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Structure of the general merchandise retail market

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Structure of the General Merchandise Retail Market

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Structure of the General Merchandise Retail Market

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Has the retail market become more concentrated, or less concentrated than in the past? The present study attempts to answer this question by employing industrial organization theory. The central hypothesis of industrial organization theory is that a systematic relationship exists between industrial structure and a firm's conduct, and therefore, between industrial structure and economic performance.

The term industrial structure is used to refer to a number of characteristics of a firm, or of a group of firms comprising an industry. These characteristics include seller concentration, vertical integration, diversification, product differentiation, and barriers to entry. Seller concentration, which refers to the number and size distribution of rival sellers, is the basis for analysis of the structure of the retail market in this study.

This study is conducted to examine the degree and trend of seller concentration in the general merchandise retail market. The objective is to examine whether the general merchandise retail market has become less or more concentrated, whether high concentration of sellers tends to support high profits, and whether these changes have taken place most rapidly in the discount store mode.

The results of this study indicate that as a whole the general merchandise retail market has become more concentrated. This greater concentration, however, has not been matched by consistently higher profits for the firms within the general merchandise retail market. While the market has grown overall in sales, the most rapid growth has been in the discount store mode of the general merchandise retail market.

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CHAPTER I

INTRODUCTION

The world of retailing is undergoing a stage of institutional change. The department store, the mass merchandiser, the specialty chain, and the discount retailer are all working to establish distinct competitive positions within the changing retail market structure.

In the face of escalated competition between the different modes, firms have been diversifying and integrating other modes in the hope of maintaining and increasing their market share. The giants of the retail market have acquired the smaller independents, or have driven them out of business. These conglomerates enjoy the economies of scale, advanced technology, and mass advertising available to large firms. As a result, the larger firms have become more powerful.

Purpose of the study

Has the retail market become more concentrated, or less concentrated than in the past? The present study attempts to answer this question by employing industrial organization theory. The central hypothesis of industrial organization theory is that a systematic relationship exists between industrial structure and a firm's conduct, and therefore, between industrial structure and economic performance. The term industrial structure is used to refer to a number of characteristics of a firm, or of a group of firms comprising an industry. These characteristics include seller concentration, vertical integration, diversification, product differentiation, and barriers to entry. Seller concentration, which refers to the number and size distribution of rival sellers, is the basis for analysis of the structure of the retail market in this study.

The industrial organization model has historically been concerned with the study of the manufacturing industry. Until the 1980's, retailing had not been subject to rigorous study, mainly because it was regarded as highly competitive and easy to enter. However, later studies have pointed out that there are significant entry barriers in the mass retail market (Bluestone et al. 1981, p.146). This has prompted renewed interest in the retail industry.

Contributions of the Paper

The content of previous studies of the retail market is either limited to particular modes of retailing or comprised of short-term studies of two to five years. In contrast, this study is a long term-term analysis of the market from 1974 through 1991. In addition, this study analyzes three industries which make up the general merchandise retail market; namely the department, discount, and specialty store industries.

Moreover, previous studies of the retailing market have often been restricted to a specific region; however, this study is a nationwide analysis of the market. The giants of the general merchandise market are no longer operating only in one region; instead they have stores located all over the country. This change from local independent merchandising to corporate forms of retail ownership has changed the structure of the retail market. These firms are characterized by increased concentration in ownership, growth of centralized financial control, development of corporate managerial hierarchy, and substitution of capital for labor.

Justification of the Study

The retail industry is a vital part of the U.S. economy. The industry as a whole has a total trade volume of 1,962 billion dollars, whereas the general merchandise group accounts for 136 billion dollars: 6.9 percent of the total retail trade, or the third biggest share after the food and automotive group. Retailing is also an important source of employment since it provides approximately 19.4 million jobs.

Changes in this industry affect the whole economy and the ultimate target of the entire retail system, the consumer. Changes in industry structure may benefit the consumer, in terms of lower prices for higher quality, or may cause the consumer to lose money, and time and decreased satisfaction. The structure of retailing also has important implications for the job market and public policy.

Definition of terms

The following terms are used repeatedly throughout this study. Consequently, attention should be given to their meaning and use at this time. In subsequent chapters, other terms are introduced as they are needed.

Market	A market, as the term is used here, refers to the interplay of all potential buyers and sellers involved in the production, sale, or purchase of a particular commodity or service (Browning, 1992, p. 6).
Industry	An industry is composed of a group of establishments engaged primary in the same or closely related types of business activity (Browning, 1992, p. 281).
Firm	A firm is a business organization or entity consisting of one domestic establishment (location) or more under common ownership or control. Firms are sellers in markets for their outputs, and are buyers in markets for their inputs (Federal Trade Commission 1975, p. 259).
Establishment	An establishment is a single physical location at which business is conducted. It is not necessarily identical with a company or enterprise, which may consist of one establishment or more (Census of Retail Trade, 1987, p. A-2).
Sales	Revenues from sales of merchandise or sales of services are often identified as sales (Niswonger and Fess, 1973, p. 34).
Net Income	The excess of the revenue over the expenses incurred in earning the revenues is called net income (Niswonger and Fess, 1973, p. 34).

Standard Industrial Classification Code (sic Code)

This is an elaborate system of categorizing the output of business establishments by industry or product line. The economy is divided into Major Groups (designated by two-digit code numbers), then subdivided into Industry Groups (three-digit code numbers), which are further divided into Industries (four-digit code numbers) (Conklin and Goldstein, 1955, p. 15-36).

Consumer Price Index (CPI)

The CPI, which is computed monthly by the Bureau of Labor Statistics, is intended to measure the change in the overall price level. This indicator covers a wide range of commodity and resource prices, thus, it reflects actual changes in the price level rather than changes in specific price of one product or another (Browning, 1992, p. 141).

Format

Chapter 2 reviews the history of the general merchandise retail market to demonstrate how the market has changed and developed through the years. The taxonomy of the general merchandise retail market and the struggle between different types of retailing are also discussed.

A taxonomy of the different modes of retailing is reviewed in order to provide a classification of the market. This classification is desirable for an understanding of retail evolution, growth, and change. The taxonomy includes department, discount, specialty, and variety stores. The department store mode of retailing consists of three different categories: the department store chain, the national retail holding company, and the independent department store.

The history section also gives some perspective on the major changes in retail institutions, through a roughly chronological order. McNair and May (1976) studied the evolution of retail institutions in the United States during the years 1850 to 1975. The coverage of this period is mainly based on their work. The history is divided into four parts for convenience: Period I from 1850 to 1930, Period II from 1930 to 1950, Period III from 1950 to 1975. Period IV from 1975 to 1993. Each period only covers the major institutional changes and not the history of every single mode of retailing.

The review of the history of the general merchandise retail market shows that overall retail enterprises have moved from simple to complex, from predominantly small scale to predominantly large scale, from little diversity to great diversity, from change at a slow rate to change at a rapid rate. The major institutional innovations that took place were the emergence of department stores, chain stores, self-service and check-out, shopping centers and malls, discount stores, and conglomerate retailers. The major casualties among types of retail institution were limited-price variety chains, small independent neighborhood stores, country general stores, and wagon retailers.

The overview of the struggle between modes of retail trade discusses the concept of inter- and intra-mode competition. In the retailing industry, each mode employs a different strategy to maintain or increase its market share. By doing so, competition is either confronted in retailers of the same type, *i.e.*, intra-type competition, or in retailers of different types, *i.e.*, inter-type competition.

Chapter 3 reviews the literature of different theories of retail evolution, and the industrial organization approach to explaining the changes which have taken place in the retail market. The theories of retail evolution help to illustrate how retailers adapt to changes in the environment. Each theory of retail evolution seeks to describe, explain, and predict events within the parameters of the theory. Industrial organization theory offers an alternative approach to explaining the retail evolution. Three different classifications of theories are offered: Historicist Interpretations, Institutional Explanations, and the Industrial Organization Model.

Throughout the history of retailing, there have been several historicist explanations for the patterns that have developed over the years. These explanations are the Wheel of Retailing, Retail Life Cycle, Demographic Trends, and Natural Selection.

Several institutional explanations are offered for the retail evolution patterns. These explanations are the Retail Accordion, Dialectic Process, Scrambled Merchandising, and Managerial Evolution. These theories base their explanations and predictions on how institutional and managerial changes have caused the evolution in retailing, as opposed to the historically inherited processes.

With respect to the industrial organization approach, its underlying concept of the relevant market and two particular market structures, *i.e.*, perfect competition and pure monopoly, are discussed. In order to understand the market structure itself, different characteristics of the structure need to be analyzed. These characteristics include seller concentration, product differentiation, barriers to entry, diversification, and integration. Keeping these elements of structure in mind, the retail market is studied. In particular, the different theories of retail structure, which employ the industrial organization model, are presented.

This study is conducted to examine the degree and trend of seller concentration in the general merchandise retail market. The objective is to examine whether the general merchandise retail market has become less or more concentrated, whether high concentration of sellers tends to support high profits, and whether these changes have taken place most rapidly in the discount store mode.

Chapter 4 is divided into two sections. The first section, Data Sources, reports on all the different sources used to collect the necessary information for this study.

This section also explains the categorization of the general merchandise retail market adopted in this study. The second section of this chapter, Methodology, explains the methods used to describe trends in the general merchandise retail market.

In order to discuss trends in the general merchandise retail market, data on sales and net income of the leading retailers are required. The main sources of data for this study are Standard and Poor's Industry Surveys, Discount Merchandiser, Chain store Age Executive, Stores, Country Business Patterns, and The Census of Retail Trade.

There is little consensus as to which categories make up the general merchandise retail market. To be both amenable to available data and appropriate to today's retailing world's categorization, this study conforms to the following classification. The general merchandise retail market includes: (1) Department Stores, *i.e.*, a) Independent, b) National Chains, c) National Holding Companies); (2) Discount Stores, *i.e.*, a) Full-line Discount, b) Variety; and (3) Specialty Stores.

The Methodology section explains how the data are used to analyze developments in the general merchandise retail market. To investigate whether concentration in the general merchandise retail market has escalated, seller concentration is analyzed. Seller concentration refers to the number and size distribution of firms in the market. To investigate whether high concentration of sellers tends to support higher profits, the ratio of net income to sales for each of the top eight firms is calculated. To investigate whether the discount stores have experienced the most rapid growth of all the three industries, the sales growth rate of the discount store industry is calculated and compared with the department and specialty store industries. The sales growth rate of the leading firms in the different industries are calculated as well.

In Chapter 5 the results of the study are reported based on the methodology discussed in Chapter 4. Results are presented according to the different categories of the general merchandise retail market.

Chapter 6 summarize the findings of this study and presents consumer effects, public policy, and future research implications.

Chapter 2

HISTORY AND EVOLUTION OF THE GENERAL MERCHANDISE RETAIL MARKET

In this chapter the history of the general merchandise retail market will be reviewed to demonstrate how the market has changed and evolved through the years. The taxonomy of the general merchandise retail market and the struggle between the different types will also be discussed.

Introduction

The world of retailing is undergoing a period of rapid institutional change. Analysis of retailing competition has emphasized linkages between the emergence and evolution of retail institutions, and the ways they respond to changes in the economy, as well as technological and demographic environments. Also, attention has been given to specialty stores, discounters, mass merchandisers, and department stores and how they are all working to establish distinct competitive positions within the changing retail market structure.

As recently as the 1930's, retail trade was the province of the small, family-owned business which served a local market in an informal personal style. The general merchandise retail market has moved away from the early petite-bourgeoisie form of merchandising to corporate forms of retail ownership which resemble the corporate structures of manufacturing industries. Increased concentration in ownership, the growth of centralized financial control, the development of a corporate managerial hierarchy, the substitution of capital for labor, and emergence of giant firms are all familiar phenomena to those who have studied the development of the manufacturing base (Bluestone et al., 1981, p.143). According to Bluestone et al., retailing is going through the same kind of revolution that manufacturing did in the 19th century; this process is called the "Industrialization" of retailing.

Before reviewing the history of the general merchandise retail market, a taxonomy of the different modes of retailing is reviewed. A classification of the market is desirable for an understanding of retail evolution, growth, and change. The taxonomy includes department, discount, specialty, and variety stores. The department store mode of retailing consists of three different categories: the department store chain, the national retail holding company, and the independent department store. These different modes of retailing are described in the following section.

Modes of Retail Trade: A Taxonomy

Department Store Chains:

Department store chains are among the giants of the retailing market; some of the best examples are Sears Roebuck, J.C. Penney, and Montgomery Ward. The branch units across the country are near "clones" of the original and carry essentially the same merchandise and sell it in the same way. Because of their size and buying power, department store chains benefit from significant economies of scale, use varying degrees of centralized management, and incorporate advanced technology in order to coordinate the operations of their nationally dispersed branch units (Bluestone et al., 1981, p.6).

National Holding Companies:

National holding companies are composed of wholly owned, geographically dispersed retail firms, each maintaining its own local management; some examples are Federal Department Stores, Allied Stores, May Department Stores, and Dayton-Hudson Department Stores. The acquisition of established independents is the primary means of holding company expansion. The national holding company has control over capital allocation for each firm's future expansion. Capital distribution is based on a set level of return on investment. For the most part, the individual firms within the large holding company promote brand-names rather than their own store label. Here they benefit from cooperative programs where the manufacturer shares advertising costs, often on a 50/50 basis, with the individual retailer. This provides heavily subsidized advertising not usually available to the smaller independents and to the department store chain which sells its own store-name products (Bluestone et al., 1981, p. 24-25).

Independent Department Stores:

Independent Department Stores are the one mode of production verging on extinction as a result of business failure or acquisition by holding companies. Independent department stores are usually family operated and locally managed. The business of many independents has been passed along to the descendents in the family who often owned 95 percent or more of the store's assets, permitting personal attention to the survival of the firm. Independents rely heavily on advertising and location for their survival. Location of a store is essentially important to insure a constant flow of business; thus, they are usually located in the central business district of the city (Bluestone et al., 1981, p.20).

The few independents which have not yet been forced to liquidate or give into an acquisition bid survive so because of excellent management. Management has to cope with the multiple disadvantages of downtown location, sub-optimal size, inadequate capital, and the growing competition from other retail modes. In most cases, pride of ownership in this last breed of petite-bourgeoisie capital is necessary to offset the lower profitability that accompanies its mode of operation (Bluestone et al.,1981, p.27).

Discount Store Chains:

A discount store is a departmentalized retail establishment utilizing many self-service techniques to sell merchandise at uniquely low margins (Discount Merchandiser, 1992, p.70). The best examples of this mode are K-Mart and F.W. Woolworth.

In 1965, discount store chains surpassed in sales volume all of the conventional department stores combined. Their continuing success is partially due to their low price appeal and the repeal of the fair trade laws, which enables them to compete on the basis of price with conventional department stores (Bluestone et al., 1981, p.6).

Another appeal of the discounter is advertising leverage on recognized brand names. Perhaps 10 percent of the average discount store's advertising budget is spent on brand name advertising. This, in the consumer's mind, is an advantage in terms of being able to shop through the media for recognized brand names; hence, this does create a comparative appeal in terms of traffic development (Mathews, 1980, p.120).

Specialty Stores:

Traditionally, specialty stores have been locally-managed small shops selling a narrow range of full-price, high-quality merchandise. This is the most labor-intensive mode, with highly trained sales staff who offer personal service. By definition they are not department stores, but they are a major form of competition for other general merchandise modes (Bluestone et al., 1981, p.7).

Specialty outlets are predominantly located in the central city, where they depend on the amount of foot traffic in the shopping district to increase sales. In the past decade, specialty shops have increasingly become located in suburban shopping malls. Their target customers often live in suburbia and the main stores in the mall bring in the needed traffic. A specialty store's main source of advertising is the front window display, along with media advertising (Bluestone et al., 1981, p.28). Some examples are The Limited, Petrie Stores, and Melville Shoe Co.

Variety Stores:

Variety store are generally recognized as an obsolete type of institution. These stores are primarily engaged in the retail sales of a variety of merchandise in the low and popular price ranges. Variety stores, as a class of institution, experienced accelerated growth during the 1930's, and stability during the 1940's. They began a rapid period of decline during the 1950's as major chain store organizations began to offer fierce competition. Some examples are Newberry and Neiser.

Not all variety chains have submitted to this cycle. The S.S. Kresge Company adopted the self-service discount department store method of operation in the 1960's and became K-Mart Corporation.

A review of the history of the general merchandise retail market will show how the market has changed, which modes of retail have grown at the expense of others, and what institutional changes have contributed to the evolution of the retail market.

History

This section will provide some perspective on the major changes in retail institutions in rough chronological order. McNair and May (1976) studied the evolution of the retail institutions in the United States covering the years 1850 to 1975. The coverage of this section is mainly based on their work. The history is divided into four parts for convenience: Period I from 1850 to 1930, Period II from 1930 to 1950, Period III from 1950 to 1975, Period IV from 1975 to 1993. These particular time periods are used because economic and historical factors suggest convenient breaks at the 1930 and 1950, as McNair and May suggested, and the third break is at 1975 since their study only covered events through 1975. Each period only covers the major institutional changes and not the history of every single mode of retailing.

Period -- 1850 to 1930

Institutional changes in retailing from 1850 to 1930 were few in number and were spread over a comparatively long time. Nevertheless they were significant, for this period witnessed the beginnings of three highly important organizational types: the department store, the chain, and the general mail-order business. Prior to the development of these types, retail institutions were primarily small-scale, local enterprises, highly specialized by type of merchandise (McNair and May, 1976, p.12).

Department Stores:

The general department store selling a wide variety of merchandise under one roof represented the fist major institutional change in retailing. This development was a sharp break with the past; the assembly of many lines of merchandise under one roof, accompanying policies of fixed prices with no bargaining, acceptance of merchandise returns, and extensive newspaper advertising were all novel undertakings (McNair and May, 1976, p.13).

Chains:

The next important innovation in this period was the chain store. The chain store concept first began in food-retailing. This concept began to emerge as a viable type of retail institution, when it became widely perceived that a group of retail stores could be organized so that the wholesale and retail functions were combined under one management. This enabled economies of scale and functional integration that permitted regular offering of merchandise at prices below those of the competing independent-wholesaler/independent-retailer type of operation (McNair and May, 1976, p.13-14).

In the department store business, chains were uncommon in the early years; they were large enough to deal directly with manufacturing and had less to gain from chain-type operations than did the smaller stores; F.W. Woolworth introduced a new basis of specialization in 1879, based on price, with its famous policy of offering no item priced at more than a dime (McNair and May, 1976, p.15).

General Mail-Order Companies:

In period I, a third major retail institutional innovation was the general mail-order business, marked by the entrance of Montgomery Ward in 1872, Sears Roebuck in 1886, and Spiegel in 1905. Here again a break was made with the product specialization pattern. Even more significant was the innovation of dealing with customers via catalog, with orders received and delivered by mail nationwide (McNair and May, 1976, p. 16).

Impact of the New Institutions:

Thus, the important innovations in retail institutions in the period 1850 to 1930 were the department stores, the chains, and the national mail-order companies. Their growth was largely at the expense of the specialized-product retailer, who had long dominated the scene. Specialized-product retailers had lost substantial market share because all three of the new institutions involved the combination of many merchandise lines previously sold in small retail establishments. Other declining types included the country general store and the wagon peddler, as the trend toward urbanization gradually gathered strength (McNair and May, 1976, p.16).

Period II -- 1930 to 1950

Department Stores:

During the early part of Period II, the downtown department store continued to flourish. Urban population was increasing; public transportation systems were quite reliable and of good quality, and therefore heavily patronized. The growing use of automobiles and the accompanying expansion of the highway systems brought customers from a wide radius outside the cities (McNair and May, 1976, p.31).

