# Nations of Retailers: The Comparative Political Economy of Retail Trade

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Abstract

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This dissertation analyzes the development of the retail sector in the United States and Western Europe. The predominant literature on the service sector in both economics and political science has argued that the only way to create jobs in services such as retailing is through the low-wage, high-inequality route epitomized by the United States. Nevertheless, in the retail trade sector, a number of European countries have matched or exceeded American productivity and employment growth, despite considerably higher wage levels. How do we explain the puzzling combination of rapid job growth and high wages in European retail?

This dissertation resolves this puzzle through a cross-national comparison of the retailing strategy in three countries: the United States, Denmark, and France. It identifies three modes of competition in retail, labeled "lean retailing" (US), "relational contracting" (Denmark), and "vertical integration" (France). It shows that each approach has strengths and limitations, with none inherently more successful than the others.

The first model, American lean retailing, is a cost-squeezing strategy built around scale, turnover, and low margins. It uses dominating relationships with suppliers and workers to strip costs and retailer control over logistics to improve efficiency. The second model, Danish relational contracting, illustrates that more collaborative relationships can produce equally efficient retailing outcomes. Danish retailers work with workers and suppliers, finding ways to share and reduce long-term costs through worker training, improved productivity, and reduced costs from confrontation. Finally, a third model, French vertical integration, seeks to add and capture as much value as possible throughout the distribution supply chain. French retailers have built their own partners and brands, developing services and private label products that allow them to add value.

Most explanations of retail business strategies emphasize either the imperatives of the technology available to retailers or the vicissitudes of consumer preferences or markets. This dissertation argues, by contrast, that contemporary retailer strategies are rooted in a series of political battles fought in the 1960s. The key to this political explanation is the embedded nature of the retail sector. Retailers are amongst the most connected actors in political economy, with ties to numerous economic and political players, including consumers, suppliers, workers, and both local and national governments. These connections were activated in the 1960s as a new crop of large-scale retail entrants began shifting the retail sector from shopkeepers to supermarkets.

The political coalitions that emerged were a function of national structural factors, notably the power resources of the retail sector, electoral institutions, avenues of interest aggregation, and the economic organization of small shops. These coalitions set in motion longer economic trajectories of firm management and policymaking. Where retailers could defend their interests unilaterally, without coalition partners (US), the lean retail model took hold; where retailers forged multiple coalitions with other stakeholders (Denmark), the relational contracting model developed; and where coalitions were partial and unstable (France), vertical integration predominated.

In the United States, the fragmented and decentralized political environment meant that the opposition to retailers was local and diffuse. Consequently retailers were able to counter with unilateral political action. This unilateral political approach set the stage for a confrontational, and ultimately dominating lean retail strategy that uses market power and digital information as a club against suppliers and workers.

In Denmark, weak retailers confronted powerful small shops, producers, and workers. Needing support, retailers reached a broad compromise involving all of these groups that divided the gains from consumer distribution in a more stable, long-term and equitable fashion. Under this relational contracting approach, retailers were forced to work with partners, but eventually found numerous benefits from these alliances, and have continued their cooperation long after the initial political crisis has past. Policymaking has also continued its history of concertation, and new challenges are still tackled jointly by a broad coalition of groups.

Finally, in France, retailers faced vocal and national, but disjointed opposition movements of shopkeepers and workers. Retailers responded by forging uneasy, partial alliances, but these were constantly contested. In this unstable political environment, retailers pursued a vertical integration strategy, seeking to maximize value by controlling and internalizing much of the production process.

Analysts of the retail sector suggest that new developments, such as trans-national retailing and e-commerce (sales over the Internet) are undermining national models of retailing. This dissertation shows, however, that retailers are largely integrating these new developments into their existing, nationally distinctive business strategies. In the United States, retailers are using market power and fragmented politics to dominate where possible. In Denmark, numerous partners are working collaboratively to share the gains of new opportunities. Finally, in France, national political fights over digital commerce are reopening unresolved policy questions from the pre-digital era. Like the previous set of political challenges facing retailers, therefore, national institutions and politics continue to mediate economic transformations and drive divergence in firm strategy, competitive advantage, and national variation in secondary outcomes such as wage equality, price levels, and patterns of technology implementation.

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## I. Liberal America Versus Regulated Europe: Walmart Goes to Germany

Walmart entered the German market in 1997 with the purchase of 21 stores from the Wertkauf retailing group, and followed up its entry a year later by buying 74 stores from Spar Handels-AG. The entry of the American-based retail giant sparked a mix of fear from European retailers and accolades from industry analysts and the press, who assumed it was only a matter of time before the American retailer dominated the European retailing market as powerfully as it did the American market. Press coverage of Walmart's entry captured this sentiment, with the *Chicago Tribune* writing, "Germans used to high prices, rude sales clerks, and long lines at the checkout are about to get a break: Walmart is arriving with an American-style shopper-friendly experience." (December 10, 1998).[1]

The analysts were not acting on beliefs alone; extensive academic literatures extolled American retail trade's technology and process-based best practices, the large gap in productivity growth between American and European retailing, and the lack of innovation in Europe's overly regulated market for services (Van Ark et al. 1999; Nicoletti and Scarpetta, 2003; Gordon, 2004). Even the defenders of European service sectors damned the economic prowess of European retailing with faint praise, relying on arguments about the social costs of the American model (see for instance Pellegrini, 2005).

It was consequently quite a shock when Walmart exited the German market in 2006, leaving behind up to $1 billion in losses. Post-mortems placed some of the blame on business decisions by Walmart, its inability to adapt to the more highly regulated German retailing environment, and contentious supplier and supply chain relations (Christophersen, 2007). Accustomed to a political environment with liberal political rules, local political fights, and less powerful social partners, Walmart struggled to adapt to a political environment marked by national-level bargaining with powerful social partners. Additionally, Walmart's exit highlighted the stiff competition from German retailers, who had created quite different, but clearly viable business strategies in a higher-wage, higher regulatory, more coordinated political environment.

That Walmart's "efficient" business model might not fare well in the more regulated European business environment is only half of the puzzle. The other half emerges when noticing that Europe's higher-wage, higher regulatory environment has failed to come with any of the expected tradeoffs, such as lower job growth. For instance, Danish retail workers have amongst the highest wages and wage-equality in the

[1] Even the most even-handed accounts assumed the inevitability of Walmart's success. A later *Fortune* article (July 7, 1999), while noting the difficulties the retailer would face, stated that "European retailing will never be the same" and all that was required was to "give the Bentonville behemoth time."

world. The average Danish retail worker in 2007 made $23.62/hr. (excluding benefits) compared to $12.75 for the average American worker. In addition, in 2003, only 23% of Danish retailer workers had an hourly wage falling below 2/3 of the economy-wide median, compared to 42% of American retail workers.

Despite this high level of absolute wages and wage equality, however, Danish retailing has created jobs at a rate on par or exceeding the United States. From 1990 to 2007, controlling for changes in working-age population, Danish retail employment averaged 1.0% annual growth. During the same period, US retail employment shrank at a rate of -0.4% annually.[2] In 2007, 13.2% of the US working age population was engaged in distribution.[3] In Denmark, the percentage engaged was 13.3%. (EU KLEMS database.)

Retailers across Europe have therefore been remarkably successful, despite predictions of slower innovation or employment tradeoffs from their highly regulated, high-wage environments. Longer-term productivity growth and absolute productivity levels match or exceed American levels; employment growth has matched US growth controlling for changes in population; European retailers have rapidly adopted and implemented digital technology, while also innovating in other ways, including product innovations in private labeling and unique configurations of suppliers and workers. Additionally, the variation in business strategies and technology use are not limited to a European-American divide. Rather than converging on a single European-model, different nationally-based retail strategies have emerged across Europe. As with manufacturing, it appears there are quite different models of service development.

The variation in national retail firm strategy is the primary outcome explained by this dissertation. Three ideal type case studies (the United States, Denmark, and France) will be presented as evidence, each with a quite different management approach to value-creation and subsequent firm organization. The first is the **lean retailing** model, the American cost squeezing strategy built on the search for efficiency in logistics, low levels of service value-added, and combative relationships with suppliers and workers. The second is **relational contracting**, seen in the Danish case. Relational contracting is a cost sharing and saving model, which seeks to the lower the costs of combative relationships and is supported by partnerships with workers and suppliers. A final approach is the French **vertical integration** model.[4] Vertical integrators seek to capture additional value through higher levels of value-added services, private label products, and dual-tier relationships with workers and suppliers.

Unlike manufacturing, where scholars of political economy could compare the efficiency of firms through the market competition of products such as cars or semiconductors, the strategies of retail firms must be compared through a different set of

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[2] This does not mean that the American retail sector did not create jobs, simply that it did not create enough jobs to keep pace with changes in working age population.
[3] Distribution is both retail and wholesale trade. See Chapter 2 for more on these sectors and how they fit in the larger distribution sector.
[4] These cases are drawn primarily from the grocery and general merchandise retail sub-sectors, though they are meant to capture the broader features of the business to consumer retail sector.

arguments and evidence. Consequently, statistical tests of productivity and qualitative case studies will show that these models provide equivalent value for their national economies, with similar levels of both productivity growth and job creation. Although each strategy provides a comparable level value to its national economy, the distribution of those gains among consumers, producers, workers, and firms remains quite different. The allocation of these distributions, like other divisions of wealth in the economy, is driven primarily by political rules that structure the level and nature of market competition. The specifications of each national distribution will be discussed more extensively in the case country chapters, but can be simply seen as consistently favoring retailers and consumers in the United States, as sharing among all groups in Denmark, and as shifting between producers, consumers, and retailers (plus a tier of insider workers and suppliers) in France.

National variation in the retail trade sector has not always been the rule. The organization of distribution, and correspondingly, national management strategies, looked highly similar in the postwar period. Across all three case studies retailers were weak relative to suppliers and organized into "push" systems controlled by upstream partners.[5] Shops typically were small and managed with a shopkeeper (rather than self-service) logic.

Retail's sleepy postwar order came to an end in the 1960s as a new crop of merchant minded retailers responded to changes in consumer wealth, technology, demographics, urban geography, and business strategy to engineer new business models. These new entrants rapidly began to displace small shopkeepers and challenge upstream domination in supply chains through increased scale and economic power.

As with other economic transformations, these new entrants encountered political opposition. Although the rise of retailing was spurred by similar management ideals across countries, the political opposition retailers faced varied significantly in response to different structural conditions including: the allocation of power resources in the economy, political rules concerning interest aggregation, and the internal structure and organization of the retail sector. Accordingly, retailers were forced to form very different kinds of political coalitions to defend their new business practices and continue the growth of scale retailing.

Three basic coalitional outcomes emerged, each in response to the opposition retailers faced. In the United States, a fragmented and local response to the rise of retailing created an environment in which retailers could act unilaterally, relying on market power and a divide and conquer political style. In Denmark, powerful institutional pressures and well-organized competitors pushed retailers toward broad, stable coalitions with workers, producers, and government. This coalition preserved a more stable distribution of wealth among partners while building strong national institutions for solving future conflicts. In between was France, where a weak, uneasy

[5] Push systems are those in which producers choose how and when to push goods downward through supply chains toward consumers. Pull systems are those in which retailers choose how and when to pull consumer goods from producers for delivery to consumers.

business coalition solved the initial national politics, but failed to solve either local policy conflicts or agree to a longer-term style of policy-making. The stress of future policy disagreements and a lack of consensual policymaking institutions meant that the French retail coalition soon devolved into a state of perpetual conflict.

The central argument of this dissertation is that the divergence of nation-specific retail firm tendencies can be explained primarily by the political coalitions that retailers initiated during the 1960s and 1970s and continue to maintain today. Each coalitional channel structured both retail strategies and the subsequent politics of the retail sector. In management strategy, the political partnerships of large retailers during this formative period spilled over into their economic relationships. Politically, these initial deals created not only short-term political and regulatory outcomes, but also longer-term trajectories of retail politics, including the level of governance that set retail policy, the process used to solve conflicts, and the level of cooperation among political interest groups. In all, these coalitions represented a broader political and economic consensus about how wealth should be distributed in the growing consumer retail sector and how future challenges to this arrangement would be solved. Retailers were making political decisions, but their solutions to political problems also structured their economic choices.

The story of retail firm strategy, therefore, cannot be reduced to either a techno-determinist story or simply a tale of labor markets, wages, and labor skills. The problems of markets and hierarchies in retailing are in fact being resolved by a variety of political fights, demonstrating once more that technical outcomes are not determined by the technology itself, but by social and political rules.

## II. A New Approach: High Growth Variation in the Retail Sector

The emergence of different, but equally viable modes of retail management means that the retail case clashes with the existing political economy literature on comparative service sector development, which emphasizes two primary perspectives: a high-growth liberal convergence perspective and a low-growth national modes of austerity perspective. The former is derived primarily from theories in mainstream economics while the latter has roots more firmly in political science. Both underestimate the role socio-political coalitions play in structuring firm preferences and patterns of policymaking. Additionally, both miss a third possibility: high-growth, nationally-specific trajectories of innovation.

**The Liberal Convergence Perspective:** The vast majority of scholarship on service growth and innovation has fallen under the liberal perspective. It predicts convergence around a single model derived from the American experience, particularly for IT-using service sectors like retail trade. These predictions are among the latest in a long history of convergence theories in the social sciences. Economic convergence theories can trace their roots to the work of David Ricardo and Colonel Torrens work on comparative advantage or the more recent work by scholars like Paul Samuelson (1948) on factor price equalization.[6] Convergence theories have a long history in political science as well, covering topics from modernization theory to economic, political, social, and ideological structures.[7]

Unpacking the current theories highlights two core contentions. The first can be simplified to the contention that regulation is bad and that liberalization is good for innovation in services. The second is that IT multiplies this rule and that within firms technology hastens the move toward the Fordist organizational structures seen in liberal environments. Together, they argue that were it not for over-burdensome labor and product market regulations, modern retailing would converge on a singular best practice largely synonymous with the American lean retailing model (Boylaud and Nicoletti, 2001; Nicoletti and Scarpetta, 2003; OECD, 2003; Gordon, 2004, McGuckin et al., 2005, Delpla and Wiplosz, 2007). These studies typically base their analyses on evidence from the US-Europe "productivity gap" in the mid-1990s, suggesting that America leads and Europe lags in IT-using services like retail trade and finance due to labor and product market barriers that slow innovation and dampen competition (Van Ark et al., 1999, 2008; O'Mahoney and Van Ark, 2003). When broadening our time-horizons, however, our puzzle re-emerges: these theories are not supported by the empirical evidence.

Despite the brief period of differential growth starting in the mid-1990s, there is little evidence that more liberal regulatory countries have led in retailing innovation, whether measured through medium-term productivity growth, absolute level of productivity, or technology adoption statistics.[8]

Absolute productivity levels refute the suggestion that European growth in the earlier period is simple "catch-up" and that the newer period better reflects the long-term prospects of each regulatory environment. In fact, there is some evidence that more highly regulated retailing environments have higher absolute levels of retail productivity

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[6] There is an active debate among scholars about the originator of the comparative advantage theory. While Ricardo is most often given the credit, John Stuart Mill in his classic *Political Economy* states that Torrens "has established at least a joint claim with Mr. Ricardo to the origination of the doctrine, and an exclusive one to its earliest publication (Volume II, p. 94)." For a more recent pro-Ricardo history of the idea's origin, see Ruffin (2002).

[7] See Janos (1986) for a good review of the convergence literature in modernization and Wilensky (2002, Ch. 1) for a review of the evidence of convergence on nine dimensions of modern society. Wilensky finds evidence for convergence on all dimensions, but concludes that substantial differences exist in the speed and amount of change.

[8] These criticisms stand apart from the general criticism of any attempt to compare service productivity, particularly cross-nationally, given the difficulty in measuring service quality and productivity. While Clark (1940), continuing a trend identified much earlier by Sir William Petty (1691) wrote that "the varying levels of tertiary productivity are among the most important factors that determine the average level of real income in countries as a whole (p. 319)," few studies since have been able to state a similar conclusion with any confidence (see Smith and Hitchens, 1985 on cross-national difficulties, Gadrey, 2002 for an elaboration of these difficulties, Wilensky, 2002 on the poor categorization of services, Moir, 2005 on specific difficulties in retailing, Pellegrini, 2005 on how productivity numbers in retailing miss social variables, and Zysman, 2006 on how what is a service has transformed over time, especially in the digital age).

and technology use and at times may lead in productivity growth.[9] Table 1.1 below supports this conclusion, showing that while the liberal United States and United Kingdom excelled from 1992-onward, regulated countries such as Denmark and France experienced an acceleration in retail productivity throughout the 1980s and exhibit higher productivity growth over the entire period and absolute productivity levels.[10]

Table 1.1 Labor Productivity in Retail Trade, Annual Growth and Absolute Level

| | Growth 1977-1992 | Growth 1992-2007 | Growth 1977-2007 | Absolute Productivity (VA/Hr, US$), 2007[11] |
|---|---|---|---|---|
| Denmark | 3.5 | 1.2 | 2.4 | 29.49 |
| France | 5.2 | 1.0 | 3.1 | 27.96 |
| Germany | 1.7 | 0.7 | 1.2 | 22.93 |
| Average | 3.5 | 1.0 | 2.2 | 26.93 |
| | | | | |
| US | 1.6 | 2.8 | 2.2 | 26.99 |
| UK | 2.6 | 3.0 | 2.8 | 21.26 |
| Average | 2.1 | 2.9 | 2.5 | 24.12 |

Source: EU KLEMS database. Productivity is defined as VA/hr. and is constructed using the average exchange rate from the 1st quarter, 1998 to the present.

Similarly, looking at technology adoption, few advantages to liberalization can be seen. Beck, Grajek, and Wey (2005) have examined the diffusion of retail checkout barcode scanning in ten European countries over the period 1981-1996, finding no significant impact of employment protection legislation. In fact, they find that the level of hypermarket competition *reduces* the long-run adoption level of scanner systems in

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9 Given the recent turmoil in the American economy, the size and durability of the productivity boom in the United States is also in question. Retail productivity was highly buoyed by what is now recognized as unsustainable consumer spending as well as the housing boom. One of the fastest growing retailing sub-sectors in the United States was “Building materials and supplies dealers” (NAICS 4441) such as Lowe’s and Home Depot, whose productivity growth now looks flat from 2002-2009 and is certain to fall further, perhaps to pre-2000 levels.

10 It should also be noted that the “liberal” and “coordinated” labels do not entirely overlap with retail regulatory indicators, another suggestion that the retail case does not match past typologies. The OECD indicator for retail regulation runs from 0 (least regulation) to 6 (most regulated) and covers a variety of regulatory dimensions. In 2008, the liberal US and UK average was 2.3 while France, Germany, and Denmark only averaged 2.8. These numbers should be taken with a grain of salt, as a close examination of the component measures shows numerous mismatches with the reality on the ground. Turning the level of retail regulation into a number is a not a simple process.

11 These figures are not in PPP, but would only change in minor ways if PPP were considered and PPP inclusion would not affect the relative rankings at all. Given the difficulty in capturing service quality in PPP, it seems prudent to leave it out.

retailing. This finding supports the competing hypothesis that regulation may support investment build-outs and innovation in retailing.

The logic is simple: with the proper incentive system regulation may create incentives to channel rather than reduce investment. In France and the UK, for example, planning restrictions created a system of virtual local monopolies. Such a system may speed up network building in retailing two ways: first by increasing competition for these lucrative sites, incentivizing early movers, and secondly by giving retailers more secure revenue streams allowing accelerated investments in store network construction. As we will see, despite these supposed "restrictions" on new store construction, hypermarket growth in these two countries was the fastest in Europe.

Beck et al. did find that patterns of technology adoption match some economic expectations, as both increased scale and higher income increase technology diffusion while higher wages also lead to increased labor-saving technologies; none of these factors, however, are correlated with liberalism, and in fact may be negatively related. The evidence shows that there has been little convergence on other measures of retailing strategy as well, including private label use, digital networks, worker wages, and more.

The findings of more in-depth studies such as that of Beck et al. suggest that the economics and productivity literature may be looking at innovation in services without considering how service productivity, still in its infancy, might be enhanced by regulation. Past work, primarily the literature on the developmental state (Johnson, 1982; Amsden, 1989; Wade, 1990) or generally more coordinated institutional environments (Shonfield, 1965; Williamson, 1985; Albert, 1991; Soskice, 1999) has shown that regulation and institutions may not be barriers, but simply different solutions to problems of economic coordination.

Similarly, the evidence and argument from both the French and British cases point toward the advantages of regulation. Foremost is the ability of regulation to reduce competition for retailers and encourage investment, which falls in direct opposition to the arguments of the convergence perspective. Nevertheless, the idea that regulation, and more specifically temporary monopolies, might foster innovation has an illustrious history in economics, most notably with Schumpeter (1942). In *Capitalism, Socialism, and Democracy* Schumpeter argues that "in the process of creative destruction, restrictive practices may do much to steady the ship and to alleviate temporary difficulties (p. 87)" and discusses how the value of temporary monopoly is that it "affords against temporary disorganization of the market" and "the space it secures for long-range planning (p.103)." In other words, monopoly profits fund innovation. Evidence for this argument is clearly visible in the French case study.

Similarly, comparative political economy work has long stressed how different national political frameworks handle challenges to changes in technology or economic structures, leading to different, but equally competitive modes of firm organization. These accounts highlight that national variation exists because of national political institutions and coalitions, which continue to shape national political fights over the distribution of wealth. This is work that political science has long tackled in manufacturing (Noble, 1984; Piore and Sabel, 1984; Streeck, 1991), but has so far largely ignored in service sectors.[12]

Finally, it is worth remembering that academic literatures on both IT's relationship with productivity and on services growth remain quite thin and are only now coming to grips with the ending of the so-called "Solow productivity paradox" – the apparent lack of productivity growth from IT investment (Brynjolfsson, 1993; Stiroh, 2002). Given the recent appearance of service sector productivity it seems only prudent to rely more heavily on empirics than hypotheses from a previous era.

**The Gloomy Tradeoffs Perspective:** A second literature, stemming from political science, contests the notion of global convergence, instead emphasizing the inherent challenges from growth based on low-productivity service sectors. The basis of these arguments is William Baumol's (1967) "cost disease" theory. Baumol first noted the productivity growth problems of the service sector, pointing out that performing arts services were performed in much the same manner, at the same speed, and with the same quality as hundreds of years ago. The only difference was the cost.[13]

As the share of services in national economies have grown, so has the view that that advanced countries face tradeoffs, most commonly between high-wage jobs and employment creation in the service sector (see OECD, 1994, 1996; Becker, 1996). Iversen and Wren (1998) have made the most visible elaboration of this logic, positing that in "food and fun" services (such as retail trade) countries face a "trilemma". The notion is simple: countries must choose between three unappealing alternatives. If services cannot grow in productivity, either wages must fall in these jobs (inequality), job growth must fall (unemployment), or the state must pick up the tab through public sector job growth (lack of budgetary restraint). In all three cases, post-industrialization becomes an epithet for the troubles of the advanced economies.

Similar formulations stress the same core concept; as the service sector increases as a share of economic activity, countries now face tradeoffs they did not in the era of manufacturing (see OECD, 1994, 1996; Pierson, 1998; Esping-Andersen, 1999; Iversen,

[12] Retailing has been similarly ignored. One reason that political economy models may have bypassed the retail case is that no country has ever had an explicit policy for innovation or technology in retail trade. Some of the tangential aspects of technology used in retailing have certainly been the focus of policy (network development for instance). The point is that few policymakers have ever thought about how innovate through retailing; any growth has merely been an unintended beneficiary of other policies. To the contrary, the majority of retail policy has been explicitly anti-development, attempting to buffer society from the consequences of retail growth. This buffering role may be one reason for the prevailing wisdom about the constraining role of regulation on retailing innovation and growth. Nevertheless, many of these social rules have in fact conditioned growth, channeled investment, and encouraged retailers to seek economic partners they might have otherwise ignored. As national social regulations germinate social coalitions, they have forced retailers to defend their social role with their economic practices and partners.

[13] It is important to note that Baumol (2007) has since modified his position, distinguishing between "stagnant" and "progressive" (productivity-enhanced) services.

