New York making a decision for someone in California, what you perceive or what you think you are reading on the computer is not really what's going on. If people are trying to tell you that you are selling merchandise and you are looking at numbers and saying 'you only sold 8', how can you say you are really selling it? Answer: 'But you have only given me 3 (Interview 2).

A mix of scales is necessary. Yeung *et al.* (2001) commented more generally: firstly some degree of 'localised management is required to fully understand the nature of the ever changing conditions of the region, and secondly "managing from a distance"...is no longer an acceptable tool for strategic management in a world of keen competition and high demand for local responsiveness' (p3). As a result, buyers are still located at the divisional level, as it is felt that the combination of tacit/*local* knowledge (i.e. being near their markets) is important, but at the same time, benefiting from the matrix of selections developed *centrally* by the headquarters merchandising group. This centralisation represents a movement away from the belief, especially inherent with early 1980s department

store organisational structure, that there is a need to spend extensive amount of time on the shop floor to pick up on the 'mood' of what is demanded. Instead, codified knowledge of sales reports and mathematical models of estimates, supplement the decision making process. In addition, many of the operations that were decentralised are now operated at central locations again facilitated by technological innovations and the economies of scale available to larger retailers due to the acquisition based portfolio restructuring (Wood, 2000). This blend of tacit and specific knowledge thus 'fuses data and instinct with corporate models and analysis to create a high-tech forecasting system' (Fisher *et al.*, 2000, p 116), providing evidence that a dual structure of organisation is emerging, mediating between these two spatial scales of organisation, as displayed in **figure 4**.

Thus a dual structure seems to be emerging, which is composed of a decentralised network of reflexive and interactive centres to advance core competencies and learning and overlaid upon a more traditional hierarchical structure for the regulation of noncore activities. In such a context, *the key challenge facing firms and business systems concerns less the transition from one structure to the other than the integration of the two structures into a coherent whole* (Amin and Cohendet, 1999, p88, my emphasis).

The construction of such a new organisational configuration has been actively contested over time. As Schoenberger (1994; 1997) has suggested, individuals have different value asymmetries to that of the firm and are thus keen to protect their own established roles. Consequently, divisions were immediately resistant to loosing functions to the centralised back-of-the-house operational units. In addition, buyers remain resistant to basic merchandise being replenished automatically through the Quick Response system. It is clear there are many cultures and subcultures within an organisation that are seeking legitimacy in the face of the dominant central vision:

The firm's dominant culture, created by and expressed through the activities and understandings of top management at headquarters, necessarily contains multiple subcultures. Some of these may revolve around functions that cut across places...but some will have real geographical locations – they will have grown up in specific...places. It follows from this that the interesting locus of study and of transformative processes is not only where "the firm" (conceived as unitary agent) meets the world (competitors, markets, suppliers), but also internally as competing subcultures strive for validation and expression (Schoenberger, 1999, p211)

The transition from tacit to codified knowledge in controlling nodes is not unique to the U.S. department store industry and compares with the revolutions evident in recent organisational restructuring in the operations of U.K. retail banks (see Leyshon and Thrift, 1995). Here, there has also been a distanciation away from decentralised authority with the utilisation of codified knowledge "at a distance", to make decisions on loans and insurance to distinguish between good and bad credit risks. Previously, physical proximity of branches allowed banks to obtain rich, customised, 'softer' information (Alexander and Pollard, 2000; cf. Thrift, 1997). This codified knowledge of credit scoring has replaced the tacit knowledge of trust and reliability (see Leyshon and Thrift, 1999; Leyshon et al., 1998). Such literature provides a useful contrast to the recent growth in literature on the specificities of regional learning, tacit knowledge and network linkages. As such '(t)here is a danger... that the discovery of local relational learning environments ends up proclaiming the superiority of tacit knowledge, based on face-to-face contact, over codified knowledge, based on scientific discovery, technological enhancement, and distantiated conditions' (Amin and Cohendet, 1999, p90). Conversely, the retailer must not remove the sensitivity to the decentralised divisional and branched level, as these knowledges remain important contributions to successful retail operations. As Schoenberger (1999) comments in a more general context, firms are 'figuring out ways to support this emerging corporate region so that at least it is less likely to be snuffed out by a recalcitrant headquarters' (p222). This paper has shown that only when a mixture of the two spatial scales is brought together can successful execution be achieved and begin to overcome the traditional conflict between integration and independence of department stores (see **table 7**). The relationship between centralisation and decentralisation remains in a state of flux within, and between, organisations, as the capability of technological systems to conflate distance changes. It is to these spatial aspects of distribution that retail geographers should start to pay greater attention.

ACKNOWLEDGEMENTS

This project is part of the larger project; 'The Restructuring of the U.S. Department Store Industry', supported by the John Lewis Scholarship at the Department of Geography, University of Southampton. The author is grateful to all those who participated in the research. I thank Neil Wrigley, Sallie Marston and Howard Biederman, as well as an anonymous referee for insightful discussions on many of the subjects surrounding this work. All omissions and errors remain my own.

REFERENCES

Abelson, E. S. (1989) *When Ladies go a-thieving: Middle-Class Shoplifters in a Victorian Department Store*, Oxford University Press, New York.

Abernathy, F., Dunlop, J., Hammond, J., Weil, D. (1999) *A Stitch in Time. Lean Retailing and the Transformation of Manufacturing – Lessons form the Apparel and Textile Industries*, Oxford University Press, Oxford.

Alexander, A. and Pollard, J. (2000) 'Banks, grocers and the changing retailing of financial services', *Journal of Retailing and Consumer Services*, 7, 137-147.

American Apparel Producers' Network (1999) *Fulfilment: How 'Quick Response' Works in the American Apparel Industry*. Posted at (http://usawear.org/qr.htm), accessed on 28 February 2000.

Amin, A. and Thrift, N. (eds.) (1994) *Globalization, institutions, and regional development in Europe*, Oxford University Press, Oxford.

Amin, A. and Cohendet, P. (1999) 'Learning and adaptation in decentralised business networks', *Environment and Planning B: Society and Space*, 17, 87-104.

Aufreiter, N., Kurch, N. and Smith Shi, C. (1993) 'The Engine of Success in Retailing', *The McKinsey Quarterly*, No. 3, 101-116.

Bailey, T. and Bernhardt, A. (1996) *The Reorganization of the Workplace in Service Industries: Effects on job quality and organizational performance*, NCW Working Paper Series No. 7, Institute of Industrial Relations, University of California, Berkeley.

Blomley, N. (1996) 'I'd like to dress her all over': Masculinity Power and Retail Space'. In N. Wrigley and M. S. Lowe (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Bluestone, B., P. Hanna, S. Kuhn, L. Moore (1981) *The Retail Revolution. Market Transformation, Investment and Labor in the Modern Department Store*, Auburn House, Boston.

Biederman, H. W. (1991) *Strategic Restructuring in the US Department Store Industry*. Unpublished Working Paper No. 9101, Institute for Retail Studies, University of Stirling.

Bowlby, S., Foord, J. and Tillsley, C. (1992) 'Changing consumption patterns: impacts on retailers and their suppliers', *International Review of Retail, Distribution and Consumer Research*, 2, 133-150.

Burt, S. (2000) 'The strategic role of retail brands in British grocery retailing', *European Journal of Marketing*, 34 (8), 875-891.