Seemingly, the only significant institutional change was the continued formation of chains. Some chains began as family ventures, such as Gimbel's and the May Co., which dated back to Period I, as did Associated Dry Goods and Mercantile Stores. Beginning in the late 1920's and early 1930's, groups were put together by acquisition, such as Allied Stores, Federal Department Stores, and City Stores. Subsequently other existing stores, for example R.H. Macy, acquired stores in other cities and proceeded to form groups (McNair and May, 1976, p.32).

Although the most significant institutional changes in the department store business did not occur until Period III, it should be marked that beneath the surface a reversal had begun to take place in the conditions which earlier had contributed to the success of downtown department stores. Although metropolitan areas continued to gain in population, by 1945 the growth was in the suburbs to a much greater extent than in the downtown areas, and it was the affluent families who were moving to the suburbs. For these people the private automobile was the chief means of transportation. Public transportation began to fall into disfavor and as patronage declined the service deteriorated. Unfortunately, private automobiles could not deliver crowds of commuters and shoppers to the central-city areas without almost intolerable traffic congestions and parking problems (McNair and May, 1976, p. 32).

Slowly, department stores began to perceive that these changes called for a change in policy. They were already faced with competition from stores located in the suburbs. When Sears began the policy of adding retail stores to the general mail-order business in 1925, it opted for suburban locations with automobile parking space, a move that was not properly appreciated by the retail world at the time. For the traditional department stores, there was a conflict between the historically successful exclusive reliance on downtown locations and the opportunities that were beckoning from the suburbs. This conflict set the stage for the institutional change in the department store business which followed in Period III (McNair and May, 1976, p.33).

Specialty Stores:

In period II, specialty stores grew along with department stores, but at a somewhat slower rate. Chains became quite important with centralized integrated merchandising and buying, even though stores might have covered a fairly wide geographic area and might have operated under different names (McNair and May, 1976, p.34).

Variety Chains:

The concept of the limited-price variety chain, which Woolworth had done much to develop in Period I, carried over into Period II, though the inflation attendant on World War I had driven Woolworth as early as 1920 to raise the price limit from a dime to twenty cents. One might have thought that the sharp price deflation brought on by the depression of the 1930's would have kept price limits down. However, the inflation-deflation factor was not the only one involved; wage rates and size of average sale were also critical considerations. Limited- price variety chains were not low-cost retail distributors. Typically their total expense and gross margin rates exceeded those of department stores (McNair and May, 1976, p.35).

Originally, these stores paid relatively low wages to sales personnel who did little more than hand out wanted merchandise items and operate the cash register at the checkout counter. With the advent of the Wagner Act, increased labor union activity, and minimum wage laws, wages rose sharply. The chains found that their limited low-price lines did not enable them to make large enough sales per employee to render the new wage scales economically feasible. In reaction to these pressures, the variety chains began to recognize store operations to permit customer self-selection, with accompanying reduced selling staff. These changes resulted in self-service variety chains and larger stores (McNair and May, 1976, p.36).

Mail-Order Business:

The most notable institutional change began around 1930, when Sears and Montgomery Ward began opening retail stores to supplement their general mail-order business. In contrast to these two, Spiegel which had started as a retail furniture store and had moved into the general mail-order business while opening more retail stores, finally gave up all its retail stores and continued exclusively as a mail-order company (McNair and May, 1976, p.36).

At first, none of the Sears and Ward Stores were very large by present-day standards. Even Sears' largest stores fell short of the typical department store line-up of merchandise, particularly with respect to softlines and clothing. But by 1950, Sears was deriving about 70 percent of its total sales volume from the stores and was well on its way to becoming the largest department store organization in the United States. (McNair and May, 1976, p.37).

Period III -- 1950 to 1975

Department Stores:

These stores were slow to follow their customers to the suburbs although a few organizations had taken tentative steps to expand beyond their traditional downtown stores prior to 1950. Eventually, these department stores moved to suburbs with shopping centers opening in the suburbs (McNair and May, 1976, p. 41).

As the new regional department stores chains were opened, the buying and merchandising responsibilities for the group became more centralized. This development meant that the ownership groups became financial holding companies for a series of regional chain clusters built around what were originally single downtown stores. This was the prevailing institutional picture of the department stores in the 1970's (McNair and May, 976, p. 42-43).

Shopping Centers:

The most dramatic retail institutional development of Period III was the shopping center, especially the large regional shopping center, running from half a million to more than a million and half square feet of store space. At the outset most suburban department store branches were free standing, but soon the advantage of grouping a number of stores in a single larger center with ample automobile parking became obvious. Starting with one large branch of a well-known department store as the anchor, surrounded by various types of specialty, variety and drug stores, shopping centers added more anchor stores. The tendency toward having three or four large stores in one center was strongly reinforced when Sears, Ward, and Penny, having started to convert their major stores into full department stores, began seeking shopping center locations (McNair and May, p. 43-45).

Discount Stores:

The third important institutional development was the appearance of discount stores. It is arguable that the discount store was not so much an innovation in its own right as it was a borrowing of the food supermarket concept, with low prices, open display, self selection, shopping carts, and checkouts (McNair and May, 1976, p. 45).

A number of factors contributed to the development and success of discount stores. Inflation was beginning to pick up steams which made consumers more price-conscious, and the low-overhead, low price policy, attracted more consumers. The decline in customer loyalty to specific stores which manifested itself in an increasing tendency for the customer to patronize a number of different types of retail establishments rather than stick closely to a small number of specific stores, brought the consumers into discount stores. The concept of convenience with long store hours and great speed of sales transactions was especially appealing to customers. The repeal of fair-trade legislation also had a major impact on discount stores' development (McNair and May, 1976, p.46; Bluestone et al., 1981, p.18).

In the early discount era, the product line was limited by available capital and fair-trade laws. Firms were restricted to the soft lines which required smaller inventory investment and returned higher overall margins. Fair-trade laws allowed manufactures to limit the supply of their merchandise to firms charging the manufacturer's suggested retail price. This excluded discounters who were then forced to carry products with unfamiliar labels and of unknown quality. As these laws were repealed in one state after another, the discount merchants were able to expand their product lines, and with this the target customer population broadened. As late entrants to the retail market, and because of their low overhead requirements, the over-whelming majority of discount outlets are in suburban locations on low-cost land (Bluestone et al., 1981, p.20)

<u>Variety Chains:</u>

The variety chains, having been forced to back away from their earlier limited-price operating philosophy by a combination of circumstances in Period II, found themselves in Period III seriously threatened by the rise of discounting. As a result, a number of chains decided that the answer was to convert to discounting. For example, Kresge launched the K-Mart chain, which had larger stores and a wider range of merchandise categories and lines than the old Kresge stores, and which were priced competitively with existing discounters. This operation expanded until Kresge became the biggest single operator in the discount store field. In the meantime, it closed many of its older, smaller variety stores (McNair and May, 1976, p. 48).

Woolworth, with its Woolco discount stores, followed a somewhat similar program but continued to open some new Woolworth variety stores. In the meantime, the variety chains that tried to continue on the old basis generally found their market share narrowing and their profits declining. In the mid-1970's it was a fair question whether the variety-chain type of retail institution would retain a significant market share much beyond the end of another decade (McNair and May, 1976, p.48).

Period IV -- 1975 to 1993

Conglomerate Retailers:

The diversification of firms into other modes of retailing escalated during Period IV. Retailers tried to preserve and increase their share of the market either trough opening their own stores in a new mode, or by acquiring existing firms. The mergers and acquisitions that took place during this period were the result of increased competition.

With the growth of discount stores in Period IV, department stores increased their acquisitions of discount stores and/or started their own brands. For example, Federated Department Stores jumped into the discount chain business through its Gold Circle, Gold Triangle, and Gold Key outlets; May Department Stores formed its Venture Stores; Associated Dry Goods acquired Caldor; and Dayton Hudson started its Target discount outlets (Moody's Industrial Manual, 1993).

The intensified market competition between department stores and discount stores has forced each of these modes to look for alternative strategies to increase its market share. As a result, they both have entered the specialty store mode. Associated Dry Goods entered with its Sycamore specialty chains; Dayton Hudson acquired Lechmere and Dayton specialty stores; Woolworth developed Kinney Shoe Stores and Susie's Casual chain stores; and Zayre developed its Hit or Miss and T.J. Maxx specialty. All have tried to diversify and expand.

Specialty stores in return have diversified into other modes of retailing to the point of becoming giant companies. For example, SCOA Industries operates Hill's Discount Stores, while Melville Shoe Corporation operates Marshalls discount stores (Moody's Industrial Manual, 1993).

General merchandise retailers have not stopped with department, discount, and specialty store diversification;

they operate supermarkets, financial, stock and real estate brokerage institutions. Federated Department Stores operates Ralphs supermarkets, while Sears and Roebuck acquired Dean Witter Reynolds (stock brokers), Coldwell Banker (real estate brokerage), and AllStatae Insurance Company (Moody's Industrial Manual, 1993). Another example of conglomerate diversification is Mobil's acquisition of Montgomery Ward.

Variety Chains:

Variety stores have become an obsolete mode of retailing and the chains surviving in Period IV are the ones that have adapted and changed to discount stores (Mason & Mayor, 1984, p. 57). Among the institutional changes of Period IV is the shift of Sears, Ward and Penney toward traded-up general department stores with greater fashion emphasis. Also evident is the continuing disappearance of independent family-owned and traditional downtown department stores that are being either acquired by holding companies or driven out of business because of competition (Bluestone et al., 1981, p.26).

Summary

The review of the history of the general merchandise retail market shows that overall, as McNair and May suggest, retail enterprise has moved from simple to complex, from predominately small scale to predominantly large scale, from little diversity to great diversity, from change at a very slow rate to change at a more rapid rate.

The major institutional innovations that have taken place over the examined period are the emergence of department stores; chain stores; self-service and check-out; shopping centers and malls; discount stores; and conglomerate retailers. The major casualties among types of retail institutions have been limited-price variety chains, small independent neighborhood stores, country general stores, and wagon retailers.

How have all these institutional changes affected the structure of the market? According to Bluestone et al., (1981), the giant retailers have increased their market share while the level of competition has escalated between them. In the next section, the effect of the institutional changes and the resulting increased competition between the modes is examined.

An Overview of the Struggle Between Modes of Retail Trade

In the face of heightened inter- and intra-mode competition, each node employs a different strategy to maintain or increase its market share. Consumers are becoming more and more careful in their expenditures; while quality may still be an important attribute in the purchase process, the trade-off between price and quality is being examined more closely. Such cautiousness is likely to lead to even further inter-type competition (Crask, 1980, p.34).

Inter-type competition, competition between different types of retail stores, is often ignored as being a small part of competition faced by any store. The implication is that different types of stores are trying to reach different market segments. Yet, inter-type competition is a significant factor in many merchandise classes and is likely to increase as merchandise offerings become more similar. Indeed, Cort and Dominguez (1977) found substantial cross-shopping between the high-fashion, high-price stores operated by a women's specialty chain and the "bargain" stores operated by the same chain. Crask and Reynolds (1978) found similar inter-type shopping; heavy department store shoppers are also likely to be heavy discount store shoppers.

The most significant competitive change in the recent history of retailing has come from the discount department stores; the conventional department store had to redefine their business and try to maintain their market share. But department stores ignored this challenge for a long time. Department stores had been a dominant force in retailing for nearly a century. Little serious inter-type competition had been faced and thus most of the competitive actions developed were designed to counter other stores with similar methods of operation. Such actions were of non-price nature, but by taking these actions the department stores became more vulnerable when faced with price competition. Also, discount stores gained much of their strength during the 1960's; a period of expanding market size in which their impact was not as strongly felt. Quite often department stores acknowledged the growth of discounters but preferred to think that discounters were reaching a different market segment (Crask, 1980, p.34).

Many department stores seem unsure as to what action to take. Some have the "ignore them and they might go away" attitude. Others merely reduce the lines in which discounters have a strong competitive price edge and rely on their other lines to create additional sales volume. A third course which others have tried is "if you can't beat them, then join them." These stores have opened their own discount outlets and have diverted capital resources to acquire discount stores. In this way the holding companies and the department store chains compete directly in the discount sector (Crask, 1980, p.34).

At the other end of the spectrum, a second strategy evolved to preserve market share. Some department stores (as well as some discount department store chains) traded up to take advantage of increased consumer affluence. These department stores began leasing departments within their stores to specialty shops. The new specialty departments provided a high level of personal service, a new retail image for the conventional department store, and appeal to the fashion-conscious consumer. In the 1950's specialty stores had been the chief victim of the continued growth of the other retail modes. Leasing saved the specialty stores from failure; specialty stores were now protected by merging with the financial power of the department store (Bluestone et al., 1981, p.33).

In addition to initial leasing, there was also acquisition of specialty store chains. Recent acquisitions of the most successful specialty chains by the department stores is, in itself, an admission by department stores of loss of market share. The discount department store chains also utilized the specialty store mode to increase their market share.

The struggle between retail modes is more intensified now than before. A new strategy employed by one mode is quickly countered by another. And increasingly, the battle is not simply between modes but within them as individual firms struggle for dominance.

The review of the history of general merchandise retail market showed the major institutional changes that brought about the evolution of the market and the effect of this evolution on different modes of retailing. The literature in the next chapter covers the theories that attempt to explain the reasons for this evolution taking place.

Chapter 3

REVIEW OF THE LITERATURE

This chapter covers the different theories of retail evolution and the industrial organization approach to explaining the changes that have taken place in the retail market. The theories of retail evolution help show how retailers adapt to changes in the environment. Each theory seeks to describe, explain, and predict events within the parameters of the theory. Industrial organization theory offers an alternative approach to explaining the retail evolution. Three different classifications of theories are offered: Historicist Interpretations, Institutional Explanations, and the Industrial Organization Model.

Historicist Interpretations

Throughout the history of retailing, there have been several explanations for the patterns that have developed over the years. These explanations are the Wheel of Retailing, Retail Life Cycle, Demographic Trends, and Natural Selection.

Wheel of Retailing:

In 1957, McNair introduced the "Wheel of Retailing" concept to explain the recurring pattern of development in the evolution of retail institutions. McNair's hypothesis asserts that new types of retailers usually enter the market as low-status, low-margin, low-price operators. Gradually they acquire more elaborate establishments and facilities, with both increased investments and higher operating costs. Finally they mature as high cost, high-price merchants, vulnerable to new types who, in turn, go through the same pattern (McNair, 1958).

The wheel pattern has been subject to considerable controversy. The theory has been criticized because not all institutions begin as low-margin outlets. Automated merchandising departed from the wheel pattern by starting as a high-cost, high-margin, high-convenience type of retailing (Fishman, 1959, p.52). The chain department-store movement and the suburban shopping centers did not follow the wheel pattern either. The early department store branches consisted of a few stores in exclusive suburbs and some equally high-fashion college and resort shops (Hollander, 1960, p.41).

Theories like the wheel of retailing seek not only to describe and explain the changes that take place in the structure and market, but also to predict what will happen in the future. For example, McNair always seemed to use the wheel of retailing as a warning to what could, and unfortunately very often did, happen to merchants who lost competitive innovative vigor (Hollander, 1980, p.81).

The Retail Life Cycle:

Davidson, Bates, and Bass (1976) believe that the wheel of retailing explanation is not sufficient for explaining contemporary retail developments, which they suggest are of decidedly different character from earlier retailing innovations. They suggest that an expansion of the wheel of retailing concept is needed to eliminate its inability to explain a broad array of retail stores. The fact that in the wheel of retailing, stores start as low margin and low price operators, eliminates the other stores that did not start that way. The Life Cycle concept, though, applies to all institutions.

The Life Cycle concept is a method for explaining and predicting institutional actions. This theory argues that retailing institutions pass through an identifiable life cycle (Davidson, Doody, Sweeny, 1975, p.17). The life cycle is divided into four distinct stages. The first, the Innovation stage, is a period of rapidly increasing sales, but lagging profits due to start-up expenditures and/or difficulties in achieving economies of scale. The second stage, Accelerated Development, is one in which the innovators experience rapid growth, high profits, expanded investment, and relatively ineffective retaliatory competition from established, traditional firms. At this stage some direct competitors may emerge. The third stage, Maturity, is marked by moderate-to-slow sales growth, moderate profitability, entry of many direct competitors, and, ultimately, overstoring. The final stage, Decline, is characterized by a period of slow-to-negative sales growth, low profitability and elimination of some units, while the remainder suffer increased competition from other types of retailing (Davidson, Bates and Bass, 1976).

Davidson, Bates and Bass believe that such a cycle operates for retailing stores and that the pace of the retail life cycle has steadily intensified. They cite the following approximate initiation dates for the innovation stage, and intervals from innovation to maturity, for five types of retailing; downtown department stores (1860, 80 years), variety stores (1910, 45 years), supermarkets (1930, 35 years), discount department stores (1950, 20 years), home improvement centers (1965, 15 years). Mason and Mayer (1984) state that the downtown department stores have disappeared except for the ones who adapted by moving branches to suburbs; discount stores are at the mature stage and still expanding; supermarkets are at the mature stage as well and many recent innovations have carried over the supermarket idea of checkout counters, long hours, mixed merchandise and low margins; whereas, variety stores are at the decline stage and almost obsolete (p. 54-66).

The life cycle concept has been criticized on the last stage of the cycle, namely decline. This stage is described as one in which firms have slow-to-negative sales growth and the elimination of units because they suffer increased competition from other types of retailing. That being the case, the last stage of the cycle has no predictive ability (Dickinson, 1977, p.85). New innovations would only help the mature company stay in the front of the pack through reevaluating operations and capitalizing on better ideas. At best, the Life Cycle is descriptive of the introduction and growth of an innovator into retailing. Davidson, Bates, and Bass (1976) themselves note that some stages of the life cycle concept are of "indefinite" duration (p. 93). The decline stage is thus avoided or greatly postponed according to these authors. As examples, the Mitsubishi Company in Japan and the Hudson's Bay Company in Canada have been in retailing for hundreds of years.

Demographic Trend:

One of the explanations for the wheel pattern was offered by J.B. Jefferys. He has pointed out that a general, but uneven, long-run increase in the standard of living provided established merchants with profitable opportunities for trading up. Jefferys thus credits adjustments to changing and healthier market segments as causing some movement along the wheel. This leads to increase in merchandise quality, prices, and the array of services (Jefferys, 1954, p.96).

According to Hollander (1960), Jefferys' secular trend is the most reasonable explanation of the wheel pattern. The tendency of many established retailers to reduce prices and margins during depressions suggests also that increases may be a result of generally prospering environments. Hollander believes that this explanation helps resolve an apparent paradox inherent in the wheel concept: why should reasonably skilled businessmen make decisions which consistently lead their firms from seemingly profitable routes to positions of vulnerability? Jefferys sees movement along the wheel as the result of sensibly businesslike decisions to change with prospering market segments and to leave the poorer customers to low-margin innovators. Hollander comments that Jefferys' explanation is supported by the fact that the vulnerability contemplated by the wheel hypothesis usually means only a loss of market share, not a loss of absolute volume (p. 41-42).

Natural Selection (Adaptive Behavior):

The last of the Historicists' interpretations discussed is the Natural Selection pattern. A.C.R. Dreesmann (1968) has applied the Darwinist analogy of the "survival of the fittest" to retailing. Dreesmann believes that the retailing institutions that survive are the ones that can change and adapt most effectively to the environmental changes. These environmental changes may originate due to technological advancements, changes in consumer taste and social attitude, alternative competitive behaviors, and changing legal systems (Mason & Mayer, 1984, p. 53).

In retailing literature, the department store is often cited as being too slow to adapt to environmental changes.

They were too slow in following their customers to the suburbs; they remained in the downtown business district for too long and ignored the development of a new market segment in the suburbs. As tardy as they were in moving into suburbs, the department stores also were slow in acknowledging the new competition created by discount and superspecialty stores (Mason & Mayer, 1984, p. 53).

