



The impact of competition and cooperation on the performance of a retail agglomeration and its stores



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ABSTRACT

Stores in retail and other service agglomerations, such as high streets and shopping malls, compete with each other for customers. Yet they may also cooperate with each other in relation to operational and marketing matters within the agglomeration in which they are located. The aim of this paper is to investigate the impact of both competition and cooperation, i.e. coopetition, on agglomeration and store performance. Drawing on the network debate, this paper develops a conceptual model and tests it in three distinctive agglomerations, each in an urban setting, namely first- and second-order high streets as well as an inner-city retail and service cluster. A total of 277 store managers served as key informants in our survey. Variance-based structural equation modelling reveals that both competition and cooperation improve agglomeration performance directly. Despite competition having a negative direct effect on stores' performance, the overall effect is insignificant. Cooperation affects store performance positively but only indirectly. The contribution of this paper is to reveal and substantiate the complex nature and benefits of the effects of the coopetition of stores located within agglomerations. More widely it underlines the importance of managers of agglomerations understanding the differing effects of competition and cooperation and using this understanding in their management decision making.

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1. Introduction

1.1. Competition and cooperation in agglomerations

The competition between retail and service agglomerations (hereafter agglomerations) of the same and different types and sizes, for example high streets and shopping malls, is increasing (Guy, 2007; Haytko, 2004; Teller, 2008). Furthermore, store-based retailing as a whole is coming under pressure from online retail and service operations (Field, 2006; Mintel, 2014). Thus, for managers of retail and service organisations operating stores in agglomerations, and for the management of these agglomerations, the question of how to most effectively utilise resources and capabilities derived from the agglomeration to increase performance levels and competitiveness has become crucial and prevalent (Dennis, Marsland, & Newman, 2005; Konopa & Zalocco, 1981).

Independent of the agglomeration format, the reason why retail and service organisations (hereafter retailers) locate stores in agglomerations, and why consumers patronise them, typically lies in the benefits that arise both from the proximity of the retailers to one another (Knoben & Oerlemans, 2006) and from their generic nature as a form of horizontal inter-organisational network. Such networks produce

synergies and encourage cooperation due to the retail and service stores' close proximity to one another. Yet, alongside the potential benefits from cooperation, retailers and their stores find themselves competing with each other for a share of the money and dwell time spent by customers during trips to the agglomeration (Oppewal & Holyoake, 2004). Such competition can have positive effects for customers but negative effects for retailers.

The managers of agglomerations and the managers of retail stores located in these agglomerations need to be aware of the possible tensions stemming from this combination of cooperation and competition. In the context of an agglomeration in which stores compete with one another, store managers also develop cooperative inter-organisational relationships. Such relationships include those with other stores that lead to collaboration in areas that enhance the agglomeration's and consequently the stores' attractiveness to customers and hence their performance. Such cooperation typically focuses upon two aspects. The first is the direct input of resources as part of collaboration in agglomeration-wide marketing initiatives and events, for example malls' seasonal events, and promotional schemes such as mall loyalty cards. The second relates to the pooling of financial resources, for example to finance the employment of site management for the agglomeration, and to enable the purchase of so-called hard services (for example, fabric maintenance) and soft services (for example, cleaning, security and marketing) at the agglomeration level. In purpose-developed and managed shopping centres (that we term created agglomerations), this is likely to result from the payment of a service

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charge to the centre's management or operator. In a town centre shopping environment (that we term evolved agglomerations), it may take the form of either a voluntary or mandatory levy, depending on the type of centre management scheme in operation. In evolved agglomerations in which centre management initiatives are at an early stage of development store managers may be directly involved in the purchasing activity. For the managers of agglomerations the need to practise careful co-management of the potentially opposing forces of competition and cooperation can extend to the identification and selection, and respectively the termination of (the lease of), new and existing stores. In this regard, for both store managers and managers of agglomerations we identify a context that is broadly analogous with debates in the marketing literature on the purchasing-marketing interface (Lindgreen, Vanhamme, van Raaij, & Johnston, 2013; Sheth, Sharma, & Iyer, 2009), although we acknowledge the distinctions between “horizontal” and “vertical” interdependence between firms and the associated resource pooling (e.g. Grandori & Soda, 1995).

Here, then, the perspective goes beyond the dyadic view, for example buyer–supplier or retailer–customer, with a network perspective required if we are to understand the complexities emerging from inter-firm relationships that facilitate the integration of resources and thus cooperation in the areas of purchasing, marketing and operations (Lavie, 2006; Oh, Teo, & Sambamurthy, 2012; Schoenherr et al., 2012). Cooperation in a competitive environment such as an agglomeration is focused towards the customers and thus requires a close integration between the demand (marketing and operations) and the supply (purchasing) side of the network (Zondag & Ferrin, 2014; see Fig. 1).

