The Underpinnings of Retail Conglomerates: An Historical Analysis

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According to Hollander (1979) retail conglomerates include firms that "function in two or more types of business, at least one of which is in the retail trades" (p. 137) — a definition broad enough to include firms that operate multiple retail units that are separate and distinct from each other and those that combine retail and non-retail businesses. Firms of these types have been alternatively labeled "conglomerate retailers," "multiple concept retailers," "free-form retailing corporations," and even "conglomerchants" (Hollander, 1979).

The second half of the twentieth century witnessed an increase in merger and acquisition activity in general and retail conglomerates in particular. Examples include J.C. Penney first acquiring a mail order insurance company and later adding the Eckerd drugstore chain to its department stores; Interco owning manufacturing, wholesaling, and retailing in products ranging from shoes to furniture; Dial whose products and services ranged from soap and shampoos to resorts and travel service to food concessions; Genesco and Nine West each of whom owned multiple shoe brands marketed through multiple retail channels, including some they owned and some they did not; and Tandy, the former parent company of Radio Shack stores, who was at one point the fourth largest computer manufacturer in the United States.

Studies of retail conglomerates, however, suggests: such combinations may not improve a firm's economic performance (Kerin and Varaiya, 1985); finance variables do not fully explain the activity (Kumar, Kerin and Pereira, 1991); and that more research is needed (Keep, Hollander and Calantone 1996). A contemporary list of retail conglomerates demonstrates a much more restrained approach to diversification with firms such as The TJX Companies, Abercrombie & Fitch, and Sears Holding Corporation staying well within related retail operations (Chain Store Age, 2008).

Research on retail conglomerate activity that began after WWII and an inability to document positive financial results raises questions about the motivations behind a business types that has existed in the United States since the formation of the republic. While a fair amount of historical research foucses on specific retail types and individual firms, much less historical work focuses on retail conglomerates.

Historical analysis can complement existing research in two ways. First, smaller markets typical of the 19th and early 20th centuries provide a specific, narrow context for examining the phenomenon. Thus in a given town a successful business person may own a dry goods store, be the major stockholder in a bank, and act as a wholesaler in buying commodities from farmers. The availability of quality secondary data provides a second reason for examining the historical evidence. A number of business historians have written about retailing during various periods. Atherton's The Southern Country Store (1949) and Hower's "Urban Retailing 100 Years Ago" (1938) are examples of studiesn that provide general overviews while works like Klassen's "T.C. Power & Bro.: The Rise of a Small Western Department Store, 1870-1902" (1992) examine the development of a specific retail firm, many engaged in conglomerate activity.

The fact that large modern retail conglomerates have been formed and disolved--albeit on a scale that no doubt presents unique challenges—raises questions about the forces shaping diversified market activities at any level and in any time period. Hollander (1970) suggests looking for one or more nexus or "node of commonality" that offers the opportunity to exploit synergies.

Sample Data

Retailing prior to the Civil War was comprised of small businesses that in urban environments tended to be specialist (e.g., clothiers, jewelers, dry goods, notions, etc.) and in rural environments generalists (e.g., the small town general store). The post-Civil War South experienced a radical change as successful businessmen began to replace small shopkeepers and take prominent positions in the community. As a result, "enterprising merchants were able to spread their activities over a considerable area...They dabbled in the administrative affairs of churches, schools, lodges and banks" (Clark, 1943). The merchants would then exercise control over credit, shaping the competitive environment and ensuring their continued influence. Factors influencing credit decision extend beyond considerations of competition to issues such as political view (Democratic in the South) and religious affiliation (typically Protestant).

In the large urban centers the post-Civil War period brought a trend away from specialization, with dry goods retailers first adding gloves, socks, shirts and other apparel items and then expanding to offering carpets and rugs (i.e.. the birth of the department store). Other retailers like A. T. Stewart became vertically integrated by acquiring apparel manufacturing capacity (Hower, 1938).

The western department store T. C. Power & Bros represents a particularly interesting example of diversification. The firm expanded geographically, branching out into banking and transportation (with stagecoaches, mule-pulled wagons, and steamboats), became vertically integrated into wholesaling and raising cattle, and expanded their products and services. Large department stores in the East and Midwest proved to be a key source of products, financing, and new ideas for T. C. Power and Bros. At the same times, individual store managers were given considerable flexibility in selling and merchandising (Klassen, 1992).

Research Goal

Examples like those provided above suggest that retailers used diversification in multiple contexts and that such behavior may result from a complex interplay of factors ranging from market opportunities, competition, managerial skill, economic synergies, and social ties. The goal of the current project will be to more precisely identify the role these factors play. The current research adopts a nexus approach in examining the historical evidence to identify forces affecting early retail conglomeration. Based on previous research, some areas of expected emphasis include but are not limited to: 1) ownership and financing; 2) the transfer of managerial talent; 3) operational synergies based on economies of scale or scope; 3) brand equity synergies resulting from shared ownership; and 4) non-business motivations.

Summary

Considerable research focuses on the relative merits of increased specialization, increased generalization, and the growth of retail chains and franchises. Less research, particularly historical research, focuses on expansion into unrelated areas. To begin, however, one has to first consider what constitutes an "unrelated area." Thus if a clothing retailer acquires a non-clothing retailer it enters an unrelated product/service area (and possibly new geographic areas) though arguable still capitalizing on an overlapping skill set required of all successful retailers. Alternatively a clothing retailer that acquires ownership of a clothing manufacturing enters an area directly related to its current products but involves a very different set of function skills. Examples also include combinations of retail and non-retail business (e.g., banks, insurance companies, etc.) that may or may not service similar target markets. This study exames early conglomerate behaviors as evidenced in secondary sources on retail practices with the goal of isolating explanatory factors that contribute to such behaviors.

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