2005). Herman Schwartz (2001) may have best summed the set of fears surrounding services as recasting "the Malthusian tension between agriculture and industry as a tension between services and industry."

The resulting politics, therefore, stops being about solutions to economic problems, but rather about picking one's poison. The rise of the service sector is theorized to put pressure on the politics surrounding the distribution of public goods, the welfare state, and growth more generally (Scharpf, 2001; Pierson 2001). While a few scholars have investigated some of the theses within this gloomy literature (see Kenworthy, 2003), these dejected views have been largely layered on top of existing political economy models – such as Esping-Andersen's (1990) worlds of welfare capitalism in the case of Iversen and Wren – partially because few in-depth analyses have examined how the service sectors or their politics have actually changed. Other scholarship (Daniels et al., 2011) has examined convergence versus divergence in the service sector, but only in terms of broad contours, not looking at how firms and sectors are organized.

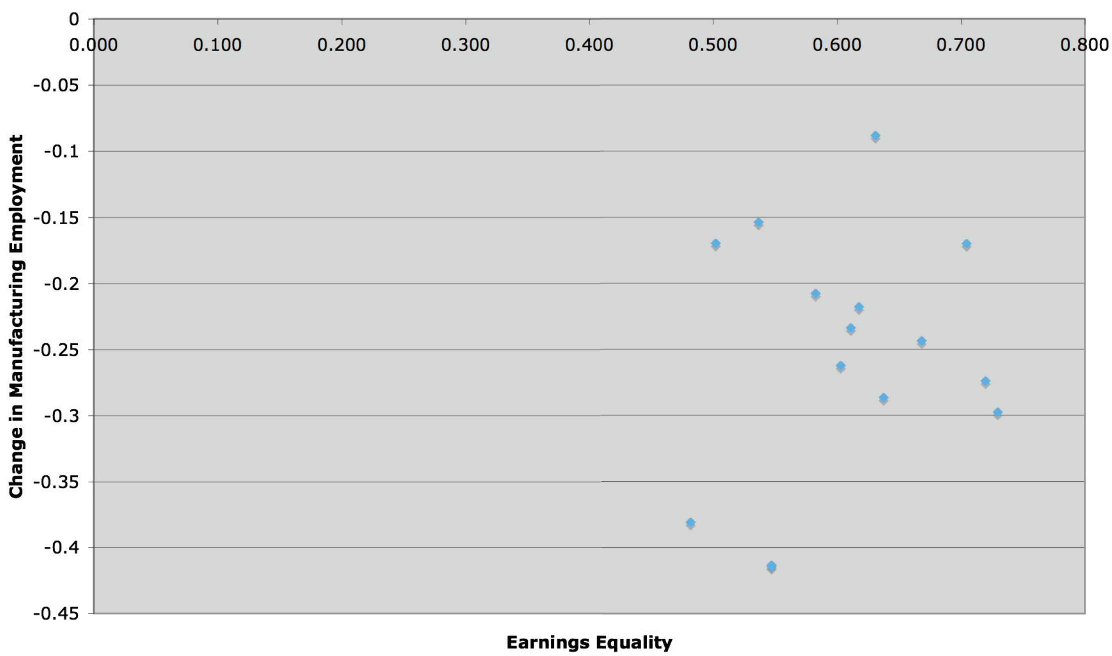
Nevertheless, the retail evidence shows that accounts emphasizing the challenges, rather than opportunities, of the service sector increasingly fail on three accounts: 1) service productivity has clearly increased within the retail sector (a private sector); 2) the predicted tradeoff between employment growth and equality simply does not exist in retail trade; and 3) previous political economic models of firm behavior cannot explain the empirical outcomes in retail trade country cases. In all, these three points suggest that in certain areas of the economy, particularly IT-using service sectors, it appears the time has come to proclaim that services matter and can be a source of rapid productivity growth. We may have returned to the world that Sir William Petty described in the late 1600s, when he wrote "There is much more to be gained by *Manufacture* than *Husbandry*; and by *Merchandise* than *Manufacture*."[14] If so, it is time for political economists to investigate how innovation has changed the world of merchandisers.

Evidence for the cross-national, high-growth productivity trajectory of the retail sector has been presented in table 1.1. Additionally, as a result of this accelerated productivity, the expected tradeoff between employment growth and equality has disappeared for the retail sector. Previous work has stressed the difference in the relationship between job creation and income equality between manufacturing and the service sector. Iversen and Wren (1998) found no relationship in productivity-enhanced manufacturing and a negative relationship in the private service sector. More recent analysis of the "trilemma" thesis by Kenworthy (2003), found only a weak relationship, although his work relied on data from a broad set of "low-productivity private service sector industries and in the economy as a whole." What happens when retail, a private service sector with fast-paced productivity growth, is viewed individually?

[14] As cited in Clark (1940). Italics in original. The quotation is taken from Perry's *Political Arithmetick* which was likely written around 1675. Clark gives the date of 1691, but this was likely a mistake, as the book was published posthumously in 1690.

Differentiating the retail sector from other service sectors, we find that it now acts more like manufacturing than the slow growth services in its relationship between wage equality and job growth. Figure 1.1 shows the relationship between employment growth and earnings equality in manufacturing (measured as a D1:D5 ratio – the same used by Iversen and Wren) for 15 affluent economies from 1990-2007.

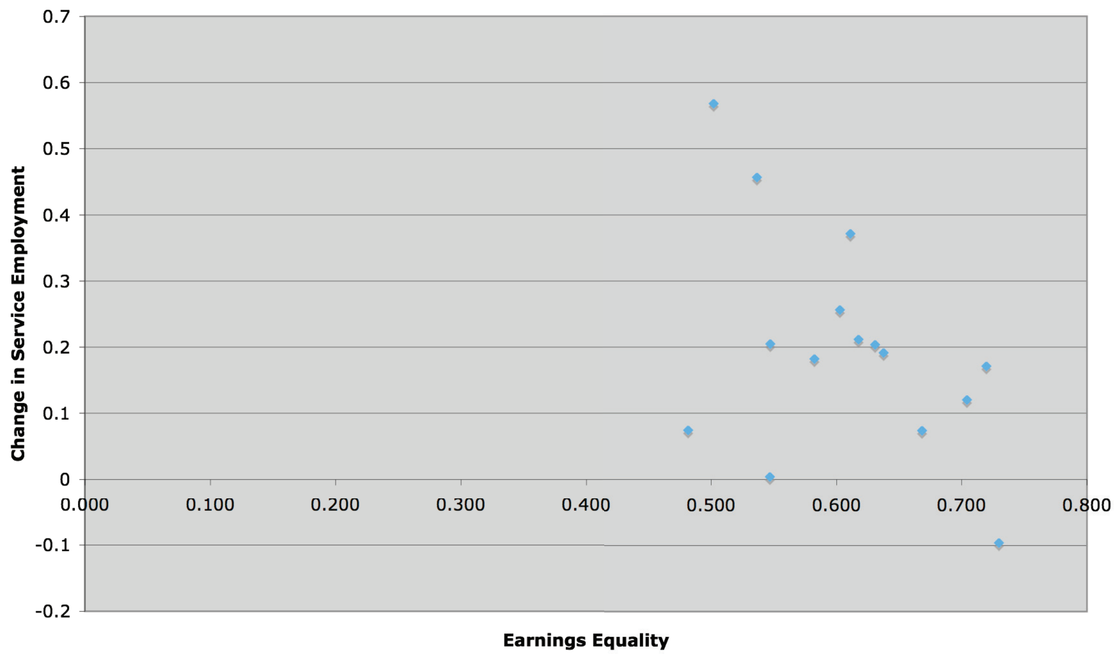
**Figure 1.1 Earnings Equality and Change in Manufacturing Employment, 1990-2007**




The findings match previous research on income quality and job growth in manufacturing; the relationship is not statistically significant. Countries with high wage equality have similar employment performance as those with lower wage equality. The relationship for community, social, and personal services also supports the slow growth trilemma hypothesis, as seen in figure 1.2 below; there exists a strong, statistically significant negative relationship between wage equality and job growth.[15]

[15] Wage equality and job growth have an $r = -0.46$ for the slow growth services, which has a $p < .05$ in a one-tailed test.

**Figure 1.2 Earnings Equality and Change in Community, Social, and Personal Services Employment 1990-2007**

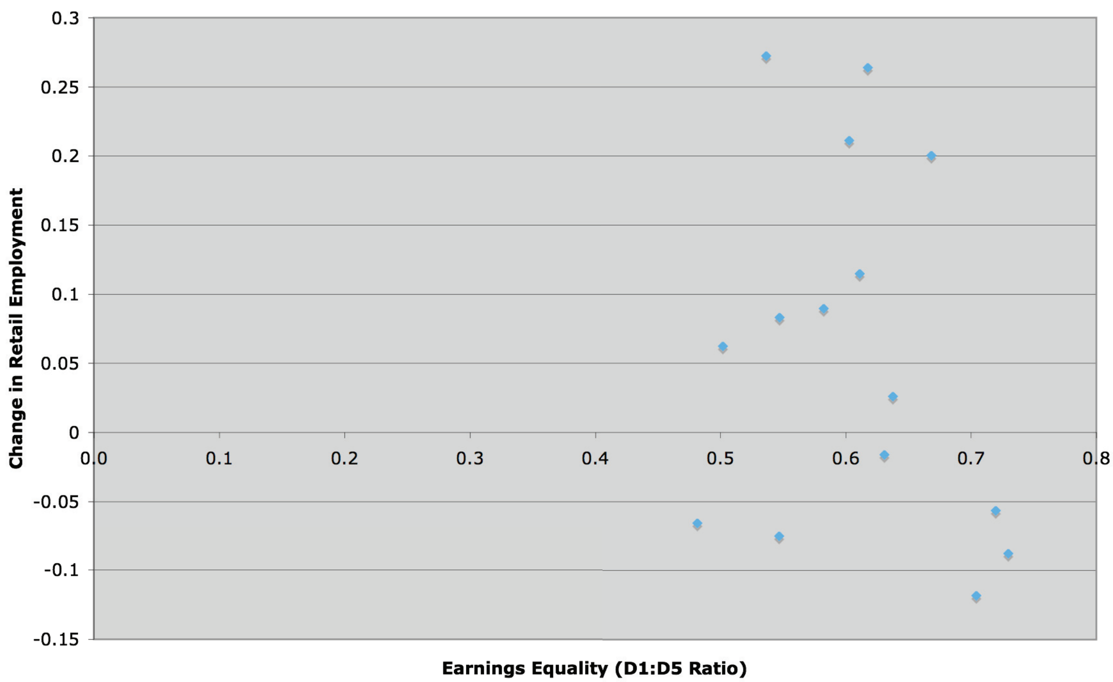



Retailing, however, does not follow the pattern expected for slow growth services, with no discernable relationship between earnings equality and employment growth, see figure 1.3 below. The fact that retailing growth was still positive in 9 of the 15 cases suggests that the sector does not act entirely like a manufacturing sector yet, but falls somewhere in between manufacturing and social services in its potential to create jobs. In many ways, this represents the best of both worlds, the potential for job creation without the slow-growth bind of the service economy.

A more in-depth examination of the three case countries strengthens these findings. Job growth numbers show the three cases are growing at similar (low) rates. Table 1.2 shows average annual employment growth from 1990-2007[16], controlling for changes in working age population (15-64) in retailing, distribution, and the total economy for each of the three country groupings. Little statistically significant change is seen. In this case, no findings are interesting findings. Similarly there is no evidence that controlling for population the liberal economies (the US and UK) create jobs any faster than their more heavily regulatory counterparts. In retailing the US ranks last and the UK second, while in distribution generally the US ranks fourth and the UK third. These rankings are the same as their positions when looking at population-controlled job growth in the total economy (UK third and US fourth).

[16] These dates were chosen to coincide with the end of Iversen and Wren's (1998) data.

**Figure 1.3 Earnings Equality and Change in Retail Employment, 1990-2007**




The data show that not only are productivity and job growth possible in the retail sector, but that they occur across a variety of institutional and political environments. Productivity and job growth numbers, however, tell us very little about how the firms involved are organized or about the delivery of retail services at the store or network level. For that, more in depth case studies of sectoral and firm organization and its connection to national political-economic structures are required.

More generally, sector-specific research in comparative context provides an essential tool for examining the political implications of important economic transformations.[17] Sectors control for a variety issues, highlighting where variations in political, social, and institutional variables alter market and firm outcomes. Sector cases, therefore, allow investigations of how common technological developments are mediated and interpreted across different sets of formal institutions, political coalitions, markets, and social settings. They also allow insights into the correct level of analysis for studying economic and political change. The nodes of contestation evolve during any economic transformation, and level of governance questions are particularly important in a large federal state like the US (or increasingly the European Union), with its patchwork of political actors and regulations. Sector studies illuminate at which level the primary

[17] These questions are timely given the current wave of service transformations that the affluent economies are currently undergoing (Zysman, 2006).

political action is occurring, quickly updating models of political, technological, and economic change.

Table 1.2 Average Employment Growth (%) 1990-2007[a]

| | Retail | Distribution[b] | Total Economy | N |
|---|---|---|---|---|
| **Lean Retailing** | -0.388 | -0.532 | -0.067 | 17 |
| | (0.315) | (0.301) | (0.243) | |
| US | -0.388 | -0.532 | -0.067 | 17 |
| | (0.315) | (0.301) | (0.243) | |
| **Vertical Integration** | 0.371 | 0.108 | 0.218 | 34 |
| | (0.276) | (0.222) | (0.184) | |
| UK | 0.575 | 0.080 | 0.191 | 17 |
| | (0.472) | (0.335) | (0.243) | |
| France | 0.166 | 0.137 | 0.246 | 17 |
| | (0.274) | (0.292) | (0.223) | |
| **Relational Contracting** | 0.346 | -0.011 | -0.228 | 34 |
| | (0.570) | (0.547) | (0.561) | |
| Denmark | 0.967* | 0.604 | 0.249 | 17 |
| | (0.500) | (0.441) | (0.286) | |
| Germany | -0.276 | -0.626 | -0.705 | 17 |
| | (1.001) | (0.977) | (1.072) | |

Standard errors in parentheses
*p < .1, two-tailed test
[a] Controlling for growth in working age population
[b] Includes wholesale. Given the close ties between these sectors, it is worth examining any hypotheses concerning retail by including as well as excluding wholesale.
Source: EU KLEMS database

Retailing is an excellent test case as a large sector, a sector in which technological change and productivity acceleration are undeniably occurring, which allows us to see the interplay of political fights and firm strategies. These are not small changes. Distribution is a large sector that captures 10-15% of the jobs and value in every advanced economy. It is also located between producers and consumers, making it ideal to study the conflicts between social and economic goals inherent to the service sector. The transformation from nations of shopkeepers to nations of retailers, therefore, provides a comparative window into how technology transforms not only a sector, its employment, and its firms, but also its political actors, political fights, and an enormous value domain in the economy.[18]

### III. National Trajectories of Retail Management

The large-scale retailers that currently populate the affluent economies share little resemblance to their ancestors in size of stores, store network scale, or management strategy. The evidence presented here, however, suggests that they do share a variety of nationally specific tendencies with other firms born of the same political environment. As with previous work in political economy, how retailers engage in these political struggles and the resulting economic outcomes falls into patterns that vary across nations. The following section presents three archetypes of national retailing strategy – lean retailing (cost squeezers), relational contracting (cost sharers/savers), and vertical integration (value-adders). Each ideal-type reflects how retailers make money as a result of their relationships; relationships that were first structured by political coalitions and later translated into interactions with economic partners including suppliers, workers, and consumers. The key linking mechanisms are political: the level and type of contestation over policymaking and the resulting regulatory regimes that formalize the terms of the political deals and cement coalition partnerships, incentivizing firms that continue the trajectories envisaged by these agreements and punishing those that step out of line.[19]

Five metrics are used to measure firm management strategy as an outcome: product strategy, supplier relations, labor relations and use, service value-added, and digital connections. Although the current incarnations of strategy are creatures of the digital age, they are not determined by the intrinsic nature of information technology (IT) tools. Rather, each strategy reflects a long history of political coalitions, regulatory policy, systemic power resources, and political struggles, as scale retailers have fought first with independent shopkeepers, and later, manufacturers. Perhaps the most intriguing aspect of these historically rooted trajectories[20] is how they continue strategies begun when retailers were relatively small and weak and have converged little in an era when large-scale retailers have become juggernauts of the service sector.

Each case provides evidence that nationally specific strategies exist and that these tendencies vary across political boundaries. In addition, process tracing connecting the origins of these firms to their current management styles supports the argument that coalitional politics were a driving force that reshaped these strategies (see Ford et al., 1989 on process tracing).

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[18] Retailing services were traditionally just the final step in delivering producer products to consumers, but as we will see, the value captured by retailers has rapidly expanded to cover nearly every facet of consumer goods (including branding, marketing, and even production), basic consumer services such as finance, and even technology domains such as data analysis or web hosting. It is notable that when WikiLeaks, the controversial non-profit, came under web attack in November of 2010, it initially turned to Amazon, an on-line retailer to host its site.
[19] These mechanisms may work differently in different locations. For more on how context matters for the form of causal mechanisms, see Falleti and Lynch (2009).
[20] See Zysman (1994).

For scale retailers the key to economic success was not predicated on forming a "winning" coalition. Successful scale retailers emerged in all of the countries being studied. The combination of new business practices, growing economic power, increasing consumer purchasing, and the opportunity for increased economic efficiency ushered in a scale retailer ascendancy across North America and Europe, regardless of the political rules.

Nevertheless, *how* retailers ascended, formed coalitions, fought political battles, and what concessions they made in order to ensure their victory mattered a great deal for the character of the winners and their organizational choices. Were the descendants of small independent stores part of the victory or did they disappear as important economic and political players in the process? Did retailers need to include workers and suppliers in their rise to economic power, or were they opponents to be bested? The answers to these questions created enduring political legacies: from the near total political victory of the lean retailers in the United States, to perpetual political conflict in France, and continued political cooperation in Denmark.[21]

Although the story privileged here centers on autonomous political activity – how coalition formation drove firm outcomes and longer-run political process – the latent structure of each political economy and the antecedent variables that influenced the shape of national coalitions should also be topics of interest; together this balance of structure and agency suggests that while political action matters during critical periods, how agents act may still be highly conditioned by existing institutional factors. Three structural variables in particular stand out: the power resources of retail relative to labor and manufacturing, the formal institutional rules that shape coalition formation (electoral, bargaining, and administrative rules), and the internal structure of the retail sector and the coordination of small store resistance. The evidence and logic of each are discussed later in this chapter. Taken individually or collectively, each of these variables pushed retailers toward broader or more limited coalitions.

In summation, although retail firms are certainly not atomized economic actors, neither are their actions determined by a fixed set of national social, economic, and political relations. Rather, the position of retail trade firms in the economy is constructed through deliberate political action and coalition formation. The ongoing political struggles inherent in group life therefore re-shape a firm's location in the economy and with it economic calculations about business strategy.[22]

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[21] They also affected the regulatory preferences of retailers over time. Initial similarity has given way to considerable variation by location, which will be discussed in the conclusions under the category of retail globalization.

[22] This point should not be construed as arguing that firms are constantly re-defining their location in a national economy in response to political pressures. As previous work has shown firm preferences, organizational forms, and business strategies, once adopted, can be quite sticky. Rather, the contention is simply that as new types of firms emerge, particularly service firms, the direction of their initial economic trajectories are highly malleable based on political considerations. This may either be because they don't know the "rules of the game" or because

Retailers that faced the most fragmented and decentralized national environments (as in the United States) also encountered the least organized opposition and consequently needed the fewest political partners. In these cases, retailers were powerful, free from institutional pressures privileging broad coalitions, and were able to avoid national political conflict. They worked in the most liberal regulatory environments where ideas about the distribution of wealth are largely predicated on market power rather than consensus or government intervention in markets.[23] Rather than forming coalitions, these retailers could rely on unilateral action against scattered local or regional (at the US State-level) opposition. National political fights were non-existent, with the "winners" determined by those actors best suited to navigating the fragmented and decentralized politics inherent in a liberal political-economic environment.[24]

With non-existent political coalitions and the ability for unilateral action in the political realm large retail firms were consequently free to form **lean retailing** business strategies built on using increased scale to squeeze costs and dominate their partners through market power. A cost-squeezing strategy both followed from and supported low levels of cooperation with workers, suppliers, and governments.

In the most highly consensual and corporatist countries, by contrast, powerful external and internal opposition groups created systemic uncertainty about the future shape of the retail sector and led retailers -- both large and small -- to build broad political coalitions. These coalitions built rules that established a more even distribution of wealth in the retail sector, balancing the social and economic needs of retailers, suppliers, workers, local governments and consumers. Together they mobilized and maintained long-term political alliances with workers or producers.

Pervasive coordination germinated **relational contracting** business models built on cost sharing and saving through long-term, stable political and economic partnerships. In order to satisfy coalition partners and avoid political, social, and economic consequences, retailers were forced to integrate labor and manufacturing partners into their business strategies. A political coalition, therefore, was cemented and sustained by the compromise of higher levels of buffering regulation in return for economic alliances.

Finally, vertical integration retailers emerged in environments with powerful but fragmented opposition groups by mobilizing weak, short-term coalitions that limited national political reactions to the growth of scale retailing while allowing significant freedom for local development. These divided political fights generated regulations that

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their new business models press against either those rules or the strategies of incumbents, who may try to enact new rules.

[23] The main causal agents in this account are rules, rather than ideas, but as Fourcade (2009) shows, American ideas about the "centrality of markets" (or any national idea about the role of markets) can also be tied to institutions and because of this anchoring can be routinely mobilized as a marketable political commodity.

[24] Consistent with the broader argument of this research, the evidence suggests that the lack of political conflict in the US case should not be interpreted to mean that political fights never occurred in retailing. Rather, these fights, which occurred much earlier in the 1930s, were simply closed during the period under consideration.

attempted to combine competitive markets with social protections. Instead the rules reduced uncertainty for large-scale retailers and promoting rapid development and the creation of otherwise risky strategies of product competition. Given low institutional density and the weak nature of retailers' political alliances, including local political partnerships, minor worker concessions, and selective cooperation with industry, there have been fewer policy equilibria in these countries. Because retailers initially solved the national dimension without creating a comprehensive framework for local deals, future conflicts were bound to arise. Retailing policy, therefore, has been marked by a perpetual contestation over the rules of the game.

Because of their brittle, limited coalitions with workers, producers, and consumers, **vertical integration** retailers have been the most willing to reconfigure the terms of their economic agreements, expanding their control throughout the value chain to compete with former partners to capture new value or forming dual tiers of workers and suppliers with different levels of cooperation. Although retailers were initially able to work with workers and suppliers to support a pro-business environment, the lack of a larger policy consensus and the political uncertainty of tenuous partnerships led these firms to build competencies in house to reduce uncertainty and increase market power, decreasing their reliance on questionable allies.

In all, building and maintaining each political coalition influenced firm business choices and modes of innovation, by endowing firms with particular constellations of organizational strengths and altering the way firms saw problems of economic coordination. Nevertheless, the actions of retailers were not simply instances of constrained utility maximization, but primary and active political choices that fed back into economic structure.

## IV. Coalitional Channels in Retailing

> *In brief, I shall try to show that the economic environment enables, but does not guarantee, the creation of political groups, and that economic groups which seek to operate politically thereby enter a realm which exercises its own conditioning effects and which does far more than simply reflect the strengths and drives of economic groups.*
>
> *- Joseph Cornwall Palamountain, Jr. (The Politics of Distribution, 1955)*

The idea that the political realm might be critical to understanding the retail sector is not new. Joseph Palamountain's (1955) work on the economic and political structures of American distribution in the 1930s stressed that although economic groups enter the political arena in order to defend their interests, by entering politics, the strengths and positions of firms are changed by the structure of politics. If how the political arena influences firm preferences, organization, and their subsequent trajectories is the question of interest, understanding coalitions is the key to unlocking the answers.

