



To retrench or invest? Turnaround strategies during a recessionary time



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ABSTRACT

By analyzing retail news published between 2008 and 2011, we examined retrenchment and investment strategies employed by retailers in the U.S. in response to the Great Recession. We found four categories of retrenchment (store closings, buyouts, bankruptcies, and pull backs) and five categories of investment (market expansion, product development, service development, strategic partnerships, and corporate social responsibility). Retrenchment decisions were constrained by retailers' financial strength, whereas investment decisions varied with firms' strategic orientations and resource capabilities. Findings of this study enhance theoretical understanding of underlying factors of specific retrenchment and investment decisions that retailers pursued during a challenging economic time.

1. Introduction

The Great Recession, which officially lasted from December 2007 to June 2009, was one of the longest periods of recession since the Great Depression (NBER, 2010) and had the slowest recovery since the 1960s: between 2009 and 2014, Gross Domestic Product (GDP) rose a mere 10.8% (Pew Research Center, 2014). The retail industry is highly susceptible to business cycle swings, such as those brought by a recession, due to a high correlation between GDP and consumer demand for discretionary retail products and services (Berman & Pfleeger, 1997). Accordingly, U.S. retail businesses experienced severe revenue losses and were forced to re-evaluate existing strategies to prevent further losses or sustain profits (Baker, 2009). Recession can elicit varied strategic responses from businesses (Srinivasan, Rangaswamy, & Lilien, 2005). During an economic downturn, conventional wisdom holds that businesses should cut costs via retrenchment, i.e., reducing cash outflow or divesting non-core assets (Kitching, Blackburn, Smallbone, & Dixon, 2009). Retrenchment strategies at the disposal of retailers include lay-offs, closing underperforming stores, and reducing marketing expenditures. Alternately, for some retailers, recession can be “an unexpected opportunity” to pursue investment strategies (Kitching et al., 2009, p. v) by developing portfolios or new products or markets to cater to changing consumer demands (Sands & Ferraro, 2010). However, Gulati, Nohria, and Wohlgezogen (2010) contended that businesses need both retrenchment and investment to survive a recession; neither is sufficient alone.

Because businesses need more than one strategy to survive a recession, they need a deeper understanding of various turnaround

strategies. However, few empirical studies have examined this topic, the findings are fragmented, and the implications are limited to certain business sectors (Gulati et al., 2010). For example, existing studies have focused on specific areas such as financial performance (Little et al., 2011), marketing (Rollins, Nickell, & Ennis, 2014), innovation (Hausman & Johnston, 2014); or on adaptive strategies of specific firms (Lettice, Tschida, & Forstenlechner, 2014) or specific industries such as food processing, maritime, and media industries (Makkonen, Pohjola, Olkkonen, & Koponen, 2014). Although most recently, Mann, Byun, and Li (2015) analyzed realignment strategies during recession, our understanding of retailers' retrenchment and investment strategies in response to the Great Recession is shallow and incomplete. More comprehensive research is needed to evaluate how various retailers coped with the Great Recession (Brunk & Blümelhuber, 2011; Gulati et al., 2010).

Because of the dearth in the literature, the first goal of this study is to examine retrenchment and investment strategies to provide holistic understanding of strategic alternatives pursued by retailers from 2008 to 2011. Based on the year-over-year change in retail sales reported by the U.S. Census Bureau, which showed a dramatic decline in sales between 2008 and 2009 and significant recovery between 2010 and 2011, we define 2008–2009 as the Recession period and 2010–2011 as the recovery period. The second goal is to examine trends over time by comparing strategies used during the Recession and in the recovery period, a largely overlooked area in the literature. We focus on the U.S. retail industry because it is critical to the U.S. economy: it is the largest private employer in the U.S., supports 42 million jobs directly or indirectly, provides \$1.6 trillion in labor income, and contributes \$2.6

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trillion to the U.S. annually (PricewaterhouseCoopers, 2014). Therefore, success of retail businesses is a significant indicator of economic measures including job growth, consumer spending, and retail sales. Specifically, we address three research questions:

- (1) What types of retrenchment and investment strategies did retailers adopt to cope with the Great Recession? Into what thematic categories can these strategies be classified? What were the most salient categories?
- (2) What motivated these decisions across various retailers?
- (3) Were there any trends in retailers' retrenchment and investment decisions during the Recession (2008–2009) and during recovery (2010–2011)?

Methodologically, we employed inductive research, which starts bottom-up, using data to build broader themes and generate a theoretical explanation of the themes. As noted by Bonoma (1985), while deductive studies that examine cause-and-effect intend to confirm or disconfirm theory, inductive studies that seek to describe and explain a new or relatively unknown phenomenon intend to build theory. Using an inductive approach, our study contributes to theory building by explaining a little-known phenomenon and enhancing understanding of retailers' turnaround strategies from 2008 to 2011. We qualitatively analyzed National Retail Federation (NRF) newsletters published between January 2008 and December 2011 to examine patterns of retrenchment and investment strategies, develop a set of theoretical propositions, and build a conceptual framework explaining these patterns. Since the purpose of inductive research is discovery of new concepts (Gioia, Corley, & Hamilton, 2012), existing constructs and theories are not used to inform data collection and analysis. To ensure that our findings and propositions were grounded in data and to avoid bias in data analysis, we refrained from a priori review of the pertinent literature, as recommended by Corbin and Strauss (1990). We tied our findings to extant literature after analyzing the data.