Discount stores are examples of effective adaptive behavior. The appearance of discount stores may be attributed to two different causes. First, they appeared because of the failure of department stores to respond to the pressures of suburban markets for lower prices. Second, because most discounters came from the line of variety stores which already based their competitive dominance on price. According to Darwin's law of natural selection, the discounters which were the new type of retailing in the 1960's are called mutations. Discounters adapted to environmental changes, whereas downtown department stores took a long time to adapt to the changes required for survival (Hollander, 1981, p.88).

Institutional Explanations

Several institutional explanations are offered for the retail evolution pattern. Theses explanations are the Retail Accordian, Dialectic Process, Scrambled Merchandising, and Managerial Evolution. These theories base their explanations and predictions on how institutional and managerial change have caused the evolution in retailing as opposed to the historically inherited processes explained earlier.

The Retail Accordian:

In the "history of Macy's of New York", Ralph Hower (1943) wrote:

> Throughout the history of retail trade, there appears to be an alternating movement in the dominant method of conducting operations. One swing is toward the specialization of the function performed or the merchandise handled by the individual firm. The other is away from such specialization toward the integration of related activities under one management or the diversification of products handled by a single firm (p.73).

General stores have long existed in the United States wherever the population size has been too small to support a more specialized store to provide them with everything from food to shoes (Mason & Mayer, 1984, p.50).

The increase in population and the move to urban areas resulted in the emergence of the department store. Department stores were more specialized in merchandise line than general stores because they tailored their products to the urban population. The mail-order stores were even more specialized than department stores in offering dry goods to the urban population. The increasing specialization lead to single-line and specialty stores such as bookstores and record shops (Mason & Mayer, 1984, p. 50). Other examples are greeting card stores and eyeglasses specialty stores.

More broad-based types of retailing began growing rapidly again in the late 1950's; however, the specialization did not disappear. Single-line outlets added the complementary merchandise line (Mason & Mayer, 1984, p. 50). For example, jewelry specialty shops added scarves, belts, handbags, and other accessories. In some cases full lines of merchandise were added. Many drug stores and supermarket chains offer perfumes, glasses and cosmetics; and variety chains sell white and brown household products, such as washers, dryers, television, and stereo systems.

Hower (1943) has suggested that retail institutions evolve from broad-based outlets with wider assortments to specialized narrow lines and then return to the wider-assortment pattern (general-specific-general) (p. 73). As Mason and Mayer (1984) explained, this evolution suggests the term "accordian", which reflects a contraction and expansion of merchandise lines (p. 47).

Dialectic Process:

The second institutional explanation offered is termed Dialectic Process. The explanation was offered by Gist (1968) under the term Retail Hegelianism. The specific application of Dialectic Process in retailing has been outlined by Maronick and Walker (1974) as follows:

> In terms of retail institutions, the dialectic model implies that retailers mutually adapt in the face of competition from "opposites". Thus, when challenged by a competitor with a differential advantage, an established institution will adopt strategies and tactics in the direction of that advantage, thereby

> negating some of the innovator's attraction. The innovator, meanwhile, does not remain unchanged. Rather, as McNair noted, the innovator over times tends to upgrade or otherwise modify products and institutions. In doing so, he moves toward the "negated" institution. As a result of these mutual adaptations, the two retailers gradually move together in terms of offerings, facilities, supplementary services, and prices. They thus become indistinguishable or at least quite similar and constitute a new retail institution, termed the synthesis. This new retail institution is then vulnerable to "negation" by new competitors as the dialectic process begins anew (p.147).

According to Lewison (1982), the dialectic process model can be perceived in the case of department stores (Thesis) which were attacked by discount stores (Antithesis) and as a result discount department stores (Synthesis) emerged (p.37).

Scrambled Merchandising:

This institutional theory developed by Holdren (1960), suggests that tendencies toward scrambled merchandising may create the totally illusory impression of the wheel phenomenon. As retailers diversify their merchandise assortments, they tend to add high-margin items to the product mix. This creates the illusion of an evolutionary trading up process, even though the margins charged on the original components of that mix remain unchanged.

Stanley Hollander (1960) criticizes Holdren, stating that the wheel is not simply an illusion created by scrambled merchandising. Hollander cites supermarkets' "upcreep" in average margins, which is due to the addition of nonfood and other high margin lines as an example. These high-margin items, as Hollander suggests, are not illusory (p. 41).

Managerial Evolution:

The last institutional theory discussed is also an attempt to explain the retail evolution and offers an alternative to the historicists' interpretations. P.D. Converse (1954) explained this theory under the term "Retail Personalities".

Managerial Evolution theory suggests that new types of retail institutions are often established by highly aggressive, cost-conscious entrepreneurs who make every penny count and who have no interest in unprofitable frills. But, as P.D. Converse (1954) has suggested, "these men may relax their vigilance and control over costs as they acquire age and wealth" (p. 420). Their successors may be less competent; either the innovators or their successors may be unwilling, or unable, to adjust to changing conditions. Consequently, according to this view, deterioration in management causes movement along the wheel (Converse, 1954, p. 420).

Stanley Hollander (1960) believes that managerial deterioration certainly must explain some manifestations of the wheel, but not all. He cites that empires rise and fall with changes in the quality of their leadership, and the same thing seems true in business. But the wheel hypothesis, Hollander adds, is a hypothesis concerning types of retailing and not merely individual firms. Consequently, the managerial deterioration explanation holds true only if it is assumed that new people entering any established type of retailing, as the heads of both old and new companies, are consistently less competent than the first generation. The fact that the wheel has operated very slowly in some fields suggest that several successive managerial generations can avoid wheel-like maturation and decay (Hollander, 1960, p.42).

Theory of Industrial Organization

A major branch of economics , price theory, deals with markets and industries. Hence , industrial organization, the investigation of real-life industries, is a form of applied price theory (Caves, 1977, p. 2). Industrial organization is a theoretical and empirical study of how both the structure of the organization and the conduct of sellers affect economic performance and welfare.

Since the late 1930's, it has been traditional in the field of industrial organization to conduct most analysis within a specified framework (Mason, 1939, p. 61). The traditional framework seeks to explain the performance of the firm in terms of the firms's conduct in the market. The firms's conduct is, in turn, presumed to be dependent upon the organization and structure of the market. Figure 3.1. summarizes the relationship (Scherer, 1980, p.4).

Performance in particular industries or markets is said to depend upon the conduct of sellers and buyers in such matters as pricing policies and practices, overt and tacit interfirm cooperation, product line and advertising strategies, research and development commitments, investment and production facilities, and legal tacits. Conduct depends in turn upon the structure of the relevant market, embracing such features as the number and size distribution of sellers and buyers, the degree of physical or subjective differentiation prevailing among competing seller's products, the presence or absence of barriers to entry of new firms, the degree to which firms are vertically integrated from raw material production to retail distribution, and the amount of diversity or conglomerateness characterizing individual firms' product lines. Market structure and conduct are also influenced by various basic conditions. For example, on the supply side, basic conditions include the location and ownership of essential raw materials; the character of the available technology; the degree of work force unionization; the durability of the product; and the value/weight characteristics of the product. Basic conditions on the demand side include the price elasticity of demand at various prices; the availability of substitutes; the rate of growth; the methods employed by buyers in purchasing; and the marketing characteristics of the product sold (Scherer, 1980, p.4).

As the heavy arrows in Figure 3.1 suggest, the flow of causation is from market structure and/or basic conditions to conduct and performance. It is probable, however, that the direction of causation in the traditional model is two-way in many instances. A facet of market-structure organization, such as barriers to entry, is assumed to affect market conduct, such as pricing. At the same time, pricing tactics may themselves result in entry barriers. The broken lines in the traditional model of Figure 3.1 indicate possible causation which is the opposite of that usually implied in the traditional model (Scherer, 1980, p. 5).

In the industrial organization model, the relevant market under study has to be defined. Once the relevant market has been defined, then the analysis of the structure of the market can be undertaken. The concept of the relevant market is discussed first, then two particular market structures, perfect competition and pure monopoly, are described.

<u>Basic Conditions</u>

Supply	Demand
Raw material	Price elasticity
Technology	Substitutes
Unionization	Rate of growth
Product durability	Cyclical and seasonal character
Value-weight	Purchase method
Business attitudes	Marketing type
Public policies	

<u>Market Structure</u>

Number of sellers and buyers
Product differentiation
Barriers to entry
Cost structures
Vertical integration
Conglomerateness

<u>Conduct</u>

Pricing behavior
Product strategy and advertising
Research and innovation
Plant investment
Legal tactics

<u>Performance</u>

Production and allocative efficiency
Progress
Full employment
Equity

Source: Scherer, F.M. (1980). <u>Industrial Market Structure and Economic Performance</u>. Chicago: Rand McNally College Publishing Company, p. 4.

Figure 3.1

The Traditional Framework for
Industrial Organization Analysis

The Concept of Relevant Market

A market is not a single-dimensional concept. A market has at least three significant dimensions: product, geography, and time (Kaysen and Turner, 1965, p. 101).

A market is a collection of firms, each of which is supplying products that have some degree of substitutability to the same potential buyers. The degree of substitutability between products determines whether or not they can be considered to be in the same market. The geographic boundary of suppliers and buyers of these products is the second element of relevant market definition. The third element is the time period which determines whether the suppliers of the products are in the same market.

Product Substitutability:

Economic theory is largely concerned with the behavior of individual decision-making units, such as firms. The behavior of any individual firm depends, among other things, on which other firms it takes into account in its decision-making. The extent to which decision-makers take into account other firms' actions will be related to the degree of substitutability existing between the products of different firms viewed from the point of view of either buyers or sellers. If products are close substitutes for each other, then from the standpoint of the product dimension, they may be said to be in the same market. One measure of the degree of substitutability between two products or services, x and y, is provided by the concept of cross-elasticity of demand. Cross-elasticity of demand is defined as:

$$CE = \frac{\text{Percentage change in quantity of x demanded}}{\text{Percentage change in the price of y}}$$

where all other features which are capable of influencing the demand for x are assumed to remain unchanged (Browning, 1992, p. 109).

If the value of the cross-elasticity of demand is positive, the two goods are termed "substitutes;" if the sign is negative the two goods are termed "complements." Provided that the sign is positive, the greater the proportional change in the quantity of x demanded, when the price of y changes by a given amount, the greater the degree of substitutability between the two goods (Browning, 1992, p.110).

Geographic boundaries:

The geographic dimension of a market is sometimes the most important one. Because of high transportation costs, or other factors such as convenience or lack of product durability, some products will be primarily local or regional in nature (for example, the milk market) (Koch, 1974, p.15). On the other hand, many geographic markets are nationwide in scope (for example, clothing and footwear). Producers of these products, irrespective of their location in the country, may well have the same customers (particularly retail chain stores which sell nationwide) and compete with one other.

Time dimension:

When seeking to determine whether two firms are competitors, the time period has to be specified. Given enough time to adjust, nearly any two firms are potential competitors. The relevant time period is neither so short as to include in the market only the existing firms, nor so long as to allow for substantive changes in technology, demand, and taste that would completely alter the situation (Koch, 1974, p.15).

The product dimension of a market tends to predominate when economists discuss markets. It is useful to bear in mind, though, that every market has geographic and time dimensions as well a (Koch, 1974, p.15).

The next step after defining the relevant market is to analyze the structure of the market. Two different market structures are discussed in the following section, as well as their effect on conduct and performance of the market.

Welfare Economics of Competition and Monopoly

Industrial organization is concerned with how productive activities are integrated with society's demands for goods and services through some organizing mechanism such as a free market; and how variations and imperfections in the organization mechanism affect the degree of success achieved by producers in satisfying society's wants. Two extreme variations of the market, namely competition and monopoly, will be looked at here.

Competition has long been viewed as a force that leads to an optimal solution of the economic performance problem. By the same token, monopoly has often been condemned for the frustrating attainment of the competitive ideal.

Two extreme models in the competitive spectrum, perfect competition and pure monopoly, are over-simplifications rather than realistic descriptions of any specific existing situation. Perfect competition deals with a very large number of small, similar firms, and monopoly with a single firm. There are also two intermediate cases: 1) Oligopoly is the situation in which the market is characterized by a small number of firms producing similar products. 2) Monopolistic competition is the situation in which a large number of firms exist, each offering a slightly different product. For the most part, however, the two extreme models act as guides in understanding different market situations.

The degree of competition in a markets dictate price, output, and profits of the firms. Thus, perfect competition results in a highly efficient allocation of resources. Firms are forced to produce those goods which consumers want the most, and to use the most efficient or least-cost methods in the production of these goods. As a result they make normal profits. By contrast, a purely monopolistic market results in under-allocation of resources, restricting output and charging higher prices in order to make economic profits. When revenues are exactly equal to total costs, the firm makes normal profits. If total revenues are greater than total cost, the firms earns an excess of economic profits (Hyman, 1993, p. 42).

To understand the market structure itself, different characteristics of the structure need to be analyzed. These characteristics include seller concentration, product differentiation, barriers to entry, diversification, and integration.

Relations Among Structural Elements

Seller Concentration:

Seller Concentration refers to the number and size distribution of firms in a market. The most widely used device to measure seller concentration is the concentration ratio. To compute a concentration ratio, one ranks firms in order of size, starting from the largest in the industry. Then, starting from the top of the list, one adds up the market share percentages for the number of firms deemed relevant to the analysis. Published statistics usually give concentration ratios for the largest 4, largest 8, and sometimes the 20 largest firms in an industry. The concentration ratio for a monopoly would be 100 percent; in a competitive industry, the ratio for the largest 4 firms would be very small, perhaps 5 to 10 percent. The ratio for an oligopoly would lie between these limits (Caves, 1977, p. 8)

Product Differentiation:

Products whose physical appearance cannot be distinguished (wheat or steel) will tend to be largely undifferentiated in the marketplace. Even where physical differences exist, no economic differentiation may arise if the buyers can make an exact appraisal of the difference and every buyer makes the same appraisal.

Differentiation greatly expands the market strategies open to the producer. It makes one's demand curve less elastic. In reacting to changes in market conditions, the firm has less incentive to reduce prices and more incentive to increase prices (Caves, 1977, p.20)

Barriers to entry:

Just as concentration reflects the number of actual market rivals of a firm, so the condition of entry tells the story of potential rivals. There are different conditions under which barriers to entry might exist:

a) Scale-economy barriers to entry arise when firms do not achieve the lowest possible costs until they have grown to occupy a large portion of the national market. Scale economies deter entry since they force potential entrants either to accept a cost disadvantage or to enter on a large-scale basis. Scale-economy barriers arise in areas such as marketing, financing, after-sale customer service, and merchandise purchasing (Thompson, 1992, p. 71).

b) Absolute-Cost barriers to entry cover anything which places the production cost curve of a new firm above that of a going concern. The new firm faces a cost disadvantage over the old one at any output level it chooses to produce.

Absolute cost-barriers arise from many sources. Established firms may posses valuable know-how concerning production techniques. The going firm may have patents granting exclusive rights to certain product features or processes, which the new firm can secure only by paying a royalty or spending the funds necessary to invent substitutes for them. Another source of absolute-cost barriers may be limited supply of some especially significant input or factor of production. Highly skilled and specialized personnel may all be attached to going firms. Industries based on minerals and metallic ores, such as copper refining, provide examples. Still, another can rest on the cost of capital to a new firm. To enter the steel industry, a new firm might have to collect more than half a billion dollars in capital (Thompson, 1992, p. 73). Again, the entrant's cost curve would lie above the cost curve of the going firm.

<u>Diversification:</u>

Diversification is the movement of business firms into new and different lines. Diversification may be (1) concentric, whereby a firm expands either into new geographical markets or closely related product markets, or (2) conglomerate, whereby a firm diversifies by acquiring another firm with no product or geographical relationship to the acquiring firm (Mason & Mayer, 1984, p.132).

Vertical Integration:

Vertical integration takes place in two different forms. They are called backward and forward integration, according to whether the acquiring firm acquires the supplier or the distributor of its product.

1) Backward Integration or "upstream" integration occurs when firms undertake to produce raw materials and inputs that might otherwise be purchased from independent producers. When a retailer acquires a wholesaler or manufacturer, it protects itself against fluctuations in wholesale prices. In addition, the retailer would have a more reliable source of supply (Mason & Mayer, 1984, p.131; Scherer, 1980, p. 78).

2) Forward Integration or "downstream" integration occurs when manufacturers move toward further finishing of products, as well as the wholesaling and retailing operations that put manufactured goods in the hands of consumers. The manufacturer then secures a more reliable distribution system and higher profit margins by entering its own brand into the market (Mason & Mayer, 1981, p.131;

Scherer, 1980, p. 78).

Mergers and Acquisitions:

Mergers and acquisitions are processes through which firms integrate and diversify. A typical acquisition occurs when the assets and liabilities of the seller are absorbed by the buying company and the selling company ceases to exist as a separate entity. As opposed to acquisitions, a consolidation occurs when a buyer and a seller are not identified and the business combination results in an entirely new entity (Kerin and Varaiya, 1985, p. 10).

Market entry is quicker through acquisitions because the acquiring firm takes over the physical location, the established name of the acquired firm, the experienced management team, and the economies of scale (Mason & Mayer, 1984, p. 136).

In relation to the descriptions of diversification and integration, there are three kinds of mergers: (1) horizontal mergers, (2) vertical mergers, and (3) conglomerate mergers.

The important elements of structure are the ones that can and do make a major difference for market performance. Keeping in mind the elements of structure just discussed, the retail market is studied in the next section. In particular, the different theories of retail structure offered are discussed.

Structure of the Retail Market

The nature of the retail competitive process has intrigued economists since the early part of the twentieth century. From the theory of the firm, economists proposed several models of competition, and controversy arose as to which one best reflected interactions among retailers. Early writers have suggested that monopolistic or oligopolistic competition best describes the retailing market. The distinctions between monopolistic and oligopolistic competition, and their relevance to the interactions among trade firms, provide a useful basis for understanding the market.

Monopolistic Competition:

Under monopolistic competition, firms lack effective control over prices, and goods are sold at a wide range of prices and markups. The number of firms increases as new organizations seek to take advantage of the available profit and find easy entry into the industry. Their presence reduces the margins earned by existing firms, but does not exert control over market conditions (Bucklin, 1972, p.116).

To many, this theory could be realistically exemplified by retail markets. The rationale for the multitude of retail prices for the same product is the "imperfect knowledge" of the consumer about the market; the laziness of consumers "not bothering" to shop around; the wide range of services offered by retailers; and the real and perceptual difficulties of ascertaining retail costs. Each firm confronts a downward sloping demand curve; that is, it can sell more units only at successively lower prices. Firms adjust output by reducing price until the marginal cost of additional units sold is equal to the incremental income obtained. The different market conditions, costs, and services faced by each firm result in a variety of price policies (Bucklin, 1972, p. 116).

Beginning with Henry Smith (1937), English writers have almost unanimously described retailing as imperfect competition or monopolistic competition. Smith (1937) found the "imperfect divisability" of retail units, the "imperfect imputation of selling costs," limited spatial monopoly, and the uniform nature of the buyer to be the important imperfections affecting retail markets. W. Arthur Lewis (1948) suggested that monopolistic competition was the relevant model for the analysis of retail units.

Strigler (1950) relegates all retail markets, other than liquor, gasoline, and milk, to the competitive sector. Other writers in the United States, in the field of marketing, have assumed that retailing is monopolistically competitive (Bliss, 1952; McNair and May, 1957). Aubert-Krier (1954) raised the distinction between convenience-goods and shopping goods retailing. In particular, she assumed that since consumers shop around for "occasional goods" (shopping goods), this form of retailing is more competitive than convenience-goods retailing. Aubert-Krier (1954) concluded that:

> There is monopolistic competition in the field of current articles, geographical competition being predominant; there is imperfect, but active competition of most occasional goods (p. 287).

Holton (1957) utilized a monopolistically competitive model to explain the structure of retailing, but he indicated that supermarkets are oligopolistic (p. 28).