There are two primary reasons why political coalitions are so important for the retail story. The first is that retailers are among the most connected actors in the economy, interacting with a variety of economic, political, and social groups. Politically, they must manage relationships ranging from international trade organizations and national regulators down to municipal governments. Within national economies, they connect with consumers, suppliers and producers, manufacturing firms, and wholesalers. In addition, more so than manufacturing, the rules and practices of post-war service sectors reflect their dual roles as economic and social activities, forcing retailers to defend the social consequences of their economic and political actions. Simultaneously balancing such a diverse network of potential allies and adversaries poses challenges while providing opportunities for coalition building.

If these overlapping challenges were not enough, coalitions are also critical for the retail story because it is a story about the entry of new groups. Retail entrants, like any new economic group, tend to provoke social and political responses. Unlike many industries, however, essentially every major global retailer is a recent entrant, with few leading retailers existing with any size prior to the 1950s.[25] These new large-scale retailers looked remarkably similar across borders at the beginning, utilizing the new self-service strategy and a "stack it high and sell it cheap" mentality and challenging the established channels of distribution dominated by wholesalers and producers. Predictably, as the increasing power of these retailers disrupted past social and economic arrangements, political opposition formed from other social and economic groups who were losers in these transformations. In turn, large-scale retailers were forced to form coalitions to solve social and political coordination challenges.

The form and function of each national coalition created wider economic and political ripples. First, they conditioned subsequent nation-specific business strategies by altering the way retailers viewed their economic partners and at times tipping the balance in favor of cooperation or competition. In addition, building and maintaining successful coalitions not only forged economic partnerships, it also shaped ongoing regulatory strategies for national retail sectors and how economic gains were distributed.[26]

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[25] This is particularly unusual in Europe, where only 29% of its 156 FT Global 500 firms were founded after 1901. Eighteen firms on the list were primarily retailers (including the US). Of these, only one was founded prior to 1901. Twelve were founded after 1946 and eleven were founded in 1957 or later. For data, see the Bruegel database of Corporate Birthdates: http://www.bruegel.org/8358. The US is somewhat of an exception, with the arrival of scale retailers beginning in the 1930s.

[26] Throughout the dissertation, the discussion will highlight how political coalitions structure regulation and then how regulation feeds back into retail firm strategies. The specifics of national regulation will be discussed in individual country chapters, but it may be useful before moving forward to clearly define what is meant by "regulation" in the retail case. The OECD measurement of retail regulation includes a number of dimensions, including general regulations on business entry and registration, regulations related to the protection of existing firms, regulations on size and shop hours, and price regulations. When considering retail business models, to these it makes sense to add labor regulation, spatial planning regulations (which involve quite different politics than simply permit or license regulations), anti-trust regulations, sales and promotions regulations, and regulations that pertain to the digital aspects of retail business models (privacy, digital information, and other e-commerce specific regulations). Rules

Although pains will be taken to separate the effect of coalitions on firm strategies and political processes, these twin variables are inherently linked. Whether the interaction between these political processes and the positions of economic actors is conceptualized as learning (Heclo, 1974; Rose, 1990), increasing returns (David, 1985) coordination (Pierson, 2000), or positive feedback (Huber and Stephens, 2001) the constant is the coalitional channels that pushed both economic actors and political processes down nationally-specific pathways.[27]

Each national political formation can be linked to firm strategies and broader economic outcomes. Conceptually, the link between coalitions and retail firm strategy may perhaps be seen best through Oliver Williamson's "markets and hierarchies" dilemma (i.e. make, buy, or partner?). These three choices match well with the basic underlying logic of firm strategy in each ideal type, though the retail case material does suggest that the complex interplay between politics and firm strategies goes beyond simple transaction costs analysis. Rather than looking at firm strategies as reflecting society-specific solutions to problems of economic coordination, the emphasis shifts to spotlight how firms solve national political coordination problems such as the threat of further regulation or state intervention.[28] The argument is that political coalitions provide a compelling explanation as a mechanism for re-shaping not only firm interests but also firm ideas about how to organize economy activity.

The analytic approach used to build such an argument draws from the historical institutionalist perspective (Hall and Taylor, 1996) on political economy, where national structure conditions firm actions, but firms also shape that structure through deliberate political action.[29] Historical institutionalist scholars look at how formal political

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that may appear tangential may also matter. For example, rules about sales of alcohol can affect where retailers choose to locate. Trader Joe's, an American chain owned by German-based Aldi North, has not entered the State of Colorado, and the state's strict liquor laws are often given as a possible explanation. A representative for Trader Joe's, a privately held company, declined to comment, but noted that they do have locations in states with other regulated liquor rules, though these stores represent only about 10% of all locations.
This complex constellation of rules, therefore, is what is meant by the general "regulation". More "liberal" environments are not simply those with rules in fewer of these categories, but regulations that emphasize market freedom and are less restrictive to firm options (higher store sizes or more flexible pricing for instance). This is something the OECD often misses in their regulatory measurements in retailing and tries to account for the freer markets, more rules perspective of Steve Vogel (1998).

[27] See Faletti and Lynch (2009) for a meta-discussion of causal mechanisms in political analysis.

[28] This is a similar approach to that of Granovetter (1985), who argued that an understanding of national social networks might better solve the markets and hierarchies dilemma, but here the emphasis is on political networks and the ability of firms to create these networks in response to political challenges.

[29] I use "structure" rather than "institutions" to reflect how the newest wave of HI has begun to emphasize the role of national context and political, economic, and even social coalitions for the character of institutional formation and change (see Goertz, 1994 on context; Hall, 2010 on coalitions).

institutions structure solutions by distributing power (Moe, 2005; Knight, 1992), by structuring the way actors view the economy (Dobbin, 1994; Fourcade, 2009), by shaping responses to economic and technological transformations (Piore and Sabel, 1984; Noble, 1984), and by creating longer trajectories for initial choices (Zysman, 1994). Critical political variables include veto points (Immergut, 1992), the power resources of labor (Esping-Andersen and Korpi, 1984), structure and interplay of parties and interest aggregation (Wilensky, 2002), national size (Katzenstein, 1985), and the skill structure of labor (Iversen and Soskice, 2001).

In a similar vein, the initial political partnerships of new retail entrants and the deals they agreed upon had consequences for structuring the subsequent politics in each country. As with the relationship between political fights and economic outcomes, there exist a variety of frameworks for describing how initial actions might structure longer processes. Known as path dependence (David, 1985; Pierson, 2004) or historically-rooted trajectories (Zysman, 1994) these frameworks focus on contrasting moments of radical change – or critical junctures – and longer periods of either stable, predictable, or incremental evolution, similar to punctuated equilibrium theories in evolutionary biology (Gould, 1977). For each, understanding the context within which actors, institutions, or processes change remains the key.

As highly embedded entrants, coalitions have been an essential ingredient in the arrival and development of scale retailers. As they grew and developed, pushing their activities into new economic realms and accordingly, new political arenas, coalitions became essential to manage a dual set of political economic and political challenges. Universally, opposition and a need for new patterns of policy-making accompanied the political conflicts that accompanied the embryonic rise of retailing. But as previous scholarship and empirical evidence demonstrates, context matters.

Each national political process was structured by the initial terms of the deal, the national political and structural conditions that influenced each coalition in the first place, and the strength of each political coalition. The politics therefore continued along well-trod paths: non-existent in the US (or local -- where the retailers inevitably win), never-ending fighting in France, and negotiation and coordination in Denmark. In the same manner as the initial coalition, each political style reinforced the conditioning effects on firm strategy over time.

### V. Conclusion

This introduction has argued that three unique country-specific strategies have developed in the retail sector and that the best explanation for this variation is coalitions formed by retailers to solve the political problems generated by their rise. Moreover, as digital technology has supercharged retail productivity, national patterns have neither converged nor exhibited signs of constrained slow-growth tradeoffs. Rather, retailing has developed dynamic, context-specific strategies conditioned by national politics and regulatory environments.

The following chapters will deepen these logics, first by providing a timeline of the retail sector in the postwar era. The second chapter will describe the state of distribution from 1930-1960, making the case for the predominance of similarity in management strategy and industry structure. It then explores the common postwar changes in demographic, wealth, and management ideals that began to transform the retail sector, bringing with them a new crop of innovative retailers.

After arguing that these retailers shared a variety of common ideals and emerged in response to similar consumer demands, the third chapter turns to the quite different political reactions they created. As new entrants that disrupted existing social and economic patterns, the mass merchandisers brought critical reactions from a variety of political actors, most notably small shopkeepers. These actors sought to contain, control, or condition the growth of scale retail.

Chapter III examines both the opposition to retail development and the political and economic responses of retailers to these attempts to corral them. It illustrates the link between national reactions to the entrants, the political coalitions formed by retailers themselves, and their subsequent economic relationships with their political partners. It argues that the strength and cohesiveness of the opposition forced retailers to correspondingly broaden their partnerships and give political concessions. In turn, these initial political concessions reformulated the economic calculations of firms in their relationships with workers, suppliers, and in competitive strategy more broadly. Finally, it explains the strength and cohesion of both political opposition and retailer coalitions through national structural variations in power resources, bargaining institutions, and retail market structure.

Next, three national case studies in the US, Denmark, and France trace firm strategies across time, explaining how building and maintaining political strategies established consistent regulatory and policy patterns that continue to shape firm structures and strategies.

First, the American chapter (IV) describes the growth of the lean retailing model in a liberal political context where markets trump directive government regulation. This chapter also delves into digital technology in retailing, explaining the potential of these tools and why existing firms have used these tools in nationally predictable ways. It argues that technology is integral to the American model in a way that is not necessarily true in the other cases. It reiterates the point that such an outcome was not inevitable, but was driven by the lack of a broader retail coalition and the ability of retailers to act unilaterally.

The second case study chapter (V) examines the other pole of politics, analyzing a highly coordinated political environment: Denmark. Danish retailers demonstrate a relational contracting ideal-type of scale retailing, emphasizing coordination and cooperation with economic partners, particularly workers. A richer institutional environment, initial weakness on the part of scale retailers, and more organized opposition led retailers into lasting political partnerships that privileged these close economic relationships.

Finally, the French case (chapter VI) highlights how an active political environment with weak interest aggregating institutions can structure quite different firm strategies. The vertical integration model utilized by French retailers can be traced to conflicts between national and local coalitions, a political history of perpetual contestation over the rules of the game and correspondingly mixed regulation over labor, prices, and planning. Although a national agreement emerged in support of a pro-business environment, the inability of partners to form a broader consensus over the specifics of local development or regulatory policy ultimately doomed broader coordination. The result has been retailers using protected rents to break free of traditional relationships and create dual tier strategies with suppliers and workers to create new value.

The conclusion (chapter VII) looks to the future of each model. First, it returns to the technology theme to begin an examination of how the next round of purely digital electronic-commerce business models are playing out across national environments. The initial findings suggest that a set of ongoing political fights and coalitions may once again shape national strategies.

In addition, the conclusion examines how retail globalization is changing each model, both by offering opportunities for expansion abroad and by applying pressures at home. It examines which models have succeeded abroad and why and suggests which models are the most defensible. Again, the answers to critical questions will revolve around how retailers form coalitions based on their national experiences. Chapter VII also argues that increasingly a goal of any affluent economy's public policy should be understanding and supporting its particular model of retailing. To be a "nations of shopkeepers" was once a symbol of weakness.[30] Today, to be a nation of retailers is a project fit for any economy.

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[30] An epithet first uttered by Adam Smith (1776) in *The Wealth of Nations.*

# Chapter II
# From Shopkeepers to Supermarkets (1930-1960)

## I. Introduction: The Postwar Order

The previous chapter argued that national political coalitions and political negotiations starting in the 1960s are the primary explanation for variations in present-day retail strategies across the affluent economies. This chapter will describe the environment in which these coalitions emerged in two stages.

The first section will describe the retail sector, then identify its key players and strategies from the 1930s through the 1960s. The evidence in each of the three case countries – the United States, France, and Denmark – demonstrates considerable similarity across borders in firm strategy. Accordingly, the section will highlight the common features of the postwar retailing model across borders, including the location of supply chain power (upstream with suppliers and wholesalers[31]), fractured networks of small, independent shops, and a shopkeeper-service mentality (the shopkeeper selects and/or packages the goods for customers, rather than self-service). Given the small-shop primacy, labor had low levels of organization. Powerful suppliers "pushed" goods downstream to weak retailers, who organized their small stores around a shopkeeper-service logic. These parallel regimes existed even given different postwar systems of economic structure and growth.

The second portion of the chapter will highlight the structural conditions from 1945-1960 that started the "rise of retailing" and describe the beginning of the transformation from shopkeepers to supermarkets. Retail's ascendancy was catalyzed both by structural conditions and by the actions of individual firms. Structurally, the chapter will highlight a number of common enabling developments, including changes in technology, affluence, demographics, and business strategy that occurred across borders. These factors profoundly affected the management strategies in the retail sector and were necessary conditions to the emergence of larger, more powerful retail firms. Nevertheless, they were hardly sufficient, and it was a determined band of merchant-minded entrepreneurs that took the new possibilities of the consumer age and put them into practice, forging new retail business models built around self-service, store-size, and network scale. This new crop of retailers took advantage of the underlying shifts in the economic and demographic landscape of the affluent economies to build their firms and begin gaining the upper hand in their relationships with suppliers, workers, and even consumers. Cross-national evidence highlights the importance of these firms on retail markets across the globe today.

[31] Wholesalers are merchants who buy large quantities of products for resale to other merchants, such as retailers, rather than for sale directly to consumers. Wholesalers are the ultimate middlemen, and have traditionally served to reduce the risk of both retailers and producers.

A historical description of the postwar order of distribution is necessary for several reasons. Given this dissertation's analytic focus on the 1960s, a historical analysis of the previous era of retailing demonstrates both that retailing exhibited cross-national similarity before that point and that the dramatic upheaval in the retail sector beginning in the 1960s period presents a clear contrast to the earlier period. Understanding this earlier period, therefore, sets a baseline for the changes in the 1960s, which brought with them a reversal of market power relationships and changes in in-store organization, labor relations, and overall management strategy.

The post-war developments in the retail sector prior to the retailing revolution of the 1960s were small waves that failed to amount to a major sea shift. Dawson (2000) outlines how many of the "big changes" of the second half of the twentieth century were already present "in incipient form" in its first half. These include: the emergence of chain stores (though family-owned retailers dominated the market), direct relationships between retailers and manufacturers (though wholesalers still controlled much of the retail market), conflicts between small retailers and emergent large firms (though these were local or limited relative to later conflicts) and changes in demography and urban geography.[32] These small steps set the stage for the larger leap in management strategy and broader political conflict in the 1960s, ignited by growing consumer affluence, shifts in the power of retailers in supply chains, transformations in the economies of Western Europe and North America, and the dramatic rise of innovative mass merchandisers.

## II. The Retail Sector

Before moving forward, it may be helpful to briefly outline and define the retail trade sector and its terminology. The retail sector has been a feature of human civilization for the length of recorded history. Writings from ancient Greece record not only the presence of retail trade, but critiques of traders using scale or collusion to behave as monopsonists, disadvantaging suppliers and consumers (Lysias, 1958 as cited in Bitros and Karayiannis, 2010). Though retailing has changed since the classical era, for the central issues in retail politics, it appears there is nothing new under the sun.

Despite its long history, however, creating a conceptual definition of "retailing" is not a simple process. As Peterson and Balasubramanian (2002) demonstrate at some length, there are nearly as many definitions of retailing and retail trade as there are retail scholars. Despite this conceptual muddle, definitions of retail trade largely agree that retailing activities include the sale of goods and related services to the final consumer. As such, retail trade occupies the final economic step in the supply chain between the production of a good and its purchase for consumption. This longer process – the delivery of goods from producers to consumers – will be more generally referred to throughout this dissertation as a distribution system.

Retailers are not the only economic actors within distribution systems. Transportation and logistics firms move goods between economic actors and even directly to consumers. Wholesalers are middlemen in the distribution system, purchasing

[32] P. 30-31 as it appears in Findlay and Sparks (2002).

merchandise[33] in bulk and typically reselling their goods either to retailers or other wholesalers. Wholesalers can also act as agents or brokers, simply arranging sales and purchases for others for a commission or fee.

Retail shops can be organized into networks in a variety of ways. Independent retailers, with a single shop, can exist either by purchasing from wholesalers or by forming voluntary buying groups to increase their purchasing power. If the wholesale activities are owned collectively, this is known as a co-operative group or a co-operative society. Co-operatives may or may not require memberships to shop at their stores and typically require that stores purchase a certain percentage of their goods from the central cooperative wholesale service.

Franchises are another way or organizing shop networks with different owners. Franchises are stores where a franchisee purchases the right to open a store from a franchisor. Although a franchise agreement only needs to cover the purchase of these rights and the name of the store, franchise agreements typically include further costs and obligations on both sides of the contract including marketing, training, and wholesale services. The parent company may also own franchise locations of their own, either as a retail arm of the business or as a testing ground for new products and retail services. 7-Eleven Inc. is perhaps the most recognizable retail franchise in the United States, with around 6,200 stores in North America, more than 5,100 of which are franchised (7-Eleven website).[34]

In addition to franchises, chain stores may also be wholly owned by a single corporation. Chains can either choose to provide their own wholesaling, transportation, and logistics services or purchase those from outside vendors.

Different types of retail outlets can be categorized by their size, product and service offerings, and marketing strategy. These categories are somewhat fluid and a particular store may fall in multiple categories. Although this dissertation will follow the guidelines listed below, the mixing of these categories (size, products, services, and marketing) in definitions often creates confusion in comparing retail statistics, both across sources and particularly cross-nationally.

Products can either be nationally branded or private label. Nationally-branded products are those produced and marketed by producers and are typically available at a variety of retail outlets. Private-label products are those featuring the retailer's label. Note that private labeling does not imply production. In fact, most retailers do not produce their own private label products. Nevertheless, private labeling can involve a variety of supporting activities, from production, to design, to marketing and branding. Retailers typically take on some of these activities, particularly design and quality control. Some products may fall in-between these poles, as retailers increasingly are partnering with producers to offer chain-specific versions of national brands.

[33] This merchandise can include finished consumer goods, "capital or durable non-consumer goods, and raw and intermediate materials and supplies used in production (NAICS definition)."
[34] The other ~900 stores are presumably owned by the parent company, Seven & I Holdings Co. of Japan.

In terms of service, retail shops operate on a continuum between shopkeeper service and self-service. In a pure shopkeeper (or full) service model, the shopkeeper either actively selects or helps the consumer select their goods. In a self-service model consumers choose their own products from shelves or displays. In practice, many retailers combine aspects of shopkeeper service and self-service.

The following provides a brief summary of terms used to describe the most common types of retail outlets:

*Department stores* are large, higher-service retailers featuring a wide array of products, typically organized into departments with department-specific staff members designed to assist consumers with their purchases. Examples of department stores include Macy's and Sears.

*Variety stores* are small, limited-product stores with low levels of (if any) service. Variety stores emerged as lower cost alternatives to the classic general store, a small, higher service retailer that carried the limited goods required by rural communities. Variety stores often employ a fixed price strategy, such as the "five and dime" or today's "dollar", "euro", or "100-yen" stores. Examples include Dollar General and Family Dollar.

*Discount stores* resemble variety stores in their focus on low costs and limited service, but typically offer a wider array of goods and a variety of price points. There are many sub-categories of discounters, including: hard discounters, smaller stores with more limited, typically shelf-stable, product lines, virtually no-service, and lower prices; soft discounters, which typically have more products (including fresh and frozen food) and higher levels of display quality and service; discount supermarkets and hypermarkets, which are larger stores focusing on low-cost and low service, but with a full range of products. All three will be referred to by their sub-categories throughout this dissertation. Aldi and Lidl are the best known hard discounters, and Aldi's stores in the US (both Aldi branded stores and Trader Joe's, which is owned by Aldi) fall in either the soft discounter or discount supermarket category, depending on their size.

*Supermarkets* are large food retailers that emphasize self-service – though they typically offer more food-related services such as butchery or baking than discounters – and a broad array of products. Examples include Kroger and Safeway.

*Hypermarkets* are even larger mixed-goods retailers, with both food and non-food products. These types of stores are often referred to as "supercenters" in the United States. Although statistical sources often define hypermarkets solely by size, the term will be used in this dissertation only for those stores that sell both food and non-food products. Walmart and Target both use hypermarkets in their retailing mix.

*Warehouse stores* are large, low-service stores that offer bulk purchases. These stores often blur the line between wholesale and retail services, as they sell to both final consumers and smaller retailers. Service is minimal and products are often presented on pallets. The term *warehouse club* will be used for warehouse stores that require a membership (typically with an additional fee). Costco and Sam's Club (owned by Walmart) are both warehouse clubs.

*Convenience stores* are small, residentially based stores that focus on daily necessities and basic services, such as simple financial, postal, or entertainment services. 7-Eleven is a leading convenience store.

*Specialty stores* are higher service stores that focus on particular products and services. These stores typically compete by offering niche products or through extensive product-knowledge and associated services. Although they are typically small, the name should not imply a size, as a large specialty store exist, particularly for large goods such as furniture. AutoZone and Williams-Sonoma are two examples of national specialty chains.

*Category killers* are large specialty stores that carry a large assortment of goods across a particular category. In contrast to specialty stores, category killers compete on price rather than service and attempt to become one-stop shopping locations for particular types of products. Examples of category killers include Best Buy (electronics) and Home Deport (home improvement).

Finally, although it does not imply a particular combination of products and services, the term *big-box retailer* will be used throughout this dissertation as a size modifier for the above categories to imply a large retail development.

Despite their ubiquitous presence in today's retail market, each of these formats (with the exception of the department store) is a product of the 20th century. Moreover, it was not until the 1960s that retailers began moving toward these new, innovative formats in large numbers. From 1930-1960 retail outlets bore very little resemblance to the superstores of today and accordingly these small shops played a very different role in the consumer marketplace.

### III. Small Shops, Producer Power, and the "Push" System

The retail markets in both Europe and the United States prior to the 1960s reflected a quite different set of economic and political relationships than those seen today. Across the cases, the immediate postwar decades were an era of manufacturing, and retailers were consequently weak relative to suppliers. After 1945, there were certainly differences that existed among countries, the most notable being the need to rebuild and restock in war-torn Europe. In the United Kingdom, for instance, Burt and Sparks (1999) describes the 1940s and 50s consumption patterns as "wartime austerity and rationing" and "return to normal diets" respectively. In Britain, therefore, as in all the European cases, the distribution systems during the "post-war years were characterized by stability in methods and structure (Jeffreys, 1954, p. 101)" as policymakers focused on rebuilding their economies back to the levels that had existed prior to the war. Limited production of consumer goods and low profits gave retailers little room for innovation.

This stability in methods and structure preserved national networks of small shops organized into "push" systems where goods flowed downwards in the patterns preferred by upstream partners. Producers and wholesalers were the kings of these systems.[35] Across all three case countries, manufacturing was at its peak. In the United States between 1947 and 1960 manufacturing value added was equal to 26.7% of GDP, compared to 11.7% in 2010 (BEA, 2011).

Wholesalers were also more powerful. In the United States between 1947 and 1960 the wholesaling sector's value-added was equal to 6.2% of GDP. Today, that number has dropped to 5.5%. Although that may not seem like a precipitous drop, if wholesaling still captured its 1947-1960 share of value added, the sector's value added would rise by more than $100 billion, an increase of 13%. In addition the larger wholesale sector faced a more fragmented retail sector, without today's powerful firms (see Table 2.3, page 42).

Consequently, retail markets remained fragmented and retailers largely continued to utilize small shops, typically with a handful of (if any) employees. In the immediate pre-war period in Denmark 94% of stores and 57% of sales went controlled by firms with an annual turnover of less than 200,000 kronen, or about $5400 a year.[36]

Danish shop networks were also small, as the *Naeringsloven*, the rules governing retail licenses necessary to operate shops, strongly curtailed the expansion of multiple-shop retailers. This meant that powerful manufacturing firms could largely dictate prices to small-scale retailers. Those retailers that did manage to achieve any scale were required to have a manufacturing or co-operative component (and most co-ops were also producers of various goods), further aligning retail interests with the manufacturing sector.