Through investigating retailers' retrenchment and investment strategies in response to the Great Recession, we found that, contrary to conventional wisdom, more retailers invested than retrenched between 2008 and 2011. We found more than five times as many reports of retailers investing in various areas, including development of new markets, products, services, and corporate social responsibility initiatives, than reports of retrenchment. Different patterns and motivations were related to firms' resources and strategic orientations. Turnaround strategies also differed over time. Findings from this study can benefit retailers by providing a variety of alternatives for adjusting resources and strategic focus during economic downturns. Our data shows that a key turnaround strategy during the Great Recession was innovation; therefore, we offer significant implications for responding to periods of economic difficulty and creating policies that foster innovation and sustainable competitiveness for the U.S. retail industry.

In the following section, we discuss our methodological approach. In section three, we discuss news reports of various types of retrenchment and investment decisions and highlight the underlying factors of specific decisions. Finally, in section four, we draw conclusions and review them within the context of existing research.

2. Method

2.1. Data collection

We used an inductive approach to examine retailers' retrenchment and investment strategies. Inductive research is qualitative, gathering data from observation, interviews, and documentary analysis (Creswell & Clark, 2011). We used documentary analysis by sampling from the archives of SmartBrief, a daily e-mail newsletter published by the NRF. Miller and Skinner (2015) contended that newsletters are an appropriate and useful data source for inductive research, as the media

are critical in disseminating information about businesses and therefore have been used as an important tool for research. For example, Stice (1991) studied earnings forecasts by collecting data from the *Wall Street Journal*; Thompson, Olsen, and Dietrich (1987) examined the content and timing of firm-specific news reported by the *Wall Street Journal* and identified various overarching themes/categories (e.g., earnings, assets, labor, and product related categories). In this study, we used NRF newsletters to examine reports of retailers' strategic choices in the four recessionary years. The NRF collects news from diverse sources, including the *Wall Street Journal*, *NY Times*, *USA Today*, *Los Angeles Times*, *Convenience Store News*, *Stores Magazine*, *Internet Retailer*, and so on (SmartBrief, n.d.), thereby ensuring the robustness of the findings. Each SmartBrief newsletter consists of several sections: "Chain Restaurant News," "Top Story," "Retail Technology," "Industry Watch," "Policy and Government Affairs," "NRF News," and "Sponsored Content." Each section summarizes news items with links to the original source for further reading. Because the NRF newsletter is published daily, we used purposeful sampling, the recommended sampling method for qualitative research (Creswell, 2014), to organize and summarize the data. We sampled one newsletter per week from January 2008 to December 2011 and chose different business days in each consecutive week to capture any variations in content on different days. Articles from "NRF News" and "Sponsored Content" were excluded because they were not relevant to our purpose. We referred to the original source when a summary was vague or unclear. In total, our sample consisted of 210 newsletters, 2131 news summaries, and approximately 580 pages (double-spaced) of news.

As noted earlier, we found far more reports of investment than retrenchment between 2008 and 2011. It could be argued that newsletter data is somewhat biased because it may report more positive events than negative events to present a more positive outlook on the economy. However, research suggests that the media tend to cover negative economic conditions more closely than positive conditions (e.g., Hester & Gibson, 2003). For example, Goidel and Langley (1995) reviewed the front pages of *New York Times* from 1981 to 1992 and found more reports of negative economic events than of positive ones. Therefore, given the media's general tendency to report more negative economic news, the fact that our data showed more positive events (i.e., investment decisions) indicates that the reports we reviewed accurately reflected retailers' turnaround strategies in response to the Great Recession.

2.2. Data analysis

Inductive research can be based on several qualitative methodologies, including narrative, phenomenology, ethnography, case study, and grounded theory, each of which serves a unique purpose (Creswell, 2014). This study used a grounded theory approach, which provides a theoretical explanation of a phenomenon of interest by analyzing themes and patterns that emerge from the data. We used Atlas.ti, qualitative data analysis software, to analyze the data through various steps. First, we used open coding to break down data into first-level concepts. This process involved reading through the data several times and creating tentative labels to summarize what it represented. Second, we used the constant comparison approach to identify and refine emergent themes as recommended by Creswell and Clark (2011). This process involves searching for new information until the data does not provide any new insights into the category. This first-order analysis led to a large number of categories. From the pool of open coding categories, we identified the central phenomenon of interest – economic conditions – as a core category. Third, we performed axial coding to identify related categories. In the initial phase of axial coding, we identified codes that were directly associated with economic conditions. Next, as described by Gioia et al. (2012), we manually classified codes that were related to an emerging theme into an appropriate category. For example, we identified 21 codes corresponding to retailers'

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