Burt, S. and Sparks, L. (1993) 'Structural change in grocery retailing in Great Britain: a discount re-orientation?', *International Review of Retail Distribution and Consumer Research*, 4, 195-217.

Chandler, A. D. Jr. (1990) *Scale and Scope: the dynamics of industrial capitalism*, Harvard University Press, Cambridge, MA.

Christopherson, S. (1996) 'The production of consumption: retail restructuring and labour demand in the USA'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp159-177.

Clark, F. E., Onthank, H., Dodd, A. E., Nystrom, P. H., Griffen, C. E., Lyon, L. S., McGarry, E. D. (1926) 'Reducing the costs of marketing'. Papers and Proceedings of the Thirty-Eighth Annual Meeting of the American Economic Association, *The American Economic Review*, 16 (1), 250-265.

Crewe, L. (2000) 'Geographies of retailing and consumption', *Progress in Human Geography*, 24 (2), 275-290.

Crewe, L. and Davenport, E. (1992) 'The puppet show: changing buyer-supplier relationships within clothing retailing, *Transactions of the Institute of British Geographers N. S.*, 17, 183-197.

Crossick, G. and Jaumain, S. (eds.) (1999) *Cathedrals of Consumption: The European Department Store, 1850 1939*, Ashgate Publishing, Aldershot

Dawson, J. (2000) 'Retailing at century end: some challenges for management and research', *International Review of Retail, Distribution and Consumer Research*, 10 (2), 119-148.

Deloitte and Touche (1998) *United States Department Store Industry*, Unpublished Report, Deloitte and Touche Tohmatsu, New York.

Doel, C. (1999) 'Towards a supply-chain community? Insights from governance processes in the food industry', *Environment and Planning A*, 69-85.

Domosh, M. (1996a) *Invented Cities*, Yale University Press, New Haven.

Domosh, M. (1996b) 'The feminized retail landscape: gender ideology and consumer culture in 19th century New York City. In N. Wrigley and M. S. Lowe, (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Dowling, R. (1993) 'Femininity, place and commodities: a retail case study', *Antipode*, 25, 295-319.

Ernst and Young LLP (1998*) Retail IT – Ernst & Young's 17th Annual Survey of Retail Information Technology*, Ernst and Young LLP.

Evans, P. B. and Wurster, T. S. (1997) 'Strategy and the new economics of information', Harvard Business Review, 75 (5). Reprinted in Tapscott, D. (ed.) (1999) *Creating Value in the Network Economy*, Harvard Business Review Press, Boston. MA, pp13-34.

Fernie, J. (1994) 'Quick response: an international perspective', *International Journal of Physical Distribution and Logistics Management*, 24 (6), 38-46.

Fernie, J. and Fernie, S. (1997) 'The development of a US retail format in Europe: the case of factory outlet centres', *International Journal of Retail and Distribution Management*, 25, 342-350.

Fiorito, S. S., May, E. G. and Straughn, K. (1995) 'Quick response: components and implementation', *International Journal of Retail and Distribution Management*, 23 (5), 12-21.

Fisher, M., Raman, A. and McClelland, A. (2000) 'Rocket science retailing is almost here. Are you ready?', *Harvard Business Review*, 78 (4), 115-127.

Forsyth, J. N. (1993) 'Department store restructures for the 90s', *Chain Store Age Executive*, August 1 1993, p29A.

Freathy, P. and Sparks, L. (1996) 'Understanding Retail Employment Relations'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp178-195.

French, S. (2000) 'Re-scaling the economic geography of knowledge and information: constructing life assurance markets', *Geoforum*, 31, 101-119.

George, M., Freeling, A. and Court, D. (1994) 'Reinventing the marketing organisation', *The McKinsey Quarterly*, No. 4, 43-52.

Giddens, A. (1991) *The Consequences of Modernity*, Polity Press, London.

Gold, P., Woodliffe, L. (2000) 'Department stores in Spain: why El Corte Ingle´s succeeded where Galerías Preciados failed', *International Journal of Retail & Distribution Management* ; 28 (8) 2000, 333 - 340.

Goss, J. (1993) 'The magic of the mall: an analysis of form, function and meaning in the contemporary retail built environment', *Annals of the Association of American Geographers*, 83, 18-47.

Goss, J. (1999) 'Once-upon-a-time in the commodity world: An unofficial guide to mall of America', *Annals of the Association of American Geographers*, 89 (1), 45-75.

Green, M. B. (1990) *Mergers and Acquisitions. Geographical and Spatial Perspectives*, Routledge, New York.

Gregson, N., Longstaff, B. and Crewe, L. (1997) 'Excluded spaces of regulation: car boot sales as an enterprise culture out of control?', *Environment and Planning A*, 29 (10), 1717-1737.

Guy, C. (1998) 'Alternative-use valuation, open A1 planning consent, and the development of retail parks', *Environment and Planning A*, 1998, 30, 37 - 47.

Hallsworth, A. G. (1991) 'The Campeau Takeovers: The Arbitrage Economy In Action', *Environment and Planning A*, 23, 1217-1223.

Hallsworth, A. G. and Taylor, M. (1996) ' "Buying power" - interpreting retail change in a circuits of power framework', *Environment and Planning A*, 28, 2125-2137.

Hansen, T. and Skytte, H. (1998) 'Retailer buying behaviour: a review', *The International Review of Retail, Distribution and Consumer Research*, 8 (3), 277-301.

Haraway, D. (1991) *Simians, Cyborgs, and Women: The Reinvention of Nature*, Routledge, New York.

Harvey, D. (1982) *The Limits to Capital*, Blackwell, Oxford.

Hayek, F. A. (1945) 'The use of scientific knowledge in society', *American Economic Review*, 35 (4).

Henry, N. and Pinch, S. (2000) 'Spatialising knowledge: placing the knowledge community of Motor Sport Valley', *Geoforum*, 31 (2), 191-208.

Hippel, E. (1999) '"Sticky information" and the locus of problem solving: implications for innovation'. In A. Chandler Jr., P. Hagstrom and O. Solvell (eds.) (1999) *The Dynamic Firm. The Role of Technology, Strategy, Organization, and Regions*, Oxford University Press, Oxford, pp 60-77.

Hopkins, J. S. (1990) 'West Edmonton Mall: landscape of myths and elsewhereness', *Canadian Geographer*, 34, 2-17.

Hughes, A. (1999) 'Constructing competitive spaces: on the corporate practice of British retailer-supplier relationships'. *Environment and Planning A*, 31, 819-839.

Hughes, A. (2000) 'Retailers, knowledges and changing commodity networks: the case of the cut flower trade', *Geoforum*, 31 (2), 175-190.

Jackson, P. (1993) 'Towards a Cultural Politics of Consumption'. In J. Bird, B. Curtis, T. Putman, G. Robertson, L. Tickner (eds.), *Mapping the futures: Local cultures, global change*. Routledge, London.

Jackson, P. and Holbrook, B. (1995) 'Multiple Meanings: Consumption and the Cultural Politics of Identity', *Environment and Planning A*, 27, 1913-1930.

Jackson, P., Lowe, M., Miller, D. and Mort, F. (eds.) (2000) *Commercial Cultures*, Berg, London.

Jackson, P. and Taylor, J. (1996) 'Geography and the cultural politics of advertising', *Progress in Human Geography*, 20, 356-371.

Jensen, M. and Meckling, W. (1992) 'Specific and general knowledge, and organizational structure'. In L. Werin and H. Wijkander (eds.), *Contract Economics*, Blackwell, Oxford, pp251-274.