In France, in 1936, only 3% of commerce establishments had 6 or more workers. In addition, 34.9% of workers in commerce were either "independent or familial" workers. (Mayer, 1986, p. 27). By 1962, this number had changed little and perhaps even increased; 39% of the workers involved in the sector were still "non-salaried", most likely a similar groups as the independent shopkeepers and family workers measured in 1936 (ibid, p. 31).[37]

Not surprisingly, therefore, the basic post-war regulatory regime for retailing was built with powerful producers and weak retailers in mind. In France, Trumbull (2006) notes that prices were regulated until 1986, helping producers to plan and shopkeepers to keep prices manageable in asymmetric power relationships with producers. Similarly, in Denmark, Murphy (1957) describes how the needs of the domestic consumer market for agricultural products were ignored in the postwar period as regulators focused on

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[35] See Gaski (1984) and El-Ansary and Stern (1972) for more on the conceptualization and measurement of economic power in distribution channels. Hollander (1960) stresses the difficulty in measuring these relationships during the postwar period given the amorphous categories of retailers and wholesalers.
[36] About $67,000 in 2010 dollars using a CPI conversion.
[37] Although it is regrettable that the analytic categories are different for these two data points, Mayer takes them from different sources. Given the dramatic changes in French politics between 1936 and 1962, having measures even this similar is impressive.

building a regulatory regime designed to support and prepare producers for export markets.

The United States, with its greater affluence, began transitioning away from small, independent shops earlier than in Europe. Nevertheless, even in the US where chains were more prevalent, they were still largely producer and wholesaler-organized networks of small shops. Deutsch (2001) writes that the "model" grocery store around 1930 was only 1,134 ft. and that most chains occupied "only five or six hundred square feet." To give a comparison, the average Walmart in 2010 covered 162,594 sq. ft. or enough space to house 143 model 1930s grocery stores.[38]

Deutsch's careful study of the Chicago retailing scene in the 1930s and 1940s also describes the shopkeeper-service logic (rather than self-service strategy) that prevailed in these small shops. Deutsch finds that in the 1930s, only one of Chicago's large chains operated all of its stores as self-service units. "Stores retained clerks to help customers choose, weigh, and wrap produce (p. 106)." National Tea, one of the largest retail chains in Chicago, continued to offer service throughout the 1930s.

Despite similarities in power relations, the size of shops and services offered, cross-national differences certainly existed in the shape of the retail sector in the three case countries. The most distinct variation was in the timing and size of the chain store movement, which swept the United States starting in the 1930s and was largely absent from the European cases until the 1960s. We now turn to a more in-depth treatment of each case during the 1930 to 1960 period, beginning with the American case.

### IV. America Moves First: The Anti-Chain Store Movement in the US

Because of its greater affluence, the American retail sector slowly began the transformation from shopkeepers to supermarkets prior to the Second World War. The 1920s and 1930s saw the emergence of numerous chain stores in the retail sector. In a story that foreshadows much of what was to come, these chains generated significant political opposition, which peaked just prior to the outbreak of war in 1937. Nevertheless, the changes brought by chain stores in the United States were network innovations – how stores connected to the larger distribution system – more than in-store process innovations in how retail services were delivered. The process innovations that marked the consumer and retail revolutions were largely yet to come, emerging along a similar post-war time frame as in Europe. In addition, the moves toward chains in the 1930s typically were not dictated by retailers themselves, but by wholesalers attempting to vertically integrate small independent retailers into franchise networks.

The character of the retail firms involved was therefore strikingly different from the firms that would emerge in the 1960s. The American chain stores from the 1920s and 1930s certainly exhibit differences with the small, family-run independent retailers that had previously dominated the retail sector. At the same time, their innovations were largely based on Taylorist business innovations spearheaded by upstream partners, in comparison to the more complete transformation of business strategy, in-store processes,

[38] Based on 2010 company report that listed 3708 retail units totaling 602.9 million sq. feet.

and interaction with consumers and producers seen in the 1960s.[39] With a few exceptions, the majority of chain stores were still dominated by wholesalers or producers and quite limited in their ability to fully control the direction their business would take. Etgar (1984) created a system to categorize many of the retailing developments of the 20th century. He locates the chains in the "new internal operation"-"same retailing mix" quadrant of potential strategies of retail change, compared to "same internal operation"-"same retailing mix for the corner grocery store and "new internal operation" "new retailing mix" for supermarkets. Chains did innovate on operations, therefore, but still fell short of the more complete reorganization of retailing services within stores seen thirty years later with the arrival of the supermarkets and hypermarkets that transformed retailing and began to challenge producers and wholesalers.

The emergence of chain retailers in the United States, as would be expected, generated political opposition. Because of the structure of the American case, however, resistance was fractured, localized and saw limited success on the national stage.

New retail innovations, from the department store to the supercenter, have always generated political response in much the same way that any new business model catalyzes reactions from those stakeholders that it harms. Although the primary concerns of this dissertation are the political reactions and subsequent modifications in firm strategy brought on by a new wave of retailers in the post-war period, in the United States a similar conflict emerged before the war in the form of a general anti-chain store backlash.

Ingram and Rao (2004) describe the anti-chain store movement as a purely political-economic narrative; they focus on the competition between organization forms, investigating the political interplay between institutions, organizations, and change.[40]

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[39] Taylorism was a series of ideas about economic efficiency. Maier (1970, p. 29) writes that Frederick W. Taylor, "popularized a process of labour discipline and workshop organization based upon supposedly scientific studies of human efficiency and incentive systems."

[40] There are a number of ways to view the anti-chain store episode in American political economy. Schragger (2005) views the movement through a legal lens, as an example of the progressive, localist constitutionalism that emerged prior to the Great Depression, best captured by the opinions of Justice Louis Brandeis. Ryant (1973) views it as a primarily Southern regional movement in response to the Depression. Scroop (2008) disagrees with Ryant's Southern characterization and frames the movement in the context of a longer historical conflict over the politics of consumption and anti-chain ideology. There is significant qualitative and quantitative evidence to support Ryant's position. Ryant reports that 74 congressmen supported the Patman proposal to tax chain-stores nationally and then stood for re-election in 1938. 24 of these congressmen were Southern. If we assume that by "Southern" he means a state in the former Confederacy, there were 100 Southern congressmen in 1937-38 this is a difference of 9% in increased support among Southern congressmen, which is statistically significant with a $p < 0.05$ in a one-tailed test. Similarly in the election of 1938 17 of the 24 (71%) Southern congressmen who supported the bill won re-election versus only 25 of 67 (37%) non-Southerners. This difference is significant with a $p < 0.01$ in either a one or two-tailed test. Although neither of these figures provides evidence that being from the South was the causal factor, descriptively we

They structure the story as one where a new set of entrants prompts social and political reactions and must form a counteroffensive to defend their economic model (see for instance, p. 449). In this way, the anti-chain store movement clearly shares much in common with the later set of political developments emphasized here.

Upon close analysis, although the anti-chain store movement clearly mattered for longer-term outcomes, the lack of a lasting political deal, the later reversal in power relationships between producers and suppliers, the dominance of 1960s founded firms over 1920s-1930s founded firms in today's market, and the more limited and local response to the chain store entrants make it less a critical juncture and more an early skirmish that set the stage for the later battle. Nevertheless, the anti-chain story in the US is worth telling for several reasons.

The primary reason is that the emergence of new business forms provides a parallel framework for political conflict and subsequently a similar opportunity for coalition formation to the one being discussed. New retail entrants in the 1920s and 30s shook up the status quo in a similar manner as we see in the 1960s and 1970s.[41] Examining this conflict in comparative temporal context, therefore, may add to the analytic leverage of the case material and offer an additional test for the causal claims of this work, that the form of political coalitions shape longer term firm economic management.[42]

The emergence of chain stores in the 1920s and 1930s created political opposition broadly similar to that seen thirty years later. Like the supermarkets and hypermarkets of the 1960s, the expansion of chains across the United States, particularly the Great Atlantic and Pacific Tea Company (A&P), generated significant political opposition at first at the local and later at the national level. The arguments made in opposition to the chain stores were similar refrains for any anti-retailing, or anti-big business movement.

Schragger (2005) states that the main arguments of opponents were that chains undermine small, independent retailers, destroy small towns, and that in general, the concentration of capital threatens democratic citizenship. Ryant (1973) describes the conflict in similarly classic dimensions. He writes: "The chains claimed that they offered low prices, while their opponents charged that chains created absentee ownership, which

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can see both that Southern congressmen acted differently towards the bill and that Southern supporters of the bill won re-election at a higher rate than their non-Southern counterparts.

[41] With its affluence and the earlier emergence of new retailer formats the American case is an exceptional one. Despite only a partial transformation of the retail sector, the United States was the only country with significant political and social conflict surrounding retailing prior to the 1960s and 1970s.

[42] Although these differences provide a historical comparison with the later US case, the larger theoretical conclusions of this work are about comparative cross-national outcomes, making any comparisons across place plus time extremely problematic. As stated, the set of variables connected to the retail case is vast: demographic, geographic, economic, political, and social. Although we might be able to assume or demonstrate that some of these variables are relatively consistent across place, the dramatic changes before and after the Second World War make any comparisons across both time and place extremely weak methodologically.

drained money from the community through unfair competition and resulted in monopoly." These anti-big business, localist, and decentralist arguments match precisely with the appeals made by the ancient Greeks against retailer power. As we will see, they also foreshadowed those made by the Nicoudist movement in France in the 1960s and the opponents to the building of new Walmarts today.

Taxes were the primary tool brandished by opponents in an effort to control the growth of the retail chains. In 1927, Maryland, North Carolina, Georgia, and Pennsylvania were the first in a longer wave of states to implement taxes on chain stores. Between 1931 and 1937 twenty-six states passed anti-chain laws. The chain store fight culminated in 1938, when Texas congressman Wright Patman failed to achieve a national chain store law. After this point, and with the ebb of the Great Depression, the tide turned against anti-chain legislation and anti-chain rules slowly dissipated across the country.

Patman's attempt failed both because of the difficulty in organizing a set of fractured and local opponents at the national level and because of ability of retailers to reach out to producers and workers to brand the bill as anti-business: the "death sentence" bill (Scroop, 2008). Retailers in the 1930s, still tightly aligned economically with upstream partners, joined a coalition led by producers and including labor groups that killed the anti-chain movement and formed the basis of the postwar compromise. This broader coalition between retailers, producers, consumers, and labor groups focused on the liberalization of retail markets, with distribution supply chains still largely controlled upstream by producers. All sides stood to benefit in the short term from such a coalition, which focused on unifying American distribution into a more cohesive network, rather than on conditioning or controlling its growth in particular ways. Labor unions saw increased opportunities for wage earners and future union members. Producers saw better distribution channels for their products. Consumers saw lower prices.

Scroop (2008) writes that the chains:

> "had persuaded farmers that the chains' distribution networks served their interests, and they had convinced organized labor that they were good employers. Some consumer groups, too, viewed the chains as welcome components of a progressive, low-price economy, while real estate agents saw in the chains the chance to profit from local development. In the absence of effective interest group representation, and lacking the broad base of popular support that had characterized the anti-chain store movement of the late 1920s and early 1930s, the federal chain store tax died in committee. The death of the "death sentence" bill effectively brought the Depression-era phase of American anti-chain politics to a close (p. 938)."

Because retailers simply sought to rationalize existing distribution channels rather than upset relationships with workers and producers, the 1930s retail coalition was able to form a limited partnership with producers and workers. These ties were fleeting, however.

Why did these initial partnerships not have a stronger effect on longer trajectories? For one, the power relationships that supported them were set to change. In the 1930s, both unions and retailers were weak. Unions were weak given the massive supply of unemployed labor in the 1930s and low levels of organization. The BLS estimates that only 13.2% of the American labor force was unionized in 1935. Unions needed retailers as much as retailers needed workers, requiring few concessions on the part of chain retailers. As retailers gained power, they were quickly ready to reassess their deals with workers and producers.

Once again, institutional rules mattered, and in the American case meant that broad coalitional agreements were hard to enforce. The inability of small shopkeepers to organize meant that retailers had little need for partners. Scroop notes that the "lack of effective interest group representation" killed support for a broader national opposition to scale retail. Nevertheless, even if there were effective representation, there were few institutional channels through which those interests could exercise influence or create credible commitments. America's pluralist tradition made lasting compromise difficult. Without collective bargaining, unions were unable to preserve any short-term gains they had won from retailers. That is not to say these deals did not affect longer-term firm trajectories, simply that any effects are at the margins of mainstream American retailing.[43]

Similarly, producers – primarily agricultural producers – saw numerous benefits in working with large distribution networks. Note that the networks in the 1930s were still largely controlled by wholesalers or often the producers themselves, so producers can be forgiven for not foreseeing the reversal in power dynamics that would later occur.

The American case chapter will show that even the low-level of cooperation seen in the 1930s was fleeting. A more fragmented and disorganized opposition to the rise of retailing in the 1960s meant that retailers' willingness to engage in broad coalitions ended in the 1930s. Additionally, the retail chains founded in this period – like their small independent counterparts – were largely displaced by the more innovative firms combining business and process innovations in the 1960s. Although the presence and power of chain stores clearly affected the tenor of the later American debate, this early period of political conflict was not in and of itself determinative of the later outcome.

### V. The European Catch-Up

[43] Safeway – a firm that was founded in 1915 and prospered during the era of cooperation with labor unions – is one of the few US supermarkets with a strong union presence today. At a recent planning commission meeting attended by the author Safeway and its workers union argued side by side for a planned development. Note that Safeway's cooperation with its union, however, is the exception in the US and still falls short of the levels of amity in a relational contracting country like Denmark.

After a discussion of the chain store experience in the United States, looking at data on the retail sector prior to the 1960s shows the relative backwardness of European retail sector. These data make the leading position of European retailers described in the introductory chapter more impressive in historic context. Gerschenkron's famous thesis about the advantages of backwardness suggests that a lagging retail sector may in fact have benefited the retailing sectors of France and Denmark in their longer-term development. Nevertheless, given the combination of process and business innovations seen in retailing during the 1950s and 1960s and their similar diffusion across North America and Europe, it seems that any advantages gained were slight and shaped more powerfully by political environment than the relative economic position of the sectors involved. Walmart, Target, Carrefour, and Auchan -- the two largest general goods retailers in the United States and France respectively -- were all founded within a decade of each other (with the first three founded in a three year period) suggesting that any "advantages" to timing were available across borders.

At the same time, the relative position of European country-level retail statistics shows a consistent lag in European retail development prior to the retail revolution. Table 2.1 shows Dunn's (1962) reporting of comaprative 1959 productivity statistics, showing lower sales per store and employee for France, Germany, and the United Kingdom compared to the United States.

Table 2.1 Retailing Productivity in Western Europe and the United States, 1959

| | Sales volume per store | Number of stores per million $ | Sales volume per employee | Employees per million $ |
|---|---|---|---|---|
| France | $15430 | 65 | $ 8385 | 119 |
| Germany | 13970 | 72 | 5415 | 185 |
| United Kingdom | 24760 | 40 | 6075 | 164 |
| United States | 75270 | 13 | 15285 | 65 |

Source: Andre Anstett, *Opportunities et Exigences du Marché Commun pour l'Entreprise* (Paris: J. Walter Thompson Company, 1959), p. 17; as reported in Dunn (1962).

In comparison to the United States, there is a rather tight grouping among the European countries, both in average sales volume per store and per employee, and the average number of stores and employees needed to generate each million dollars in sales. These retailers were similarly dominated by producers and wholesalers, though these were often much more locally based than in the United States.[44]

[44] This point about the more local and fractured nature of European supply chains prior to the 1960s raises an intriguing alternative hypothesis that is admittedly under treated in this work; the

A comparison of the French and Danish cases illustrates that despite differences in political and economic structure, prior to the 1960s both countries had similar levels of retail backwardness. From similar starting points quite different retail coalitions emerged and with these coalitions different firm structures and patterns of policymaking.

**France:** Despite Paris's reputation as a shopping Mecca and the high-profile innovations like the creation of the world's first department store -- *Au Bon Marché* – France was similarly slow to develop. Innovations in the capital were slow to diffuse throughout French retailing.[45] In 1962, when French supermarkets earned their first 1% of the food market share (and hypermarkets still were at 0%), American supermarkets had already captured over the 65% of the market (Progressive grocer, 33rd annual report, cited in Thil, 1966).[46] Small shopkeepers, therefore, continued to be a powerful and vocal interest group through the beginning of the post war period. Dunn (1962) found that in the early 1960s independent retailers accounted for 92% of the stores, 84.5% of the total retail sales, and 83% of food retail sales in France. Chain stores only accounted for 6% of retail sales in 1958. French retailers were "notoriously slow in adopting such recent innovations as self-service supermarkets and national brands (p. 19)."

French regulatory policy for the retail sector was similar slow to change. Shonfield (1965, p. 126) writes that French planners did "continue to make the distinction between key industries, the fulfillment of whose targets was essential to the success of the national economic effort, and others which could be allowed to lag without causing trouble." Retailing was clearly a sector allowed to lag. No national standards or policy existed for retail planning; any rules that existed were local. Consequently, regulation in the retail sector would need to be rethought as the sector began to modernize and rapidly evolve in the early to mid-1960s.

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idea that the timing of the rise of retailing power in conjunction with the development of national distribution networks might drive longer term retail strategy. In the United States, producers and wholesalers often developed national networks before retailers, who remained largely regional until the 1970s. In Europe national networks were built during the same time period as retailers became national players. Nevertheless, national players in both countries typically built the majority of their own logistics and supply chain infrastructure (and often re-structured or rebuilt it in the era of digital technology), lessening worries that this timing might be the critical variable.

[45] Paris has always been an exception in French retailing, both in market character and political organzation. Larmour's (1967) analysis of the grocer guilds of 16th century Paris suggests that Parisian grocers have been organized professionally since at least the beginning of the 13th century. Interestingly, these early retailers showed many of the economic and political characteristics seen in today's environment. Many already made and manufactured some of their goods. In addition, there were already fights between retailers and wholesalers. They were also highly connected both economically and socially, with important implications. Larmour writes that the grocer's "economic organization was important in determining the social character of guilds that differed economically from the industrial crafts Unwin described."

[46] The self-service supermarket was an American innovation, a concept patented by Clarence Saunders in 1917 for his store Piggly Wiggly. See footnote 44, this chapter, for some thoughts about why this timing is only a small concern for the arguments of this work.

The slow pace of large scale retailing development in France did not mean that fights did not occur until the 1960s. Simonet's (1937) discussion of the struggle between small retailers and large-scale firms describes an active politics in the 1930s designed to limit the growth of chain stores, particularly *les magasins à prix uniques*, or what we would call today dollar stores. In fact, a 1936 law championed by Paul Massimi of the *Parti républicain, radical et radical-socialiste* put a one year stop on the opening of single price stores. The majority of stores simply transitioned to low price variety stores with a variety of price levels. Monoprix (or one price) is an example of a modern French firm that begin life as a dollar store in the 1930s and transitioned to a more general form of retailing. Although French shopkeepers were amongst the most active political voices in the postwar period (most notably in the case of the Poujadists), with the exception of this brief and limited issue, their political activities were focused on general economic grievances and not focused on the retail sector.[47] This would change with the emergence of new mass merchandisers in the 1960s.

**Denmark:** If the politics of the French case were sleepy, politics in the Danish retail sector were hibernating. Danish law limited the ability of firms (with the exception of cooperative networks and producers) to form multi-shop networks within Danish municipalities, several limiting the ability of retailers to form large retail chains. The 1931 *Naeringsloven*, or law governing retail licenses, stated that retailers could only have one shop in each *kommune* but made two major exceptions.[48] The first was for co-ops that traded only with their members. The second was that shops owned by manufacturers could sell their own and similar goods. Beddy (1943) notes that in 1935 34.9% of the retail turnover in Denmark was located in Copenhagen, which was one municipality, so non-coop, non-producer chains were effectively blocked from more than a third of the Danish retail market.

Not surprisingly, most Danish stores were small and independently owned, though the provisions encouraging cooperatives meant these stores were often organized into wholesale purchasing networks, particularly within a single municipality. Bellamy (1946) has data on Danish store sales in 1925. Only 6% of stores had an annual turnover of 200,000 Kronen and over, or about $5400 a year.[49] In comparison, in 1929 in the wealthier United States 56.4% of stores had annual sales of $10,000 and above.[50]

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[47] Pierre Poujade led a populist movement spearheaded by shopkeepers at the end of the French 4th Republic. The movement was primarily a tax protest, but also took on broader anti-urbanization and development tones.

[48] Prior to 1970 there were 1098 municipalities in Denmark, a number which was lowered to 275 after that point. While this may appear to present plenty of opportunities for retail locations, only 71 of those *kommunes* had more than 10,000 people. In addition Copenhagen was one municipality, so retailers not matching the exception categories could only have one location in the capital.

[49] In 1925 both Denmark and the United States were still on the gold standard. This assumes an exchange rate of 37.2:1 calculated based on the value of each currency in gold.

[50] These two years were the closest with comparable data. The percentage of stores with sales above $10,000 annually did slide back somewhat during the great depression in the United States

In 1935 there were 86,366 retail shops and 192,476 people were involved in the sector, in a country with only 3.7 million people (Beddy, 1943, p. 201). That means one store for every 43 people and an average of only 2.2 workers (or owners) per store.[51] This picture remained largely preserved until the mid-1950s. Even the most organized retailers, the cooperative networks, were largely consolidated and dominated by conservative rural organizations (Christiansen, 1999).

The state of Danish retailing is less surprising given a broader view of the Danish economy. Even through the early 1950s Denmark was a relatively sheltered, heavily agricultural economy. At the beginning of the 1950s, agriculture was still above 20% of Danish GDP, whereas in the United States in 1950 agriculture had dropped to around 6% of GDP.

This first half of this chapter has painted a picture of retail's postwar order, showing a distribution system dominated by powerful upstream groups, such as wholesalers and producers. As part of a broader postwar consensus privileging manufacturing as the locus of economic growth, economic planners largely relegated the retail sector to the sidelines, viewing its role as secondary and subservient to the needs of large industrial concerns.

It was in this constrained environment that the new innovate business models seen in the 1960s emerged, both through process innovations emphasizing self-service and by breaking free of wholesaler domination. The paradigmatic case of American retailing, Walmart, is again a primary example. Sam Walton's first business was operating a Ben Sherman variety store. Walton felt constrained by the business model demanded by Ben Franklin stores' parent company Butler Brothers, which required franchisees to purchase at least 80 percent of their goods from the parent wholesale company at a 25 percent markup (Walton, 1993). Walton sought to break free of this relationship, forming partnerships more directly with suppliers, which Walmart would soon dominate in the way that Walton's small store was once dominated by its franchise/wholesaler.

Walton was not alone and was joined across Europe and the United States by a series of commonly-minded retailers, hoping to break free and create a new model of retailing. The central story of this work, however, is about comparative contradistinction, not comparative congruity. Accordingly, a divide in the provision of postwar retail services was looming. Similar to previous work on divides in mass production (Piore and Sabel, 1984), the divide in retail would reshape technological development and economic management across borders in response to political circumstance.

The seeds of the retailing divide were sown during the prosperity of the postwar period. Economic growth brought increases in consumer wealth along with radical shifts in demographics and the economic and urban geography of Western society. Accordingly, the rise of Western consumerism gave birth to a new crop of mass

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(it was only 40.1% in 1935), but we can assume that Danish sales also contracted (no data available) and regardless, 40% is still much larger than 6%.

[51] Although direct cross-national comparisons are difficult, this was typically of Europe during the time period. In France, 71% of stores had zero salaried workers, 26% had one to five, and only 3% had six or more (Mayer, 1986, p. 27).

merchandisers ready to capitalize on growth.[52] The emergence of these mass retailers represented not only a new chapter in the history of the retail sector, but also the beginning of a reversal in economic power and the distribution of wealth in the economy. As such, the rise of retailing marked a first step that would be indicative of a larger and longer economic re-balancing between services and manufacturing. It is to this rise that we now turn.