Oligopolistic Competition:

Opposing the perspective of monopolistic competition are those who believe that the retailing market is best described by oligopolistic competition. Margaret Hall (1949) found retailing "inherently imperfectly competitive." She was the first writer, however, to suggest explicitly that oligopoly may be an important market form in retailing:

> It is inherent in this situation that conditions of oligopoly may arise at any time. By oligopoly is meant a situation in which the seller, in determining his price and output policy, take into account the probable reactions of his competitors to change in his policy (Hall, 1949, p.38).

Writers who oppose the monopolistic competition perspective assert that the picture of the neatly sloping demand curve as opposed to the oligopolistic's kinked demand curve does injustice to the retaliatory instincts of retailers. According to this thesis, the brunt of a retailer's newly lowered price will seldom be spread over the entire market, but be borne instead by one or two competitors carrying similar product lines. These, generous or uncomplaining enough to allow their businesses to be destroyed, but are apt to respond in kind (p.29). The result is that the gain in volume anticipated by the initial price cutter, disappears as margins are comparably reduced (Bucklin, 1972, p. 119).

Price setting under these circumstances depends on anticipation of competitive reaction, and the process may follow any of numerous paths, ranging from explicit collusion to continuous price warfare. Unlike monopolistic competition, no single model of behavior, under the uncertainties of competitor reaction, has been developed. Those proposed include price leadership (of various kinds), game theory, price discrimination, and price warfare (Bucklin, 1972, p. 120).

In retailing, the competitive process for the halting of this retaliatory spiral has been described by Palamountain (1955) in terms of "intertype" competition and employed by McNair (1958) to derive the "wheel of retailing" concept. The theory behind this competition process holds that with every hike in the price through the "ratchet" mechanism, the trade becomes increasingly vulnerable to competition through entry. Similar firms are deterred from appearing, however, by fear of triggering a price war that would wipe out the anticipated profits. Hence, pressure builds until a new form of retailing evolves, one with sufficient cost advantage over existing institutions to enable the potential entrepreneurs to ignore the possibility of competitive retaliation. When this new form evolves, the entry barrier is broken and new firms appear with lower prices. The older institutions, unable to reach the level of cost achieved by the newcomers, can only yield market share as gradually as possible; and hope that there will be some minimum set of customers for whom their particular set of services is worth their high margins (Bucklin, 1972, p. 121).

Intertype competition is vigorous and strongly oriented to price because differences in operating methods break the tacit cooperation that the "sameness" of intratype rivalry generates. Bucklin (1972) explains that as the number of new-type entrants increases and their market share grows, the role of intratype competition becomes steadily more important to them as well (p. 122). Eventually, competition among the new entrants becomes equally or more important than competition between themselves and others. Margins for the entrants rise as they react to these new conditions, completing the turn of the "wheel" and setting the stage for another revolution (Bucklin, 1972, p. 122).

In proposing this role of intertype competition and retail evolution, adherents note that oligopolistic theory is appropriate for retailing in that the large-scale retailer, in particular, can hardly be expected to avoid retaliation from changes in his price because of their market impact. They further note, as evidence of the turning of the wheel, the steady progression of new, large-scale institutions -department stores, chains, supermarkets, and discount houses- with their changing pricing practices over time (Bucklin, 1972, p. 122).

Holdren (1960) suggest that neither of these two market structures explains the retailing market, because there is no reasonable adequate model of the retail unit (p. 7). He explained that the retail units are multiproduct concerns; their output may be considered a service for certain purposes, but retail service is inextricably linked to a wide range of commodities. Thus, the behavior of retail units can be adequately described only by a multiproduct model. He studied the supermarket's structure and found it to be closest to oligopoly (Holdren, 1960, p. 7).

Comprehensive Studies Analyzing The Retail Market

The literature reviewed suggests that the retailing market has become more concentrated and has moved toward an oligopoistic structure. Bluestone, Hanna, Kuhn, and Moore (1981) indicated that a variety of forces, including economies of scale, the advanced technology and mass advertising available to large firms, government regulation, and the financial backing of the large corporate parent-firms have contributed to uneven development within the industry (p. 2). Bluestone et al. suggested that there has been a rapid trend toward increased concentration; sales data on the leading general merchandise chains revealed that concentration is growing rapidly, even within the group of largest merchandisers. In 1967 the top 32 firms in the industry, nationwide, accounted for 75.6% of total general merchandise sales; by 1977 this group accounted for 87.2% (Bluestone et al., 1981, p.48; The Census of Retail Trade, 1982, p. 79).

Bluestone et al. (1981), indicated that the increasing sales concentration ratio revealed, perhaps more than any other statistic, the growth in the relative importance of the larger holding company and department store chain (p. 49). This conclusion was further reinforced by examining sales data for individual firms. Sales volume for the top 32 companies had increased by fourfold between 1963 and 1977. The top five retailers had growth factors ranging from a low of 3.4 for Sears to a high of 18.3 for K-Mart. These growth factors are based sales of leading retailers in 1963. Sales data were set equal to 1 and used to develop an index of sales growth for the period 1963-77 (Bluestone et al. 1981, p. 49).

Bluestone et al. (1981), noted that it is possible to make only a crude estimate of the growth in each mode of retail production within the industry (p. 49). The estimate would not be precise because data are only available for the 32 largest companies, and because individual firms increasingly control operations in more than one mode. For example, Federated is both a holding company of full-service department stores and an operator of a number of discount department store chains. Bluestone et al. (1981) demonstrate that discount chains are growing most rapidly, followed by holding companies and department store chains.

Bluestone et al. (1981), also analyzed the trends in department store profits. They indicated that while the department store industry has clearly become more concentrated, existing figures suggest that the industry is nevertheless becoming less profitable. Data on the ratio of net income to total sales showed a steady decline in profit rates for at least the top 32 General Merchandisers taken as a group. The results indicated that the net income/sales ratio peaked in 1965 at 3.6 percent and fell almost steadily to 3.2 percent before dropping to 2.2 during the 1974-1975 recession. Recovery through 1977 brought the rate up to only 3.2 percent. The authors believe that the decline between 1965 and 1973, which came during a period of solid sales advances, could not be exclusively attributed to a serious decline in the economy (Bluestone et al., 1981, p. 51).

An interesting result of Bluestone et al.'s study was that the sharpest drop in reported profit rates occurred among the top five merchandisers. While the top 32 as a group, showed a 12.5 percent decline in profitability rate between 1965 and 1977, the top five reported a 14.5 percent reduction. Over this period, however, average net profit among the top five (3.90%) were still 23 percent higher than among the top 32 (3.16%) (Bluestone et al., 1981, p. 51).

The implication of Bluestone et al.'s study is that even though the general merchandise retail market has become more concentrated, it has become more competitive, as shown by the declining profit rates. This position stands in contrast to the industrial organization theory which indicates that firms make more profits as the industry becomes more concentrated.

Elizabeth Hirschman (1978) attempted to analyze the retail market structure in her paper, "A Descriptive Theory of Retail Market Structure." She noted that one area in which an integrated and empirically validated theory of retailing appears to be lacking is that area dealing with the structural and functional characteristics of the system of retail institutions operating within a market (p. 30).

Hirschman analyzed market structure created by discount stores, national chain department stores, and traditional department stores in six cities. Her data suggested that the economic and social conditions yielded wide differences in market share by merchandise line of discount, national chain, and traditional department stores. Despite these differences by line and by type of firm, she also found that the combined market share of all three types of firms remained remarkably constant (near 70 percent) regardless of city or year. She concluded that these three types of firms have created barriers to entry for new firms (Hirschman, 1978, p. 42).

One of the central positions of the theory put forward in Hirschman's article is that by becoming aware of the retail institutional system within which they operate, retailers can work to create a more efficient and more profitable retail system. She believes that the normative implications of such cooperative efforts among retailers, however, may be quite detrimental to the consumer's welfare, as this knowledge may lead to the artificial restriction of competition and the creation of covert retail oligopolies (Hirschman, 1987, p.48).

Summary

The different theories of retail evolution were discussed in this chapter. The theories explain why and how the changes in the retail market have taken place; why department stores became vulnerable to discount stores; why variety stores became an obsolete mode of retailing; and presented the different changes in the environment that caused each stage of the retail evolution to take place. Even though these theories are supported by examples in the market, they are all descriptive in nature.

The industrial organization theory is an alternative way of studying the changes that have taken place in the retail market. Industrial organization not only explains the reasons for these changes, but also quantifies the degree of these changes. Analysis of the structure of the market, and in particular, seller concentration, shows how the market shares of different modes of retailing have changed. One reason for not applying industrial organization theory to the retailing section in the past has been that most large-scale retailing consists of several lines of business and clear definitions of the market were not available. Another important reason has been the lack of data availability in the retail sector. The review of literature has shown that, for the most part, there has been no long-term comprehensive study of the retail market employing the industrial organization theory. Bluestone et al.'s (1981) study did analyze the seller concentration of the top leading general merchandisers using the census data years, but did not report seller concentration within the different modes of retailing.

CHAPTER 4

DATA SOURCES AND METHODOLOGY

This chapter is divided into two sections. The first section, Data Sources, reports on all the different sources used to collect the necessary information for this study. This section also explains the categorization of the general merchandise retail market adopted in this study. The second section of this chapter, Methodology, explains the methods used to describe the trends in the general merchandise retail market.

Data Sources

In order to discuss the developments in the general merchandise retail market, data were required on sales and net income of the leading retailers, on total number of establishments and total sales of the different industries which belong to the general merchandise retail market, and on profits of each of the leading firms in the three industries under study. The sources of data for this study were Standard and Poor's Industry Survey, Discount Merchandiser, Moody's Industrial Manual, Chain Store Age Executive, and Country Business Patterns.

Standard and Poor's Industry Surveys:

This publication is used to identify the leading firms in all categories of the general merchandise retail market.

It is also the source of data on total sales for all retail stores, general merchandise group, department stores, variety stores, and apparel group. The origin of this data was the Department of Commerce; Standard and Poor's reports these tables in each issue. Annual data are not directly available from the Department of Commerce; they supply data only every four years. Monthly Retail Trade, also a publication of the Department of Commerce, reports monthly retail sales by type of business for the United States.

Discount Merchandiser:

This publication is the sole publication reporting the total sales for the discount store industry. Before 1987, this information was not available from the Department of Commerce since it did not include discount stores in the categorization of retailers; instead it was reported as part of the department store category. The Discount Merchandiser was also the source for the number of establishments in the discount store industry.

Moody's Industrial Manual:

Moody's Industrial Manual was used when net income figures were missing. Standard and Poor's does not indicate the amount of loss for companies; it only reports it as a deficit.

Chain Store Age Executive:

This journal publishes the 100 largest, and before 1986 the 300 largest retailers. It was used as a cross reference to Standard and Poor's information. Chain Store Age Executive reports sales and net income data and since 1986, classifies the general retail market into various categories.

<u>Country Business Patterns:</u>

This publication of the Department of Commerce was the source of data for the number of establishments in the general merchandise, department, variety, and specialty store industries. The publication reports the number of establishments per industry, classifying them by the SIC Code. Data were not published for 1991 at the time of completion of this study.

This publication was also used to obtain the definitions of different categories based on their Standard Industrial Classification Code (SIC Code) (Appendix A). One problem facing this study was that the classification of retail trade is not the same classification that today's retail world suggests. Prior to 1987, The Department of Commerce had a two-digit SIC major group 53, called general merchandise group stores, then this group was further classified into department stores (531), variety stores (533), and miscellaneous general merchandise stores (539).

Since 1987, the Department of Commerce has initiated a new categorization, acknowledging the fact that the general merchandise retail market has changed with the new developing modes, particularly with regard to the department store classification. The general merchandise group of stores includes the following categories: department stores (conventional, discount, or mass merchandising, and national chain), variety stores, and miscellaneous general merchandise. This new classification allows more detailed reports on department stores; specifically, it started reporting on the discount store industry separately with the 1987 issue.

As opposed to the general merchandise category definitions which are very broad, the apparel and accessory store category is defined very narrowly and very precisely. SIC major group 56 includes the three-digit codes for men's and boys' clothing (561), women's ready to wear stores (562), family clothing stores (565), and many other detailed specialty stores. There are other specialty categories with different SIC codes such as book stores, jewelry stores, sporting goods, gift, and novelty stores. These different categories are not all under the category of specialty stores and are treated as different industries. As a result, only total establishment and total sales for the two-digit SIC major group 56 are available.

Since Standard and Poor's data on total sales of the different retail modes are also from the Department of Commerce, total sales data of the specialty store category do not reflect stores which are reported in groups other than SIC major group 56.

The classification of the general merchandise group by the Department of Commerce does not report on discount stores as a separate category; instead, it is assumed that these data are included in the department store category. This was adjusted for by subtracting the discount store industry's total data on sales and number of establishments from the department store industry's totals. The resulting figures for the department stores alone were too small in that, for example, the top eight firms' total sales were almost equal to the industry total sales. Hence, pure department store category totals could not be calculated with the available data. As a consequence, department store total data on sales and number of establishments reported by the Department of Commerce were used as industry total; and discount stores' totals reported by the Discount Merchandiser were used as discount stores industry's totals.

Not only did the census classification not compute with today's retail world's categorization, but even today's classifications are not in agreement. Indeed, there is little consensus as to what categories make up the general merchandise retail market. This study will adopt the following classifications to be both amenable to available data and appropriate to today's retail world's categorization. The general merchandise retail market includes:

1) Department Stores:
   a) Independent
   b) National Chains
   c) Holding Companies
2) Discount Stores:
   a) Full-line Discount
   b) Variety
3) Specialty Stores

As discussed in the review of literature chapter, the relevant market under study has to be defined. The relevant market in this study is thus composed of department stores, discount stores, and specialty stores. Furthermore, this market is defined as nation-wide.

The period of this study is from 1974 up to 1991. In relation to the time dimension of the relevant market, discussed in the Review of Literature Chapter, the seventeen year period of this study is neither too short as to include in the market only the existing firms, nor so long as to allow for substantive changes. Technology has changed the productivity of firms; the introduction of electronic data processing and the expanded use of the print and electronic media in advertising has proven economies of scale benefits to the firms (Bluestone et al., 1981, p. 112).

One limitation of this study arises due to the wide diversification of firms in all categories. As discussed in the History Chapter, due to a more competitive market place and the rise in discounters, firms have diversified into other modes of retailing like supermarkets, specialty stores, and even non-retailing, such as real estate and financial insurance businesses. The total sales of these companies through the 1974-1991 period consists of sales of operations other than the category they belong to. There is no feasible way to compare only the sales data that come from one line of business. The data are simply not published. Even annual reports do not break down the figures into that much detailed information. The General Merchandise retail market is basically what is called mixed merchandising; it is a lot of different businesses under one roof. All the companies that are large enough to be in the list of the top eight firms are diversified in one way or another. The goal of this study is to see how concentrated the market is and what share of the market belongs to the largest firm in each industry.

In Summary, the data for this study were collected from all of the sources mentioned above. For the most part, no single source of published data and statistics in the retail sector can provide all the necessary information for a broad-based analysis.

Methodology

This section explains how the data described above were used to examine the trends in the general merchandise retail market. To investigate whether concentration in the general merchandise retail market has increased, seller concentration was analyzed. Seller concentration refers to the number and size distribution of firms in the market. First, the number distribution and, next, the size distribution of firms were analyzed.

Seller Concentration

Number of Firms:

The number of firms in the general merchandise market and the three industries which make up the general merchandise market were studied between 1974 and 1991. The purpose was to look at the trend during this period, and to see whether the number of firms has increased or decreased over time. Economic theory defines a competitive market as one with a large number of sellers. The entrance of new firms adds to the competition; thus, an increase in the number of firms over time would suggest a more competitive market. A decreasing trend, resulting in fewer firms, would suggest a less competitive market. Even though the number of firms is one element of seller concentration, by itself it is not an indicator of the level of concentration. Therefore, size distribution of firms has to be analyzed before any conclusions are made regarding the level of concentration.

Size Distribution of Firms:

Size distribution of firms refers to their share of the market. Seller concentration was analyzed using absolute measures. These measures indicate the number and strength of the effective competitors in an industry (Rosenbush, 1975, p. 57). The index of concentration used most frequently is the Concentration Ratio.

Concentration Ratio, a measure of the size distribution of firms in a market, is the percentage market share accounted for by a specified number of the largest firms (Scherer, 1980, p. 56).

$$CR = \sum_{i=1}^{N} Si$$

where CR = Concentration Ratio

N = Number of the largest firms in the market

Si = Percentage market share of the ith firm

Through this study, percentage market share of a firm is calculated by the ratio of total sales of the firm to the industry.

$$Si = \frac{TS\ (Firm)}{TS\ (Industry)}$$

where TS = Total Sales

The concentration ratio for a monopoly would be 100 percent; in a competitive industry, the ratio for the largest four firms would be small (5 to 10 percent), and would depend on the number of firms in the industry; the ratio for an oligopoly would be somewhere between these limits (Caves, 1977, p. 8).

The choice of N, the number of largest firms to be included is somewhat arbitrary. The selection of this number is directed more by census disclosure or anti-trust rules than economic reasoning. The lowest number in the United States is the top-4 ratio, in the United Kingdom the top-3 ratio; this rule has been adopted by economists for matters of convenience and comparison (Marfeld, 1975, p. 486). Other widely used concentration ratios are 8, 20, and 50. The Marginal Concentration Ratio, which analyzes the combined share of the fifth through eight largest firms, is also used. This measure allows the next ranked top four firms among the top eight firms to be analyzed more closely and obtain their market share.

Concentration measures are intended to describe the properties of size distribution of firms. Size itself can be measured in a number of ways; by value-added, sales, employment, and assets. The correct technical measure of the importance of a firm's activity is usually its net output or value-added, which amounts to firm's sales revenue less the cost of inputs (Curry, and George, 1983, p. 203). Curry and George state that, for analysis of firms within the same market, a sales measure would be preferable since value-added will also depend on the degree of vertical integration. To use employment as a size variable would understate the importance of capital intensive firms (p.

203).

In this study, concentration ratios were calculated based on sales since, in retailing, the main activity of the firms is the sale of merchandise. The concentration ratios for the top eight, top four, and the top fifth through eight firms were calculated for the market. They were also calculated for the top leading firms in each of the three industries that make up the general merchandise retail market.

To investigate whether high concentration of sellers tends to support higher profits, the ratio of net income to sales for each of the top firms was calculated in the following form:

$$PR = \frac{\text{Net Income}}{\text{Sales}}$$

These ratios were examined to see whether the firms' profit rates have been eroded over the years. These ratios were considered for the leading firms in the general merchandise retail market and for the leading firms in each industry.

To investigate whether discount stores have experienced the most rapid growth, the sales growth rate of the discount store industry was calculated and compared with the department and specialty store industries. The objective was to see which of the three industries has had the largest sales growth rate during the period 1974 to 1991. The sales growth rates are in real terms, meaning that the sales figures were first divided by Consumer Price Index to adjust the 1974 and 1991 sales data to inflation. 1974 sales data were used to develop an index of sales growth. 1974 industry sales were set equal to 1.00 and the growth rates were calculated for period 1974-1991 by the following ratio:

$$GR = \frac{\text{1991 Industry Sales}}{\text{1974 Industry Sales}}$$

where GR = Growth Rate

This identified the industry which has had the highest sales growth rate.

The sales growth rate of the leading firms in the market was calculated as well. This identified the firm that has had the highest growth rate and the industry to which it belonged to. Firms' sales growth rates were similarly calculated by the ratio of the firms' 1991 real sales to the 1991 real sales.

CHAPTER 5

RESULTS

In this section the results of the study are reported based on the methodology discussed in Chapter 4. Results are presented according to the different categories of the general merchandise retail market. First, the results of the analysis of the number and size distribution (concentration measures) of firms are discussed. Second, the results of the profit analysis are reported. Last, the sales growth of different categories are compared.

