Multiple-concept management – the challenge to retail conglomerates

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The increasing trend towards formation of conglomerates (multiple-concept organizations) in South African retailing has brought about major managerial challenges. These challenges lie in the realm of corporate and business strategy, organization, and management expertise. This article briefly analyses the nature of retail conglomerates in South Africa, illustrates the emerging problems which confront them, and then offers suggestions for new approaches to assist management. The need for new conceptual and technical skills is emphasized, especially in the realms of corporate strategy orientation, implementation of portfolio frameworks, organizational flexibility, a negotiative corporate culture, differentiated management styles, and research.
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Die toenemende neiging na vorming van konglomerate (veelvuldigekonsep-organisasies) in die Suid-Afrikaanse kleinhandel het belangrike bestuursuitdagings meegebring. Hierdie uitdagings is geleë op die gebiede van korporatiewe- en besigheidstrategie, organisasie en bestuursvaardighede. Hierdie artikel ontleed kortliks die aard van kleinhandel-konglomerate in Suid-Afrika, illustreer die ontluikende probleme wat hulle konfronteer en bied dan voorstelle aan vir nuwe benaderinge ter ondersteuning van bestuur. Die behoefte aan nuwe konseptuele en tegniese vaardighede word beklemtoon, veral op die gebiede van korporatiewestrategie-oriëntasie, implementering van portfolio raamwerke, organisatoriese buigbaarheid, 'n korporatiewe onderhandelingskultuur, gedifferensieerde bestuurstyle en navorsing.
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Introduction

One of the major trends in retailing in South Africa during the past five years has been the considerable increase in formation of retail conglomerates through mergers, joint ventures, acquisitions, or internal development of new retail concepts. This trend is a result of increasing competition in most retailing sectors as firms strive for profitable growth opportunities in retailing fields other than their traditional, often mature ones (Leibold, 1981). This, in turn, is due to increasingly tighter trading conditions from about the middle 1970's, with expansion strategies of many retailers leading to a situation of saturation and even overstoring in many trading areas.

It seems that the trend towards retail conglomerates is likely to continue, if not intensify, during the next five years, as the rest of the 1980's would probably witness only moderate economic growth (Leibold, 1983a:161 – 165). Furthermore, existing retail organizations are likely to launch new retail concepts aimed at the growing Black-consumer market, as well as other consumer segments, in an increasingly fragmented market environment.

Retail conglomerates are, however, confronted with major managerial challenges which could form the key to success or demise of the entire firm. This concerns organizational difficulties, internal management conflicts, dearth of managerial expertise in handling a diversity of retail concepts, and the tendency towards overlapping of retail strategies in the group. The challenge to retail conglomerates is to develop and implement new conceptual, organizational, and technical skills to manage appropriately its diverse activities.

The retail conglomerate in South Africa

The retail conglomerate is sometimes referred to as a multiple-concept organization or conglomerchant (Tillman, 1971:44 and Schinkel, 1976:30). It can be defined as a multiline-merchandising empire under central ownership, usually combining several retail institutions, concepts, or styles with a certain degree of integration of management and distribution functions. Thus, one can view such organizations as corporations which operate a variety of different retailing formulas, but whose diverse operations often share such corporate services as management information systems, computerized inventory control, credit processing, central buying staff assistance, and physical distribution systems.

Examples of retail conglomerates in South Africa are listed in Table 1.

Various theories can be forwarded in an attempt to explain the evolution and growth of retail conglomerates, such as cycle

Table 1 Some retail conglomerates in South Africa

Edgars Stores Ltd	Pep Stores Ltd	Foschini Ltd	Scott Stores Ltd	Woolworths Truworths Ltd
Ackermans	Pep	American Swiss	Dresstown	Woolworths
Edgars	Half Price	Foschini	Jills	Truworths
Jet	Hyperette	Markhams	Scotts	Topics
Sales House	Shoprite	Pages		Top Centre

theories, vacuum theories, the crisis-change theory, and the theory of natural selection (Leibold, 1981). From these it seems that vacuum theories form an acceptable partial body of explanation; this incorporates the 'core-fringe' concept originally postulated by Alderson, which explains the process of void-filling in terms of thrusts made by both established and non-established firms (Alderson, 1957:56).

The 'core-fringe' concept states that once a firm has gained a market niche for itself, the niche provides a haven for the firm during periods of innovative experimentation, risks, or danger.