Keeble, D., Lawson, C., Moore, B. and Wilkinson, F. (1999) 'Collective learning processes, networking and "institutional thickness" in the Cambridge region', *Regional Studies*, 33 (4), 319-332.

Krugman, P. (1998) 'What's new about the new economic geography', *Oxford Economic Policy Review*, 14 (2), 7-17.

Kumar, N. (1996) 'The power of trust in manufacturer-retailer relationships', *Harvard Business Review*, 74 (6), 92-106.

Laulajainen, R. (1987) *Spatial Strategies in Retailing*, D. Reidel Publishing, Dordrecht.

Laulajainen, R. (1988) 'The spatial dimension of an acquisition', *Economic Geography*, 64, 171-187.

Laulajainen, R. (1990) 'Defense by expansion', *Professional Geographer*, 42 (3), 277-288.

Leslie, D. and Reimer, S. (1999) 'Spatializing commodity chains', *Progress in Human Geography*, 23 (3), 401-420.

Leyshon, A. and Thrift, N. (1995) 'Geographies of financial exclusion: financial abandonment in Britain and the United States', *Transactions of the Institute of British Geographers*, 20, 312-41.

Leyshon, A. and Thrift, N. (1999) 'Lists come alive: electronic systems of knowledge and the rise of credit scoring in retail banking', *Economy and Society*, 28 (3), 434-466.

Leyshon, A., Thrift, N. and Pratt, J. (1998) 'Reading financial services: texts, consumers, and financial literacy', *Environment and Planning D: Society and Space*, 16 (1), 29-55.

Lovering, J. (1999) 'Theory led policy: the inadequacies of the, new regionalism', *International Journal of Urban and Regional Research*, 23 (2), 379-395.

Lowe, M. and Wrigley, N. (1996) 'Towards the new retail geography'. In Wrigley, N and Lowe, M. S. (eds.), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London, pp3-30.

MacPherson, K. L (ed.) (1998) *Asian Department Stores*, University of Hawaii Press, Hawaii.

McKinnon, A. (1990) 'The advantages and disadvantages of centralised distribution'. In J. Fernie (ed.) (1990) *Retail Distribution Management – A Strategic Guide to Developments and Trends*, Kogan Page, London, pp75-89.

Malone, T. W. and Laubacher, R. J. (1998) 'The dawn of the E-lance economy', Harvard Business Review 76 (5). Reprinted in Tapscott, D. (ed.) (1999) *Creating Value in the Network Economy*, Harvard Business Review Press, Boston. MA, pp55-68.

Maltz, E. and Srivastava, R. (1997) 'Managing retailer-supplier partnerships with EDI: evaluation and implementation, *Long Range Planning*, 30, 862-876.

Markusen, A. (1996) 'Sticky places in slippery space: a typology of industrial districts', *Economic Geography*, 72, 293-313.

Marsden, T. and Wrigley, N. (1995) 'Regulation, Retailing and Consumption', *Environment and Planning A*, 27, 1899-1912.

Marsden, T, Flynn A, Harrison M (2000) *Consuming Interests. The Social Provision of Foods* (UCL Press, London).

Martin, R. (1994) 'Statelesss monies, global financial integration and national economic autonomy: The end of geography?' In S. Corbridge, R. Martin and N. Thrift (eds.) *Money, Space and Power*, Basil Blackwell, Oxford.

Martin, R. (1999) 'The 'new economic geography': challenge or irrelevance?', *Transactions of the Institute of British Geographers N.S.*, 24, 387-391.

Miller, D. (1998) *A Theory of Shopping*, Cornell University Press, New York.

Miller, D. (2000), *The Dialectics of Shopping*, University of Chicago Press, Chicago.

Miller, D., Jackson, P., Thrift, N., Holbrook, B. and Rowlands, M. (1998) *Shopping, Place and Identity*, Routledge, London.

Moore, J. F. (1993) 'Predators and prey: a new ecology of competition', Harvard Business Review, May-June 1993. Reprinted in D. Tapscott (ed.) *Creating Value in the Network Economy*, Harvard Business Review Press, Cambridge MA, pp121-143.

Morganosky, M. A. (1997) 'Retail market structure change: implications for retailers and consumers', *International Journal of Retail and Distribution Management*, 25 (8), 269-274.

Mort, F. (1996) *Cultures of Consumption – Masculinities and Social Space in Late Twentieth Century Britain*, Routledge, London.

Nava, M. (1996) 'Modernity's disavowel. Women, the city and the department store'. In M. Nava and A O'Shea (eds.), *Modern Times: Reflections on a century of English modernity*, Routledge, London, pp38-76.

O'Brien, R. (1992) *Global Financial Integration. The End of Geography*, Pinter, London.

Phillips, L. A., Sternquist, B. and Mui, S. (1992) 'Hong Kong department stores: retailing in the 1990s', *International Journal of Retail and Distribution Management*, 20 (1), 16-24.

Porteous, D. (1999) 'The development of financial centres: location, information externalities and path dependence'. In R. Martin (ed.) (1999) *Money and the Space Economy*, Wiley, London, pp95-114.

Porter, J. (1999) *The Future of the Department Store Industry: Instore and Mail Order Strategies*, Financial Times Retail and Consumer, London.

Reekie, G. (1993) *Temptations. Sex, Selling and the Department Store*, Allen and Unwin, Sydney.

Rothchild J, 1991 *Going for Broke: How Robert Campeau Bankrupted the Retail Industry, Jolted the Junk Bond Market and Bought the Booming '80s to a Crashing Halt*, Beard Books, Washington DC.

Schoenberger, E. (1994) 'Corporate strategy and corporate strategists: power, identity and knowledge within the firm', *Environment and Planning A*, 26, 435-451.

Schoenberger, E. (1997) *The Cultural Crisis of the Firm*, Blackwell, Oxford.

Schoenberger, E. (1999) 'The firm in the region and the region in the firm'. In T. J. Barnes and M. S. Gertler (eds.), *The New Industrial Geography: Regions, Regulation and Institutions*, Routledge, London, pp205-224.

Shackleton, R. (1998) 'Exploring corporate culture and strategy: Sainsbury at home and abroad during the early to mid 1990s', *Environment and Planning A*, 30, 921-940.

Shields, R. (ed.) (1992) *Lifestyle Shopping*, Routledge, London.

Smith, M. D. (1998) 'The empire filters back: consumption, production, and the politics of Starbucks coffee', *Urban Geography*, 17 (6), 502-524.

Smith, S. (1988) 'How much change in store? The impact of new technologies and labour processes on manager and staffs in retail distribution'. In D. Knights and H. Willmott (eds.) (1988), *New Technology and the Labour Process*, Macmillan, London, pp143-162.

Smith, D. and Sparks, L. (1993) 'The transformation of physical distribution in retailing', *International Review of Retail, Distribution and Consumer Research*, 3, 35-64.

Sparks, L. (1994) 'Delivering quality: the role of logistics in the post-war transformation of British food retailing. In G. Jones and N. J. Morgan (eds.) *Adding Value: Brands and Marketing in Food and Drink*, Routledge, London, pp310-335.

Sparks, L. (1995) 'Restructuring Scottish grocery retailing: the irse and demise of Shoprite and Wm Low', *International Journal of Retail and Distribution Management*, 23(10), 28-36.