Number of Firms

Concentration was defined as the number and size distribution of firms in an industry. Table 5.1 reports the number of firms in each category in retailing between 1974 and 1990. The discount store numbers were obtained entirely from Discount Merchandiser as discussed in Data Sources. Except for a slight decline in 1983, the number of stores increased continually through the years in the discount store industry; form 6,295 in 1974 to 14,375 establishments in 1990. The decline of 1.1 percent in the number of stores from 1982 to 1983 was due to contraction of operations during the recession; Woolworth, for example, closed its large Woolco chains in 1982 (Standard and Poor's, 1982, P. 111).

Apart from declines in 1983 and 1988, the number of establishments in the department store industry increased steadily during the reported time period. Between 1974 and 1990 the number of establishments increased by 2,461 stores. The decline of 3.2 percent from 1982 to 1983 was also a result of the 1981-82 recession. In 1984, the department store industry experienced a number of consolidations within this industry. Dillard Department Stores, for example, acquired the Stix and Beer & Fuller units of Associated Dry Goods and acquired the Diamond's unit of Dayton Hudson. These consolidations lead to the closing of unprofitable stores (Chain Store Age Executive, 1988, p. 24).

Specialty stores show an increasing trend in the number of stores between 1974 and 1990 even though there are oscillations in some years. The number of establishments for specialty stores increased by 39,630 between 1974 and 1990.

Variety store numbers fell continually between 1974 and 1986. After an increase of 4.3 percent from 1986 to 1987 in the number of stores, the decline returned in the remaining years. Between 1974 and 1990, the number of establishments fell by 39,360. This supports the assertion in the History Chapter which stated that variety stores are disappearing, with the exception of those which adapted and changed into discount store form of merchandising.

To distinguish a pattern in the general merchandise category as a whole is difficult due to the offsetting forces that comprise the general merchandise group. The general merchandise category includes department, discount, and specialty stores. The number of these stores has neither fallen nor increased dramatically in the reported time period.

Although the number of establishments points to trends in the general merchandise industry, it cannot indicate the degree of concentration in the market by itself. To conclude that an increasing trend in the number of firms suggests a less concentrated market, or vice versa, would be premature without an analysis of the size distribution of firms in the market. Only after analyzing both the number and size distribution of firms can the level of concentration in the market be assessed.

Size Distribution of Firms

Size distribution of firms was analyzed by calculating concentration ratios. The concentration ratios are discussed first for the market as a whole, then for each of the industries which make up the market.

General Merchandise Retail Market

The results of the 8-firm, 4-firm and 5th through 8th firm concentration ratios are shown in Table 5.2. Concentration in the general merchandise retail market increased over the period 1974 to 1991. The top eight firms held a market share of 43.19 percent in 1974, which increased by 8.98 percent points to 52.17 percent in 1991. The change in the 8 firm concentration ratio over the years was largely due to an increase in the top four firms' ratio. The top four firms' market share increased by 6.31 percentage points, from 32.04 percent in 1974 to 38.35 percent in 1991; compared to the fifth through eight largest firms which accounted for an increase of 2.67 percentage points, from 11.15 to 13.82 percent in the reported time period.

In summary, the general merchandise retail market has become more concentrated between 1974 and 1991. The sharpest increase was among the top four firms.

Department Store Industry

The results of concentration ratios are shown in Table 5.3. Concentration among the top eight firms in this industry decreased from 59.05 percent in 1974 to 54.41 percent in 1991. This decrease of 4.64 percent points is due to a decrease in the top four firm concentration ratio. The market share of the largest four firms in the department store industry dropped by 6.78 percent points, from 48.2 percent in 1974 to 41.42 percent in 1991. This is in contrast to the market share of the fifth through eight largest firms which offset the decreasing trend among the top eight firms. The top fifth through eighth firm concentration ratio increased by 2.14 percent points, from

10.85 percent in 1974 to 12.99 percent in 1991. This suggests increasing competition to the largest firms (1-4) from those next in size and rank (5-8) between 1974 and 1991. These firms were adding to their market share more than the larger firms were.

The overall decreasing trend can be explained by the changes that took place in the general merchandise retail market as discussed in the History Chapter. Beginning with the 1960's, discount stores were growing rapidly, while they were taking business away from department stores. Department stores, faced with more competition not only from within but also from the outside, did not manage to increase their market share.

The results of the department store industry show that it is more concentrated than the general merchandise market as a whole. However, the department store industry has become less concentrated during the 1974-91 period, while the general merchandise market has become more concentrated. In the department store industry, both the number and size distribution of firms suggest a less concentrated industry. The number of department stores has increased while the concentration ratios have fallen.

Discount Store Industry

Results of concentration ratios are shown in Table 5.4. The 8-firm concentration ratio increased by 15.88 percent points, from 53.84 percent to 69.72 percent. During this period the 4-firm ratio increased by 20.82 percent points, from 41.05 percent to 61.87 percent. Simultaneously, the market share of the fourth to eighth largest firms declined by 4.94 percent points, from 12.79 to 7.85 percent.

The increase in concentration among the top eight firms and leading four firms is mainly due to the dominant position of Wal-Mart and K-Mart in the discount store industry. These two have been the leading retailers in the discount store industry since 1984 and sales data of Wal-Mart and K-Mart accounted for 53 percent of total industry sales in 1991. Faced by inter-mode competition, other firms in the same industry lost market share as indicated by the decreasing 5th to 8th concentration ratio.

Overall, the concentration ratios suggest that the discount industry has become more concentrated. A comparison between the size distribution measure and the number distribution of firms shows that both measures increased over time. In the case of the discount store industry, these two results are contradictory; increasing number distribution suggests a more competitive environment while the concentration measure clearly indicates a more concentrated industry. However, it should be noted that not only did the number of firms grow, but so did the size of the largest firms in the industry. The number distribution of firms suggests, in this case, that the industry, as a whole, grew with more firms entering this mode of retailing;

but for the most part, this numerical increase of small firms did not take the market share away from the top firms.

Comparison between this industry and the department store industry, and the market as a whole shows that the discount store is more concentrated than the general merchandise market as a whole. Furthermore, concentration in the discount store industry exceeded concentration in the department store mode during the reported time period. The concentration ratio acquired by the top eight firms in the discount store industry was 69.72 percent in 1991; whereas the top eight firms in the general merchandise market held 52.17 percent; and the department store industry held 54.41 percent. The trends in the two industries and the market are different as well. The concentration ratios for the top eight firms show that the general merchandise market has become more concentrated. The discount store industry became more concentrated and the department store industry became less concentrated. So far, it appears that the cause of the rise in concentration of the market has been the simultaneous rise in the discount store industry; yet, in addition, the specialty store industry has to be analyzed to see if this industry may also have contributed to the rising concentration level in the market.

Specialty Store Industry

The results of concentration ratios for top firms in the specialty store industry are shown in Table 5.5. The 8-

firm concentration ratio rose by 6.15 percent points, from 20.15 percent in 1974 to 26.32 percent in 1991. The same pattern emerged in the 4-firm concentration ratio in the specialty store industry. The four firm concentration ratio increased by 6.94 percent points, from 13.49 percent in 1974 to 20.43 percent in 1991. The 5th through 8th firm concentration ratio fell, from 6.65 percent to 5.89 percent, by 0.76 percent points in the period 1974-91. This suggests that the increase in concentration in the specialty store industry is due to an increased market share of the top four firms which, also took market share away from smaller firms in the industry as indicated by the decreasing 5th through 8th firm concentration measure.

Comparison between number distribution of firms and size distribution of firms shows that they both have increased during 1974-1991 period. The increase in the number of specialty stores in the industry should create more competition for the existing firms, but in this case it has not. The new stores were probably too small to affect the market share of the top firms. The top eight firms have grown larger, increasing their share of the market. Thus, number distribution of firms by itself cannot explain the trend in concentration. The increase of the number of stores was described in the History Chapter as an expanding specialty store industry, with firms entering this mode of retailing to diversify in a growing sector of the retail market.

The specialty store industry is the least concentrated sector of the general merchandise retail market. The level of concentration acquired by the top eight firms was 26.32 percent in 1991, compared to the discount store at 69.72 percent, and that of the department store at 54.41 percent. The retail market itself was more concentrated than the specialty store industry, with the top eight firms holding 52.17 percent of the market share in 1981.

Having analyzed the three industries that make up the general merchandise market, it becomes apparent that the primary forces behind the increasing concentration in the market are the specialty and discount store industries, with the latter industry being the main contributor to this increase. The department store industry became less concentrated over the 1974-91 period, losing market share.

Profit Rates of the Leading Firms

The profit rates of the leading firms in each industry were calculated to investigate whether high concentration of sellers tends to support higher profits. Profit rate was calculated by the ratio of net income to sales of the firm. Results are first discussed for the general merchandise retail market and then for the three industries that make up the market.

General Merchandise Retail Market

The results of annual profit rates of top firms in the market are shown in Table 5.6. Analysis of the profit rates of leading firms in the general merchandise market indicates that out of eleven firms, six firms, namely Wal-Mart, J.C. Penney, May Department Stores, F.W. Woolworth, Zayre, and Montgomery Ward, had positive trends of profit rates over time. The remaining five firms, i.e., K-Mart, Sears Roebuck, Dayton Hudson, Melville, and Federated, had decreasing profit rates.

As shown in the previous section, concentration ratios suggested that the general merchandise market became more concentrated. Industrial Organization theory suggests that firms earn a higher rate of profit as the industry becomes more concentrated. The result of the general merchandise market does not support this idea entirely since the profit rates did not increase for all firms.

Department Store Industry

Results of annual profit rates in the department store industry are shown in Table 5.7. Profit rates of all except four firms declined over the years. Sears Roebuck, Dayton Hudson, Federated, R.H. Macy, Carter Hawley Hale, Allied Stores, and Associated Dry Goods had negative trends of profit rates over time. The firms which experienced positive trends in profit rates were J.C. Penney, May Department Stores, Montgomery Ward, and Dillard Department

Stores.

In summary, seven out of eleven leading department stores had declining levels of profit rates. The remaining four had increasing profit rates. As shown in the previous section, concentration ratios indicated that the department store industry has become less concentrated. Industrial Organization theory does not support the observation that firms had increasing profits in an industry that has become less concentrated.

Discount Store Industry

The results of annual profit rates for the top firms in the discount store industry are shown in Table 5.8. Net income data were not available for Meijer Discount Stores and thus, the profit rates could not be calculated. Wal-Mart's, F.W. Woolworth's ,Zayre's, SCOA's, Vornado's, and Rapid American's profit rates were positively related to time. The remaining firms, namely K-Mart, Service Merchandise, Ames Department Stores, Fred Meyer, Hills, Rose's, KDT, G.C. Murphy, Gamble Skogmo, and Arlen Realty had profit rates that were negatively related to time.

Except for six, 10 firms in the discount store industry experienced declining profit rates. The results show that the profit rates of most of the leading firms have not risen significantly over the years. Profit rates did not rise for all firms even though the discount store industry has become more concentrated as shown by the increasing concentration ratios.

Specialty Store Industry

The results of annual profit are shown in Table 5.9. Seven firms, i.e., Melville, U.S. Shoe, The Gap, Brown Group, INTERCO, Petrie Stores, and Edison Brothers, had declining profit rates. The Limited, Genesco, Cluett Peabody, Lerner Stores, McDonough, and Lane Bryant, had positive trends in profit rates over the years.

The analysis of profit rates in the discount store industry does not indicate a clear trend in the behavior of profit rates over the years. Seven firms had declining and six firms had increasing profit rates. Even though the specialty store industry has become more concentrated, the profit rates did not increase for all firms.

Overall, the profit rates of leading specialty stores were at a higher level than department stores; and the profit rates of leading department stores were higher than discount stores. Industrial Organization Theory suggests that profit rates of firms increase as the market becomes more concentrated and vice versa. Neither the profit rates of leading firms in the market as a whole nor for leading firms in the three industries clearly support this proposition.

Industry Sales Growth

To investigate whether discount stores have experienced the most rapid growth of all the three industries, the sales growth rate of the discount store industry was calculated and compared with the department and specialty store industries. Sales growth was calculated by setting the 1974 sales data equal to 1.00 as the base year, and calculating the ratio of 1991 sales to 1974 sales. Sales data were adjusted for inflation by indexing sales to 1991 dollars using the Consumer Price Index. That is, sales were converted to real terms before the sales growth rate was calculated. Sales growth rate was calculated for each of the three industries in this study and the results are shown in Table 5.10.

As shown in Table 5.10., the discount store industry's sales have grown from 87 billion in 1974 to 145 billion in 1991. The growth rate factor for the discount store industry is 1.66. Department store industry sales rose from 155 billion in 1959 to 179 billion in 1991; this is a growth rate factor 1.15 indicating that the industry's sales are 15 percent higher than they were in 1974. The specialty store industry's sales grew from 68 billion to 97 billion in 1991, resulting in a growth rate factor equal to 1.42. That the discount store industry had the highest sales growth over the 18 years, states that the discount stores expanded operations and continued growing rapidly in the 1970's and 1980's.

Industry sales results are further reinforced by examining the real sales data for the leading firms in 1991. Results are reported in Table 5.11. Sales data for Wal-Mart prior to 1976 were not available. However, 1976 sales data indicate an incredible growth rate factor of 36.63 between 1976 and 1991. Sales volume of K-Mart increase 2.1 times over the 1974-91 period. As mentioned in the discussion of discount store industry's concentration ratios, Wal-Mart and K-Mart are the dominant players in this industry. These two firms are the leading firms in the discount store industry since 1984 and they both accounted for 53 percent of total industry sales in 1991. They are not only the main cause for the increase in concentration in this industry but also, due to their high market share in the industry, the primary reason for the industry's sales growth. F.W. Woolworth, the third biggest company in the discount store industry, had decreasing sales in the period 1974-91. Even though F. W. Woolworth was used to playing a dominant role in the discount store industry, it lost influence extensively during the period mentioned above. Retailers in industries other than the discount industry had growth rate factors ranking from a low of 0.87 (Sears, Roebuck) to a high of 4.67 (Melville).

The analysis of sales growth shows that the discount store industry had the highest sales growth rate in the retail market. The level of sales growth of this industry and the individual firms which make up the industry further corroborates the relatively higher growth rate in the discount store industry as compared to other categories in the general merchandise retail market.

Summary of Results

First, the retail market has generally become more concentrated. The results suggest an increase in the concentration ratios for all general merchandise retail categories with the exception of the department store industry which experienced a decline in seller concentration. Second, high concentration of sellers does not necessarily support high profits as suggested by the industrial organization theory. Third, during the 1874-1991 period, the discount store industry had the highest sales growth rate in the general merchandise retail market.

CHAPTER 6

SUMMARY, CONCLUSIONS, AND IMPLICATIONS

This study was conducted to examine the degree and trend of seller concentration in the general merchandise retail market. The objective was to investigate whether this market had become less or more concentrated over the 1974-91 period, whether higher concentration of sellers supported higher profits, and whether these changes had taken place most rapidly in the discount store mode.

Results showed that seller concentration had increased over the years in the market defined in this study, including the general merchandise group and the apparel and accessory stores. This study also analyzed the industries that made up the general merchandise retail market; namely, department, discount, and specialty stores. The analysis of seller concentration in the department store industry indicated that this sector was the most concentrated of the three industries, but that seller concentration declined over time.

The increased concentration level in the market was evident in the other two industries, that is, discount and specialty store industry. These have become more concentrated over the years. The latter, however, is still the least concentrated in the market. The trend in the general merchandise retail market, therefore, is mixed. The historically highly concentrated department store industry has become less concentrated while the specialty and discount modes have become more concentrated over time.

Industrial Organization theory indicates that firms's profitability is positively related to the level of concentration in a market. The results of this study show mixed trends with regard to this relationship. For example, the profitability of leading firms such as Wal-Mart increased with greater concentration. However, other firms such as K-Mart, Hills, and Rose's experienced a lower rate of profitability as seller concentration increased. Thus, higher concentration of sellers does not necessarily support consistently higher profits.

The review of the history of the general merchandise retail market indicated that one major institutional change took place over the period 1974-1991; retailers tried to preserve and increase their market share either through adding new stores or by acquiring existing firms. As a result of the acquisitions that took place over the examined time period, retailers were able to rapidly increase their market share. This lead to increased concentration in the industry but also caused lower profit rates due to the cost involved in financing these activities. Since most acquisitions in the 1980's took place in the form of leveraged buy-outs, high interest rates during this time increased even further the cost of securing external funds.

Hence, acquisitions during the examined time period give one additional explanation why the profit rates of some firms declined despite increased market concentration.

Comparison of the sales growth rate in the three industries shows that the discount store industry had the highest sales growth. Discount stores real sales grew by 1.6 times between 1974 and 1991. The specialty store industry had the second highest sales growth rate, followed by the department store industry. These results confirm the proposition that discount stores have taken business away from department stores.

In conclusion, therefore, it appears that as a whole the general merchandise retail market has become more concentrated. This greater concentration, however, has not been matched by consistently higher profits for the firms within the general merchandise retail market. While the market has grown overall in sales, the most rapid growth has been in the discount store mode of the general merchandise retail market.

Consumer Effect Implications

The result of the study, suggesting higher concentration did not necessarily lead to an increase in profitability, should benefit the consumer. Economies of scale lead to cost advantages that force less efficient firms out of business. At the same time, these cost advantages did not substantially increase the profitability of leading firms in this more concentrated market. In other words, some of the cost savings were passed on the consumer in the form of lower prices. These savings coupled with increased product assortment and service imply that the consumer has benefitted from this greater competition, despite increased seller concentration in the market.

Public Policy Implications

While the new modes of retailing cause an escalation in the already competitive market, the existing modes respond to this new mode by either diversifying, acquiring, or merging with them. In this study a number of mergers and acquisitions were cited which have added to the power of the acquiring companies and their market share. This in turn has increased the seller concentration levels merely by combining the shares of the two firms, rather than either of them becoming larger by itself.

Results of this study provide information that is of interest to government agencies such as the Federal Trade Commission, which attempts to maintain fair competition. The results of seller concentration in the market should help guide policies toward mergers and acquisitions which reduce competition in the market.

Managerial Implications

Many researchers in the field of retailing are strong believers in retailing theories like the "Wheel Hypothesis" and the "Retail Life Cycle." While both of these theories seem to be descriptive, they cannot quantify the description they offer. The Industrial Organization model employed in this study offers an alternative by being able to quantify the suggested theories. In addition, seller concentration results of each mode of retailing show retail managers not only where concentration lies but also the extent of that concentration. They can see which mode of retailing has been losing market share and which one has become more concentrated. This study provides a detailed analysis of the trend in concentration level in each mode of retailing.

One important implication of this study is that the level of concentration does not guarantee higher profits as suggested by the industrial organization model. It became apparent that Industrial Organization is of little help in explaining the behavior of profit rates relative to the level of concentration. The major problem of the industrial organization model is that it does not address the competitive forces in a market. These competitive forces might have offset the market power of firms in a more concentrated market. For example, in the 1960's and 1970's department stores faced increased competition from the discount store mode which experienced its highest growth rate during this period. Department stores adjusted for this development by broadening merchandise lines, emphasizing quality goods, service, private label merchandise, and by adding data-based management systems to have better control over merchandise inventory. These adjustments caused operating cost to increase,profit rates to decline, and even further intensified competition in the market. Retail stores are also increasingly spending more money for promotions and in improving the ambience and fashion look of the stores. Competition also increased due to new forms of retailing such as flea markets, off-price retailers, and vendor outlet malls which have been taking business away from department, discount, and specialty stores. Thus, increased market share has not necessarily lead to higher profits and lower competition.