Thus, if a firm fails in an attempt to diversify its activities, it can fall back on its core for support while it regroups and develops new strategies, i.e. its niche assumes a sort of protective function against diversifying forays. The experience of some retail conglomerates in South Africa seems to substantiate the 'core-fringe' concept — as they move into areas unfamiliar to them, i.e. beyond their market niches, some experience difficulties. Examples seem to be the Pep Stores Group (with its Papillon and Hotline experiences), Scotts (with Uniewinkels), Edgars (with Shelleys, Jet, and Universal Stores), and CNA (with CNA Electronics and TV).

The commitments on the part of established firms to specify niches and ways of doing business permit voids to develop in the market and thus create opportunities for new firms to fill these voids. Many of the established firms realize that their traditional activities are moving into a mature or even declining phase of the life cycle, and anxiously investigate possible new 'stars' to be acquired or developed to provide needed profitability growth for the future. This fact is further underscored by the diminishing of South African institutional life cycles, i.e. the time between introduction of a new retail concept and the point at which it reaches maturity is growing progressively shorter. This trend is reflected in Table 2, which illustrates the estimated period from inception to maturity of a number of existing and anticipated South African retailing institutions (Leibold, 1981).

Other explanations of the retail conglomerate movement include the need to eliminate or reduce intense competition in an industry, to acquire sufficient size not to be dominated by powerful manufacturers, and merely for the sake of power itself.

Emerging problems of retail conglomerates

Formal research (Leibold, 1981) into and informal discussions with retail conglomerate management indicate major problems which are arising in strategy, organization, and operational expertise of the conglomerate and its business units.

Regarding strategy, it seems that many firms are lacking a clear idea of their corporate mission (what they are and what they want to be) and the missions of their business units or retail concepts. This often results in diversification into unrelated retail fields, or activities where the necessary product/market expertise is deficient. This lack of clearly stated roles and positions of the company and its units leads

Table 2 Diminishing of South African retail institutional life cycles

Type of institution	Estimated period to maturity	Estimated number of years to maturity
Department stores	1880 – 1960	80
Variety stores	1920 – 1965	45
Supermarkets	1935 – 1970	35
Discount department stores	1955 – 1975	20
Home improvement centres	1965 – 1975	10
Hypermarkets	1975 – 1985	10
Home furnishing warehouses	1975 – 1985	10
Fast food service outlets	1970 – 1980	10
Catalogue showrooms	1980 – 1985	5

to conflicting interests of management groups and individuals, and situations where concepts expand into each other's market, carry the same or substantially overlapping merchandise, look alike, imitate each other, compete directly on prices, and advertise at the same time in the same media at the same target market.

A related problem to strategy is the disruptive impact which multiple concepts seem to have on the internal organization of the corporation. Retail conglomerates are often beset by bitter internal competition among its units for common support services of the group, such as research, real estate, warehousing, logistics, and data processing. This is a result of conflicting ambitions and interests of executives, which in turn is mainly born out of lack of clearly developed individual and common roles of retail concepts. This situation is often aggravated by group service departments, for example where the data-processing department attempts to impose its administrative procedures on all concepts, or the real-estate department prescribes store location for all types of units, without proper consideration of the unique needs of each concept.

It is unfortunate that in most instances the more innovative, entrepreneurially managed business unit, which could be the new growth 'star' of the group, is stifled.

Another interrelated problem is that of management expertise, especially on the operational level. A newly acquired or conceived business unit is often staffed by group personnel, who were trained and orientated in the traditional line of business and attempt to apply the same management structure and procedural norms with which they are familiar.

The necessary merchandising and other experience for the new concept is simply lacking, and the original growth prospects (the main reason for diversifying) fail to materialize. Illuminating in this respect are the rueful words of the managing director of the CNA group of companies after the failure of CNA Electronics in the 1970's: 'Quite honestly, we went into it prematurely without asking what the hell we were doing, or whether we had the expertise or even the space to give adequate exposure to the product'(CNA, 1975).

Suggested new approaches to assist management

New approaches to assist management in adequately directing a diversified multiple concept organization seem to be required in especially six (interrelated) areas, i.e. corporate strategy, portfolio technology, organization, management styles, research, and corporate culture.

Corporate strategy

Recent research indicates that retail management's approach and orientation towards retailing strategy decision-making is considerably deficient, and should be adapted to include a broader corporate strategy orientation (Leibold, 1983a:25).

With the continuous trend towards diversification and forming of conglomerates, it has become clear that the concept of enterprise strategy consists of three distinct types of strategy levels, namely corporate, business, and functional (Hofer & Schendel, 1978:25).

The level of corporate strategy addresses the question 'what set of businesses should we compete in?', while the level of business strategy addresses the question 'how should we compete in the *XYZ* business?'.