Our concern, then, is to better understand the effects of competition and cooperation on store performance in an agglomeration, and thus their implications for the managers of stores and those of agglomerations who seek customer value creation opportunities.

1.2. Research gap

The literature has addressed the importance of retailer competition as a characteristic of the store mix in agglomerations from a consumer's point of view (e.g. Yiu & Xu, 2012). Cooperation between stores has been investigated within the remit of place, town and shopping centre marketing and management (e.g. Teller & Elms, 2012). Surprisingly, to our knowledge, previous research on agglomerations has not looked into the link between competition and cooperation. Even more importantly, prior research does not provide answers on whether retailers that are the key nodes of agglomerations such as shopping centres and high streets should invest resources in collaborating with other stores in the centre, and whether they should encourage the agglomeration management to increase competition, for example by actively admitting competing stores.

Given the characteristics of agglomerations as a form of horizontal inter-organisational (service delivery) network (Tax, McCutcheon, & Wilkinson, 2013), this paper draws in particular on the network literature. It aims to (1) evaluate the effects of competition and cooperation on the performance of stores in agglomerations, and (2) assess the implications of competition and cooperation between stores in an agglomeration for the managers of the stores, and for those with direct managerial responsibility for the agglomeration itself. The main contribution of this paper for theory and practice lies in its emphasis on the complexity of the competition and cooperation between stores within an agglomeration, and the importance of effective co-management of competition and cooperation by store and agglomeration managers.

The structure of this paper is as follows: Following on from these introductory remarks, the next sections analyse some of the literature that informs this study and present the conceptual model and study hypotheses that we test later in the paper. The subsequent sections concentrate on the methodology of the empirical study and a description of the results. The paper closes with a discussion of the major implications for theory as well as practice, a critical review of the study's limitations, and a recommended research agenda.

2. Agglomerations as (service delivery) networks

2.1. Agglomeration characteristics

The presence of a group of firms in a geographically defined unit, such as a building, street or block, can be called an agglomeration (Knoben & Oerlemans, 2006). Consequently, retail and service agglomerations represent retail and service stores located in close proximity to each other. Together the firms make up what Kalen (1966) terms a “combined department store”, that is, interlinked units cooperating without losing their independence but also competing for the same customers. Citing the work of Williamson, Dyer and Singh (1998, p. 662) refer to relation-specific assets as deriving from site specificity, “the situation whereby successive production stages that are immobile are located close to one another” (in our context how co-located service provision enables customer value creation opportunities), as well as from physical asset specificities (for example agglomeration facilities) and human asset specificities (for example dedicated marketing partnerships).

A transfer of Brass, Galaskiewicz, Greve, and Tsai's (2004) view on networks to the setting of agglomerations emphasises that nodes (i.e. stores) and actors (i.e. store managers), as representations of retail and service organisations, are embedded in a network of interconnected formal and informal relationships (see Fig. 1). These relationships offer opportunities, for example the leveraging of synergies, but also constraints, for example the imposition of infrastructural guidelines. Stores in agglomerations “... are connected together to form quasi organisations” (Håkansson & Ford, 2002, p. 133). Agglomerations represent

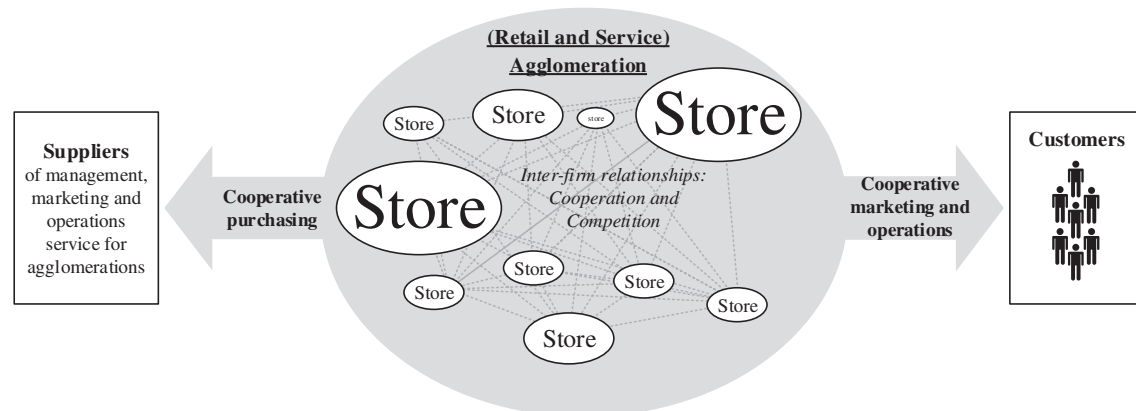


Fig. 1. Cooperative purchasing, marketing and operations in a competitive network environment.

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