Retail managers should also be aware of other factors, besides the level of competition and degree of concentration, that are important determinants of the firms' profit rates. For example, in the 1970's and 1980's, the above-average rise in the cost of new construction increased at a rate of some 20 percent a year (Chain Store Age Executive, 1981, p.51). Furthermore, in recent years, store operating costs have increased as a result of higher energy expense. Selling prices did not increase as much in the face of slower consumer demand, however.

It is important to realize that often industry specific driving forces prevail. Not all industries face the same set of problems at the same time. During the 1970's, Department stores, for example, had to adjust to population movements to the suburbs. As a consequence, department stores opened suburban branches which caused operating costs to increase and profit rates to decline.

The important implication for retail mangers is that high market share does not guarantee high profits. Seller concentration is definitely a determinant of a firms profitability but the importance of this determinant should not be overemphasized. Competitive forces and industry specific developments can easily offset the advantages of a high market share.

Recommendations for Future Research

Industrial organization theory suggests that the structure of an industry affects its conduct, and conduct in turn affects its performance. The analysis of structure in this study was limited to one element of structure, namely, seller concentration. Other elements of the structure; barriers to entry, product differentiation, diversification, and vertical integration, need to be analyzed to provide a more comprehensive understanding of the structure of the industry.

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APPENDICES

Appendix A

General Explanations of Classifications By SIC Code and Discount Stores

General Merchandise Group Stores (SIC Major Group 53)

This major group includes retail stores which sell a number of lines of merchandise such as dry goods, apparel and accessories, furniture and home furnishing, small wares, hardware, and food. The stores in this group are known as department stores, variety stores, miscellaneous general merchandise stores (Retail Trade, 1990, Appendix B, p.24)

Department Stores (SIC 531)

Establishments normally employing 25 people or more, having sales of apparel and softgoods combined amounting to 20 percent or more of total sales, and selling each of the following lines of merchandise:

1. Furniture, home furnishing, appliances, radio and TV sets.
2. A general line of apparel for the family.
3. Household lines and dry goods.

To qualify as a department store, sales of each of the lines above must be less than 80 percent of total sales. An establishment with total sales of $10 million ($5 million prior 1972) or more is classified as a department store even if sales of one of the merchandise lines listed above exceed the maximum percent of total sales, provided that the combined sales of the other two groups are $1 million ($500,000 prior 1972) or more. Relatively few stores are included in this classification as a result of this special rule and most of those are, would otherwise have been classified in the apparel group (SIC major group 56). (Retail Trade 1990, Appendix B, p. 26).

Variety Stores (SIC 533)

Establishments primarily engaged in the retail sales of a variety of merchandise in the low and popular price ranges. Sales usually are made on a cash-and carry basis with the open selling method of display and customer selection of merchandise. These stores generally do not carry a complete line of merchandise, are not departmentalized, do not carry their own charge service, and do not deliver merchandise. (Retail Trade 1990, Appendix B, p. 27).

Miscellaneous General Merchandise Stores (SIC 539)

Establishments primarily engaged in the retail sale of a general line of apparel, dry goods, hardware, homewares or home furnishing, groceries, and other lines in limited amounts. Stores selling commodities covered in the definition of department stores but normally having less than 25 employees, and stores usually known as country general stores are included here. Also included are most catalog showrooms and establishments whose sales of apparel or furniture and home furnishing exceed half of their total sales, providing that sales of the smaller of the two lines in combination with dry goods and household lines account for 20 percent or more of total sales (Retail Trade 1991, Appendix B, p. 27).

Apparel and Accessory Stores (SIC Major Group 56)

Establishments in this major group are primarily engaged in selling clothing of all kinds and related articles for personal wear and adornment. Not included are establishments which meet the criteria for "Department Stores" (SIC 531) or "Miscellaneous General Merchandise Stores" (SIC 539) even though most of their receipts are from the sale of apparel and apparel accessories. (Retail Trade 1990, Appendix B, p. 28).

Discount Stores

A discount store is a departmentalized retail establishment utilizing many self-service techniques to sell hard goods, health aids and cosmetics, apparel and other soft goods, and other general merchandise. It operates at uniquely low margins. It has a minimum annual volume of $1 million, and is at least 10,000 square feet in size (Discount Merchandiser, May, 1989, p. 78).

Appendix B

Tables

Table 5.1

Number of Establishments
By Retail Categories (1974-1990)

Year	General Merchandise	Department	Discount	Variety	Specialty
1974	153,815	7,680	6,295	17,368	110,563
1975	151,108	7,560	6,387	16,728	109,291
1976	153,308	7,833	6,827	15,180	112,089
1987	158,963	8,169	7,636	14,746	117,835
1978	158,568	8,546	7,707	13,324	121,574
1979	160,833	9,013	7,919	13,079	123,484
1980	161,444	9,240	8,311	12,373	124,586
1981	162,934	9,560	8,531	12,019	126,033
1982	166,909	9,767	8,690	11,931	129,980
1983	174,955	9,460	8,593	11,187	139,602
1984	174,596	9,802	8,795	10,912	139,485
1985	174,558	9,982	8,943	10,657	139,293
1986	177,921	10,294	9,578	10,453	141,884
1987	186,306	10,415	10,564	10,905	149,596
1988	183,364	9,967	11,147	10,150	148,310
1989	183,318	10,124	13,457	10,069	147,484
1990	186,765	10,141	14,375	9,951	150,193

Source: Discount Merchandiser (1974-1992), Department of Commerce, Country Business Patterns (1975-1991)

Table 5.2

General Merchandise Retailers
Concentration Ratios of Top Firms

Year	8-Firm Concentration Ratio	4-Firm Concentration Ratio	5th through 8th-Firm Concentration Ratio
1974	43.19%	32.04%	11.15%
1975	44.47%	32.71%	11.76%
1976	44.32%	32.73%	11.59%
1977	45.23%	33.80%	11.43%
1978	43.19%	32.28%	10.91%
1979	42.76%	31.75%	11.00%
1980	42.70%	31.48%	11.22%
1981	40.31%	30.19%	10.11%
1982	40.37%	29.99%	10.38%
1983	42.10%	30.63%	11.47%
1984	40.87%	29.23%	11.64%
1985	43.45%	31.39%	12.06%
1986	43.51%	31.02%	12.49%
1987	45.22%	31.95%	13.27%
1988	46.58%	33.35%	13.23%
1989	46.94%	33.70%	13.24%
1990	48.70%	35.66%	13.05%
1991	52.17%	38.35%	13.82%

Figures represent the percentage of sales of the industry held by the number of firms indicated.

Table 5.3

Department Stores
Concentration Ratios of Top Firms

Year	8-Firm Concentration Ratio	4-Firm Concentration Ratio	5th through 8th-Firm Concentration Ratio
1974	59.05%	48.20%	10.85%
1975	58.65%	47.45%	11.20%
1976	54.71%	44.38%	10.33%
1977	53.53%	43.72%	9.81%
1978	51.79%	41.81%	9.98%
1979	49.47%	39.31%	10.16%
1980	48.55%	38.10%	10.46%
1981	46.84%	36.08%	10.76%
1982	47.25%	34.81%	12.44%
1983	52.74%	38.19%	14.56%
1984	55.82%	40.72%	15.10%
1985	58.98%	44.59%	14.39%
1986	56.99%	43.61%	13.38%
1987	56.51%	42.48%	14.03%
1988	56.83%	43.11%	13.72%
1989	56.64%	43.13%	13.52%
1990	55.30%	42.03%	13.26%
1991	54.41%	41.42%	12.99%

Figures represent the percentage of sales of the industry held by number of firms indicated.

Table 5.4

Discount Stores
Concentration Ratios of Top Firms

Year	8-Firm Concentration Ratio	4-Firm Concentration Ratio	5th through 8th-Firm Concentration Ratio
1974	53.84%	41.05%	12.79%
1975	57.15%	46.60%	10.55%
1976	60.26%	48.86%	11.40%
1977	62.29%	52.65%	9.63%
1978	58.75%	48.98%	9.76%
1979	50.90%	43.00%	7.90%
1980	48.21%	41.59%	6.62%
1981	47.54%	40.81%	6.73%
1982	49.99%	42.57%	7.42%
1983	55.80%	47.54%	8.26%
1984	52.85%	46.69%	6.16%
1985	58.95%	50.65%	8.29%
1986	62.64%	53.98%	8.66%
1987	63.73%	54.32%	9.41%
1988	62.48%	54.62%	7.86%
1989	64.46%	55.81%	8.65%
1990	67.15%	58.66%	8.48%
1991	69.72%	61.87%	7.85%

Figures represent the percentage of sales of the industry held by the number of firms indicated.

Table 5.5

Specialty Stores
Concentration Ratios of Top Firms

Year	8-Firm Concentration Ratio	4-Firm Concentration Ratio	5th through 8th-Firm Concentration Ratio
1974	20.15%	13.49%	6.65%
1975	19.98%	13.42%	6.56%
1976	18.69%	12.71%	5.98%
1977	19.85%	13.56%	6.29%
1978	19.45%	13.50%	5.95%
1979	20.38%	14.21%	6.16%
1980	22.11%	15.52%	6.59%
1981	21.84%	15.64%	6.20%
1982	22.67%	16.50%	6.17%
1983	21.58%	15.97%	5.61%
1984	22.14%	16.09%	6.05%
1985	20.89%	15.23%	5.66%
1986	21.34%	16.02%	5.31%
1987	22.84%	17.36%	5.48%
1988	24.40%	18.64%	5.76%
1989	22.91%	17.39%	5.52%
1990	24.41%	18.59%	5.82%
1991	26.32%	20.43%	5.89%

Figure represent the percentage of sales of the industry held by the number of firms indicated.

Table 5.6

General Merchandise Retailers Annual Profit Rates of Top Firms (In Percent), and Their Correlation With Time

Year	Wal-Mart	K-Mart	Sears Roebuck	J.C. Penney
1974	--	1.89%	3.90%	1.80%
1975	--	2.95%	3.83%	2.47%
1976	3.46%	3.17%	4.65%	2.73%
1977	3.23%	3.05%	4.87%	3.15%
1978	3.31%	3.19%	5.14%	2.54%
1979	3.29%	2.81%	4.62%	2.16%
1980	3.39%	1.84%	3.35%	2.05%
1981	3.39%	1.21%	3.54%	1.91%
1982	3.65%	1.54%	4.53%	3.43%
1983	4.17%	2.00%	3.20%	3.56%
1984	4.23%	2.62%	3.03%	3.69%
1985	3.87%	2.35%	2.88%	3.10%
1986	3.78%	2.08%	2.72%	2.75%
1987	3.94%	2.38%	2.80%	3.43%
1988	4.05%	2.68%	1.73%	3.80%
1989	4.17%	2.92%	2.50%	5.06%
1990	3.96%	1.09%	0.80%	4.71%
1991	3.66%	2.34%	1.55%	3.31%

Table 5.6 Continued

Year	Dayton Hudson	May Dept. Strs.	Melville	F.W. Woolworth
1974	1.70%	2.77%	3.50%	1.44%
1975	3.09%	3.34%	4.88%	2.13%
1976	3.48%	3.18%	5.21%	2.11%
1977	4.52%	3.57%	4.96%	1.66%
1978	3.65%	3.90%	5.79%	2.11%
1979	3.31%	3.72%	5.00%	2.65%
1980	3.72%	3.86%	5.75%	2.19%
1981	3.64%	3.69%	4.93%	1.62%
1982	5.52%	3.69%	4.35%	-6.85%
1983	3.50%	3.87%	4.49%	1.50%
1984	3.49%	4.42%	4.30%	2.30%
1985	3.23%	4.49%	4.61%	2.46%
1986	3.23%	4.63%	4.52%	2.97%
1987	2.75%	3.67%	4.81%	3.29%
1988	2.14%	4.20%	5.25%	3.52%
1989	2.35%	4.28%	5.27%	3.56%
1990	3.00%	5.36%	4.43%	3.73%
1991	2.78%	5.68%	3.50%	3.24%

Table 5.6 Continued

Year	Federated	Zayre	Montgomery Ward
1974	3.64%	0.79%	1.21%
1975	4.55%	0.45%	1.80%
1976	3.78%	0.96%	2.27%
1977	3.98%	0.94%	2.36%
1978	3.66%	1.00%	2.36%
1979	3.50%	1.10%	1.39%
1980	4.40%	1.13%	-2.49%
1981	3.66%	1.23%	-2.16%
1982	3.03%	1.64%	-1.34%
1983	3.89%	2.35%	0.60%
1984	3.40%	2.44%	1.05%
1985	2.88%	2.34%	0.78%
1986	2.73%	1.66%	2.36%
1987	3.27%	2.31%	2.86%
1988	-0.41%	--	2.93%
1989	-32.10%	--	2.98%
1990	-3.80%	--	2.92%
1991	-0.10%	--	2.40%

Table 5.7

Department Stores Annual Profit Rates of Top Firms (In Percent), and Their Correlation With Time

Year	Sears Roebuck	J.C. Penney	Dayton Hudson	May Dept. Stores
1974	3.90%	1.80%	1.70%	2.77%
1975	3.83%	2.47%	3.09%	3.34%
1976	4.65%	2.73%	3.48%	3.18%
1977	4.87%	3.15%	4.52%	3.57%
1978	5.14%	2.54%	3.65%	3.90%
1979	4.62%	2.16%	3.31%	3.72%
1980	3.35%	2.05%	3.72%	3.86%
1981	3.54%	1.91%	3.64%	3.69%
1982	4.53%	3.43%	5.52%	3.69%
1983	3.20%	3.56%	3.50%	3.87%
1984	3.03%	3.69%	3.49%	4.42%
1985	2.88%	3.10%	3.23%	4.49%
1986	2.72%	2.75%	3.23%	4.63%
1987	2.80%	3.43%	2.75%	3.67%
1988	1.73%	3.80%	2.14%	4.20%
1989	2.50%	5.06%	2.35%	4.28%
1990	0.80%	4.71%	3.00%	5.36%
1991	1.55%	3.31%	2.78%	5.68%

Table 5.7 Continued

Year	Federated	R.H. Macy	Montgomery Ward	Dillard Dept. Strs.
1974	3.64%	3.33%	1.21%	--
1975	4.55%	3.20%	1.80%	--
1976	3.78%	3.56%	2.27%	--
1977	3.98%	3.73%	2.36%	--
1978	3.66%	3.86%	2.36%	--
1979	3.50%	3.68%	1.39%	--
1980	4.40%	3.70%	-2.49%	2.10%
1981	3.66%	3.86%	-2.16%	1.80%
1982	3.03%	4.42%	-1.34%	2.70%
1983	3.89%	5.57%	0.60%	3.10%
1984	3.40%	5.46%	1.05%	4.00%
1985	2.88%	4.33%	0.78%	3.90%
1986	2.73%	4.41%	2.36%	4.20%
1987	3.27%	-1.46%	2.86%	4.00%
1988	-0.41%	-3.28%	2.93%	4.10%
1989	-32.10%	-0.77%	2.98%	4.40%
1990	-3.80%	-2.96%	2.92%	4.68%
1991	-0.01%	-2.22%	2.40%	4.90%

Table 5.7 Continued

Year	Carter Hawley Hall	Allied Stores	Associated Dry Goods
1974	2.89%	2.26%	2.85%
1975	3.32%	3.13%	3.09%
1976	3.06%	3.45%	2.66%
1977	3.60%	3.88%	2.88%
1978	3.02%	3.94%	2.15%
1979	2.91%	4.07%	2.46%
1980	2.16%	3.66%	2.65%
1981	1.57%	3.22%	2.54%
1982	1.60%	2.83%	2.45%
1983	1.86%	3.47%	3.12%
1984	0.73%	3.55%	2.94%
1985	-0.12%	-1.09%	2.73%
1986	0.63%	-2.68%	--
1987	0.11%	--	--
1988	0.36%	--	--
1989	0.27%	--	--
1990	--	--	--
1991	--	--	--

Table 5.8
Discount Stores Annual Profit Rates of Top Firms
(In Percent), and Their Correlation With Time

Year	Wal-Mart	K-Mart	F.W. Woolworth	Meijer
1974	--	1.89%	1.44%	--
1975	--	2.95%	2.13%	--
1976	3.46%	3.17%	2.11%	--
1977	3.23%	3.05%	1.66%	--
1978	3.31%	3.19%	2.11%	--
1979	3.29%	2.81%	2.65%	--
1980	3.39%	1.84%	2.19%	--
1981	3.39%	1.21%	1.62%	--
1982	3.65%	1.54%	-6.85%	--
1983	4.17%	2.00%	1.50%	--
1984	4.23%	2.62%	2.30%	--
1985	3.87%	2.35%	2.46%	--
1986	3.78%	2.08%	2.97%	--
1987	3.94%	2.38%	3.29%	--
1988	4.05%	2.68%	3.52%	--
1989	4.17%	2.92%	3.56%	--
1990	3.96%	1.09%	3.73%	--
1991	3.66%	2.34%	3.24%	--

Table 5.8 Continued

Year	Service Merchandise	Ames Dept. Strs.	Fred Meyer	Hills
1974	--	2.20%	--	1.48%
1975	--	2.76%	--	1.78%
1976	--	3.07%	--	1.66%
1977	--	3.09%	--	1.97%
1978	4.13%	3.03%	--	2.60%
1979	2.69%	2.83%	--	3.45%
1980	2.38%	2.75%	--	2.97%
1981	2.16%	2.79%	--	3.03%
1982	2.67%	3.13%	--	3.13%
1983	3.18%	3.16%	--	3.20%
1984	2.73%	3.24%	1.48%	2.88%
1985	0.42%	3.09%	1.23%	4.18%
1986	-0.68%	2.76%	1.33%	4.03%
1987	0.92%	1.49%	1.73%	2.02%
1988	2.47%	1.63%	1.76%	1.32%
1989	2.18%	1.44%	-0.30%	0.66%
1990	1.77%	-4.59%	1.36%	0.29%
1991	2.24%	-25.51%	1.67%	-12.80%

Table 5.8 Continued

Year	Zayre	Rose's	SCOA	KDT
1974	0.79%	1.11%	1.48%	2.97%
1975	0.45%	0.79%	1.78%	3.22%
1976	0.96%	1.48%	1.66%	3.91%
1977	0.94%	1.51%	1.97%	3.59%
1978	1.00%	1.43%	2.60%	2.83%
1979	1.10%	1.27%	3.45%	2.71%
1980	1.13%	1.39%	2.97%	0.53%
1981	1.23%	1.75%	3.03%	0.53%
1982	1.64%	1.81%	3.13%	-7.03%
1983	2.35%	2.64%	2.20%	--
1984	2.44%	2.58%	2.88%	--
1985	2.34%	2.01%	--	--
1986	1.66%	2.00%	--	--
1987	2.31%	1.35%	--	--
1988	--	1.11%	--	--
1989	--	0.60%	--	--
1990	--	-1.82%	--	--
1991	--	-1.64%	--	--

Table 5.8 Continued

Year	G.C. Murphy	Gamble Skogmo	Arlen Realty	Vornado
1974	1.84%	2.01%	-1.21%	0.27%
1975	1.77%	1.67%	-7.18%	0.61%
1976	1.65%	1.45%	-2.81%	0.01%
1977	1.25%	1.14%	--	-1.05%
1978	0.03%	1.19%	--	1.58%
1979	1.30%	1.52%	--	-0.11%
1980	1.16%	--	--	-0.60%
1981	0.06%	--	--	0.83%
1982	1.33%	--	--	4.23%
1983	2.10%	--	--	7.49%
1984	--	--	--	11.84%
1985	--	--	--	8.27%
1986	--	--	--	13.62%
1987	--	--	--	16.50%
1988	--	--	--	13.51%
1989	--	--	--	12.58%
1990	--	--	--	12.84%
1991	--	--	--	12.98%

Table 5.8 Continued

Year	Rapid American
1974	2.89%
1975	0.23%
1976	0.59%
1977	2.00%
1978	1.81%
1979	1.34%
1980	1.06%
1981	0.26%
1982	1.78%
1983	2.27%
1984	--
1985	--
1986	--
1987	--
1988	--
1989	--
1990	--
1991	--