### VI. The Rise of Retail: The Conditions for Growth

> *Ce qui arrive aujourd'hui, dans une ville ou dans un pays, arrive très rapidement dans une autre ville et dans un autre pays. Si une formule de production meilleure, de communication plus rapide, de vente moins chère ou de fabrication plus rentable est trouvée par qui que ce soit, le monde entier en bénéficie.*
>
> *Whatever happens today in a city or country arrives very quickly in another city or country. If a better form of production, faster communication, cheaper retailing, or more profitable manufacturing is found by anyone, the entire globe benefits.*
>
> *- Bernardo Trujillo (Postscript of Thil, 1966)*

The first portion of this chapter outlined three national stories of retail in the production-dominated postwar era. All three were organized around similar general principles including upstream control, small stores, and a shopkeeper logic, in the production-dominated postwar era. This description stands in stark contrast to world of retail today, where large retailers dominate producers and retail strategies vary tremendously across countries.

The backwardness of retailing came to an end during the 1960s. Given its greater affluence, the United States moved first, and the American chain store era was replaced by a new set of firms that matched scale with process innovations in-store and increasing independence from producers and wholesalers. Europe was not far behind, and European markets also saw changes in both the size and character of firms. Consequently, the majority of powerful retailers in the global economy are relatively new firms. In addition, they typically had quite similar beginnings and backgrounds. By the 1960s, a new class of retailers had emerged across the affluent economies. These retailers were spurred universally by two major developments.

The first was common social and economic change across the affluent economies, as seen in table 2.2 below. Although these changes were stirring from 1945-1960, the 1960s onward brought an explosion of consumer wealth, which coincided with broad changes in economic geography, brought about by increasing automobile use and urbanization/ suburbanization. While planning regulation, density patterns, and

[52] The crises that were to follow, and the inflation they brought, would only entrench the position of these large-scale retailers.

economic growth levels certainly shaped national patterns, in all the affluent economies consumers began to demand a greater diversity of consumer goods. The growing value of the consumer goods retail sector also created new wealth to be distributed throughout the economy.

Looking at data comparing the 20-year period from 1960-1980 shows the changes. The evidence shows dramatic improvements in per capita income, increases in population and urbanization, and large upward movement in car ownership as a response both to increasing wealth and changing urban geographies. All of these changes created opportunities for retail entrepreneurs willing to rethink patterns of distribution in response to changing consumer preferences and geographic locations.

Table 2.2 1960 and 1980 Demographic and Consumer Statistics

1960

| | Urbanization Rate[a] | Per Capita Income ($1000s 2005 PPP) | Vehicles per 1000 Population | Population (1,000,000s) |
|---|---|---|---|---|
| Denmark | 69.0 | 11.8 | 126 | 4.6 |
| France | 55.9 | 9.5 | 158 | 45.7 |
| United States | 69.8 | 15.6 | 411 | 179.3 |

[a] France urbanization is 1954, Denmark 1955

1980

| | Urbanization Rate | Per Capita Income (2005 PPP) | Vehicles per 1000 Population | Population (1,00,000s) |
|---|---|---|---|---|
| Denmark | 82.6 (1976) | 20.8 | 271 | 5.1 |
| France | 73.0 (1975) | 20.2 | 341 | 53.9 |
| United States | 73.7 (1980) | 25.6 | 709 | 226.5 |

Sources: Urbanization = UN Demograpic Yearbook, various years; Per Capita Income = BLS, 2011; Vehicles per 1000 population = Dargay et al. (2007); Population = Statistics Denmark, INSEE, Census Bureau

The second development, therefore, occurred within retailing. A retailing process revolution arose in response to the growing opportunities in the consumer goods retail sector, led by merchant-minded founders such as the Aldi brothers (Germany), Sam

Walton (USA), Herman Salling (Netherlands), and Edouard Leclerc (France).[53] This movement began in the United States, but was quickly disseminated throughout the affluent economies. Largely inspired by the new self-service and discount trends espoused by leading retailing thinkers like Bernardo Trujillo, a consultant working for National Cash Register (NCR), these firms began to expand their presence in retailing markets using process and store innovations of the post-war period, including self-service, ample automobile parking, larger stores, and more product diversity.[54]

In France for example, Trujillo's seminars were attended by nearly every leading French retailing executive and out of the 13,000 or so business executives who attended his conferences in Dayton, Ohio, over 2,300 were French, more than any other country, including the United States (Thil, 1966, p. 131).[55] His catch phrases, including "no parking, no business" and "stack it high and sell it cheap" helped catalyze the French retail revolution.

Buoyed by new ideas such as those espoused by Trujillo, new capital, and French consumers increasingly focused on product diversity and price levels, new French supermarket and hypermarkets (a combination supermarket and general merchandise discounter) firms emerged and thrived beginning in the early 1960s. In 1962, the *grandes surfaces* held only 1.0% of the food market.[56] Following an "American" model built around edge of town development, self-service, low prices, and high turnover, these *grandes surfaces* increased their market share to 11.1% by 1970 (INSEE, 1980). The hypermarket was a new twist, developed by Carrefour in 1963, but other than product strategy (carrying both food and non-food), business models of the new French firms initially looked quite similar to those emerging in any of the case countries.

In all countries scale retailers emerged in a similar fashion, promoting self-service and the stack it high and sell it cheap philosophy. This initial similarity in business strategy is analytically critical, as it reduces the chance that later changes were simply the result of national differences in market, consumer, demographic, or geographic variables. Many of the business model changes were either tied together or with larger shifts in how

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[53] The leaders behind Aldi (Germany), Walmart (the United States), Ahold (the Netherlands), and E.Leclerc (France), respectively.

[54] Trujillo was not independently interested in these topics, but rather an employee of National Cash Register. While beyond the purview of this piece, this suggests an intriguing story about the relationship between knowledge diffusion and technology adoption. See Alexander, Shaw and Curth (2005) for a version of this story in British retailing.

[55] Trujillo's legacy on French retailing was significant. Although not scientific in any way, it is notable that Trujillo, an American, has a French Wikipedia page and not an English one. It is also noteworthy that he was given a chapter in *Les Inventeurs Du Commerce Moderne* by Etienne Thil, who was Carrefour's first director of publicity and public relations.

[56] *Grandes surfaces* was the French term used at the time to refer to any large format retailer. Interestingly, it is increasingly used only for hypermarkets as supermarkets have become "small" formats in comparative perspective.

the larger distribution networks worked.[57] For instance, self-service corresponded with a switch to nationally branded products in stores, which in turn related to the increasing power of chains, as local knowledge of particular goods decreased in importance. All of these variables are intertwined in a way that makes causal arrows difficult to pinpoint. The increasing presence of branded goods, for example, was certainly necessary to allow stores to move to self-service and manufacturers were excited by the possibilities of increasing the size of distribution networks to push their branded goods. But the move to self-service certainly also increased the demand from stores for products that were instantly recognizable to consumers without shopkeeper assistance. Each of these individual changes (larger stores, branded goods, self-service, out-of-town, car parking, new product displays, increased advertising, etc.), therefore, served to accelerate the development of the larger shift in retailing.

Again, these ideas were transformative not just in France or the United States, but across Europe and the advanced economies. Jeffreys (1968) survey of the "giants" of European retailing showed markets that were amazingly unconcentrated in comparison to modern retail markets. Ironically, looking at evidence from the United States Jeffreys saw little sign of increases in concentration, writing "that between 1957 and 1967 the share of the largest retailers in total retail trade remained constant (p. 272)."[58] To scholars of the era it was inconceivable that the growth of large-scale retailers could progress much further. This type of argument from the time period is further evidence that the late 1960s and early 1970s represent a dramatic break with past market patterns in retailing.

The data (shown in table 2.3 below) clearly show the opposite of Jeffreys' (1968) hypothesis. In the 40 years in between these two snapshots new powerful retailers came to dominate national markets in a manner that was previously unthinkable. In the three European countries shown, the average market share of the top five firms jumps from 9.2% to 36.9%. A smaller percentage increase occurred in the United States as well, though it is worth remembering that the size of the US market means that considering firm size, the absolute increase in the sales of leading firms was much greater. In 2008, Walmart sales totaled about 10.5% of the American retail market, while that same sales figure is equal to 80.1% of the total British retail market or 61.5% of the French market in 2008.[59]

Changes in concentration ratios provide further evidence of similar sleepy markets that experienced dramatic transformations mediated by different national

[57] Other scholars have pointed out the extreme diversity of variables that furthered this transformation. For instance Mayo (1993) argues that architectural advances and the increasing availability of large, cheap retailing space was a primary driver of new, large retail formats.
[58] Jeffrey's did report that there was "partial evidence" that in Europe the shares of the largest retailers had been increasing during this period (p. 272)
[59] Walmart total sales of $375 billion taken from 2008 company data and represent global sales (though in 2008 these were still heavily US sales). Average 2008 exchange rates ($1 = .54 GBP and .6830 Euros). Total British and French market sizes taken from Mintel European Retail Handbook.

political forces. These changing ratios illustrate an economic transformation, as the more innovative round of retailers in the 1960s began to not only displace the earlier chain stores of the 1930s, but replace them with a scale never achieved the earlier retail groups.

Table 2.3 Shares of Largest Retail Firms by Country, 1967 & 2007/08

Shares of the largest retail concerns in total retail trade, by country, 1967

| Country | Largest Firm | 3 Largest | 5 Largest | 10 Largest | 20 Largest | 30 Largest |
|---|---|---|---|---|---|---|
| Denmark | 2.2 | 6.3 | 9.0 | 12.7 | 15.8 | 17.4 |
| France | 2.6 | 6.1 | 7.7 | 9.5 | 11.7 | 13.3 |
| Great Britain | 2.6 | 7.2 | 10.8 | 18.0 | 26.0 | 29.5 |
| USA | 3.9 | 8.7 | 11.7 | 15.9 | 21.6 | 25.0 |

Shares of the largest retail concerns in total retail trade, by country, 2007, 2008

| Country | Largest Firm | 3 Largest | 5 Largest | 10 Largest | 20 Largest | 25 Largest |
|---|---|---|---|---|---|---|
| Denmark (2008) | 14.2 | 35.8 | 40.3 | 46.6 | 53.6 | 55.9 |
| France (2008) | 9.1 | 22.5 | 32.1 | 41.7 | 48.0 | 49.4 |
| UK (2008) | 15.0 | 29.5 | 38.3 | 42.0 | 44.4 | 48.8 |
| | Largest | 4 | 8 | | 20 | 50 |
| USA (2007) | 11.3* | 12.3 | 17.5 | | 25.4 | 33.3 |

* 2009, which explains the discrepancy with top-4 concentration ratio. Source: Walmart company figures.
UK, Denmark, and France from Mintel Retail Handbook, USA from 2007 Economic Census

Interestingly, this matches well with the "wheel of retailing" theory posited by McNair (1931) when he first examined the chain-store movement and its displacement of small shopkeepers. McNair's thesis was simply that newer, more innovative retailers, cost-focused consistently emerge to displace older retailers with higher margins. The 1960s firms were the next turn of the wheel, just as many argue e-commerce retailers may be today.[60]

[60] An interest question to ask is at what point scale advantages become too large and entry costs too high for this theory to adequately capture retail change. Although large firms like A&P, Sears, and K-Mart have descended from lofty peaks, these firms look small by today's retail standards. Put differently, can any innovation top the advantages inherent to Walmart's buying power?

The successful American firms of the 1960s match more closely with the retail revolution and firms in the European cases, making this a more appropriate comparative frame. The scale retailing movement in the 1930s has little comparison overseas.

A quick examination of data on the leading retailers today shows the relative importance of the 1960s for the retailing markets of today. Although some of the retailers formed in the 1920s and 1930s survived the more complete overhaul of retailing that was to come, these retailers are now dominated by those founded in the more dynamic period.

Estimating the sales of the complete population of firms controlling for founding decade would be a monumental task fitting a dissertation of its own, but for quick evidence we can look to the largest retailing firms in the United States. A list of the top 100 retailers (ranked by 2007 sales) was paired down to 79 retailers that fit the type of retail trade described in this project.[61] Looking at the sales of these leading firms by founding decade underscores the relative importance of the 1960s. Leading firms founded during this decade account for around 16% of total national retail sales in the United States in 2007. Put differently, looking only at the sales of the top 79 firms, firms founded in the 1960s account for 42% of all sales. The next highest decade was the 1980s, but leading firms founded in the 1980s only account for 4% of total retail sales in 2007 (or just under 11% of the leading firms sales).

Even excluding Walmart as an outlier, the 1960s outpaces any other single decade in sales terms by over 65%. In contrast, leading firms founded in the 1930s take home just 2% of total retail sales and around 6% of leading firm sales. Even broadening our scope to include the combined years from 1910-1939, firms founded in these three decades only account for 5% of total sales in 2007.[62] Therefore, although it is worth noting the innovations and political reactions of the 1920s and 1930s in retailing, if we judge the legacy of firms through current market share, firms founded prior to WWII are far less important to today's American retailing market than firms founded in the 1960s.

The innovative retailers of the 1960s were driven partially by technological advances, although differences in how that technology was used only emerged later as advances in technology allowed retailers to strengthen and entrench their market position and scale advantages. Early retailing technologies, such as electronic cash registers, did

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[61] For a full list of firms included, those excluded and explanations on why see Appendix A. The primary exclusions were foreign owned firms and firms whose primary activities were in production or other non-retailing activities such as food service.

[62] Looking at the type of firm by founding decade clearly shows the process of retailing innovation in the United States. Of the leading firms founded prior to 1910, 8 of 13 are department stores. From 1910-1939, 11 of 18 are grocery stores. The 1960s shows a diversity of formats as retailers applied new innovative process rules in a variety of contexts. The 13 firms founded in this decade show some of the range: mass merchandising, discount, gas and convenience, grocery, clothing, category killers (large stores focused on a specific type of products), department, travel stops, and drug stores. Finally, the 1980s is dominated by mass merchandisers and category killers. 8 of the 13 leading firms founded in that decade are one of these types of store.

exist, but were shared internationally and were used similarly: primarily to speed up in-store processes such as checkout. In fact the initial diffusion of many of the key process innovations from American retailing were first disseminated by employees of National Cash Register (NCR) hoping to increase the markets for its products involved.

These technologies did not begin evolving into systems resembling modern barcode scanning and cataloging until the late 1960s and early 1970s with the development of the Universal Product Code (UPC).[63] By this point the differences seen in firm business strategy and structure presented as evidence had already emerged. The time ordering of organization change and patterns of technology implementation, therefore, correspond to the theoretical bent of this work, illustrating that technology itself cannot be driving the differences.

Throughout the affluent economies, however, the rapid growth in scale retailers soon created clashes with independent shopkeepers, long a fixture of both the economy and the ballot box. Independent shopkeepers wanted protection from what they saw as either unfair or socially disruptive aspects of scale retail development including predatory pricing, out-of-town development, large stores, and their scale more generally. A political conflict was brewing, and both sides began to mobilize coalitions to fight for their preferred regulatory outcomes. How retailers built these coalitions was quite different by location, motivated by different political challenges from opposition groups of varying power and institutional resources. The initial coalition formation also had longer political implications. We now turn to the institutional features that shaped each national opposition, and in turn, the political coalitions of retailers.

[63] See Chapter III, particularly p. 49-57, for more on the emergence and development of retail technology.

# Chapter III
# The Rise of Retailing: Politics, Technology, and Cross-National Trajectories

> *If a technology develops in one direction and becomes ubiquitous in that form, it is probably less a reflection of its actual technical or economic superiority than of the magnitude of the power which chose it, and of the dominance of the cultural norms which sanction that power.*
>
> *- David Noble (Forces of Production, 1984)*

## I. Introduction: A Fork in the Road

This dissertation highlights three ideal-types of retail management, each with a quite different set of relationships with workers, suppliers, consumers, and regulators. Correspondingly each developed a quite distinct model of value creation and competition. Historical investigation, however, suggests that divergences in management strategies are a relatively recent phenomenon, as the contours of retail management during the initial decades after the war exhibit more similarities than differences. This does not mean that historical retail cases were identical, but simply that a variety of existing political and economic differences did little to shape firm strategy in the postwar period. Tracing the basic postwar consensus forward, an interconnected web of economic and demographic changes in the 1960s gave rise to a set of new firms, again with common management ideals. Nevertheless, these same firms now exhibit divergent strategies by location, matching the different ideal types outlined in the introduction.

This chapter resolves the disjuncture between historical similarity and contemporary divergence in four sections: first, it provides a description of the political coalitions in each ideal-type; second, it explains of the importance of information and communication technology (ICT) during the rise of retailing; third, it links national political groupings to their resulting management and technology outcomes; and finally, it explains of why the political coalitions diverged across the three case countries.

The first section demonstrates the variation in the political actions and coalitions of opposition groups and retailers. As with any new entrant, the emergence of mass merchandisers was sure to cause political reactions. For the mass merchants of the 1960s, these reactions came both from their primary competitors, small shopkeepers, and from the social and economic groups with which they interacted, such as producers, local governments, and consumers.

As conflicts around the growth of scale retailing heated up, the latent differences across the three political economies were activated. The strength and cohesion of political opposition to large-scale retail development differed by country. Consequently, different nationally-specific patterns of coalition formation can be seen among retailers, who were required to match the cohesion and strength of opposing coalitions with political movements of their own.

The evidence shows three patterns of coalitions in the late 1960s and early 1970s that sought to either restrict or enable the growth of large-scale retailing. In the United States, opposition was local and fragmented and retailers' eschewed political coalitions in favor of unilateral action. At the other extreme was Denmark, which saw the emergence of broad, national-level political coalitions and policy compromise between opposition groups and retailers. In between was France, where retailers and opposition groups found themselves caught between national political cooperation and local and business policy conflicts and formed limited, uneasy partnerships.

A primary reason for particularly strong connection between political coalitions and economic outcomes in retailing is the highly embedded nature of the sector. Retailers are amongst the most connected actors in society, connecting with workers, producers, consumers, and governments from local municipalities to the national level. In addition, given the intrinsic social component of retail services, changes in retail services are likely to activate political action along social as much as purely economic lines. Debates about opening hours or urbanization affect the national "way of life" as much as debates about price rules affect the national economy. Taken together, this embedded nature meant that the rise of retailing would involve high levels of societal debate along a variety of political fault lines and at multiple levels of government.

Technology amplified the economic potential and disruptive capacity of the retailing sector. The earliest implementations of ICT were used to codify and routinize activities. This process occurred similarly across borders. As retailers began analyzing the stream of information, however, a host of questions were posed about how to reorganize in-store activities and firm relationships to improve efficiency, reduce costs, improve productivity, capture new value, or add new services. How firms implemented these organizational evolutions took on a quite distinct national character, driven by their political strategies. In all, information and communications technology (ICT) strengthened scale retailers during their ascendancy and further pushed firms down national economic paths largely determined by their political relationships.

The second section of the chapter connects the political coalitions formed by retailers to firm management choices and longer pathways of policymaking. These two outcomes are highly interdependent, with firms' dual economic and political partnerships together forming coalitional channels that drive path dependence. This section describes how the resulting coalitions, political negotiations around coalition formation, and the broader retail regulatory regimes pushed firms down particular management paths. The previous chapter hinted at the possibilities for divergent paths, illuminating the host of decisions facing firms as they grew in scale, reversing power relationships and the structure of a distribution sector that had long been dominated by producers.

The beginnings of a dramatic reversal in power relationships forced retailers to define how they would utilize their newfound power to reshape existing management strategies and broader economic and political structures as they moved from a small scale "push" system of distribution dominated by producers to a large scale "pull" system controlled by retailers. Coalitions were the key to their decisions. The politics of retailers' coalitions reinforced the economic decisions of firms while the economic decisions of firms increased their commitment to their political partnerships.

In the United States, retailers continued to act unilaterally, both in business relationships predicated on scale and dominating partners and in politics, where the fragmented and decentralized American polity allows a successful divide and conquer strategy. Digital technology only strengthened the power of retailers relative to partners, accelerating retailers down a path of domination. In management strategy, the US system has evolved into a lean retailing model that competes through cost squeezing, including an emphasis on scale, a low-road labor strategy, retailer organized logistics, dominated supplier relations, and low value-added.

In contrast, in Denmark, retailers continued highly cooperative management strategies, particularly with workers. The relational contracting business model competes through partnerships to share and reduce costs. A high road, high training labor relations policy is the cornerstone, but more equitable relationships with suppliers also diverge from American lean retailing. Technology offered opportunities to deviate from this cooperative path, but retailers used them largely to buttress investments in worker training and supplier cooperation. In turn, these management strategies have reinforced the negotiated nature of Danish retail policymaking, preserving high levels of cooperation and broad political coalitions.

In France, retailers have sought to reduce their need to rely on uneasy partnerships and have built business models balancing dual-tier relationships with suppliers and workers. Combative political partnerships led French retailers to adopt go-it-alone management practices, attempting to compete for and control more of the consumer retail supply and value chains, including high value added products and services in-store and a high-use of private store labels at a variety of price and value points. Politically, French firms find themselves caught between national political cooperation and local political domination. French retail policymaking has evolved into a system of perpetual competition between retailers and their economic adversaries.

After describing a set of political-coalitional outcomes and their link to firm management choices, a final section will investigate the latent cross-national variations in economic and political structure that drove these outcomes. These variables include: the inherent variations in economic power of retailers relative to producers, wholesalers, and the larger economy; the political institutions of interest aggregation and retail regulation; and the internal market structure of the retail sector.[64]

Across each national case, these variables structured the strength and cohesion of the national opposition to retail development, by allocating different levels of power resources in the economy and through institutions that aggregated and mediated political

[64] On this final variable – the internal market structure of the retail sector – there is a nuanced distinction between the management strategy of firms, which was quite similar, and the organization of the larger sector, which already exhibited considerable cross-national variation. The former is about organization in-store, while the latter is about the external relationship between stores and other economic actors.

interest groups. These differences structured and amplified the political reactions that followed. The European countries had a much higher population of small, less innovative firms ready to oppose the development of new, disruptive models of mass merchandising combined with institutions that made them more powerful in their opposition.

The rise of retailing and the introduction of digital technology presented new retail entrants with a variety of potential management trajectories. The challenges from shopkeepers and societal groups put many of those trajectories in jeopardy. The key to the future of mass merchandising lay in how retailers responded to these political challenges. New retail entrants had begun to conquer the consumer marketplace. Now they set out to conquer the halls of politics.

## II. Retailer Coalitions

The political challenges that retailers faced varied significantly in their strength and cohesion by country. Consequently, different groups of national retailers needed to build coalitions of a similar strength and cohesion to their opposition in order to overcome these appeals for further regulation. As the strength of the opposition varied, so did the need for retailers to form more powerful alliances to advance their own political cause for further retail development.

In the United States, powerful retailers faced a fragmented political environment with liberal political rules and an unorganized and weak small shopkeeper opposition. Consequently, US retailers never again worked with producers and workers at the levels seen in the 1930s, preferring unilateral action, particularly at the state or local level.

The strongest opposition emerged in Denmark. In many ways, "opposition" is not the correct term, as the opposition movement was firmly entwined with the group of small shopkeepers and new entrants that would come to dominate scale retailing. The power of Danish corporatist institutions was such that entrants and incumbents negotiated side by side as a unified front, rather than as competing groups. The larger Danish coalition brought together not only new entrants and incumbent shopkeeper organizations, but also workers, producers, consumers and politicians from both the left and right of the spectrum. Together they created a coalition that replicated many of the compromises used to innovate and grow the manufacturing sector.

On the labor side, they ratified and preserved the conditions of the Basic Agreement (see Jørgensen, 2000 and Madsen, 2006 for more on the history of Danish flexicurity). This agreement balanced the rights of workers with the needs of management, setting the stage for a long history of tripartite compromise. More broadly, the agreement set the conditions for a socially-controlled liberalization, controlling and shaping the growth of the retail sector more powerfully and cohesively than in any of the other case countries. The end result was a more even distribution of the gains from retailing growth than seen in the United States or France, though this bargain would be tested as the retail market consolidated and the formerly weak retailers began to grow in economic power.

In France, the opposition was quite distinct from the new entrants, and was driven largely by a national if fractured movement of French shopkeepers. Although scale retailing was a primary target, these groups also sought reforms to the tax code and regulatory regimes more broadly and were distinctly anti-modernist in nature.