Sternquist, B. and Byoungho Jin (1998) 'What sets the United States retail industry apart from other countries?' *Korean Distribution Journal* (In Korean) December

Storper, M. (1997) *The Regional World: Territorial Development in a Global Economy*, Guilford Press, New York.

Storper, M. and Salais, R. (1997) *Worlds of Production: The Action Frameworks of the Economy*, Harvard University Press, Cambridge, MA.

Swinyard, W. R. (1997) 'Retailing trends in the USA: competition, technology and the economy', *International Journal of Retail and Distribution Management*, 25 (8), 244-255.

Thrift, N. (1985) 'Flies and germs: a geography of knowledge'. In D. Gregory and J. Urry (eds.) *Social Relations and Spatial Structures*, Macmillan, London, pp366-403.

Thrift, N. (1994) 'On the social and cultural determinants of international financial centres: The case of the City of London'. In S. Corbridge, R. Martin and N. Thrift (eds.) *Money, Space and Power*, Basil Blackwell, Oxford.

Thrift, N. (1997) 'The rise of soft capitalism', *Cultural Values*, 1, 57.

Trachtenberg, J. A. (1996) *The Rain on Macy's Parade*, Times Books, New York.

Vance, S. S. and Scott, R. V. (1994) *Wal-Mart : A History of Sam Walton's Retail Phenomenon*, Twayne's Evolution of Modern Business Series, No 11, Twayne Publishers.

Wall, M., Sommers, M. and Wilcock, A. (1994) 'The retail buying of fashion goods: underlying themes of the sourcing process', *International Review of Retail, Distribution and Consumer Research*, 2, 133-150.

Walker, R. (1989) 'A requiem for corporate geography: new directions in industrial organisation, the production of place and uneven development', *Geografiska Annaler*, 71 B: 43-68.

Wood, S. M. (2000) *Regulatory Constrained Portfolio Restructuring: The Case of the U.S. Department Store*, Unpublished Manuscript. Copy available from author; Dept. of Geography, University of Southampton, SO17 1BJ.

Wrigley, N. (1991) 'Is the golden age of British grocery retailing at a watershed?', *Environment and Planning A*, 23, 1537-1544.

Wrigley, N. (1992) 'Antitrust legislation and the restructuring of grocery retailing in Britain and the USA', *Environment and Planning A*, 24, 727-41.

Wrigley, N. (1993) 'Retail concentration and the internationalization of British grocery retailing'. In R. Bromley and C. Thomas (eds.), *Retail Change*, UCL Press, London, pp41-68.

Wrigley, N. (1998a) 'European retail giants and the post-LBO reconfiguration of U.S. food retailing', *International Review of Retail, Distribution and Consumer Research*, 8, 127-146.

Wrigley, N. (1998b) 'Understanding store development programmes in post-property-crisis UK food retailing', *Environment and Planning A*, 30, 15-35.

Wrigley, N. (1998c) 'How British food retailers have shaped food choice'. In A. Murcott (ed.), *The Nations Diet – The Social Science of Food Choice*, Longman, London, pp112-128.

Wrigley N. (1999a) 'Leveraged restructuring and the economic landscape: the LBO wave In U.S. food retailing'. In R. L. Martin (ed) *Money and the Space Economy* (John Wiley, Chichester) pp185-204

Wrigley, N. (1999b) 'Market rules and spatial outcomes: Insights from the corporate restructuring of U.S. food retailing', *Geographical Analysis*, 31 (3), 288-309.

Wrigley, N. (2000a) 'Strategic market behaviour in the internationalization of food retailing: interpreting the third wave of Sainbury's US diversification', *European Journal of Marketing*, 34 (8), 891-918.

Wrigley, N. (2000b) 'The globalization of retail capital: themes for economic geography'. In Clark, G. L., M. S. Gertler, M. Feldman (eds.), *Handbook of Economic Geography*, Oxford University Press, Oxford.

Wrigley, N. (2000c) 'Transforming the corporate landscape of U.S. food retail: market power, financial re-engineering, and regulation', *Tijdschrift voor Econmische en Sociale Geographie*, This Volume

Wrigley, N. and Lowe, M. S. (eds.) (1996), *Retailing Consumption and Capital: Towards the New Retail Geography*, Longman, London.

Wrigley, N. and Lowe, M. S. (2001) *Reading Retail: A Geographical Perspective on Retailing and Consumption Spaces*, London: Arnold.

Yeung, H. (1994) 'Critical reviews of geographical perspectives on business organizations and the organization of production: towards a network approach', *Progress in Human Geography*, 18 (4), 460-490.

Yeung, H. (2000a), *Reconceptualising the "Firm" in New Economic Geographies: An Organisational Perspective*, Paper Presented at the Workshop on "'The Firm' in Economic Geography", University of Portsmouth, U.K., 9-11 March 2000.

Yeung, H. (2000b), 'Organising "the firm" in industrial geography I: networks, institutions and regional development', *Progress in Human Geography*, 24(2), pp.301-15.

Yeung, H., Poon, J., Perry, M. (2001) 'Towards a regional strategy: the role of regional headquarters of foreign firms in Singapore, Mimeo. Forthcoming in *Urban Studies*, 38 (1).

Zukin, S. and Dimaggio, P. (1990) 'Introduction'. In S. Zukin and P. Dimaggio (eds.), *Structures of Capital: The Social Organisation of the Economy*, Cambridge University Press, pp1-36.

Table 1 The Conventional U.S. Department Store Industry Sales and Market Shares For Fiscal Years 1997 and 1998

Fiscal 1997				Fiscal 1998			
1997 Rank	Firm	1997 Sales ($ mill)	1997 Market Share (%)	1998 Rank	Firm	1998 Sales ($ mill)	1998 Market Share (%)
1	Federated	15,668	26.9	1	Federated	15,833	26.2
2	May	12,352	21.2	2	May	13,072	21.7
3	Dillard	6,632	11.4	3	Dillard (b)	9,185	15.2
4	Nordstrom	4,852	8.3	4	Saks Inc.(c)	6,220	10.3
5	Proffitt's	3,545	6.1	5	Nordstrom	5,028	8.3
6	Dayton Hudson (a)	3,162	5.4	6	Dayton Hudson (a)	3,285	5.4
7	Mercantile	3,055	5.2	7	Belk	2,091	3.5
8	Belk	2,042	3.5	8	Neiman Marcus (a)	2,090	3.5
9	Neiman Marcus (a)	1,951	3.3	9	Boscov's (d)	846	1.4
10	Saks Holdings	1,835	3.1	10	Bon-Ton	675	1.1

Total U.S. conventional department store sales (e): **1997: $58,335 million**
1998: $60,469 million

N.B. Although the subject of considerable corporate restructuring, the U.S. conventional department store industry only represents approximately 8.2% of GAF (General merchandise, apparel and furniture) sales in fiscal 1998.

(a) Sales include only department store business

(b) Dillard acquired Mercantile stores August 13 1998. Mercantile sales (pre-merger) until August 1 for fiscal 1998 ($1,388,027) are added to Dillard figure of $7.797 bn.

(c) Proffitt's, Inc. and Saks Holdings merged September 1998 to form Saks Inc.