In corporate strategy decision-making the primary components are scope of activities and resource deployments. An enterprise can easily become a collection of diverse and confusing business interests, with little common purpose and overall thrust, if corporate strategy decision-making is not conducted in a formalized, rational way. Thus, retail conglomerates should continually review their scope of activities, which defines its basic mission and character. In conjunction with scope, resource deployments involve the levels and patterns of the enterprise's past and present resource and skill deployments among the different business entities in its corporate group.

An example of deficient retail corporate strategy decision-making in South Africa is that of Greatermans Stores, before its take-over by the Kirsh Group in 1981/82 (Friedland, 1982: 35 – 43). The 1981 annual report describes the Greatermans Group as comprising three main components — department stores, the Ackermans chain, and Checkers; the latter consisted of 160 supermarkets and superstores, four hypermarkets and five Milly's. According to Mr Gordon Utian, new managing director, the inherent strengths of Checkers were never properly exploited, and management persisted in frittering away its 'cash cow' to finance other operations which had little justification. Apparently there was little thought given to consolidation, proper scope of the group, and appropriate deployment of resources.

Although corporate strategy is, admittedly, among the most difficult decision-making areas in any enterprise, it should be approached with the following key issues strongly in mind:

- Environment considerations regarding main opportunities and threats.
- The enterprise's resources and distinctive competences, as well as its limitations.
- The salient characteristics of the enterprise's history, e.g. its objectives, policies, accomplishments, and failures.
- The preferences of management and owners, and the corporate culture (see 'Corporate culture').
- A statement of mission which is specific as to the business domain(s) in which the enterprise will operate.

These issues provide a framework for corporate strategy based upon consideration of market and enterprise evolution, and strategic fit.

Portfolio technology

Portfolio technology can be described as the skills necessary to guide, co-ordinate, and evaluate a multiplicity of retail concepts within one corporate body. This involves techniques which enable management to gain a holistic perspective of the portfolio of different business concepts which supplement and support each other towards achieving the objectives of the corporation.

These techniques should facilitate a realization that each business unit has a distinct mission, role, and position in the market place; that each unit could be at a different stage of the institutional life cycle; and that one concept could be used to shield other concepts from heavy outside competition. It is therefore essential to formulate explicitly the unique objectives, requirements, and demands of all concepts at various stages of their development.

One such technique which enables a holistic perspective of the corporation is illustrated in Table 3 (Schinkel, 1976:30).

In addition to this type of written portrayal of the portfolio, it is useful to develop graphic portrayals. One such example is the General Electric business screen, as illustrated in

Table 3 Concept portfolio matrix for retail conglomerates

	Retail concept			
Aspect considered	Traditional department store (A)	Supermarket (B)	Medium-sized convenience food store (C)	Hypermarket (D)
Stage of life cycle	Maturity/decline	Maturity	Inception	Rapid growth
Role in corporation	Flagship for corporation; maintain market share	Major source of revenue; backbone of business	Venture for learning and experimentation	Second major source of revenue; Shield for (B) and (C)
Nature of competition	Low to medium	Intense	Non-existent to low	Medium
Management needs	Stringent controls and feedback to management; centralized management	Decentralized management; tight cost controls; automation	Entrepreneurial demands, low investment, simplification of operations	Decentralized management, tight control, simplification of operations
Consumer segment(s) served	Middle to higher status	Lower to middle status	All status; convenience and time-conscious	Middle to higher status; motorized
Major objective(s)	'Break-even'	X% contribution to profitability	'Double sales in two years'	Y% contribution to profitability

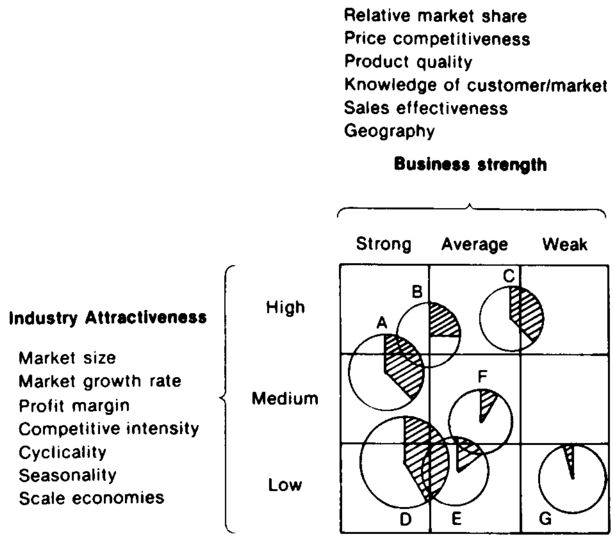

Figure 1 The General Electric business screen.