French retailers responded with a weak if broad coalition between retailers and producers, unions, and elements of the French right based primarily on efforts to liberalize French distribution networks. This coalition was successful in solving the initial round of national political opposition, but failed to either solve local developmental conflicts or set a policy framework for longer-term cooperation. As in 1930s America, producers and workers saw benefits from increasing scale and the influence of big business in the retail sector. For producers this offered more stable distribution channels for increasing capacity and growing consumer demand. For workers, it meant replacing independent shops with potential union jobs. Also paralleling 1930s America, once liberal business principles were protected, the coalition was similarly abandoned.

The fight between shopkeepers and scale retailers culminated in a weak, localized planning and tax law that was broadly supported by both shopkeepers and the center-right.[65] In the center, the *Réformateurs démocrates sociaux* party voiced support throughout the parliamentary debate, noting especially their attachment to provisions that provided aid to small shopkeepers. Nevertheless, once presented with options to shift the balance of power further in favor of the shopkeepers, the government and rightist voters balked. In this regard, retailers and their business and worker allies were highly successful in limiting the scope of retail regulation.

### III. Revving Retail's Engine: The Marriage of Technology and Scale

Although variation in the character of national political opposition and retailer political strategies certainly has driven variations in retailer strategy, changes in the power and scope of technology in the retail sector accelerated the divergence of national retail models. The rise of retailing, similar to other economic divides is entangled with technology. The application of technology in the retail sector not only strengthened the

[65] The French left had a love-hate relationship with the growth of scale retailing. At the national level the Socialist party was moderate in its opposition, arguing that the new tax rules shifted the tax burden to workers and that it lacked enough "boldness" in its aid payments for shopkeepers to modernize their shops (p. 257). The Socialists pushed for further regulation and introduced a series of amendments designed to increase the power of shopkeepers, though these amendments served partisan electoral concerns as much as they represented an ideological position. The amendments included reserving seats for "*petits commerçants et artisans*" to be on local planning boards (as opposed to seats simply reserved for representatives of the profession, which after the law were rapidly filled by representatives of large retail firms), but these were rejected. The French Communist Party went further, calling it a "law of illusions". Both parties abstained in the final vote. At the local level, however, the left proved more than happy to allow extensive retailing growth (more so even than the right) which created jobs for workers (i.e. leftist votes) over small shopkeepers (supporters of the right).

position of retailers in their economies, it also forced them to more clearly define their economic relationships as they chose how to implement that technology and reap its rewards.

The transformation of the retailing sector was not simply about the growing importance of services as a component of national gross domestic product, but more importantly a story of how digital technology transforms service activities, reorganizes the service components of the economy, and reconfigures the relationships between firms, workers, producers, and policy-makers.[66] Because of this reformulation, the transformation of retailing matters not only for sectors, but also for a variety of broader political, social, and economic outcomes as the rise of services changes the basic logic of political economy.

Before proceeding, it is worth situating both the retailing sector and the American case in a comparative perspective. Table 3.1 below shows productivity numbers for various service sectors across five countries and the EU-15 from 1977-2007. The data are broken into IT-using service sectors, non-IT service sectors, and the total economy. Note that retail productivity growth exceeded national growth in four of the five country cases. American retailing productivity growth is strong compared to non-IT using service sectors, but not exceptional compared to the other countries.

Table 3.1 Average Annual Service Labor Productivity Growth, 1977-2007

| | Denmark | Germany | UK | US | France | EU-15 |
|---|---|---|---|---|---|---|
| **IT Using Service Sectors** | | | | | | |
| ***Retail trade*** | ***2.4*** | ***1.3*** | ***2.8*** | ***2.2*** | ***3.1*** | ***1.8*** |
| Financial Intermediation | 4.3 | 1.9 | 2.4 | 1.7 | 2.1 | 2.1 |
| Average | 3.3 | 1.6 | 2.6 | 1.9 | 2.6 | 1.9 |
| | | | | | | |
| **Non-IT Using Service Sectors** | | | | | | |
| Community Social and Personal Services | 0.4 | 1.1 | 0.3 | -0.1 | 0.8 | 0.4 |
| Hotels and Restaurants | -1.8 | -0.5 | 0.2 | 0.3 | -1.0 | -0.5 |
| Real Estate, Renting, and Business Services | -1.2 | 0.4 | 1.0 | -0.1 | 0.1 | -0.5 |
| Average | -0.9 | 0.3 | 0.5 | 0.0 | 0.0 | -0.2 |
| | | | | | | |
| Total Economy | 1.6 | 2.2 | 2.2 | 1.4 | 2.3 | 2.0 |

Source: EU KLEMS Database

This supports recent studies which suggest that information technology may provide a partial cure for the Baumol's cost disease; Triplett and Bosworth (2004) find that between 1995-2001 labor productivity in American services sectors grew faster than

[66] For a wider discussion of digital technology in services, see Zysman et al. (2007).

in goods-producing sectors, 2.6% versus 2.3%.[67] The primary driver of this growth has been IT-using service sectors.

One interesting note is that the similarities between long-term growth statistics hide differences in the temporal composition of this growth. In fact, despite earlier development of many of the retailing trends described during the description of the rise of retailing (Ch. III), the US was a productivity laggard from 1977-1992, as seen in table 3.2. The reasons for this are the flip side of the advantages offered by coordinated political action in more coordinated environments. A lack of protection, fierce competition with both other retailers and with suppliers coupled with a large American market made it difficult for American retailers to rapidly implement their preferred business strategies. The high cost of new technology implementation in a sector with razor thin margins made American retailers more hesitant to spend money on unproven technologies.

Table 3.2 Labor Productivity in Retail Trade, Annual Growth and Absolute Level

| | 1977-1992 | 1992-2007 | 1977-2007 | VA/Hr (US$), 2007[68] |
|---|---|---|---|---|
| Denmark | 3.5 | 1.2 | 2.4 | 29.49 |
| France | 5.2 | 1.0 | 3.1 | 27.96 |
| Germany | 1.7 | 0.7 | 1.2 | 22.93 |
| Average | 3.5 | 1.0 | 2.2 | 26.93 |
| | | | | |
| US | 1.6 | 2.8 | 2.2 | 26.99 |
| UK | 2.6 | 3.0 | 2.8 | 21.26 |
| Average | 2.1 | 2.9 | 2.5 | 24.12 |

Source: EU KLEMS database. VA/hr. constructed using average exchange rate from 1st quarter 1998 to present.

The development and implementation of technology tools have allowed these new trajectories, creating a variety of potential opportunities opened by the marriage of digital technology and scale. As with other information technology (IT)-enabled service sectors, the evolution of the retail sector occurred in stages. The 1960s and 1970s brought a process revolution to retailing built on self-service, larger stores, out-of-town development, parking, and better product branding. The emphasis switched from knowledgeable shopkeepers using their expertise and interaction with customers to sell goods to a high-turnover, lower-margin business where nationally branded and marketed goods sold themselves and the retailer role was to stack them high and sell them cheap.

[67] The same cautions about measurements of service productivity used above during the critical view of the services liberalization literature certainly apply here as well.
[68] These figures are not in PPP, but would only change in minor ways if PPP were considered and PPP inclusion would not affect the relative rankings at all. Given the difficulty in capturing service quality in PPP, it seems prudent to leave it out.

Early retail technology tools, such as the electronic cash register, were fundamental to this process, allowing stores faster checkouts and easier accounting on larger, more frequent sales.

These technologies took an enormous leap forward in the late 1960s and early 1970s with the development of the Universal Product Code (UPC). A series of meetings between food retailers (the National Association of Food Chains) and food producers from 1966-1969 led to the standardization of barcode technology and the first barcode and scanner purchase at Marsh Supermarket in Troy, Ohio in 1974.[69] The utility of barcodes and scanner systems was immediate and Giant Foods was the first American firm to implement scanning chain wide in 1980 (Walsh, 1993).[70]

As retailers grew in size, they first used digital tools to capture information and routinize processes, such as checkout, ordering or stocking. Next, more sophisticated demand management tools began analyzing the data streams from point-of-sale (POS) databases, opening the opportunities to re-organize shop-floors, supply chains, and find complementarities. Each of these steps furthered the ability of retailers to keep growing.

The precise timing and practical specifications of digital technology adoption and implementation in retailing varied considerably across borders. That said, a similar outline of the stages of information technology in retailing can be drawn in each of the three case countries.[71] The first stages began in retailing during the 1970s and expanded in the 1980s while shifts in value capture began in the 1990s and continue today.

The 1980s were not the beginning of large retailers, as enormous retail firms have existed for some time. However, digital technology has changed the retailer market from one where large retailers are the exception to one where they are the rule. It has done so by reducing the risks associated with scale, increasing the advantages of that scale, and providing tools for scale management.

It did so by first increasing the economic and informational power of retailers. Retailers first used barcode technology, scanning system, and basic purchasing software to *codify information and routinize* activities. Next, they began using more complicated merchandise planning and demand management software to begin *organizing and analyzing* the stream of sales data routinization produced. Along with complementary

[69] http://www.gs1us.org/about_us/history/the_universal_product_code
The barcode was first developed by Bernard Silver and Norman Woodland, who received a patent for a "classifying apparatus and method" in 1952 (#2612994). Attempts to develop the UPC were made by Singer, National Cash Register, Littion Industries, RCA, Pitney Bowes, and IBM, and it was ultimately IBM's design that was selected in 1973. See: http://bellsouthpwp.net/l/a/laurergj/UPC/upc_work.html

[70] As an interesting foreshadowing of the coming transnationalization of retail firms, Giant was sold to Dutch Giant Ahold shortly after this accomplishment in 1981.

[71] For more on the specifics of retail technology, see McKinsey (2001). McKinsey found four major areas where retail firms use IT, all of which have consequences for how information is gathered, used, and corresponding organizational change. McKinsey broke their retail IT systems into central functions (store solutions, merchandise planning & management, and supply chain systems) and support IT systems.

store changes (such as decreased warehouse space and increased sales floor space) these technologies allowed larger stores, larger store networks, increased product diversity and knowledge, all while reducing non-sales inventories. However, increased scale led to clashes with small shopkeepers and national politicians around store size, location, purchasing power, price rules, and anti-trust and competition issues.

At this point retailers faced choices concerning their new business possibilities and political fights over their ability to implement and use the digital information they were collecting. Once retailers had implemented basic digital technologies and built large-scale retailer networks, they sought to use both their informational and economic power to *improve efficiency, capture new value, or offer new services*. IT plus improved data allowed increased worker automation and oversight or increased worker training, supplier integration, network rationalization, customer niche targeting, efficient customer response (ECR) technologies, loyalty programs, reduced risks with private labels, and more. Opportunities for business model extensions included offering new services in store (financial, basic medical, food services, advertising, etc.), controlling and streamlining distribution and wholesaling, or creating and branding products. Competition between retailers and with suppliers and wholesalers has created political clashes around data use (privacy), supplier-relations (including terms of payment), and even what services retailers can offer.

Regardless of choices made by individual firms, digital information has fundamentally changed retail firm size by allowing retailers better information about sales, better response times, better communication with store networks, and reduced risk through better demand management. The beginning of the scale revolution in retail trade was the digital routinization of basic activities. Prior to the full onset of the digital era, earlier technological advances, such as electronic registers had moved the sector partially in this direction. With the implementation of barcode technology (see Nelson, 1997 for a history of barcode technology), scanners, digital storage of sales and stock information, however, in-store operations and automation jumped forward. These basic digital technologies allowed the automated gathering and storage of information, providing the basis for each of the other stages described below. The fundamental feature of the digital revolution is the ability to create, store, transfer, and manipulate digital information, and barcode technology is the point at which digital information is created. Basic digital product and sales information then cascades through the rest of these stages.[72]

The ability to store information about product price and stock levels through barcodes revolutionized store operations. In addition to accelerating the movement toward self-service in retail, stores were able to reduce inventory checks (a timely and costly procedure), speed-up checkout times, and generally create the types of innovations toward larger-volume formats, reaping the benefits of greater scale while keeping

[72] It is likely that the next round of base technologies, this time driven by sensor technologies like Radio Frequency Identification (RFID), may send similar upward ripples through the sector, re-shaping activities just as dramatically as the bar code.

organizational challenges in check.[73] In addition, IT provided a valuable tool for headquarters to effectively manage large chains of stores. IT allowed a central location to communicate with stores, gather the incredible stream of information from various locations for analysis, and coordinate larger distribution networks more seamlessly. Data on electronic data interchange systems (EDI), which are used to automatically place orders with suppliers, show the increasing routinization of retail.[74] Hwang and Weil (1998) find that the use of EDI by retail firms increased from 33 to 83 percent in the period from 1988 to 1992 alone.

Once product information was digitized, retailers could begin the analysis of sales information, allowing superior management of both inventories and price decisions. Retailing occupies a critical economic location between manufactures and consumers. For retailers, therefore, understanding what products consumers demand and at what price is a fundamental component of providing retail services. While barcode technology allowed retailers enormous labor savings, equally large savings have accrued from the analysis of the point-of-sale (POS) data that barcodes generate. Since the mid-1990s, nearly every major global retailer has kept data on every purchase made across their store networks, often using loyalty cards to tie these purchases to particular customers.[75] The analysis of this data allowed firms to better understand and manage consumer demand in a number of ways including: better matching of inventory to customer demand, even below the product level to features such as color; better understanding of the relationship between prices and sales; more efficient use of shelf space and more efficient store layout through recognizing sale complementarities; reduced inventory and fewer out-of-stock situations; and the potential to evaluate and optimize advertising, even at a personal level.

Again, these changes were not simply about cost cutting, but also about improving sales through better store layouts, keeping goods on the shelves, and generally matching demand. Dobson et al. (1998) find that in the United Kingdom between 1980-94 retail sales (in real terms) per outlet increased by 53% and per employee by 23%.

Technology also allowed reduced overhead and smaller stock warehouses, which can be seen in data on assets and liabilities in retail trade over time. Looking at French retailers, Dawson (2005) finds that assets and liabilities were down to 47.4% and 53.6% of sales, respectively, in 2001. This is compared to 63.1% for assets and 59.4% for sales in 1984. Gaur et al. (2005) support this finding from a new direction, demonstrating that

[73] The benefits of digital systems are neither automatic nor universal. Jones, Kalmi, and Kauhanen's (2011) study of Enterprise Resource Planning (ERP) implementation in a retail chain initially dropped sales and inventory turnover by 7%. Sales recovered, but more rapidly when workers had broad training regimes. Finally, timing matters. Those establishments which establish ERP later saw inventory turnover recover faster.

[74] The Uniform Communications Standard (UCS) was created in 1982, followed shortly by the Electronic Data Interchange (EDI). EDI immediately allowed the electronic transmission of product ordering and billing information between retailers and suppliers using the UCS standard. Originally, these flows were small, mainly invoices and payments.

[75] As we will see, rules about how firms can gather and disseminate individual sales data are critical and subsequent firm strategies vary by location.

greater capital intensity leads to increased inventory turnover (and lower margins). In other words, investing in information technology helped retailers to further increase turnover and lower inventories relative to sales, increasing returns on capital. As a percentage of sales, retailers could hold on to fewer goods and incur fewer liabilities as a percentage of assets. Taken together, therefore, effective demand management allows productivity gains on capital, space, and labor. The ability to keep items in stock allows storage space to be reduced or even eliminated, increasing productivity in terms of sales per square foot. Buying products from suppliers as they are needed cut down on overstocked inventory, increasing capital productivity. And finally, retailers could now carry more of what consumers and improve the placement of complementary goods, increasing sales.

Automated or monitored sophisticated analytic software also allowed large coordinated store networks to rapidly shift offerings and promotions based on the success or failure of other locations.[76] An anecdote about Wal-Mart during Black Friday highlights this potential. Wal-Mart, which has a database consisting of over 500 terabytes, the largest commercial database in the world, can rapidly analyze sales data and make changes based on deviations from expectations. In this case, a Black Friday promotion of televisions, which were expected to sell rapidly, sold poorly in the opening hour on the East Coast. Both an automated analytic program and the supplier noticed this deviation, and managers in Bentonville called East Coast stores to inquire. They learned that the promotional material contained somewhat confusing language and that customers were hesitant to buy. By the time Mountain time-zone stores opened, this had been corrected and sales returned to predicted levels.[77]

Walmart was uniquely positioned to do this. Walmart could rapidly gather, analyze, and disseminate sales data through a sophisticated digital network. By 1987 Walmart even operated its own satellite network, which at the time was the world's largest private network. Through their Retail Link system, Walmart even shares real-time sales data with their suppliers.

The fact that Walmart is sharing the data with suppliers and not vice-versa is critical. Like other retailers, Walmart now knows what consumers want, what they buy, at what prices, and when better than producers, giving retailers power over their suppliers. Walmart shares this information with suppliers, but at a cost. It largely expects its suppliers to analyze their own sales data and provide feedback for Walmart, passing data analysis costs down to suppliers, without any promises of benefits in return.

The Retail Link example demonstrates how data analysis led to tangible reformulations of organizations and processes, changing the way firms interacted with their customers, their suppliers, and their workers. Conceptually, retail chains attempted to shift from a "push system" where manufacturers send goods to retailers and toward a "pull system" where retailers pull goods through their supply chains in response to consumer demand (Kurt Salmon Associates, 1993).

[76] See Prahalad and Krishnan (2008) for more on the use of analytics in value creation.
[77] Brunn (2006)

In sum, digitally captured sales information and analysis allowed retailers to routinely achieve scale and use scale advantages to handily out compete small independent retailers without similar capacity. Holmes's (1999) report for the Federal Reserve Bank of Minneapolis summarizes many of these findings. It models the adoption of new information technologies in the retail industry, arguing that barcodes and increased delivery offered a variety of new business strategies built around increasingly large retail networks.[78]

Increasing business opportunities have been multiplied by similar IT-transformations of industries that complement retail, such as transportation. On-board computers (OBCs) and electronic tracking increased capacity utilization and tied transportation more tightly into firm networks. This follows the expectation of Bresnahan and Greenstein (1997), who argue that productivity growth in services requires co-invention across firm networks.[79]

Once retail firms had scale and a steady information stream about what customers were buying, when they were buying it, and under what store and price conditions, they faced an array of new business challenges and opportunities. They could integrate technology into existing patterns of labor implementation, but could use information either to automate or enable. They could share sales data with their suppliers or use it as a weapon in negotiations. They could choose to gather information from customers and connect with customers to better individualize service provision. Finally, they could attempt to capture additional value from distribution services, either with partners or alone.

The reasons for why particular cost-squeezing, value-adding, or cost sharing management styles emerged are again rooted in politics and coalitions. Some retailers were forced to organize nationally in the 1960s and 1970s to win fights with independent small-shop retailers over rules on such issues as prices, planning, opening hours, and store size. Others were able to compete alone in a fragmented political-economic system. Political competition in each national environment locked in particular modes of combative or cooperative interaction with suppliers and workers, prompting unique business-model configurations in the search for efficiency and competitive advantage. Tracing forward, these initial plans continue to shape the business strategies and lead large retailers to eschew political alliances in the current era – one where growth stems from using technology in core processes to create innovation.

[78] In a telling American-centric slip, the author of the Federal Reserve study entitled the report, "Bar codes lead to frequent deliveries and superstores", focusing on how increased delivery will increase store size. Arguments on size have clear limits, as the largest retail stores today need for more than one truck a day to keep stocked. A Wal-Mart Supercenter can stock 200,000 unique products, and daily sales are far more than one semi-truck. While it is true that small stores may not have sufficient sales to fill up a large truck's space, this argument misses the ability of dense small store networks, such as those found in Japan, with German discounters, or Danish Co-ops, to make use of the potential of more frequent delivery to multiple stores.

[79] Co-invention may provide an explanation for why later adoption leads to more seamless integration of new technology tools (Jones, Kalmi, and Kauhanen, 2011).

To better understand the linkages between political strategy and management outcomes, it may be useful to more thoroughly describe the competitive pathways that predominate in each of the political environments being studied. The next section analyzes each of these strategies in more depth, examining how each solves questions about competition and costs through its relationships.

**IV. Comparative Modes of Retail Competition**

The previous sections first described variation in the political alliances formed by retail firms as they sought to dampen opposition to the growth of scale retailing across the affluent economies. Next they catalogued the array of opportunities made available to retailers in the wake of digital technology, stressing how these tools increased the informational power of scale retailers relative to their suppliers. The following section goes one step further, highlighting the different ways that those alliances and tools have been used in crafting unique national models of competition.

The introductory chapter identified three grouping of country specific tendencies in retail capitalism across the affluent service economies, each with a dominant logic of competition: lean retailing (cost squeezers), relational contracting (cost sharers/savers), and vertical integration (value adders). Each ideal-type can be further described along five dimensions of competitive strategy: product strategy, supplier relations, labor relations and use, service value-added, and digital connections. This final dimension is essential, as digital technology pushes firms further down paths they have already adopted.

The first archetype of scale retailing strategy in the digital era is **lean retailing**. Lean retailing is the American model, with an overarching focus on cost-squeezing featuring low-cost products, low margins, and high turnover. The name invites parallels to lean production, with its focus on just-in-time production, lean inventories, and horizontal networks of suppliers organized around a final "assembly" firm. The parallel with lean production should not be taken too far, however, as there are numerous differences. Outside of the logistics, "lean" inventories, and just-in-time delivery, lean retailing resembles Fordism more than it does a Japanese automaker, with unskilled workers and repetitive tasks. Whereas some of the features of the logistics features of lean production are present in all of the successful models of retailing – most notably a reduction in inventories in relation to sales and more frequent just-in-time delivery of goods, the lean retailing model best approximates the acute cost focus across the board. Instead of building value, lean retailers epitomized by Walmart, seek to improve efficiency and eliminate waste at all stages of the business model.

Product strategy involves a focus on branded goods, with supporting private labels as competitors to branded products on price only, acting as stick and benchmark to suppliers as well as part of the low cost offering to its customers. Scale allows market dominance, which can be used to improve terms of purchase and price reductions, forcing suppliers into the low-margin, high-turnover cycle supported by these firms.

Supplier relations strategies also reflect the price focus, with dominant retailers continually pressuring suppliers to lower costs. Lean retailers use both carrots and sticks in the search for lower prices, offering larger markets for goods while threatening competition with other manufacturing competitors and low-cost private labels for shelf-space.

Lean retailers typically take a combative low-skill, repetitive task approach to labor relations. Retailing is typically a location for low-education, low-skill workers and the lack of unionization or coordinated bargaining makes retailers unlikely to invest in training or education for workers in a high-turnover profession.[80] Workers have limited roles in store and although low costs allow a higher employment (total level, not growth) model than in many European countries, retailers attempt to replace workers with technology.

Lean retailer's digital strategies, involving close information connections between the firm and suppliers and customers, are the lynchpin of their market dominance, supplier relationships, and low-margin, high-turnover strategy. The typical connection to customers starts with loyalty cards, allowing the gathering of individual sales information. From there, retailers can connect with customers directly, offering targeted coupons, notifications of sales on typically purchased products, and a more individualized shopping experience designed to increase turnover.

On the supplier end, the precise demand knowledge generated from aggregating sales data means that large retailers know more about the consumers of supplier's products than the suppliers themselves. Lean retailers typically share access to this information with suppliers, but at a price. For example, Walmart makes real time sales information available to suppliers about the sales of their products through its Retail Link system. However, in return for this information, Walmart expects suppliers to do much of the data mining themselves and pass their findings on to Walmart. In this way large retailers are able to pass costs on to suppliers. Kumar (1996, p. 102) describing the relationship between Walmart and Procter & Gamble, writes (*emphasis added*), "the result was a sophisticated electronic-data-interchange link, *which enables P&G to take responsibility for managing Walmart's inventory."* It is almost as if large American retailers are Tom Sawyer, getting producers to do their work for them while producers thank retailers for letting them.

Lean retailers do not add much value to their retail services – a practice that would drive up prices and conflict with the low-margin, high turnover model.[81] In most

[80] As with all of these variables there are exceptions to the rule, but these exceptions often help to prove the rule in comparative context. Costco, for instance, takes a relatively high-wage, high training approach, attempting to hire part-time college students who transition to full-time employees after rapid wage increases. However even in this American deviation, non-manager workers max out at $25/hr. (starting wage is $11/hr.), which is approximately the *average* wage in Danish retailing. (Interview with John Matthews, Costo Sr. VP HR and Risk Management.)