(d) Includes sales from Boscov's TravelCenter, a travel agency

(e) This is a JP Morgan estimate and does not equate to the US Census Bureau's definition of a conventional department store. The U.S. Census Bureau regard the high end department stores (including Saks Fifth Avenue, Bloomingdale's, Nordstrom and Lord and Taylor) to be outside the conventional department store industry because they do not sell enough furniture, appliances and household items. Despite this, these stores are still typically considered to be part of the sector by the public, and indeed by many within the industry itself (see Deloitte and Touche, 1998, p 11).

Source: data from U.S. Commerce Bureau; J. P. Morgan Securities; Company Reports and 10K Reports submitted to the U.S. Securities and Exchange Commission.

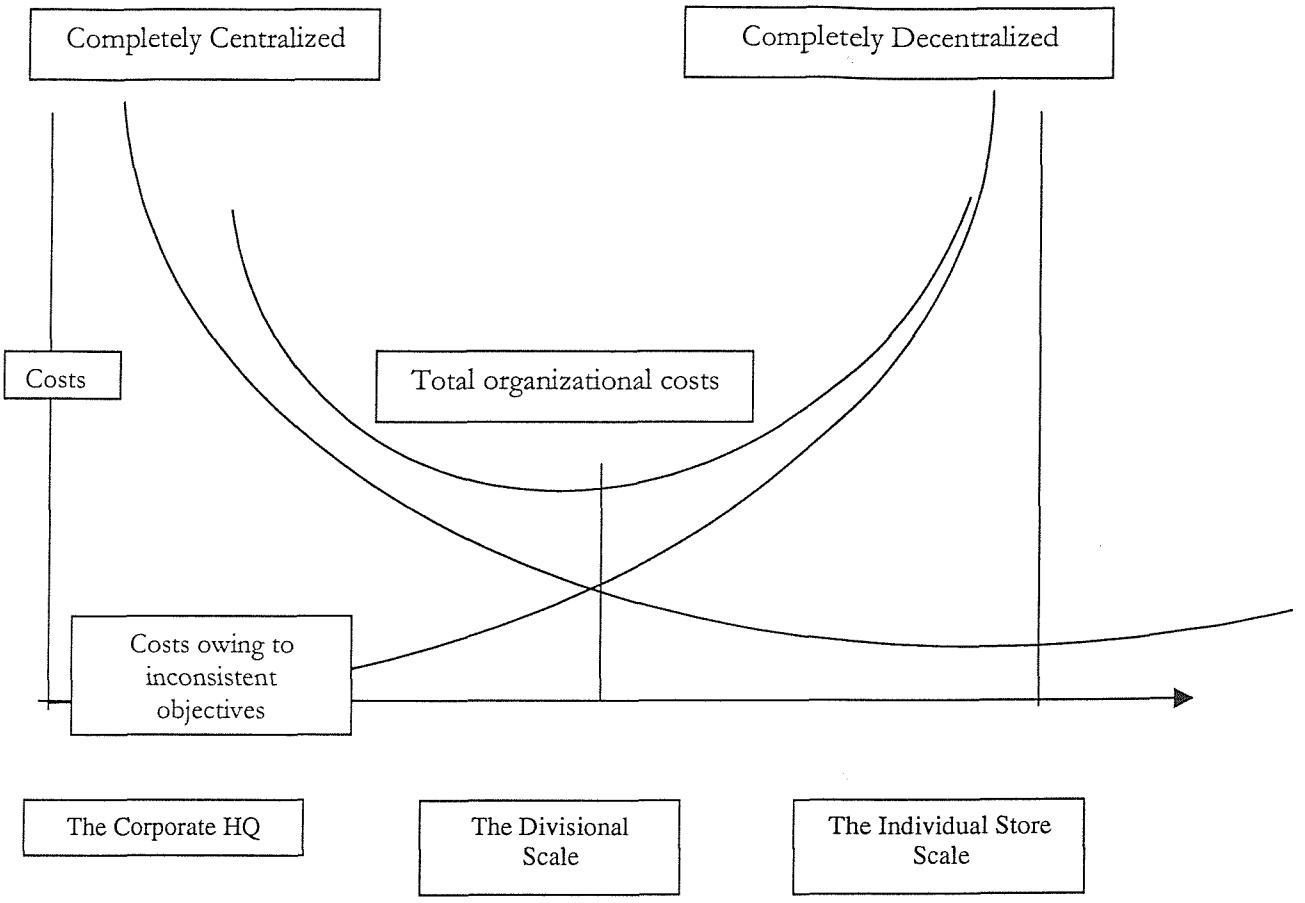
Table 2 Department Store Acquisitions of the 1990s.

Date	Acquirer	Acquired (Geographical Area)	Cost (If known)	No of Stores (If known)
1990	May	Thalhimers, (Richmond, Va.), Sibley's, (Rochester, N.Y.)	N/D	26
1990	Dayton Hudson	Marshall Field (Midwest)	$1.4 billion	N/D
Oct 1992-July 1993	Proffitt's	Hess (Southeast)	$24 million	18
March 1994	Proffitt's	McRae's (Southeast)	£212 million	28
1994	Bon-Ton	Hess	N/D	20
1994	May	10 stores from Hess (Northeast)	N/D	10
May 1994	Federated	Joseph Horne Co.	$116 million	10
Dec 1994	Federated	R. H. Macy	$4.1 billion	123
April 1994	Proffitt's	Parks-Belk	Less than $20 million	3
July 1995	May and J. C. Penney	Woodward and Woodward & Lothrop stores	Total Cost $460 million	21
Aug 1995	Federated	Broadway	$1.6 billion	82
April 1996	May	13 Strawbridge & Clothier stores (Philadelphia).	$479.5 million	13
Feb 1996	Proffitt's	Younker's (Midwest)	$258 million	51
October 1996	Proffitt's	Parisian (Southwest and Midwest)	$452 million	38
Nov 1996	Belk	Leggett Stores	$92 million	31
February 1997	Proffitt's	Herberger's (Midwest and Great Plains)	$154.9 million	40
January 1998	Proffitt's	Carson Pirie Scott (Midwest)	$956 million	55
March 1998	Proffitt's	Broady's (North Carolina)	N/D	6
May 1998	Dillard	Mercantile	$2.9 billion	103
August 1998	Gottschalks	The Harris Company (California)	$36.1 million	9
Sept 1998	Proffitt's	Saks Holdings (National)	$2.1 billion	96
October 1999	May	ZMCI (Utah, Idaho)	$52 million	14

Sources: various company reports and 10k's submitted to the Securities and Exchange Commission.

Strategic acquisition-based portfolio restructuring has set the pace for the 1990s department store industry. This has seen large stores acquire, but more interestingly in this decade, regional chains have been consolidated leaving very few available into the 21st century.

Figure 1 The Trade Off Between Centralisation and Decentralisation



This diagram explains the historical balance required between costly knowledge acquisition at the store level and the need for economical centralised control at the corporate headquarters that has plagued the U.S. department store. It is clear that total costs have traditionally been at a minimum with control decentralised to the divisional level.

Source: adapted from Jensen and Meckling (1992, p263).