Table 5.9

Specialty Stores Annual Profit Rates of Top Firms (In Percent), and Their Correlation with Time

Year	Melville	The Limited	U.S. Shoe	The Gap
1974	3.50%	5.77%	2.88%	0.00%
1975	4.88%	5.50%	2.66%	0.00%
1976	5.21%	6.96%	4.70%	0.00%
1977	4.96%	7.10%	3.16%	4.38%
1978	5.79%	5.86%	3.74%	4.74%
1979	5.00%	1.89%	3.51%	4.29%
1980	5.75%	3.17%	4.82%	3.06%
1981	4.93%	6.14%	5.40%	3.03%
1982	4.35%	4.66%	4.79%	2.88%
1983	4.49%	6.53%	4.37%	4.04%
1984	4.30%	4.66%	4.42%	4.57%
1985	4.61%	5.99%	3.11%	0.34%
1986	4.52%	6.02%	3.38%	5.26%
1987	4.81%	6.82%	1.27%	8.02%
1988	5.25%	7.07%	1.66%	6.59%
1989	5.27%	5.90%	0.55%	5.91%
1990	4.43%	7.31%	1.92%	6.18%
1991	3.50%	7.40%	-1.02%	7.50%

Table 5.9 Continued

	Brown Group	INTERCO	Petrie Stores	Edison Brothers
1974	2.46%	4.52%	10.00%	3.99%
1975	1.77%	4.85%	10.50%	4.90%
1976	2.49%	4.90%	10.84%	5.43%
1977	3.04%	4.91%	10.84%	5.82%
1978	3.40%	5.00%	11.22%	6.22%
1979	3.65%	5.27%	11.57%	5.64%
1980	3.68%	5.11%	9.65%	4.98%
1981	4.12%	4.45%	8.87%	4.60%
1982	4.27%	3.34%	7.92%	2.53%
1983	4.05%	4.04%	7.62%	3.62%
1984	4.17%	4.43%	7.78%	3.50%
1985	3.44%	2.74%	5.74%	3.12%
1986	3.49%	3.66%	6.71%	2.69%
1987	2.86%	3.79%	6.15%	3.75%
1988	2.79%	4.34%	3.82%	-2.24%
1989	1.76%	-0.20%	2.88%	3.95%
1990	1.69%	-3.08%	2.57%	5.98%
1991	1.80%	-10.49%	0.23%	4.70%

Table 5.9 Continued

Year	Genesco	Cluett Peabody	Lerner Stores	Mc Donough
1974	1.30%	-1.75%	4.77%	3.97%
1975	1.43%	2.31%	4.29%	4.70%
1976	-7.94%	2.93%	5.24%	3.71%
1977	0.93%	3.28%	4.66%	4.68%
1978	-0.08%	3.28%	5.93%	3.15%
1979	0.41%	2.57%	7.27%	4.79%
1980	0.74%	2.13%	7.30%	--
1981	1.91%	2.60%	6.43%	--
1982	0.17%	2.73%	--	--
1983	-0.31%	--	--	--
1984	-1.57%	--	--	--
1985	-6.65%	--	--	--
1986	1.06%	--	--	--
1987	0.96%	--	--	--
1988	3.28%	--	--	--
1989	3.84%	--	--	--
1990	0.27%	--	--	--
1991	-0.57%	--	--	--

Table 5.9 Continued

Year	Lane Bryant
1974	2.42%
1975	3.03%
1976	2.60%
1977	--
1978	--
1979	--
1980	--
1981	--
1982	--
1983	--
1984	--
1985	--
1986	--
1987	--
1988	--
1989	--
1990	--
1991	--

Table 5.10.

Growth Rate of the Industry, 1974-1991

Industry	Sales in Constant Dollar (1991 = 100) (000-omitted)		Growth Rate
	1974	1991	
Department Store	155,444,000	179,117,000	1.15
Discount Store	87,286,000	144,596,000	1.66
Specialty Store	68,732,000	97,464,000	1.42

Table 5.11.

Growth Rate of the Leading Retailers, 1974-1991

Firm	Sales in Constant Dollar (1991 = 100) (000-omitted)		Growth Rate
	1974	1991	
Wal-Mart	--	43,887,000	--
K-Mart	15,303,193	32,281,000	2.10
Sears, Roebuck	36,215,162	31,433,000	0.87
J.C. Penney	19,173,221	17,410,000	0.91
Dayton	4,063,529	14,739,000	3.63
May Dept. Strs.	6,954,992	10,615,000	1.53
Melville	2,114,693	9,886,000	4.67
F.W. Woolworth	11,546,503	9,789,000	0.85

Appendix C

Eight Leading General Merchandise Chains Ranked by Sales, 1974-1991

Eight Leading General Merchandise Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	13,101,000	511,000	3.90%
J.C. Penney	6,936,000	125,000	1.80%
S.S. Kresge	5,536,000	104,700	1.89%
F.W. Woolworth	4,177,000	60,100	1.44%
Montgomery Ward	3,623,000	44,000	1.21%
Federated Dept.	3,269,000	119,000	3.64%
W.T. Grant	1,762,000	(177,300)	-10.06%
May Dept. Strs.	1,697,000	47,000	2.77%

Eight Leading General Merchandise Chains in 1975
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	13,640,000	523,000	3.83%
J.C. Penney	7,679,000	190,000	2.47%
S.S. Kresge	6,798,000	200,800	2.95%
F.W. Woolworth	4,650,000	99,100	2.13%
Montgomery Ward	3,779,000	68,000	1.80%
Federated Dept.	3,713,000	169,000	4.55%
Rapid-American	2,282,000	5,280	0.23%
May Dept. Strs.	2,004,000	67,000	3.34%

Eight Leading General Merchandise Chains in 1976
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	14,950,000	695,000	4.65%
K-Mart	8,382,000	266,000	3.17%
J.C. Penny	8,354,000	228,000	2.73%
F.W. Woolworth	5,122,000	108,200	2.11%
Federated Dept.	4,447,000	168,000	3.78%
Montgomery Ward	4,049,000	92,000	2.27%
Rapid-American	2,363,000	13,900	0.59%
May Dept. Strs.	2,171,000	69,000	3.18%

Eight Leading General Merchandise Chains in 1977
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,224,000	838,000	4.87%
K-Mart	9,941,000	303,000	3.05%
J.C. Penney	9,369,000	295,000	3.15%
F.W. Woolworth	5,535,000	91,900	1.66%
Federated Dept.	4,923,000	196,000	3.98%
Montgomery Ward	4,569,000	108,000	2.36%
Rapid-American	2,380,000	47,700	2.00%
May Dept. Strs.	2,355,000	84,000	3.57%

Eight Leading General Merchandise Chains in 1978
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,946,000	922,000	5.14%
K-Mart	11,208,000	358,000	3.19%
J.C. Penney	10,848,000	276,000	2.54%
Federated Dept.	5,405,000	198,000	3.66%
F.W. Woolworth	5,122,000	108,000	2.11%
Montgomery Ward	5,049,000	119,000	2.36%
Dayton Hudson	2,654,000	97,000	3.65%
May Dept. Strs.	2,516,000	98,000	3.90%

Eight Leading General Merchandise Chains in 1979
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,514,000	810,000	4.62%
K-Mart	12,731,000	358,000	2.81%
J.C. Penney	11,274,000	244,000	2.16%
F.W. Woolworth	6,785,000	180,000	2.65%
Federated Dept.	5,806,000	203,000	3.50%
Montgomery Ward	5,251,000	73,000	1.39%
Dayton Hudson	2,962,000	98,000	3.31%
May Dept. Strs.	2,717,000	101,000	3.72%

Eight Leading General Merchandise Chains in 1980
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	18,195,000	609,000	3.35%
K-Mart	14,204,000	261,000	1.84%
J.C. Penney	11,353,000	233,000	2.05%
F.W. Woolworth	7,130,000	156,000	2.19%
Federated Dept.	6,301,000	277,000	4.40%
Montgomery Ward	5,497,000	(137,000)	-2.49%
Dayton Hudson	3,385,000	126,000	3.72%
May Dept. Strs.	2,957,000	114,000	3.86%

Eight Leading General Merchandise Chains in 1981
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	18,357,000	650,000	3.54%
K-Mart	16,527,000	200,000	1.21%
J.C. Penney	11,860,000	227,000	1.91%
Federated Dept.	7,068,000	259,000	3.66%
Montgomery Ward	5,742,000	(124,000)	-2.16%
F.W. Woolworth	5,075,000	82,000	1.62%
Dayton Hudson	4,034,000	147,000	3.64%
May Dept. Strs.	3,173,000	117,000	3.69%

Eight Leading General Merchandise Chains in 1982
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	19,020,000	861,000	4.53%
K-Mart	17,040,000	262,000	1.54%
J.C. Penney	11,414,000	392,000	3.43%
Federated Dept.	7,699,000	233,000	3.03%
F.W. Woolworth	5,157,000	(353,000)	-6.85%
Dayton Hudson	4,943,000	273,000	5.52%
Montgomery Ward	5,584,000	(75,000)	-1.34%
May Dept. Strs.	3,413,000	126,000	3.69%

Eight Leading General Merchandise Chains in 1983
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	20,439,000	654,000	3.20%
K-Mart	18,879,000	378,000	2.00%
J.C. Penney	12,078,000	430,000	3.56%
Federated Dept.	8,690,000	338,000	3.89%
Dayton Hudson	5,661,000	198,000	3.50%
Montgomery Ward	6,646,000	40,000	0.60%
F.W. Woolworth	5,482,000	82,000	1.50%
Wal-Mart	4,703,000	196,000	4.17%

Eight Leading General Merchandise Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	21,671,000	656,000	3.03%
K-Mart	18,754,000	492,000	2.62%
J.C. Penney	12,647,000	467,000	3.69%
Federated Dept.	9,672,000	329,300	3.40%
Dayton Hudson	6,963,000	243,000	3.49%
Montgomery Ward	6,495,000	68,000	1.05%
Wal-Mart	6,401,000	271,000	4.23%
F.W. Woolworth	5,124,000	118,000	2.30%

Eight Leading General Merchandise Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	26,552,000	766,000	2.88%
K-Mart	21,267,000	499,000	2.35%
J.C. Penney	14,038,000	435,000	3.10%
Federated Dept.	9,978,000	287,000	2.88%
Wal-Mart	8,451,000	327,000	3.87%
Dayton Hudson	8,009,000	259,000	3.23%
F.W. Woolworth	5,737,000	141,000	2.46%
Montgomery Ward	5,389,000	42,000	0.78%

Eight Leading General Merchandise Chains in 1986
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	27,074,000	736,000	2.72%
K-Mart	22,599,000	471,000	2.08%
J.C. Penney	14,418,000	397,000	2.75%
Wal-Mart	11,909,000	450,000	3.78%
Federated Dept.	10,512,000	287,000	2.73%
Dayton Hudson	8,793,000	284,000	3.23%
F.W. Woolworth	5,958,000	177,000	2.97%
Zayre	5,351,000	89,000	1.66%

Eight Leading General Merchandise Chains in 1987
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	28,086,000	787,000	2.80%
K-Mart	23,999,000	570,000	2.38%
Wal-Mart	15,959,000	628,000	3.94%
J.C. Penney	15,443,000	530,000	3.43%
May Dept. Strs.	10,376,000	381,000	3.67%
Dayton Hudson	9,259,000	255,000	2.75%
Federated	8,539,000	279,000	3.27%
F.W. Woolworth	6,501,000	214,000	3.29%

Eight Leading General Merchandise Chains in 1988
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears	30,256,000	524,000	1.73%
K-Mart	25,822,000	692,000	2.68%
Wal-Mart	20,649,000	837,000	4.05%
J.C. Penney	16,008,000	608,000	3.80%
Dayton Hudson	10,677,000	228,000	2.14%
May Dept. Strs.	10,581,000	444,000	4.20%
Camp./Feder./All.	8,388,000	(34,000)	-0.41%
F.W. Woolworth	7,134,000	251,000	3.52%

Eight Leading General Merchandise Chains in 1989
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears	31,599,000	647,000	2.05%
K-Mart	27,496,000	803,000	2.92%
Wal-Mart	25,811,000	1,076,000	4.17%
J.C. Penney	15,938,000	807,000	5.06%
Dayton Hudson	12,204,000	287,000	2.35%
May Dept. Strs.	11,742,000	503,000	4.28%
F.W. Woolworth	8,088,000	288,000	3.56%
Champeau	7,573,000	(2,429,000)	-32.07%

Eight Leading General Merchandise Chains in 1990
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Wal-Mart	32,602,000	1,291,000	3.96%
Sears, Roebuck	31,986,000	257,000	0.80%
K-Mart	29,736,000	323,000	1.09%
J.C. Penney	17,045,000	802,000	4.71%
Dayton Hudson	13,644,000	410,000	3.00%
May Dept. Strs	9,602,000	515,000	5.36%
F.W. Woolworth	8,820,000	329,000	3.73%
Melville Shoe	8,687,000	385,000	4.43%

Eight Leading General Merchandise Chains in 1991
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Wal-Mart	43,887,000	1,608,000	3.66%
K-Mart	32,281,000	756,000	2.34%
Sears, Roebuck	31,433,000	486,000	1.55%
J.C. Penney	17,410,000	577,000	3.31%
Dayton Hudson	14,739,000	410,000	2.78%
May Dept. Strs	10,615,000	603,000	5.68%
Melville Shoe	9,886,000	346,000	3.50%
F.W. Woolworth	9,789,000	317,000	3.24%

Appendix D

Eight Leading Discount Store Chains Ranked by Sales, 1974-1991

Eight Leading Department Store Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	13,101,000	511,000	3.90%
J.C. Penney	6,936,000	125,000	1.80%
Montgomery Ward	3,623,000	44,000	1.21%
Federated Dept.	3,269,000	119,000	3.64%
May Dept. Strs.	1,697,000	47,000	2.77%
Allied Stores	1,596,000	36,000	2.26%
Dayton Hudson	1,470,000	25,000	1.70%
Assoc. Dry Goods	1,300,000	37,000	2.85%

Eight Leading Department Store Chains in 1975
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	13,640,000	523,000	3.83%
J.C. Penney	7,679,000	190,000	2.47%
Montgomery Ward	3,779,000	68,000	1.80%
Federated Dept.	3,713,000	169,000	4.55%
May Dept. Strs.	2,004,000	67,000	3.34%
Allied Stores	1,755,000	55,000	3.13%
Dayton Hudson	1,652,000	51,000	3.09%
Assoc. Dry Goods	1,391,000	43,000	3.09%

Eight Leading Department Store Chains in 1976
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	14,950,000	695,000	4.65%
J.C. Penney	8,354,000	228,000	2.73%
Federated Dept.	4,447,000	168,000	3.78%
Montgomery Ward	4,049,000	92,000	2.27%
May Dept. Strs.	2,171,000	69,000	3.18%
Dayton Hudson	1,899,000	66,000	3.48%
Allied Stores	1,797,000	62,000	3.45%
Assoc. Dry Goods	1,539,000	41,000	2.66%

Eight Leading Department Store Chains in 1977
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,224,000	838,000	4.87%
J.C. Penney	9,369,000	295,000	3.15%
Federated Dept.	4,923,000	196,000	3.98%
Montgomery Ward	4,569,000	108,000	2.36%
May Dept. Strs.	2,355,000	84,000	3.57%
Dayton Hudson	2,169,000	98,000	4.52%
Allied Stores	1,908,000	74,000	3.88%
R.H. Macy	1,661,000	53,000	3.19%

Eight Leading Department Store Chains in 1978
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,946,000	922,000	5.14%
J.C. Penney	10,848,000	276,000	2.54%
Federated Dept.	5,405,000	198,000	3.66%
Montgomery Ward	5,049,000	119,000	2.36%
Dayton Hudson	2,654,000	97,000	3.65%
May Dept. Strs.	2,516,000	98,000	3.90%
Carter Hawley Hale	2,117,000	64,000	3.02%
Allied Stores	2,083,000	82,000	3.94%

Eight Leading Department Store Chains in 1979
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	17,514,000	810,000	4.62%
J.C. Penney	11,274,000	244,000	2.16%
Federated Dept.	5,806,000	203,000	3.50%
Montgomery Ward	5,251,000	73,000	1.39%
Dayton Hudson	2,962,000	98,000	3.31%
May Dept. Strs.	2,717,000	101,000	3.72%
Carter Hawley Hale	2,409,000	70,000	2.91%
Allied Stores	2,210,000	90,000	4.07%

Eight Leading Department Store Chains in 1980
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	18,195,000	609,000	3.35%
J.C. Penney	11,353,000	233,000	2.05%
Federated Dept.	6,301,000	277,000	4.40%
Montgomery Ward	5,497,000	(137,000)	-2.49%
Dayton Hudson	3,385,000	126,000	3.72%
May Dept. Strs.	2,957,000	114,000	3.86%
Carter Hawley Hale	2,633,000	57,000	2.16%
R.H. Macy	2,374,000	103,000	4.34%

Eight Leading Department Store Chains in 1981
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	18,357,000	650,000	3.54%
J.C. Penney	11,860,000	227,000	1.91%
Federated Dept.	7,068,000	259,000	3.66%
Montgomery Ward	5,742,000	(124,000)	-2.16%
Dayton Hudson	4,034,000	147,000	3.64%
May Dept. Strs.	3,173,000	117,000	3.69%
Carter Hawley Hale	2,871,000	45,000	1.57%
Assoc. Dry Goods	2,751,000	69,000	2.54%

Eight Leading Department Store Chains in 1982
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	19,020,000	861,000	4.53%
J.C. Penney	11,414,000	392,000	3.43%
Federated Dept.	7,699,000	233,000	3.03%
Dayton Hudson	4,943,000	273,000	5.52%
Montgomery Ward	5,584,000	(75,000)	-1.34%
May Dept. Strs.	3,413,000	126,000	3.69%
Allied Stores	3,216,000	91,000	2.83%
Assoc. Dry Goods	3,189,000	78,000	2.45%

Eight Leading Department Store Chains in 1983
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	20,439,000	654,000	3.20%
J.C. Penney	12,078,000	430,000	3.56%
Federated Dept.	8,690,000	338,000	3.89%
Dayton Hudson	5,661,000	198,000	3.50%
Montgomery Ward	6,646,000	40,000	0.60%
May Dept. Strs.	3,670,000	142,000	3.87%
R.H. Macy	3,827,000	213,000	5.57%
Assoc. Dry Goods	3,722,000	116,000	3.12%

Eight Leading Department Store Chains in 1984
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	21,671,000	656,000	3.03%
J.C. Penney	12,647,000	467,000	3.69%
Federated Dept.	9,672,000	329,300	3.40%
Dayton Hudson	6,963,000	243,000	3.49%
Montgomery Ward	6,495,000	68,000	1.05%
May Dept. Strs.	4,229,000	187,000	4.42%
Assoc. Dry Goods	4,107,000	120,700	2.94%
R.H. Macy	4,065,000	221,800	5.46%

Eight Leading Department Store Chains in 1985
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	26,552,000	766,000	2.88%
J.C. Penney	14,038,000	435,000	3.10%
Federated Dept.	9,978,000	287,000	2.88%
Dayton Hudson	8,009,000	259,000	3.23%
Montgomery Ward	5,389,000	42,000	0.78%
May Dept. Strs	4,762,000	214,000	4.49%
Associated Dry Goods	4,385,000	119,700	2.73%
R.H. Macy	4,368,000	189,000	4.33%

Eight Leading Department Store Chains in 1986
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	27,074,000	736,000	2.72%
J.C. Penney	14,418,000	397,000	2.75%
Federated Dept.	10,512,000	287,000	2.73%
Dayton Hudson	8,793,000	284,000	3.23%
May Dept. Strs.	5,080,000	235,000	4.63%
R.H. Macy	4,653,000	205,000	4.41%
Montgomery Ward	4,483,000	106,000	2.36%
Allied Stores	4,435,000	(119,000)	-2.68%