[81] There are exceptions to this rule, such as the supermarket bagger (which is practically unheard of in Europe), but added services are typically low-skill and efficiency producing services that are replaced by technology when cost-effective. Carré et al. (2008) find that starting wages for baggers were approximately $6.00/hr and training costs almost non-existent.

cases this means low levels of labor and product expertise on the retail floor. Where services are provided, there is usually an additional charge.[82]

In sum, lean retailers are the cost squeezers, competing on price and product diversity, and offering little in the way of retail value added, though they may offer other services in conjunction with their retail offerings. Powerful scale advantages and high-turnover make them formidable partners in supplier-relationships, though many suppliers are happy to enter asymmetric contracts in order to gain access to lean retailing markets.

Where lean retailers compete by dominating their suppliers to compete on cost, **relational contracting** firms compete by working with their workers and suppliers to share or lower costs by finding niche products, creating flexible networks, reducing conflict costs, and improving localization. Relational contracting is the Danish model.

In terms of product strategy, relational contracting firms tend to look a lot like the lean retailers, with high levels of nationally-branded products and private label goods primarily as low cost alternatives.[83]

Supplier relations in the relational contracting model are long-term. How these relationships are managed varies from shop floor workers responsible for individual aisles to more systematic purchasing agreements, but key advantages are found in the stability of the relationships, allowing accrued benefits based on trust. One reason for the unique relationship between retailers and suppliers in relational contracting countries is the service dimension embedded in manufacturing in these countries. Logistics, quality control, and other activities typically that fall under the purview of retail firms in lean retailing and vertical integration countries are an expected component of manufacturing firms in Germany and to a lesser extent Denmark. (Christopherson, 2007.)

Retailers also have high levels of cooperation with workers. Compared to other countries, the Danish retail sector is highly unionized, but unionization rates are only around 30%, far behind most sectors of the Danish economy. Nevertheless, the possibility of sympathy strikes in other critical sectors, such as trucking, continue to give unions a great deal of power in relation to employers. Interviews with HK, the leading Danish retail union and retailers stressed three factors that sustain the Danish system of labor relations: trust developed over 100 years of working with employers, a system of labor arbitration courts that reduces costs and conflicts, and a labor market marked by high-turnover and labor scarcity.

[82] For an example, take about a lean retailing electronics store like Best Buy, where shop floor workers are essentially non-existent and low-knowledge stockers where they exist, but customers can pay additional fees for the Geek Squad knowledge service. Similarly, Walmart has low-cost lean optometry, automotive, and financial services, all at an additional charge and all built around selling more products. In automotive, the firm tried a higher value-added model briefly, before refocusing it on their classic low-margin high turnover model with a limited list of services.

[83] The German hard discounters, which can be included as an unusual phenotype in the relational contracting family, are a hyperextension of the private label trend, carrying almost exclusively low-cost private label goods. Unlike the vertical integration firms, however, they carry a low variety (often only one) of each type of good and almost exclusively at low-price points.

In all, labor cooperation provides retailers with five types of benefits: worker autonomy; better, more productive workers; worker pride and interest in their jobs; lower employee turnover; and more effective recruitment and internal job ladders. All of these areas reduce costs. Well-trained Danish workers are able to work more effectively for Danish employers and the focus on training by both workers and employers has strengthened in recent years. During the 1970s and 1980s, a period of high inflation in Denmark, HK focused primarily on wage concerns. While these actions raised wages, they also created conflict with employers and began to cut into employment. At this point, union strategy shifted toward working with employers to improve job quality, rather than simply wages. Much of this meant an increased emphasis on training for retail workers.

Danish retail workers are extensively trained relative to retail workers in non-relational contracting countries. The training system is a patchwork, with multiple pots of money controlled by all the social partners. HK has worked across these systems to help ensure training is about up-skilling, integrating technology in training and working to constantly modernize and upgrade curricula. Unions also control their training funds designed for lifetime learning. More specifically, interviews highlighted two major categories of benefits from highly trained workers:

1. Worker autonomy: In larger formats, workers are responsible for an area of the store, reducing costs associated with oversight.
2. Worker innovation and productivity: Experienced workers who control an area of the store are actively involved in stock management, and may lead vendor negotiations or have input on product selection. This helps identify product trends sooner and eliminate poor selling items more quickly.

Happier and better-trained workers also improve internal flexibility and the functioning of internal job ladders. This provides at least three additional benefits to firms:

3. Worker interest and pride in jobs: Career minded workers are more likely to work hard, have fewer problems at work, and continue to improve their skills. Career minded workers show their loyalty in other ways. For one, “shrinkage” (the industry term for stolen or lost merchandise) is much lower in high-wage Denmark than the low-wage US Representing about 2% of sales, about half of this is estimated to result from employees, meaning that retailers can reduce margins (or increase profits) by 1% simply by keeping workers from stealing. Even within the US, firms with higher-wage models and more career track workers, such as Costco, report much lower shrinkage levels than low-wage firms like Walmart.
4. Lower turnover: Lower turnover decreases training and recruitment costs and creates workers with experience and training who view retail work as a career.

5. An internal supply of managers: Lower turnover also provides a steady stream of qualified workers for management positions. About 80% of Danish store managers come from shop-floor workers. Recruiting in-house rather than externally is invariably cheaper, both in initial cost and in training costs.

Finally, labor peace saves retailers money and working with as opposed to retail workers through the labor arbitration courts (as opposed to civil courts) is a key component. Danish retailers have found enormous savings from avoiding expensive litigation and working through courts that are focused on solutions rather than rulings on the position of one side or the other. In fact, retailers prefer to solve problems even before they reach these courts. One retailer stated that they try to bring as few cases as possible and that the cases that do end up in court are often those caused by low-level managers "who don't understand how we work" and push workers too hard.[84] In addition, labor peace has been incredibly cost saving (for both sides). For much of the post-war period the unions agreed to limit strikes while the retailers agreed to closed-shop agreements. Both sides were dismayed when the European court ruled these closed shop for labor quiescence agreements were illegal.

In terms of service value-added we find mixed levels. Danish stores tend to have medium levels of service in store (the "soft" discounters as an example) and German retailers range from the hard discounters Aldi and Lidl with little to no service value-added up to medium levels at firms such as Metro. Workers are typically more knowledgeable than their lean retailing counterparts, but this model is under strain with the growth of part-time workers. In the Danish case both major retailing firms have taken on extensive marketing and promotional activities, but these offer little value to customers.

The relational contracting strategy is largely a low-digital connections route. While technology is equally integral to the internal business processes such as demand management, purchasing, marketing, etc. Danish and German firms tend not to share high levels of digital information with their suppliers, nor gather detailed digital information from their customers.

Another advantage for relational contractors lies in their ability to work with suppliers, approximating many of the benefits achieved by unilateral action in the other two cases. Cooperation can streamline transport logistics and keep goods in stock through stable, long-term relationships. While POS data has begun to shift the locus of consumer information, suppliers provide a source institutional knowledge that can prove useful, especially as retailing firms move across borders, identifying product trends and changes in consumer preferences before retailers. Danish retailers have achieved success in foreign markets linking with local suppliers while other foreign entrants struggle to import goods from their own domestic suppliers. In terms of logistics costs, leading relational contracting retailers have continued to work with suppliers to enhance the traditional capabilities of manufacturing logistics.

[84] Interview with Jesper Due.

Where lean retailing strives for low costs plus high turnover and relational contracting uses competitive coordination, **vertical integration** in France and the United Kingdom seeks the product and service complementarities that add value to retail services. The product strategy is the clearest case of divergence, focused around high levels of private label goods across a variety of price points. For vertical integrators, private labels are not about competing on price or forcing manufacturers to lower costs. Rather, they are a core component of the value proposition offered to customers.

Taking more direct control over the production of goods brings a complex set of challenges and advantages. While the retailers assume greater risk by controlling more stages along the value chain, vertical integrators have better quality control and can match product features with carefully targeted customer niches. As with lean logistics, private labels have become a feature of the strategies of nearly every national retail market. Again the level is the key; integration countries like France and the United Kingdom have seen pervasive shifts toward private labels as the default strategy for scale retailers. In addition, these vertical integration markets have seen the proliferation of private labels at a variety of price and quality points, rather than as simply low-cost alternatives to nationally-branded goods.[85]

In accordance with high levels of store-branded goods, supplier relations for vertical integration firms involve heavy levels of control/ownership and avoidance.[86] On the first, not all private label goods are directly owned or even directly produced by the retail firm with the label on the product. What remains critical is the involvement of the retailing firm. Vertical integration firms go beyond contractual relationships and take on activities in design, branding, and the production process. At times, direct ownership of the producers is the result, but more common are long-term subsidiary relationships between a powerful retailer and weaker producers.

Labor usage in vertical integration retailers falls somewhere in between the low-cost low-skill lean retailing model and the higher wage, higher competency relational contractors. In both the UK and France retailers have had to contend with medium levels of unionization – though they face quite different levels of employment protection legislation. Nevertheless, similar dual labor markets within the retail sector have developed, with relatively well-paid and trained full-time insiders and poorly paid, part-timers. The roles and tasks of these workers are similar to those emerging in Denmark, where full-timers complete complicated knowledge infused tasks earlier in the day with part-timers filling low-skill stocking and checkout roles.

Vertical integration firms also tend to have higher service value-added in their stores and products than their lean retailing counterparts. Earlier network buildouts

[85] For instance, Tesco, a British firm, has eleven private label orange juices at eight price points and eight private label yogurt brands at seven price points (Kumar and Steenkamp, 2007).
[86] One of the interesting exceptions to this generalization is the way in which large vertical integration firms in France interact with small suppliers, where we find much closer relationships. The French chapter will propose that this stems from a combination of the product-focused nature of these firms – small suppliers often carry unique products.

meant competition quickly escalated between large retail chains. Since scale advantages were difficult between large firms, competition became about adding service in store. This can involve more knowledgeable shop-floor workers like bakers, butchers, or *fromagiers* or products that involve service value added, such as fresh prepared ready-to-go meals.

Also in contrast to lean retailing is a lower level of connection to customers and suppliers through digital tools, though variation exists in the use of customer connections between the French and British variants of vertical integration. British firms have been quicker to move toward loyalty cards and personal connections with customers whereas French firms have lagged, partially due to regulatory and institutional differences. Given the direct control over production, vertical integrators tend not to share detailed sales information with nationally-branded suppliers, preferring to use POS data as a competitive advantage in product competition.

In all, the vertical integration model gains significant competitive advantages from the ability to compete with producers and offer products in well-researched and demanded product niches. Direct quality control ensures that low-cost does not mean low-quality and high service value added typically makes for a more enjoyable customer experience than in the lean retailing model.

The differences between the three models are real and sustained, as seen in statistics on products, labor relations, and digital technology. Given the importance of these goods to firm strategy, private label statistics are tough to track and vary wildly, but as Tables 3.3 and 3.4 show, the patterns are broadly consistent with the description below. Table 3.3 displays the product strategy development in the vertical integration country. The data show that not only do the vertical integration countries lead in private labels as a percentage of sales, but that there has been little convergence.

Table 3.3 Private Label Sales as a % of Total Sales, Food Retailing

| | 1995 | 1997 | 2002 | 2005 | 2008 |
|---|---|---|---|---|---|
| **United States** | 8 | 14 | 16 | 14 | 15 |
| **France** | 16 | 17 | 21 | 24 | 26 |
| **Denmark** | 13 | 15 | 16 | 18 | 21 |

Sources: Boston Consulting Group (2003), A.C. Nielsen (1997, 2005, 2009)

Sales of private labels in France were 8% higher than in the US in 1995 and 11% higher in 2005. The relational contracting countries have closed the gap a bit, but it should be noted that this small convergence is driven largely by German hard discounters, whose strict low cost private label focus is qualitatively different than the broad basket of private label goods seen in France.

Comprehensive data on technology strategies are more difficult to assess, but data in Table 1.5 from Kurt Salmon and Associates on Efficient Customer Response (ECR), a good proxy for the digital interactions between retailers and suppliers and customers, show a large difference in the lean retailing US versus European firms.

Table 3.4 ECR Implementation Strategy Status, US Versus Europe[87]

ECR Strategies (% of firms responding yes)

| | US (1995) | Europe (1997) | Difference |
|---|---|---|---|
| Efficient Store Assortment | 55 | 29 | 26 |
| Efficient Promotions | 54 | 21 | 33 |
| Efficient Replenishment | 47 | 31 | 14 |

Source: Kurt Salmon Associates (1996), as reported in Kurnia et al. (1998)

Differences in labor relations will be discussed more extensively in the country chapters (see also table 4.1, page 76). On one end is the US, with low unionization and wages, high turnover, and low employment protection legislation. Part-time employment is also low, but this is simply because of the flexibility afforded to workers vis-à-vis full-time workers – weak employment protection means they can be hired and fired easily and low unionization means they can be given flexible non-standard schedules.

At the other end of the relational contracting countries, with high strength unions (relatively to other countries in retailing, not relative to other unions in the country), high wages and employment protections, and lower labor turnover.[88]

In between these two extremes are the vertical integrators. Despite marked differences in employment protection legislation, French and British retail employment patterns actually show numerous similarities. The key variable is union structure. Fractured unions in France and the UK push wages upward for insiders but without the comprehensive push for training and skills seen from German and Danish unions. As such dual tiers of workers have emerged, with high-skill, high-wage, and full-time workers working alongside low-wage, low-skill, part-time workers.

[87] Although this data on ECR is a bit dated, it illustrates the underlying connections – digital and otherwise – that already existed between retailers and their suppliers.
[88] Labor shortages have forced some deviations from this strategy toward the dual tier employment tracks seen in the vertical integration countries, with highly paid and well-trained full time workers and less paid and protected part-timers. Unlike the vertical integration countries, however, though this is the result of a lack of labor supply rather than a conscious strategy the part of retailers. A Danish retailer addressed this by saying that growing part-time workers were a "problem, not a solution," and that "in a strong economy with a general labor shortage, it is simply hard to find quality workers."

**V. The Origins of Opposition: Conflict, Power, and Institutions**

The management strategies of retail firms did not develop overnight. Rather, they developed over time as retailers managed the dual challenges of politics and economics to move the potential of scale retailing forward in nationally specific ways. Political pressures reformulated the economic calculations of firms, privileging particular modes of competition and organization. These pressures first developed in the late 1960s and early 1970s when new scale retail entrants were confronted with a wave of political opposition as they grew in size and power. In response, retailers formed coalitions that matched the scope and intensity of their opposition. Armed with economic ideas fit for the consumer age, they forged ahead in conjunction with their newfound partners. Technology forced retailers to reaffirm their economic relationships either deepening their commitment to or strengthening their aversion to coalition partners, further pushing retailers down divergent paths.

In some countries, there were few partnerships. In the United States, a fragmented and liberal political environment dissipated and localized opposition to large-scale retailing. Given the more advanced state of scale retailing, retailers chose to take on this weak and uncoordinated opposition on their own, using local political pressure and deeper political resources to act unilaterally.

In some countries, partnerships were broad and enduring. In Denmark, a broad coalition of small retailers, labor, producers, and government combined to adapt and update the postwar manufacturing consensus to the service age. Many of these changes were tentative and still with manufacturing in mind, but served as a basic framework for the political negotiations that would mark retail regulation in the years to come.

In some countries, partnerships were limited and fleeting. In France, a fractured yet vocal movement forced retailers to reach out to national producer and worker groups. Together they preserved the fundamental market rules that would allow French scale retail to explode in the 1970s and 1980s. At the same time, however, the national deal initiated a fragmented system of local political competition over the growth of "unruly forms" of retail distribution and failed to create any consensus on further modes of policymaking. Relying on a process between cooperation and domination, the French retail coalition of the 1960s and 70s soon fractured, with limited cooperation devolving into perpetual contestation.

We explain the varying national strength and cohesion of opposition to retail development in the first place through three causal variables about retailers' environments. These three factors describe the patterns of opposition they faced and subsequent patterns of coalition formation:

1. The power resources of retail relative to labor and manufacturing,
2. Formal institutional rules that shape coalition formation (electoral, bargaining, and administrative rules), and
3. The internal structure of the retail sector and the coordination of small store resistance

This simple model of coalition formation considers, therefore, the power of retailers within their environment, whether or not the national institutions supported coalition building, and whether or not scale retailers had powerful internal opposition. After assessing their power and the power of other systemic actors, scale retailers had to decide if/how to form a coalition. Where retailers were strong and faced little internal opposition, they didn't need a coalition. Where retailers needed to form a coalition, institutional variables pushed them toward either a broad coalition or weak single-issue coalitions.

Politico-institutional variables should not be seen as equals in a "grand equation of causation", but rather as reinforcing one another to build a sense of each national coalition profile (Gourevitch, 1986, p. 120). For simplicity's sake, we can reduce the number of actors to retailers, consumers, labor, producers, local governments, and national governments. Table 3.5 shows the basic position on each of the three structural variables for each of the three case countries, plus the resulting political opposition and retail coalition that emerged in each country.

Table 3.5 Determinants of Retail Opposition and Coalition Logic

| | Relative Power Resources of Retail Sector | Institutional Support for Coalition | Strength of Small Store Opposition | Political Opposition | Coalition Logic |
|---|---|---|---|---|---|
| United States | High | Low | Low | Local/Fragmented | Unilateral Action |
| France | Low | Low | Medium | Weak National | Limited Partnership |
| Denmark | Low | High | High | Powerful National | Broad Coordination |

Considering each of the independent variables that drove national coalition formation and the patterns of politics in more detail, we can see both the variation that existed across the three ideal-types and how this variation led retailers to take very different approaches to national politics.

The first critical variable is the power of labor groups and manufacturing and their ability to force retailers to work with them. While theoretically independent from institutional variables, countries with national-level political bargaining also tended to have strong labor and producer groups, necessitating compromise over conflict. Labor power should not be seen as limited to unionization rates, but rather taken as a broader measure of whether a national environment forces retailers to work with as opposed to against their workers, for reasons of cost, power, and flexibility.

In the causal chain, the power of retailers relative to other groups determined whether or not retailers were powerful enough to act unilaterally or whether a coalition was necessary. Looking at Table 3.6 below, we see the power resources of retailers measured by value added (VA) of leading firms, the size of the retail sector relative to manufacturing, and the power of labor unions in the economy for each of the case countries. What we find is a basic story of retailer power in the American lean retailing environment and relative weakness in both the French vertical integration and Danish relational contracting countries. By 1970, the leading firms in the United States were already much larger and more economically powerful than those in France in Denmark, which were still largely populated by small shops.

Table 3.6 Power Resources of Large Retailers Relative to Producers and Labor, 1970

| | United States | Denmark | France |
|---|---|---|---|
| Retailer Power | | | |
| Value Added (VA) Equivalent, 10 Largest Firms (millions of 2007 $'s) | 4988 | 169 | 657 |
| 10 Largest Firms Market Share (%) | 15.9 | 12.7 | 9.5 |
| Relative to Producer Power | | | |
| Ratio of Retail VA/Manuf. VA (%) | 25.9 | 32.6 | 19.0 |
| Labor Power | | | |
| Union Density (%) | 23.5 | 60.3 | 21.7 |
| Centralization of Bargaining | 0.07 | 0.65 | 0.11 |

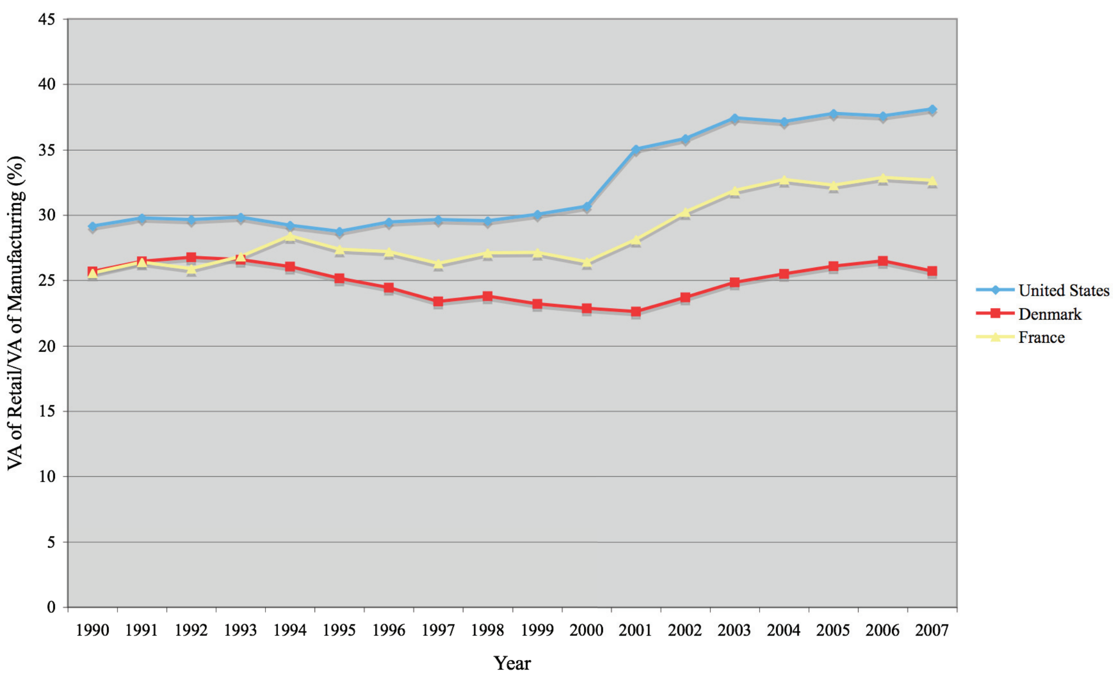
| | United States | Denmark | France |
|---|---|---|---|
| Retailer Power | High | Low | Low |
| VA Relative to Producer VA | Medium | High | Low |
| Labor Power | Low | Very High | Low |
| | | | |
| Total Retailer Power | High | Low | Low |

Sources: VA data from EU Klems database. US "1970" ratio of retail VA/manufacturing VA from 1977, earliest available data. Market share data from 1967 from Jeffreys (1968). Union Density from Visser (2006). Centralization of bargaining from Iversen (1999).

The power resources of labor shaped whether retailers needed to incorporate labor into their coalitions and strategies are whether labor groups could be excluded. Broadly, labor is most powerful in Denmark. This is true both systemically and within the retail sector. Broader union power should not be discounted, as the potential of sympathy strikes in tangential industries such as trucking increased the power of a comparatively low-unionization sector. Weaker but significant labor power resources could be found in the France, while the lean retailing US has the lowest labor power of the three case countries.[89] Putting this together with the institutional features listed in table 3.7 below, we see that American retailers were powerful relative to labor and producers, while much weaker in Denmark and France.

The power resources of retailers relative to manufacturing became a more important part of the story in the 1990s as the increasing retailer scale led to new fights over pricing rules. Looking at the value added of retailing relative to manufacturing from 1990-onward in figure 3.1, we find a pattern that more clearly supports the political logic highlighted throughout. In the lean retailing US, retailers were powerful and continued to gain the upper hand relative to producers. In relational contracting Denmark, producers maintained their power, even during retail's rise. And in between were the vertical integrators, where retailers were increasingly strong enough to challenge producers, but not strong enough to dominate them.

**Figure 3.1 Retailer vs. Producer Power, 1990-2007**




Secondly, the institutional conditions seen in Table 3.7 structured the process of coalition formation pushing both opposition groups and retailers toward either limited or broad coalitions. Three primary institutional variables facilitated this process. For one, electoral systems either supported or discouraged cross-class coalitions; proportional representation electoral rules smoothed the path toward national cross-class coalitions better than majoritarian rules. In addition, neo-corporatism, concertation, and national

[89] French labor power was multiplied by state regulation of the labor market and ties between organized labor and French leftist political parties, which cannot be captured by union density or bargaining statistics.

peak-association bargaining associations, gave non-scale retailers more avenues to defend themselves politically.[90] Lastly, the decision-making/administrative de-centralization of government structured the retail-government relationship.[91] Institutional structures that channeled regulatory power to the local level provided false protections and short-term local coalitions. In these cases retailers could simply outmatch local governments, whereas regional and national authorities were better able to match regulatory goals with outcomes, forcing retailers to build broader coalitions.