Figure 2 The Speeding Distribution System Under Quick Response

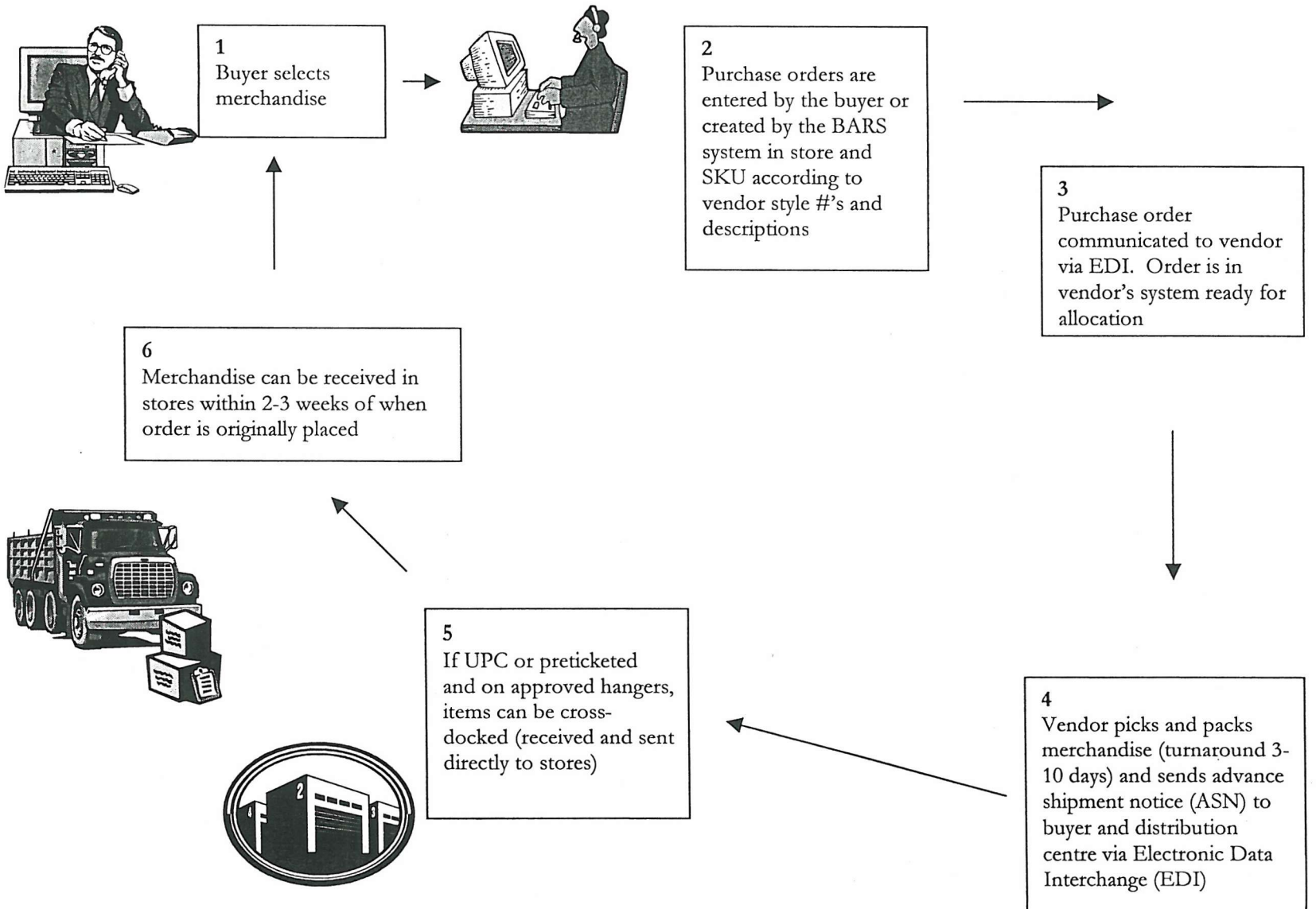


Table 3 Merchandise and Knowledge Dependencies in the Supply Chain

TYPE OF MERCHANDISE	*KNOWLEDGE*	*SCALE*	*TARGET MARKET*	*COMMENTS*
Basic Merchandise	Codified	National	Universal	Cheap. Easier to predict. Fewer sunk costs
Fashion Merchandise	Codified and Tacit	National and local	Regional Markets	Expensive. Vast geographical variations. High sunk costs

Table 4 Federated's Department Store Chains 1999.

Chain	*Number of Stores*	*1998 Annual Sales*
Macy's East	87	$4.587 billion
Macy's West	100	$3.866 billion
Rich's/Lazurus/Goldsmith's	76	$2.186 billion
Bloomingdale's	24	$1.922 billion
Burdines	49	$1.400 billion
The Bon Marche	42	$955 million
Stern's	25	$838 million

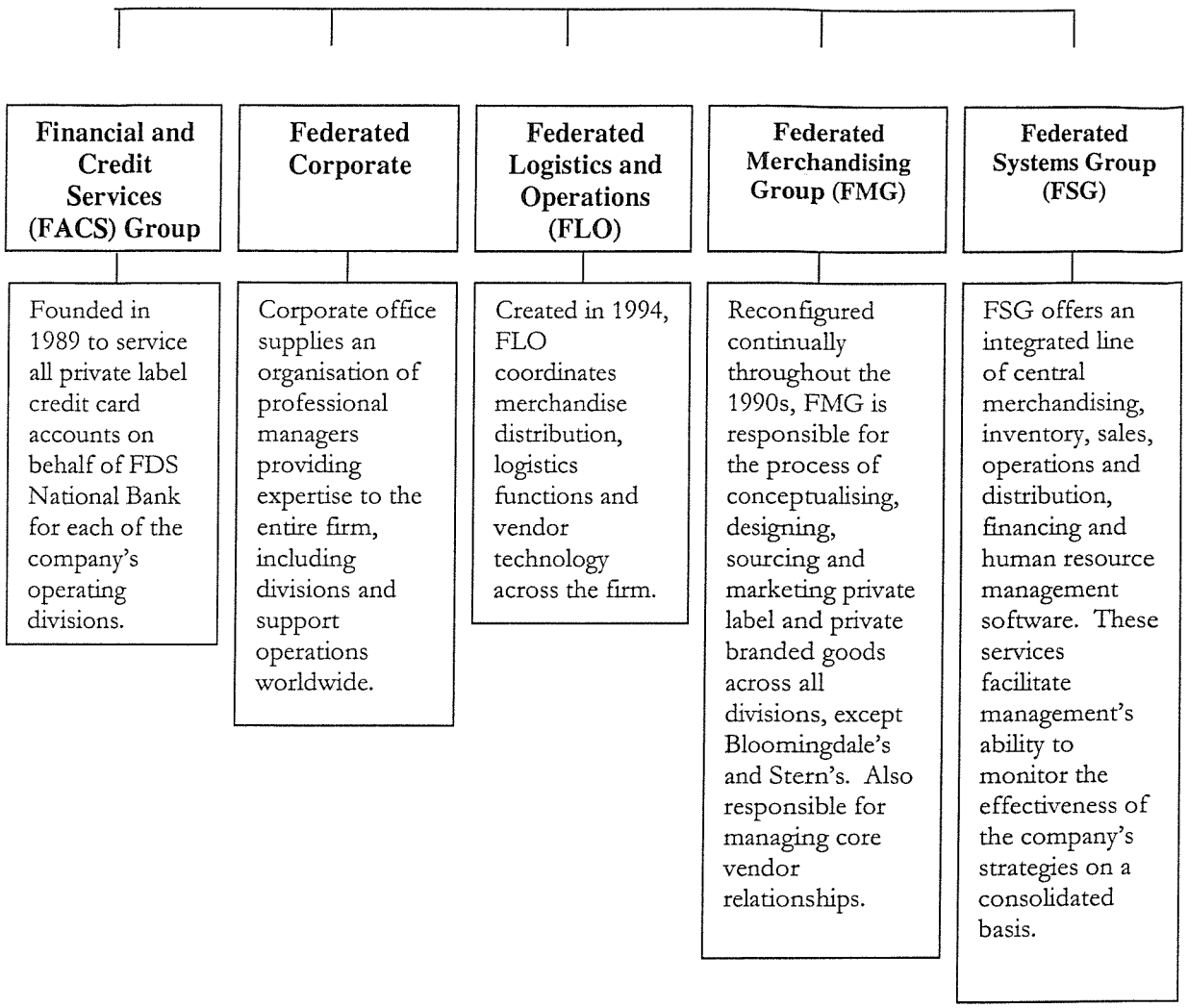
Source: Federated Department Stores (1999) *1999 Corporate Fact Book*, Federated Department Stores, Cincinnati, OH.