Figure 1 (Hofer & Schendel, 1978).

In the above figure the area of the circles is proportional to the size of the industries in which the various businesses compete. The pie slices within the circles reflect each business unit's market share; consequently, their areas are also proportional to the sizes of the businesses which they represent.

The vertical axis represents the industry's attractiveness, which is based on rating such factors as market growth rate, market size, profit margins, competitive intensity, cyclicality, seasonality, and scale economies. The horizontal axis represents the unit's business strength or ability to compete in that industry. Business strength is a weighted rating of such factors as the unit's relative market share, price competitiveness, merchandising acumen, knowledge of customers/markets, sales effectiveness, and geography.

As a starting point in portfolio analysis the General Electric business screen has definite advantages. However, it does not depict as effectively as it might the positions of new business concepts that are beginning to grow into new industries. For this purpose a product/market evolution matrix is useful, as illustrated in Figure 2 (Hofer & Schendel, 1978).

As with the previous figure, the circles represent the sizes of the industries involved, and the pie wedges the market shares of the businesses involved. Each business is plotted according to its stage of product/market evolution, i.e. development, growth, shake-out, maturity, or decline. Future positions can be plotted and used to identify major strategic options and issues. Thus, one can ask why business B has not been able to secure a higher share of the market, given its strong competitive position and the growth of its industry, and appropriate strategies to achieve this could be planned.

Interestingly, there seems to be no evidence that a major retail firm in the United States of America has tried to implement these approaches, although the Sears, Roebuck company is cited as one possible exception (Buzzel, 1980:16).

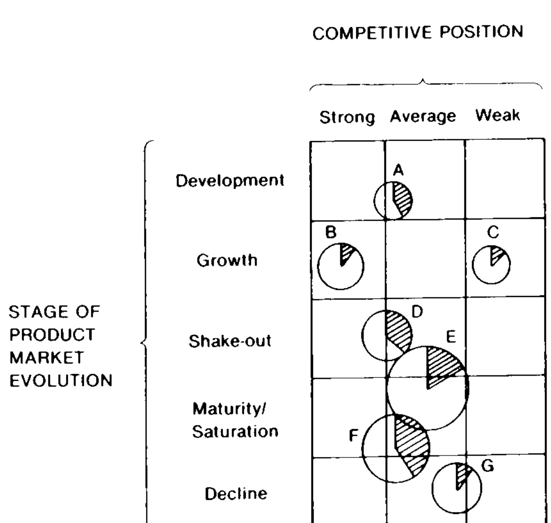

Figure 2 The product/market evolution matrix.

Organization

It seems that up to now traditional organization structures have been unable to cope with the disturbing impact which multiple concepts have on the internal organization of retail conglomerates. The often unorchestrated strategies of multiple concepts result in acrimonious internal competition for top management attention and support services such as real estate, warehousing, logistics, data processing, and research. Although a certain degree of internal competition may be seen as beneficial for productivity, it unfortunately reaches negative proportions in a very short time.

If this organizational turbulence is not satisfactorily resolved, it can lead to discriminatory and unfair practices which result in focus on certain business concepts to the exclusion of the whole organization. A solution may be to adopt an organizational approach which:

- is flexible and differentiates between the needs of each business concept. For example, one business concept may need double the organizational support of another; it may need to report directly to the chief executive instead of through normal channels; and it may need to be given more entrepreneurial scope owing to the nature of its industry;
- assigns higher status to staff (service) organizations to make them fully aware of the differentiated needs of each multiple concept. This should be accompanied by stricter controls to ensure that internal competition for their services remain fair and their activities unbiased;
- leads to a high degree of integration of support services, as individual business concepts often require a 'package' of services which is uniquely suited to their needs; and
- incorporates a multiple-concept committee which regularly analyses differences and similarities between concept strategies and management needs.

Management styles

For retail executives, the diminishing of retail institutional life cycles and increasing rate of environmental changes put a premium on adaptability and being able to experiment with new management ideas and styles. In large conglomerate organizations with multiple types of outlets retailers should consider the use of different management styles or even different management groups during various stages of development. Although it undoubtedly increases the complexity of management, it also means that a company can never afford to get 'locked in' to one or a few particular approaches or philosophies of management.

A good example of differentiated management styles is provided by Federated Department Stores in the United States of America (Davidson, Bates & Bass, 1976:95).