Eight Leading Department Store Chains in 1987
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	28,086,000	787,000	2.80%
J.C. Penney	15,443,000	530,000	3.43%
May Dept. Strs.	10,376,000	381,000	3.67%
Dayton Hudson	9,259,000	255,000	2.75%
Federated	8,539,000	279,000	3.27%
R. H. Macy	5,210,000	(76,000)	-1.46%
Montgomery Ward	4,552,000	130,000	2.86%
Carter Hawley Hale	2,563,000	2,800	0.11%

Eight Leading Department Store Chains in 1988
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears	30,256,000	524,000	1.73%
J.C. Penney	16,008,000	608,000	3.80%
Dayton Hudson	10,677,000	228,000	2.14%
May Dept. Strs.	10,581,000	444,000	4.20%
Camp./Feder./All.	8,388,000	(34,000)	-0.41%
R.H. Macy	5,729,000	(188,000)	-3.28%
Montgomery Ward	4,747,000	139,000	2.93%
Carter Hawley Hale	2,617,000	9,300	0.36%

Eight Leading Department Store Chains in 1989
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears	31,599,000	647,000	2.05%
J.C. Penney	15,938,000	807,000	5.06%
Dayton Hudson	12,204,000	287,000	2.35%
May Dept. Strs.	11,742,000	503,000	4.28%
Champeau	7,573,000	(2,429,000)	-32.07%
R.H. Macy	6,974,000	(54,000)	-0.77%
Montgomery Ward	5,070,000	151,000	2.98%
Carter Hawley Hale	2,787,000	7,400	0.27%

Eight Leading Department Store Chains in 1990
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	31,986,000	257,000	0.80%
J.C. Penney	17,045,000	802,000	4.71%
Dayton Hudson	13,644,000	410,000	3.00%
May Dept. Strs	9,602,000	515,000	5.36%
R.H. Macy	7,267,000	(215,000)	-2.96%
Champeau	7,137,000	(271,000)	-3.80%
Montgomery Ward	5,245,000	153,000	2.92%
Dillard Dept. Strs	3,160,000	148,000	4.68%

Eight Leading Department Store Chains in 1991
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Sears, Roebuck	31,433,000	486,000	1.55%
J.C. Penney	17,410,000	577,000	3.31%
Dayton Hudson	14,739,000	410,000	2.78%
May Dept. Strs	10,615,000	603,000	5.68%
Federated Dept.	7,137,000	(390)	-0.01%
R. H. Macy	6,762,000	(150,000)	-2.22%
Montgomery Ward	5,630,000	135,000	2.40%
Dillard Dept. Strs	3,734,000	183,000	4.90%

Appendix E

Eight Leading Discount Store Chains Ranked by Sales, 1974-1991

Eight Leading Discount Store Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
S.S. Kresge	5,536,000	104,700	1.89%
F.W. Woolworth	4,770,000	60,116	1.44%
W.T. Grant	1,762,000	(177,300)	-10.06%
Gamble-Skogmo	1,487,000	29,900	2.01%
McCrory Corp.	1,281,000	37,000	2.89%
Zayre	1,046,000	8,300	0.79%
Vornado	893,000	2,400	0.27%
Arlen Realty & Dev.	817,000	(9,900)	-1.21%

Eight Leading Discount Store Chains in 1975
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
S.S. Kresge	6,798,000	200,800	2.95%
F.W. Woolworth	4,650,000	99,100	2.13%
Rapid-American	2,282,000	5,280	0.23%
Gamble-Skogmo	1,487,000	24,900	1.67%
Zayre	1,084,000	4,900	0.45%
Vornado	974,000	5,902	0.61%
Arlen Realty & Dev	833,000	(59,800)	-7.18%
G.C. Murphy	554,000	9,800	1.77%

Eight Leading Discount Store Chains in 1976
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	8,382,000	266,000	3.17%
F.W. Woolworth	5,122,000	108,200	2.11%
Rapid-American	2,363,000	13,900	0.59%
Zayre	1,161,000	11,100	0.96%
Gamble-Skogmo	1,559,000	22,600	1.45%
Vornado	947,000	120	0.01%
Arlen Realty & Dev	848,000	(23,800)	-2.81%
SCOA Ind.	620,000	10,300	1.66%

Eight Leading Discount Store Chains in 1977
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	9,941,000	303,000	3.05%
F.W. Woolworth	5,535,000	91,900	1.66%
Rapid-American	2,380,000	47,700	2.00%
Gamble-Skogmo	1,590,000	18,200	1.14%
Zayre	1,261,000	11,800	0.94%
Vornado	933,000	(9,800)	-1.05%
SCOA Ind.	685,000	13,500	1.97%
Wal-Mart	678,000	21,900	3.23%

Eight Leading Discount Store Chains in 1978
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	11,208,000	358,000	3.19%
F.W. Woolworth	5,122,000	108,000	2.11%
Rapid-American	2,454,000	44,400	1.81%
Gamble-Skogmo	1,955,000	23,200	1.19%
Zayre	1,394,000	14,000	1.00%
Wal-Mart	1,248,000	41,300	3.31%
SCOA Ind.	780,000	20,300	2.60%
G.C. Murphy	711,000	202	0.03%

Eight Leading Discount Store Chains in 1979
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	12,731,000	358,000	2.81%
F.W. Woolworth	6,785,000	180,000	2.65%
Rapid-American	2,578,000	34,600	1.34%
Gamble-Skogmo	2,053,000	31,200	1.52%
Zayre	1,550,000	17,100	1.10%
Wal-Mart	1,248,000	41,000	3.29%
SCOA Ind.	880,000	30,400	3.45%
G.C. Murphy	757,000	9,850	1.30%

Eight Leading Discount Store Chains in 1980
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	14,204,000	261,000	1.84%
F.W. Woolworth	7,130,000	156,000	2.19%
Rapid-American	2,589,000	27,600	1.07%
Wal-Mart	1,643,000	55,700	3.39%
Zayre	1,594,000	17,600	1.10%
SCOA Ind.	942,000	28,000	2.97%
G.C. Murphy	804,000	9,300	1.16%
KDT. Ind.	730,000	3,900	0.53%

Eight Leading Discount Store Chains in 1981
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	16,527,000	200,000	1.21%
F.W. Woolworth	5,075,000	82,000	1.62%
Rapid-American	2,646,000	6,950	0.26%
Wal-Mart	2,445,000	82,800	3.39%
Zayre	1,797,000	22,100	1.23%
SCOA Ind.	1,058,000	32,100	3.03%
G.C. Murphy	818,000	4,900	0.60%
KDT. Ind.	730,000	3,900	0.53%

Eight Leading Discount Store Chains in 1982
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	17,040,000	262,000	1.54%
F.W. Woolworth	5,157,000	(353,000)	-6.85%
Wal-Mart	3,399,000	124,000	3.65%
Rapid-American	2,615,000	46,500	1.78%
Zayre	2,140,000	35,200	1.64%
SCOA Ind.	1,155,000	36,100	3.13%
G.C. Murphy	882,000	11,700	1.33%
KDT. Ind.	741,000	(52,100)	-7.03%

Eight Leading Discount Store Chains in 1983
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	18,879,000	378,000	2.00%
F.W. Woolworth	5,482,000	82,000	1.50%
Wal-Mart	4,703,000	196,000	4.17%
Zayre	2,612,000	61,400	2.35%
Rapid-American	2,492,000	56,500	2.27%
SCOA Ind.	1,305,000	41,800	3.20%
G.C. Murphy	875,000	18,400	2.10%
Rose's Strs.	829,000	21,900	2.64%

Eight Leading Discount Store Chains in 1984
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	18,754,000	492,000	2.62%
Wal-Mart	6,401,000	271,000	4.23%
F.W. Woolworth	5,124,000	118,000	2.30%
Zayre	3,191,000	78,000	2.44%
Fred Mayer	1,449,000	21,400	1.48%
SCOA	1,424,000	41,000	2.88%
Rose's Strs.	927,000	23,900	2.58%
Ames Dept. Strs.	617,000	20,000	3.24%

Eight Leading Discount Store Chains in 1985
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	21,267,000	499,000	2.35%
Wal-Mart	8,451,000	327,000	3.87%
F.W. Woolworth	5,737,000	141,000	2.46%
Zayre	4,036,000	94,600	2.34%
Service Merchandise	2,525,000	10,700	0.42%
Fred Meyer	1,584,000	19,500	1.23%
Meijer	1,348,000	--	--
Rose's	1,009,000	20,300	2.01%

Eight Leading Discount Store Chains in 1986
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	22,599,000	471,000	2.08%
Wal-Mart	11,909,000	450,000	3.78%
F.W. Woolworth	5,958,000	177,000	2.97%
Zayre	5,351,000	89,000	1.66%
Service Merchandise	2,527,000	(17,100)	-0.68%
Meijer	1,689,000	--	--
Fred Meyer	1,688,000	22,500	1.33%
Ames Dept. Strs.	1,449,000	40,000	2.76%

Eight Leading Discount Store Chains in 1987
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	23,999,000	570,000	2.38%
Wal-Mart	15,959,000	628,000	3.94%
F.W. Woolworth	6,501,000	214,000	3.29%
Zayre	6,200,000	143,300	2.31%
Meijer	2,750,000	--	--
Service Merchandise	2,719,000	24,900	0.92%
Fred Meyer	1,848,000	32,000	1.73%
Ames Dept. Strs.	1,810,000	27,000	1.49%

Eight Leading Discount Store Chains in 1988
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	25,822,000	692,000	2.68%
Wal-Mart	20,649,000	837,000	4.05%
F.W. Woolworth	7,134,000	251,000	3.52%
Service Merchandise	3,093,000	76,500	2.47%
Meijer	2,540,000	--	--
Fred Meyer	2,074,000	36,600	1.76%
Ames Dept. Strs.	2,027,000	33,000	1.63%
Hills Dept. Strs.	1,514,000	20,000	1.32%

Eight Leading Discount Store Chains in 1989
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
K-Mart	27,496,000	803,000	2.92%
Wal-Mart	25,811,000	1,076,000	4.17%
F.W. Woolworth	8,088,000	288,000	3.56%
Service Merchandise	3,307,000	72,000	2.18%
Ames Dept. Strs.	3,271,000	47,000	1.44%
Meijer	2,800,000	--	--
Fred Meyer	2,285,000	(6,800)	-0.30%
Hills	1,671,000	11,000	0.66%

Eight Leading Discount Store Chains in 1990
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Wal-Mart	32,602,000	1,291,000	3.96%
K-Mart	29,736,000	323,000	1.09%
F.W. Woolworth	8,820,000	329,000	3.73%
Ames	4,793,000	(220,000)	-4.59%
Service Merchandise	3,435,000	60,700	1.77%
Meijer	3,000,000	--	--
Fred Meyer	2,476,000	33,600	1.36%
Hills	2,073,000	6,000	0.29%

Eight Leading Discount Store Chains in 1991
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Wal-Mart	43,887,000	1,608,000	3.66%
K-Mart	32,281,000	756,000	2.34%
F.W. Woolworth	9,789,000	317,000	3.24%
Meijer	3,500,000	--	--
Service Merchandise	3,400,000	76,100	2.24%
Ames Dept. Strs.	3,109,000	(793,000)	-25.51%
Fred Meyer	2,702,000	45,200	1.67%
Hills	2,141,000	(274,000)	-12.80%

Appendix F

Eight Leading Specialty Store Chains Ranked by Sales, 1974-1991

Eight Leading Specialty Store Chains in 1974
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	1,333,000	60,300	4.52%
Melville Shoe	765,000	26,800	3.50%
Brown Group	719,000	17,700	2.46%
Cluett Peabody	538,000	(9,400)	-1.75%
Lerner Stores	474,000	22,600	4.77%
U.S. Shoe	445,000	12,800	2.88%
Edition Bros.	421,000	16,800	3.99%
Lane Bryant	314,000	7,600	2.42%

Eight Leading Specialty Store Chains in 1975
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	1,424,000	69,000	4.85%
Melville Shoe	908,000	44,300	4.88%
Brown Group	740,000	13,100	1.77%
Cluett Peabody	519,000	12,000	2.31%
Lerner Stores	506,000	21,700	4.29%
Edition Bros.	490,000	24,000	4.90%
U.S. Shoe	473,000	12,600	2.66%
McDonough	285,000	13,400	4.70%

Eight Leading Specialty Store Chains in 1976
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	1,566,000	76,800	4.90%
Melville Shoe	1,228,000	64,000	5.21%
Brown Group	843,000	21,000	2.49%
Cluett Peabody	581,000	17,000	2.93%
Lerner Stores	567,000	29,700	5.24%
U.S. Shoe	553,000	26,000	4.70%
Edison Bros	532,000	28,900	5.43%
Petrie Stores	334,000	35,000	10.48%

Eight Leading Specialty Store Chains in 1977
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	1,667,000	81,800	4.91%
Melville Shoe	1,474,000	73,100	4.96%
Brown Group	891,000	27,100	3.04%
Edison Bros.	624,000	36,300	5.82%
U.S. Shoe	607,000	19,200	3.16%
Cluett Peabody	589,000	19,300	3.28%
Lerner Stores	582,000	27,100	4.66%
Petrie Strs.	383,000	41,500	10.84%

Eight Leading Specialty Store Chains in 1978
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	1,851,000	92,600	5.00%
Melville Shoe	1,747,000	101,200	5.79%
Brown Group	984,000	33,500	3.40%
Edison Bros.	739,000	46,000	6.22%
U.S. Shoe	717,000	26,800	3.74%
Lerner Stores	617,000	36,600	5.93%
Cluett Peabody	576,000	18,900	3.28%
Petrie Strs.	436,000	48,900	11.22%

Eight Leading Specialty Store Chains in 1979
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	2,024,000	106,700	5.27%
Melville Shoe	2,023,000	101,200	5.00%
Brown Group	1,145,000	41,800	3.65%
U.S. Shoe	831,000	29,200	3.51%
Edison Bros.	793,000	44,700	5.64%
Lerner Stores	695,000	50,500	7.27%
Cluett Peabody	672,000	17,300	2.57%
McDonough	451,000	21,600	4.79%

Eight Leading Specialty Store Chains in 1980
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
INTERCO	2,368,000	121,000	5.11%
Melville Shoe	2,332,000	134,000	5.75%
Brown Group	1,220,000	44,900	3.68%
U.S. Shoe	974,000	46,900	4.82%
Edison Bros.	853,000	42,500	4.98%
Cluett Peabody	733,000	15,600	2.13%
Lerner Stores	705,000	51,500	7.30%
Genesco	638,000	4,700	0.74%

Eight Leading Specialty Store Chains in 1981
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	2,761,000	136,000	4.93%
Interco	2,674,000	119,000	4.45%
Brown Group	1,338,000	55,100	4.12%
U.S. Shoe	1,088,000	58,700	5.40%
Edison Bros.	951,000	43,700	4.60%
Cluett Peabody	818,000	21,300	2.60%
Lerner Stores	686,000	44,100	6.43%
Genesco	662,000	18,100	2.73%

Eight Leading Specialty Store Chains in 1982
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	3,262,000	142,000	4.35%
Interco	2,567,000	85,800	3.34%
Brown Group	1,397,000	59,600	4.27%
U.S. Shoe	1,254,000	60,100	4.79%
Edison Bros.	916,000	23,200	2.53%
Cluett Peabody	868,000	23,700	2.73%
The Limited	721,000	33,600	4.66%
Genesco	665,000	1,100	0.17%

Eight Leading Specialty Store Chains in 1983
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	3,923,000	176,000	4.49%
Interco	2,679,000	108,100	4.04%
U.S. Shoe	1,508,000	65,900	4.37%
Brown Group	1,501,000	60,800	4.05%
The Limited	1,086,000	65,000	5.99%
Edison Bros.	1,022,000	37,000	3.62%
Genesco	640,000	(2,000)	-0.31%
Petrie Strs.	630,000	48,000	7.62%

Eight Leading Specialty Store Chains in 1984
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	4,423,000	190,000	4.30%
Interco	2,618,000	116,000	4.43%
U.S. Shoe	1,702,000	75,200	4.42%
Brown Group	1,611,000	67,200	4.17%
The Limited	1,180,000	71,000	6.02%
Edison Brothers	1,397,000	48,900	3.50%
Genesco	701,000	(11,000)	-1.57%
Petrie Strs.	612,000	47,600	7.78%

Eight Leading Specialty Store Chains in 1985
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	4,775,000	220,000	4.61%
Interco	2,626,000	72,000	2.74%
U.S. Shoe	1,717,000	53,400	3.11%
Brown Group	1,572,000	54,100	3.44%
The Limited	1,363,000	93,000	6.82%
Edison Brothers	1,055,000	32,900	3.12%
Petrie Strs.	951,000	54,600	5.74%
Genesco	606,000	(35,800)	-5.91%

Eight Leading Specialty Store Chains in 1986
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	5,262,000	238,000	4.52%
Interco	2,511,000	92,000	3.66%
The Limited	2,426,000	145,000	5.98%
U.S. Shoe	1,920,000	64,900	3.38%
Brown Group	1,400,000	48,800	3.49%
Petrie Strs.	1,161,000	77,900	6.71%
Edison Brothers	808,000	21,700	2.69%
The Gap	647,000	34,000	5.26%

Eight Leading Specialty Store Chains in 1987
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	5,930,000	285,000	4.81%
The Limited	3,224,000	228,000	7.07%
Interco	2,614,000	99,000	3.79%
U.S. Shoe	2,003,000	25,500	1.27%
Brown Group	1,400,000	40,100	2.86%
Petrie Strs.	1,198,000	73,700	6.15%
Edison Brothers	904,000	33,900	3.75%
The Gap	848,000	68,000	8.02%

Eight Leading Specialty Store Chains in 1988
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	6,780,000	355,000	5.24%
The Limited	3,616,000	235,000	6.50%
INTERCO	3,341,000	145,000	4.34%
U.S. Shoe	2,168,000	36,000	1.66%
Brown Group	1,678,000	46,900	2.79%
Petrie Strs.	1,242,000	47,500	3.82%
The Gap	1,062,000	70,000	6.59%
Edison Brothers	931,000	(20,900)	-2.24%

Eight Leading Specialty Store Chains in 1989
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	7,554,000	398,000	5.27%
The Limited	4,155,000	245,000	5.90%
U.S. Shoe	2,343,000	13,000	0.55%
INTERCO	2,012,000	(4,000)	-0.20%
Brown Group	1,707,000	30,100	1.76%
The Gap	1,252,000	74,000	5.91%
Petrie Strs.	1,218,000	35,100	2.88%
Edison Brothers	919,000	36,300	3.95%

Eight Leading Specialty Store Chains in 1990
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	8,687,000	385,000	4.43%
The Limited	4,750,000	347,000	7.31%
U.S. Shoe	2,557,000	49,200	1.92%
Brown Group	1,821,000	30,800	1.69%
INTERCO	1,656,000	(51,000)	-3.08%
The Gap	1,587,000	98,000	6.18%
Petrie Strs.	1,258,000	32,300	2.57%
Edison Brothers	1,074,000	64,200	5.98%

Eight Leading Specialty Store Chains in 1991
Ranked by Sales

Company	Sales (000-omitted)	Net Income (000-omitted)	Profit
Melville Shoe	9,886,000	346,000	3.50%
The Limited	5,376,000	398,000	7.40%
U.S. Shoe	2,719,000	(27,700)	-1.02%
The Gap	1,934,000	145,000	7.50%
Brown Group	1,764,000	31,800	1.80%
INTERCO	1,439,000	(151,000)	-10.49%
Petrie Strs.	1,282,000	3,000	0.23%
Edison Brothers	1,254,000	59,000	4.70%