Table 5 Federated Divisional Consolidations, 1982-1996

Year	Divisions	New Division Name	Comments
1982	Rike's (Dayton) Shillito's (Cincinnati)	Shillito Rike's (Cincinnati)	
1986	Shillito Rike's (Cincinnati) Lazarus (Columbus)	Lazarus (Cincinnati)	
1987	Block (Indianapolis) Lazarus	Lazarus	Block acquired from Allied Stores
1988	Goldsmith's Rich's	Rich's	Memphis area retains Goldsmith's nameplate
1992	Abraham and Strauss Jordan Marsh	Abraham and Strauss/Jordan Marsh	
1994	Joseph Horne Co. Lazarus	Lazarus	Acquisition
1994	Macy's East Abraham and Strauss/Jordan Marsh	Macy's East	Acquisition
1995	Rich/Goldsmith's Lazarus	Rich's/Lazarus/Goldsmith's (Atlanta)	
1995	Broadway (Broadway, Emporium and Weinstocks nameplates)	5 stores: Bloomingdale's 56 stores: Macy 21 stores sold	Acquisition of 82 stores
1996	Jordan Marsh	Macy East	Loses autonomy in Macy East Division
1996	Bullock's	Macy West	Loses autonomy in Macy West Division

Source: Various trade press literature and discussions with company executives

Figure 3 Federated Department Stores Centralised Support Functions



Source: Company Information

Table 6 Stages in the reconfiguration of Federated Logistics and Operations (FLO)

DATE	*COMMENTS*
1994	Federated Merchandising set up to co-ordinate merchandise distribution and logistics functions and vendor technology across the company, with particular emphasis on the north-eastern U.S..
1995	Division expanded to handle these functions for all of Federated divisions nationwide
1997	Division's scope expanded again to assume corporate responsibility for key operational areas of the business including expense control, energy management, asset recovery, accounts payable, purchasing, loss prevention, shortage control, leased departments and maintenance functions.

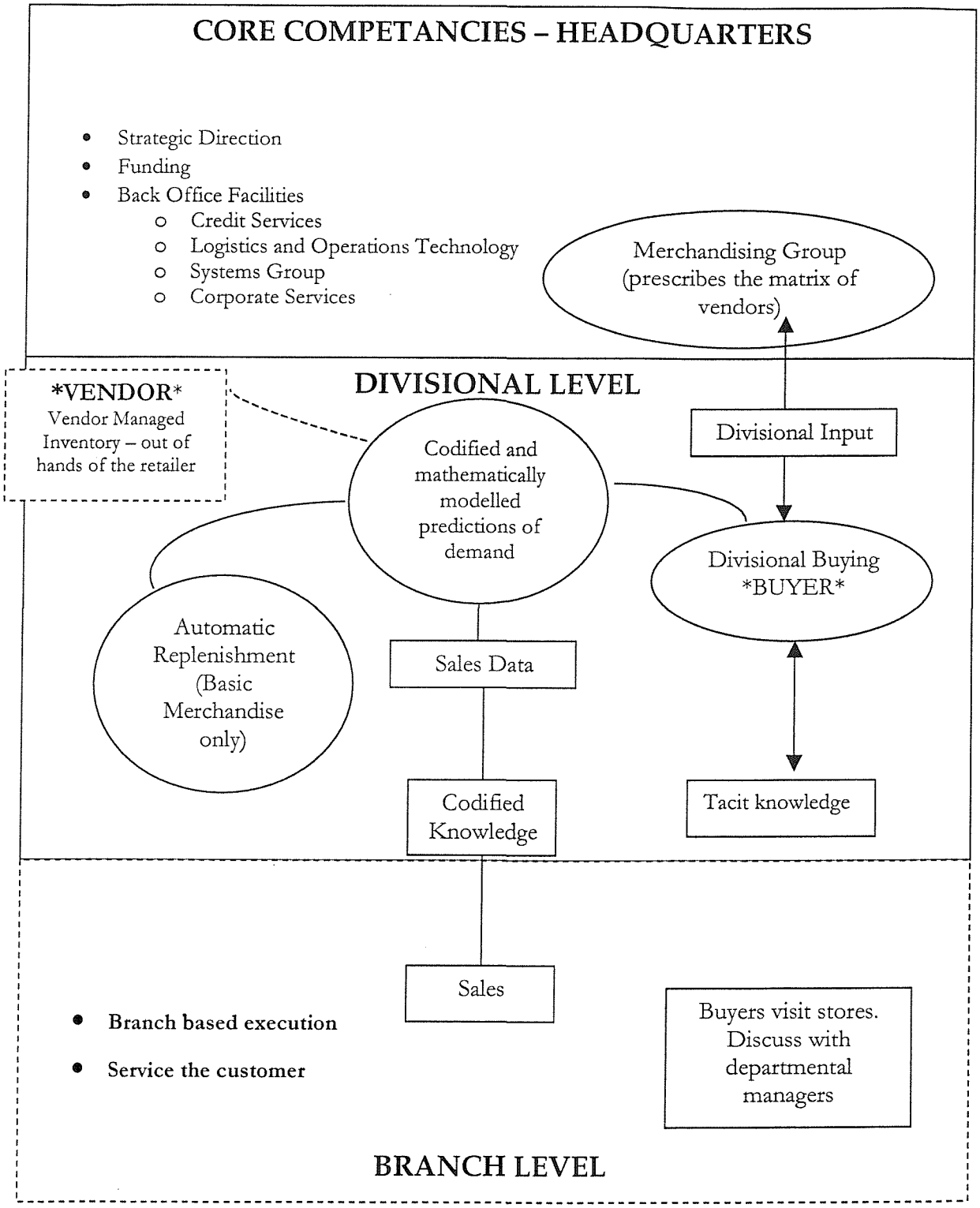
Source: Company Information

Table 7 Centralised Functional Integration versus Decentralised Business Unit Integration

	Organising Principle	Advantages	Disadvantages
Functional integration (Centralised)	• Organise functionally to achieve cost and skill advantages of scale	• Economies of scale in distribution, Advertising, Infrastructure • Builds functional skill superiority • Information can be leveraged across the whole organisation	• Lack of responsiveness to local requirements • Difficult to develop general managers • Expense of 'expert systems' • Vendor intensification may result in too much homogeneity in assortment • New products from smaller vendors often overlooked • Possible lack of accountability at a distance
Business unit integration (Decentralised)	• Organize around multiple profit centres to gain advantage of focus	• Focus/clear accountability • Close to customer = responsiveness • Builds teams/identities	• Lack of scale • Duplication of effort • No critical mass of skills

Source: adapted from George *et al.*, 1994, p55

Figure 4 Geographies of Organisation of the Late 20th Century Department Store



Book Review of Marsden, T., Flynn A., Harrison, M. (2000) 'Consuming Interests: The Social Provision of Foods', UCL Press, *Progress in Human Geography*, Vol. 25, No. 1, pp 137-8.