Upon launching of its Gold Circle discount division the company established a management task force that was completely autonomous from the existing Federated management group. The task force was free to try new management

Table 4 Management activities in the retail life cycle

Category	Area or subject of concern	Stage of life cycle development: Inception	Rapid growth	Maturity	Decline
Market characteristics	Number of competitors	Very few	Moderate	Many direct competitors. Moderate indirect competition	Moderate direct competition. Many indirect competitors
	Rate of sales growth	Very rapid	Rapid	Moderate to slow	Slow or negative
	Level of profitability	Low to moderate	High	Moderate	Very low
	Duration of new innovations	3 – 5 years	5 – 6 years	Indefinite	Indefinite
Appropriate retailer actions	Investment/growth/ risk decisions	Investment minimization — high risks accepted	High levels of investment to sustain growth	Tightly controlled growth in untapped markets	Minimal capital expenditures and only when essential
	Central management concerns	Concept refinement through adjustments and experimentation	Establishing a pre-emptive market position	Excess ca- and 'over-storing'. Prolonging maturity and revising the retail concept	Engaging in a 'run-out' strategy
	Use of management control techniques	Minimal	Moderate	Extensive	Moderate
	Most successful management style	Entrepreneurial	Centralized	'Professional'	Caretaker

concepts and operating procedures. With this approach, Federated had an innovative, free-wheeling management style for its discount division and a more conservative, controlled style for its conventional department store operation.

Table 4 reflects management activities in each stage of institutional life cycle development, and suggests the most successful management style in each stage (Davidson, *et al.*, 1976).

Research

Given the complexities and risks involved in managing retail conglomerates, and in developing new retail concepts, many retailers may prefer to leave the difficult task of experimenting with new approaches to smaller, more entrepreneurial companies.

Then new concepts that prove successful can be acquired or copied, at least if the innovations are discovered soon enough. Others may decide to embark on the stimulating task of experimentation on its own.

Whatever the decision, the monitoring of experimentation and innovation requires a more substantial and sophisticated commitment to research than most retail conglomerates now employ. The application of portfolio analysis, even in an elementary version, and the interpretation of its results require a certain level of knowledge which very often cannot be considered as given. Management should, in general, know the criteria relevant for strategic decisions, and particularly how to identify and interpret market structures, key market success factors, and the roles and needs of different retail concepts. Research should also be conducted continuously into the effects of multiple concepts on the organization of the company, and the appropriateness of different management styles in different circumstances.

In sum, more emphasis should be put on the research function in retail conglomerates, and its activities should be expanded from the traditional market emphasis to include a strategic and organizational orientation.

Corporate culture

For most firms the introduction and implementation of strategic management based on portfolio analysis constitutes a fundamental organizational change. It does not, however, only imply a change of strategic decision behaviour and management style. Changes in management behaviour, and other induced changes, will very often require changes in attitudes of managers and thus a change of organizational culture. An organizational culture can probably best be described, for practical purposes, as a common subconscious way of thinking about the business activities and business philosophies of the company.

In view of the fact that no package blueprints for multiple-concept organization culture exist, retail management is confronted with the need to develop their own learning culture. The aim is to infuse management with more flexible, adaptive and innovative attitudes, and to see that individual parts as well as the whole organization co-ordinate when planning and striving for their interests.

Another useful approach is to stimulate a negotiative culture, whereby new ideas are not imposed upon people, but the decision-making process is instead more organic in nature. Initiatives may be taken but the onus is on the initiator to convince others of the validity of the idea and to obtain their support.

The different kinds of cultural changes do not only require initiation and specific knowledge but should also be systematically and carefully prepared and guided. In this perspective the implementation of strategic portfolio management in retail conglomerates will in most cases require the intervention of an external or internal change agent, whose function is solely an educational intervention and corporate-culture nurser. The change agent should create within the top management team a common knowledge basis of the processes and methods of strategic management, portfolio analysis, organizational flexibility, and differentiated retail concept management styles and needs.

Conclusion

Retail conglomerates are faced with major managerial challenges which could affect their future growth and performance. Managerial expertise in guiding and controlling a diversity of retail concepts will form the basis of future success in an increasingly competitive environment.

Introduction of strategic portfolio analysis in retail conglomerates should be linked with a training programme for their managers in strategic planning and management.

This can ideally be integrated with an organizational innovation programme, which in conjunction can serve as an instrument for initiating learning, managerial flexibility, and a desired corporate culture.

Introduction and implementation of portfolio technology, and training and learning programmes, should be a parallel process owing to its interwoven nature.

The retail conglomerate will always be characterized by a large degree of diversity in retail concept objectives, management styles, needs, and demands. The crux of successful orchestration of these towards a common corporate objective will lie in top management's ability to pursue strategic management with aids such as portfolio analysis in a continuous way, and developing and modifying appropriate organization, systems, and procedures according to its conditions and needs.

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