Marsden, T., Flynn, A. and **Harrison, M.** 2000: *Consuming interests. The social provision of foods.* London: UCL Press. xiv + 220 pp. £50.00 cloth, £16.99 paper. ISBN: 1 857 28899 8 cloth, 1 857 28900 5 paper.

The emergence of the 'new' retail geography during the last decade has revolutionized the study of retailing within the broader discipline, renewing it with zest and energy (Wrigley and Lowe, 1996; 2000). This study adds to this burgeoning literature, merging issues of regulation, corporate structures, governance and politics across competitive space in an analysis of the provision of food choices within consumer society. The volume is placed within the successful *Consumption and Space* series of UCL Press, adopting a necessarily multidisciplinary approach, engaging in debates relevant to studies in economic geography, sociology, consumption, anthropology and business studies.

The argument centres on the changing nature of food regulation within the UK. The text, focusing on the capital centralization within the UK grocery industry, suggests that the few powerful corporate retailers have leveraged their market power by dominating, and ultimately controlling, their supply chains. This has prompted the decline of agricultural corporatism, as the balance of power has shifted towards the consumption end of the distribution system. It is argued that this has resulted in a changing nature of the food regulatory framework, moving away from public-interest toward private-interest governance as 'regulatory and economic interests are not coalescing around the notions of self-regulation and hazard analysis' (p. 23). Government is viewed as divesting itself of many responsibilities for policing the food production and distribution system, with the powerful corporate retailers instead viewed as representing the 'consumer interest' and consistently exceeding the baseline health directives of the state.

The authors do well to underline the nonlinearity of the process, stressing the contested terrain of the reregulation of food within the UK. In turn they analyse the different bodies that influence policy decisions. The reduction in responsibility of the state is outlined chronologically in relation to issues of citizenship, leading to an analysis of the different bodies vying for representation within the regulatory framework. These issues are placed in the context of the European Union legislation, moving down to the domestic influences of the heterogeneous individual consumer groups. Such organizations appear insignificant compared with the clout of the corporate retailers who play an active role in lobbying and participating within the construction of food regulation.

The book is keen to point out how the evolving private interest regulation has been facilitated by corporate retailers internalizing the costs of self-regulation rather than leaving them to government agencies. They point to their sensitivity to consumer feeling, and the extent to which they are viewed as now representing consumer opinion. This self-regulation is viewed as formalized in The Food Safety Act (1990), thus providing a legal form of compulsion for corporate retailer supply chain governance with emphasis on proving due diligence throughout the distribution system.

After concentrating on the broad national scale, the book moves downward in scope to concentrate on implementation at the local level. This is the strength of the text, focusing how regulations are mediated and interpreted within their geographic contexts, rather than making abstractions from policy documents. This provides an insightful example of 'real' regulation in practice (Clark, 1992), as there are tensions 'between national systems of regulation and vagaries of local implementation' (p. 134). This third part of the book first focuses on the changing nature of retail space within certain geographical areas. Again the corporate retailers internalize costs usually borne by the state by initiating their own store site and impact assessments over and above that which could be spent by local authorities, as the state at times becomes reluctant to oppose retailers in court over site selection. Perhaps more satisfying is the investigation into the enforcement of environmental health regulations *between* corporate and individual retailers. Regulation has reverted to stress hazard analysis, whereby retailers are expected to display due diligence in identifying safety hazards throughout the supply chain and take steps to control them. This results in the situation whereby trust is invested in the 'superleague' retailers' own risk assessments, as government agency visits principally entail reviews of systems and procedure, whereas

individual retailers undergo the traditional shop-floor hygiene tests traditionally associated with environmental health visits.

It is clear that the emerging private interest system of regulation further reinforces the status quo of corporate retailers' control of the distribution system. Of course this represents a considerable political hot potato with numerous calls for any restrictive practices to be investigated (Dobson and Waterson, 1999). Such issues are only briefly touched upon in the book.

Nevertheless, the volume is a useful positive contribution towards the conceptualization of the interplay between the state, corporate retailers and the active interpretative nature of 'real' regulation in specific contexts and will deserve a wide readership.

Steve Wood
University of Southampton

Clark, G.L. 1992: Real regulation: the administrative state. *Environment and Planning A* 24, 615–27.

Dobson, P. and Waterson, M. 1999: Retailer power: recent developments and policy implications. *Economic Policy*, April, 135–64.

Wrigley, N. and Lowe, M.S., editors, 1996: *Retailing, consumption and capital: toward the new retail geography*. Harlow: Longman.

Wrigley, N. and Lowe, M.S. 2000: *Reading retail: a geographical perspective on retailing and consumption spaces*. London: Arnold.

McLaughlin, A.M. and **Maloney, W.A.** 1999: *The European automobile industry: multi-level governance, policy and politics*. London: Routledge. xiii + 256 pp. £50.00 cloth. ISBN: 0 415 11329 6.

This text is an exercise in the application of policy network theory to the European automobile industry. It starts from the observation that in this particular sector, national policy instruments have been especially eroded by supranational powers and the globalization of production. The authors therefore seek to examine how policy makers at each level have managed their relations with the industry, and how the industry has organized itself in order to participate in the policy process. They use the UK as an example of these trends, before developing a discussion of broader European developments.

The first chapter has three objectives: to outline the sector-specific characteristics of the automobile industry; review the main conceptual debates in the study of government–industry relationships (implicitly, within the field of political science); and examine the utility of the concept of policy networks. The disciplinary orientation of the study is evident from the coverage given to the first of these objectives – just over one page. It is also apparent from this point onwards that the focus of the analysis is almost exclusively on assembly rather than component firms.

The following four chapters concentrate on the case of the UK. Chapter 2 describes the 'policy failures' of the period 1945–79. The years up to 1960 – in which government sought to encourage manufacturers to export more, but with only a limited degree of success – are contrasted with those thereafter, characterized as an era of 'selective intervention'. The main mechanisms of this period were regional development policy, macroeconomic demand management, and encouragement of concentration, leading eventually to the formation of British Leyland Motor Company (BLMC) in 1968. This chapter also discusses the mid-1970s crisis of BLMC and the subsequent Ryder Plan, with its recommendation that government nationalize the firm and commit £1400 million in investment over the next decade. The continuing problems of BLMC in the late 1970s are cited as evidence of policy failure. As the authors indicate, this is likely to be familiar territory to many readers, a point which could also be made about Chapter 3. This describes the tensions over BLMC in the 1980s, particularly those between management and government over the manner and timing of privatization. There is a detailed account of British Aerospace's purchase of Rover (as the car division of BLMC had been renamed) in 1988. BMW's subsequent acquisition of Rover from British Aerospace in 1993 is (somewhat surprisingly) only accorded one paragraph. Overall, the argument that 'the implementation of privatization owed as much to political expediency as industrial or commercial logic' (p. 66) sums up the chapter's rather limited contribution to some well-rehearsed debates.

Much the same could be said for Chapter 4, which explores the process of Japanese inward