Table 3.7 Institutions in Retailing Case Countries

| | Electoral Rules | Level of Corporatism | Administrative Control of Retail | Overall Support for Coalitions |
|---|---|---|---|---|
| United States | Majoritarian | Low | Local | Low |
| France | Majoritarian | Low | Local | Low |
| Denmark | PR | High | Regional | High |

Source: Lijphart (1999) for level of corporatism.[92]

In both lean retailing and vertical integration countries, majoritarian electoral rules create a winner-take all rather than the more compromise-based style of politics seen in the PR relational contracting countries. Similarly these countries are those in which corporatist institutions and groups are weak and the administration of retail is largely local. This means that there are both few organized groups to coordinate and any organization must happen at the local level, which is a difficult task. In the relational contracting countries, in contrast, corporatist groups and institutions are powerful and policy-making for retail tends to be set at higher levels of control, both facilitating coalition formation and making it tougher for retailers to adopt a local divide and conquer strategy.

The internal structure of the retail sector also influenced retailer decision-making. The major question is whether retailers could pursue their regulatory or business strategies autonomously, or whether they needed allies. Two factors structured retailers' options. First, within the sector, how powerful were the networks of small shop retailers that scale retailers sought to displace? If the balance of power favored scale retailers, they needed fewer coalition partners, as they already had considerable strength within the

[90] By concertation I mean collaborative forms of policy making among organized actors. Neo-corporatism refers to institutional linkages and a constellation of organized interests, see Schmitter (1979). Concertation often takes place within neo-corporatist channels, but does not have to. For more on this topic, see Baccaro (2003).
[91] For more on typologies of centralization, see Treisman (2002), Schnieder (2003), and Hassid and Watson (2011).
[92] In his index of interest group pluralism, where 0 = most corporatist and 4 = least corporatist, Denmark scores 1.00 for the period, France scores 2.84, and the United States scores 3.31.

retail sector. Secondly, was there organized economic or political resistance from small shop networks? If so, this reduced the ability of scale retailers to act without support, forcing them to seek partners in government, labor, or industry. In all, the structure of retailing set the tone for whether retailers needed to mobilize broad support for their regulatory position, whether they needed to work with existing small-shop retailers, or whether they could simply go it alone.

Looking at Table 3.8 we find that while small shop retailers in lean retailing countries were reasonably powerful, they were unable to form an organized opposition. This meant that scale retailers could be highly independent in pursuing both desirable local regulatory regimes and business strategies. In the vertical integration countries weak small shop retailers still created a vocal political opposition. Retailers therefore used their organizational capacity in an attempt to forestall any national action and fight battles at the local level. Finally, small shop retailers in relational contracting countries were highly organized and raised considerable economic and political resistance to the expansion of scale retailers. This meant they scale retailers desperately needed coalition partners supportive of their preferred regulatory preferences.

Table 3.8 National Retail Structure, circa 1970

| | Small Shop Power in Sector[93] | Type of Resistance | Overall Strength of Opposition |
|---|---|---|---|
| United States | Medium | None | Low |
| France | Low | Political | Medium |
| Denmark | High | Economic/Political | High |

Together, these three variables (power resources, institutions, and retail structure) drove different coalitions across the three countries. In the United States emergent scale retailers were already powerful and they faced weak internal opposition – meaning they needed few partners in order to defeat small retailers, and there was little institutional support for opposition groups to form coalitions. In addition, the market ideology was highly liberal, reducing the possibility that continued growth would bring further regulation.[94] Accordingly, retailers could act independently without political partners. Any political action that occurred was either local or made unilaterally through broad public relations appeals to consumer benefits, such as lower prices. Where necessary, retailers became cozy with local governments, but as the evidence will show, these should not be viewed as coalitions, but rather as a type of asymmetric quid pro quo in favor of the retailers.

[93] Measured by sector size, consolidation, and presence of small shop specific peak organizations or purchasing groups that either aggregate preferences or multiply economic power. More detailed evidence will be presented in country case chapters.
[94] With the exception of anti-trust. As Wrigley (1992) argues, anti-trust regulation was surprisingly strict in American retailing prior to the Reagan administration, which may have slowed large-scale retail development.

At the other extreme were retailers in Denmark. There, retailers were weak, faced significant internal opposition, a highly uncertain market environment, and a political environment that encouraged broad coalition formation. This created a powerful opposition to unfettered retail growth. Consequently, in Denmark retailers would need to enter into broad, cross-class national coalitions including labor and producers as well as national and local governments. These coalitions balanced retailers' preferences with those of other groups and came down in support of limited opening hours, planning rules, and labor rules, in return for greater labor flexibility, some liberalization of entry rules and market rules, and greater price freedom. The compromise has proved enduring and political issues in Danish retailing continue to be resolved by these coalitions of actors.

Finally, in France, retailers had a medium level of power and opposition groups were powerful but fractured, partially as a result of an institutional environment that made broad coalition formation difficult. Internal groups were similarly vocal to those in Denmark, but disorganized. The result was that although a national opposition emerged to scale development, it was limited to lobbying political parties for regulation rather than being able to present its challenge through formal institutional channels. As such, retailers needed to match the appeals of opposition groups but not necessarily the broad cross-class coalitions seen in the relational contracting countries. Retailers therefore formed limited, single-issue coalitions, mobilizing only when necessary to counter these powerful but fractured opposition groups. Retailers worked with consumer groups on price rules, producers on labor rules, local governments on planning rules, and national governments on rules tied to economic development. The lack of enduring compromise meant that basic fights over retailing rules such as planning and prices were bound to return; the result has been an environment of perpetual conflict.

**VI. Conclusion: Growth, Opposition, and Change**

By the end of the 1960s, a new crop of retailers had emerged. Spurred by increasing consumer wealth, demographic changes, new urban geography, and improved technology, these retailers had begun to transform the small-store, shopkeeper service, small-scale postwar model into a large-store, self-service, large-scale model more common today. At the same time, they had begun challenging the upstream domination of distribution channels by producers and wholesalers, and with their greater economic scale were beginning to form more direction and powerful connections with consumers. The new large retailers typically brought better selection, lower prices, and higher availability of goods, all re-packaged in self-service formats designed to appeal to increasingly confident and time-strapped consumers.

Not everyone was pleased with the emergence of the large retailers, however. A variety of economic, social, and political groups, typically led by the small shopkeepers most in danger from the large-scale retailer threat, began to mobilize in order to contain or condition the growth of these large firms. Across borders, these oppositions shared a variety of similarities with anti-big retail business movements both past and present, combining social and economic appeals about nefarious business strategies and the destruction of traditional patterns of retail provision. Given the embedded nature of retailers, these coalitions had broad appeal, though they varied cross-nationally in their composition, strength, and cohesiveness in response to the power resources of the economic sectors, institutions that aggregated or fragmented interest groups, and the internal structure of the retail sector. The lessons of retail's rise and society's reaction, including the character and strength of each opposition coalition had important implications for what followed, both for the short-term political calculations of scale retailers and for their longer-term economic management strategies.

The following country chapters deepen our understanding of the emergence of new retailing strategies. Each country case illustrates thy ways in which different national political oppositions and coalitions debated and modified the original postwar framework into new retail regulatory regimes. The cases provide further evidence of how these national political variations condition retailer strategy and future policy pathways up to the present day. We begin with the American case.

# Chapter IV:
# Barcode Empires: The Marriage of Scale and Technology in American Lean Retailing

> *In America where the right to enter into competition was a right to be cherished, there was a bristling mistrust of monopolistic practices which was expressed in popular thought, politics, state constitutional and statute law… Retailing is one of the few fields in which legal prohibition of monopoly has been relatively unnecessary.*
>
> *- Ruth Prince Mack (Controlling Retailers, 1936)*

## I. Introduction: Liberal Politics, Scale, and Technology

The United States model of retailing is lean retailing. Lean retailing is a cost squeezing, logistical efficiency model, built on dominating relationships with workers and suppliers in order to wring costs from margins and increase turnover. In exploring the emergence of this model, the American case study chapter will present further evidence that coalition formation and subsequent coalitional channels in policymaking are the primary determining factors in the longer-term trajectory of firm management and the structure of retailing firms. Although the American case is the general one from which many retailing postulates and propositions have been drawn, it is neither exceptional nor exemplary, but rather the result of a set of liberal politics and policies driven by same structural variables – albeit with different values – as the Danish and French cases.

Likewise, the US model was neither pre-determined nor a case of market efficiency triumphing in the face of regulation, but rather a case of a liberal political environment that supported particular socio-economic outcomes and a unique distribution of wealth in the economy. In Europe, higher levels of institutional agglomeration forced emerging retailers to form complex political and coalitional strategies to manage simultaneous political and economic competition. In France, dualist political and economic retail strategies were driven by a legacy of shifting political struggles among firms and suppliers, workers, and policymakers themselves. In Denmark, powerful worker and producer interest groups conditioned retailers into more cooperative economic and political processes, producing relational business models. The American, story, however, involved no significant national political intervention, and is therefore motivated by more fragmented politics, economic power relations, and technology.

National-level American "coalitions" were non-existent in retailing, following much closer to the Tip O'Neil aphorism that "all politics is local". Accordingly, national-level political fights were quite limited, with a lack of federal government regulation of markets.[95] Nevertheless, the evolution and growth of large-scale retailing should not be

[95] As Hacker and Pierson (2010) argue, inaction does not necessarily mean that policy is not changing, as drift may shift policy over time. Indeed, American retailing saw large

seen as less contentious. The transition to American lean retailing was similarly tumultuous and transformative for the player involved, including retailers, workers, and suppliers, it simply was not mediated by national political interventions.

The evidence in Chapter II suggested that the American distribution system was previously controlled primarily by upstream partners. This chapter will delineate how the marriage of technology and scale reversed this relationship, allowing retailers to dominate their suppliers in previously unimaginable ways. The ability to do so produced firm management strategies built on squeezing and passing costs out of the delivery of retail services, leading to a low-cost, low-service, low-margin, high-turnover model for retail firms.

Again, the rationale for the particular American outcome has less to do with economic efficiency and more to do with a liberal political structure that allowed the powerful players in supply chains to dominate power relationships and to define the structure that determines value creation. A combination of entrenched subsidiarity, market ideology, weak opposition, and powerful retailers meant that the opposition to scale retail expansion seen in Denmark and France never reached national proportions. As Palamountain (1955) remarked about retailing politics years ago, in American political economy "many factors operate to blur the translation of group programs into public policies and make it unlikely that strong measures will emerge (p. 257)."

Interestingly, although American retailers were arguably far ahead of their European counterparts when the retailing revolution began (see Chapter II), the difficulties inherent in the lean retailing strategy (more direct competition with powerful suppliers, low levels of political support and partnerships) meant that American lean retailing has only recently experienced the productivity growth and market concentration that marked the European cases during the 1980s and early 1990s (See table 1.1, p. 7 and table 2.3, p. 42).[96] The key was the uncertainty of the American strategy. Rather than working with political partners to reduce risks, American lean retailers adopted a go it alone strategy, which slowed their ability to rapidly build large store networks.

This macro data, taken together with micro descriptions of firm management in the American case further strengthen the evidence for the existence of a diverse set of empirical retail realities. Despite this cross-national variation, however, the theoretical postulates about the retail case are surprisingly universal, largely derived from American

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transformations in the way retailing policies were interpreted and enforced, particularly in the area of anti-trust. Nevertheless, the lack of visible national-level political debate means that the American case provides less analytic traction than the French or Danish in examining how political coalitions drive regulatory regimes and subsequent firm strategies.

[96] The Mack (1936) quotation that opens this chapter depicts this earlier state, where retailers were small and dominated by potentially monopolistic producers. Few today would make the same argument, though monopsony rather than monopoly is more commonly listed as the greatest economic worry caused by today's retail giants. Furthermore, the Mack quote misses that monopoly in retailing has always been quite achievable at a local level. This was the beauty of Walmart's earlier strategy, as the only large player in small local markets. Monopoly in the broader market is more difficult to achieve.

ideology and the recent American retailing experience (for instance Gordon, 2004; McKinsey, 2001). The exceptions are hypotheses that allow for cross-national variation (Iversen, 2005), but fail to take into account the possibility of dynamic growth in the services sector (see Triplett and Bosworth, 2004 for data on US growth).[97]

Accordingly, as the data increasingly show, in many service activities, Moore's Law is a cure for Baumol's disease.[98] The increasing importance of technology for retailers and retailer power is especially critical for the American case. The reason lies in how economic relationships are defined and the power of information to reformulate them in the United States. In Denmark, power relationships in the economy are defined by political negotiation. In France, power relationships are defined through constant political competition. Unlike the other two cases, where national political maneuvering re-shaped retailer strategies, the dynamics of the American case are primarily driven by the ability of economic actors to navigate the fragmented and decentralized liberal American environment. Consequently, without national political intervention, economic power resources more tightly define the political-economic relationships between business actors. ICT changed this balance of power, tipping the playing field toward retailers.

Before the introduction of ICT, the power in retailer-supplier relationships was more balanced, or even tilted upstream. After retailers used ICT to gain not only scale but also informational power about the sale and flow of goods, the balance of power shifted. This allowed the American lean retailing strategy to flourish in a manner that was previously inconceivable.

The following chapter will describe the marriage of scale and technology that begat the American lean retailing model. It begins with a description of the cost squeezing tactics and techniques used by lean retailers. Next, it considers how this model has changed the broader economic landscape of the United States. It then highlights the role of technology both in allowing the lean retailing strategy and enabling increases in the productivity of the retail sector. Finally, it traces how the political and regulatory features of liberal America advanced this particular model and its pattern of technology implementation.

## II. The American Lean Retailing Model

The American model is **lean retailing**, with an overarching strategy focused on cost-squeezing featuring low-cost products, low margins, and high turnover.[99] Whereas

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[97] Iversen's argument, among others, is largely based on the ideas of Baumol (1967) about the slow growth potential in services. It is worth noting that Baumol (2007) has since recanted a strict version of this view, replacing it with a modifying form in which services can be split into stagnant and more dynamic categories.

[98] Moore's law is the idea, first noted by Gordon Moore, that computing power roughly doubles every 18 months.

[99] The name invites parallels to lean production, with its focus on just-in-time production, lean inventories, and horizontal networks of suppliers organized around a final "assembly" firm. The parallel with lean production should not be taken too far, however, as there are numerous

some of the logistics features of lean production are present in all of the successful models of retailing – most notably a reduction in inventories in relation to sales and more frequent just-in-time delivery of goods, the lean retailing model best approximates the acute cost focus across the board. Instead of building value, lean retailers seek to improve efficiency and eliminate waste at all stages of the business model.

American retailers, have long focused on low cost through a low-cost labor, reduced-service retail strategy. In contrast to European discounters, however, American discounters have focused on large, "big box" out-of-town store formats and branded (rather than private label) goods as a primary competitive strategy. The business model is low margins and high turnover, making the central focus of a retail organization one that strives to sell more goods more cheaply. Rather than taking on a producer role, control over suppliers has been more indirect -- through purchasing scale -- with an increasingly antagonistic relationship centered around price pressures. The majority of powerful American lean retailers originated in the general goods category, but these firms have increasingly moved into food retailing and other tangential niche retailing sectors as well. Walmart, the largest global retail firm, embodies this strategy and will be used as a primary example, but it can be equally applied to other large American retailers in mixed goods (Target), grocery (Kroger), or specific categories (Home Depot in home improvement and Best Buy in consumer electronics).

Given the size of stores and the correspondingly high number of items, discount supercenters may sell fewer of an individual item than smaller shops with more targeted product lines, but make up for this by selling complementary products and encouraging shoppers to "one-stop shop". America's liberal planning environment at the local and state level favors big-box retail. Tax and development incentives for large retailers and limited land use controls, especially on the edges of urban areas have not only allowed, but also encouraged large stores. The focus for many American localities on sales tax revenues allows large retailers exceptional bargaining power in obtaining zoning permits and the lack of any coordinated policy at the national or even state level contributes to this power.[100] Firms can either locate stores just across jurisdictional boundaries, effectively pulling from the same consumer base, or in extreme cases, build stores that straddle boundaries to take advantage of space limits of both sides (see Trumbull and Gay, 2004). In addition, large formats benefit from loose American opening hours rules. A supercenter with 200,000 items needs to stock 24 hours a day, making it advantageous to be open and complete sales during these hours (albeit with heavily reduced staff).

In store, the goal is to stack high and deep, and lean retailers have readily adopted pallet presentation and other efficient but less aesthetic forms of product placement. Early Walmart stores often had bins that customers simply rooted through, seen as the

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differences. Outside of the logistics, "lean" inventories, and just-in-time delivery, lean retailing resembles Fordism more than it does a Japanese automaker, with unskilled workers and repetitive tasks.

[100] The relationship between large retailers and sales taxes will be explored in more depth through the Walmart case later in the chapter.

easiest way for workers to quickly re-stock goods. Once again, the goal is turnover, as retailers make money on high turnover. For instance, Walmart only makes $1 by selling $35 worth of goods. Walmart has an operating profit margin of 3.5% in 2005, compared with a US average closer to 6%.[101] This may seem high, but again, given the efficiency in Walmart's corporate system, it is actually an incredibly low number, achievable only given a strict adherence to a low cost policy throughout the organization. In groceries, for example, prices at Walmart Supercenters (in 20 categories of foods) are 27% lower than traditional groceries. Overall, a low estimate of Walmart food prices is 15% below other grocers.[102] These prices and margins are achievable through a combination of efficiency and scale, making network size and market power essential for successful American retailers.

**Products:** Product strategy involves a focus on branded goods, with supporting private labels as competitors to branded products on price only, acting as stick and benchmark to suppliers as well as part of the low cost offering to its customers. Again, scale allows the market dominance that can be used to improve terms of purchase and price reductions, forcing suppliers into the low-margin, high-turnover cycle supported by these firms.

Discount superstores such as Walmart stock a spectacular variety of goods. A typical Walmart Supercenter can contain as many as 120,000 products, a trend that has increased over time. The majority of those are branded goods. American retailers have typically used private labels less than their European counterparts, focusing on carrying a wide variety of branded products in the large, diverse American market.[103] This focus has begun to slowly shift and the private label business now accounts for about 15% of all sales in the United States (USDA, 2009), but this is low in comparative context. When Walmart and other US discounters do use private labels, they tend to be focused on low cost labels. Unlike Carrefour or Tesco, Walmart's private labels compete only on cost, rather than on unique advantages.

**Supplier Relations:** Supplier relations strategies also reflect the price focus, with dominant retailers continually pressuring suppliers to lower costs. Lean retailers use both carrots and sticks in the search for lower prices, offering larger markets for goods while threatening competition with other manufacturing competitors and low-cost private labels for shelf-space.

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[101] The 3.5% operating profit margin reflects a profit of 11.2 billion dollars on 315.7 billion dollars in sale. Low margins for large retailers are not unique to Walmart. Walmart's largest global competitor, Carrefour, only had a margin of 1.9% in 2005. Note however, that the system of "back margins" used by French retailers makes cross-national comparisons difficult. This system is described more extensively in the French case study (Chapter VII).
[102] Hausman and Leibtag (2005)
[103] One typical argument explaining American horizontal diversification over vertical integration stresses that US consumers are more diverse than many other countries, creating the need for deeper and wider product lines. Given the highly localized provision of retail services and the broad array of private label goods now available, however, this argument appears wanting.

With outside suppliers, Walmart has long established a rather combative relationship. As will be discussed below, technology has furthered and altered this competition as Walmart compiles more customer data about products than producers themselves. Combined with their enormous scale and buying power, this allows Walmart both to demand lower costs as well as passing costs to suppliers. Walmart has been known to appoint "industry leaders" in product areas, who on their own dime are expected to provide Walmart with marketing advice and other services. Supplier relationships with Walmart should not, however, be viewed as purely negative nor should Walmart's demands for lower prices be viewed as arbitrary and punitive.

Suppliers that use the relationship to increase market share may find large benefits from working with Walmart. Bloom and Perry (2001) find that suppliers with a small share of their respective market perform relatively more poorly when they have Walmart as a primary customer, but that suppliers with a large share of their market do better than competitors with Walmart as a primary customer. Note that this reveals the importance of pure market power in the American context. Those producers with it succeed, even in relationships with powerful retailers. Those without power suffer as they are dominated and forced to align with the preferences of retailers. Retailers are aware of this process and Walmart tends to negotiate net prices with suppliers only after extensive analysis of their value chains (Colla and Dupuis, 2002). Suppliers, therefore, can benefit from associations with scale retailers, but only when they already hold powerful positions and can defend their value chain against retailer advances.

The need to dominate suppliers also affects the centralization of lean retail organizations. Unlike previous behemoths like Sears, Walmart is highly centralized and given the size of its retail empire, an enormous number of decisions continue to be made in Bentonville, Arkansas. Part of this stems from the way that a singular focus on low cost has been married with a stream of data that is processed centrally -- Walmart has been processing data for years, and was among the first US retailers to ubiquitously use electronic cash registers, then bar codes, and is poised to be the first to widely implement RFID. A larger part may be that centralization allows Walmart to deal with suppliers as a unified unit, increasing its power. High centralization continues to be both one of Walmart's greatest strengths and weaknesses. While a high degree of centralization allows increased bargaining power, tight control over the value chain, and standardization in processes, it often leaves the firm slow to react to local variations in consumer preferences or store conditions.

Dominating relationships do not mean that retailers are unwilling to coordinate with suppliers, simply that any relationships are asymmetric. For instance, suppliers often have dedicated Walmart teams with Bentonville offices designed to work with Walmart to make sure everything goes smoothly with their products. In this way, retailers pass additional costs normally borne by the retail firm. More generally, Walmart has sought to remove the barrier between supplier and customer (while still taking its share of the profit), a concept that creates high levels of efficiency. For instance, Walmart and Sara Lee realized that they had trucks going in opposite directions loaded with merchandise, and empty going back. Loading Sara Lee goods directly onto

Walmart trucks allowed both sides to streamline shipping networks. These organizational collaborations not only create efficiency, they also entrench Walmart's dominant position over suppliers and allow them to demand further price concessions.

**Labor Relations:** In a similar fashion, lean retailers typically take a combative low-skill, repetitive task approach to labor relations. American retailing is a location for low-education, low-skill workers and the lack of unionization or coordinated bargaining makes retailers unlikely to invest in training or education for workers in a high-turnover profession.[104] Over 66% of retail workers hold limited sales or service positions and a corresponding percentage (71%) have less than a college degree (NRF, 2010). This means that workers have limited roles in store and although low costs allows a higher employment (total level, not growth) model than in many European countries, retailers attempt to replace workers with technology.

Comparing labor relations in retailing between the US and France, the evidence shows American workers who are paid less (both absolutely and relative to the national median), and have higher turnover, as seen in table 4.1. American workers are more likely to earn below 2/3 of the national median wage, have higher labor turnover, have lower employment protection through legislation and earn less on average, despite similar levels of unionization.[105]

Walmart's labor strategy has shifted over time, but the central concept has always been limited roles and a highly interchangeable workforce. These workers are paid low wages, have limited roles, and are increasingly marginalized into part-time work. Walmart has a strict anti-unionization policy and managers who suspect union activity are encouraged to call the corporate office for help in dealing with labor organization. There is a stark worker-manager divide, with management much more closely linked to the central office. Company figures show that in 2000 the ratio of managers to workers was 1:22, above that of US retail in general (1:44 according to the BLS), but well behind that in other countries. Perhaps not surprisingly then, Walmart's profits are low when looked at on a per employee basis. In 2004, for instance, Walmart made around $6,400 (profit) per employee, which works out to around $3 profit an hour/per employee over a typical year. This means that if we assume the average Walmart associate earns between $8-9 an hour, raising wages to $12 an hour would make Walmart unprofitable without an increase in sales. This low profit is not because Walmart employees aren't productive in selling things. In fact, Walmart sells around $180,000 worth of goods per employee

[104] As with all of these variables there are exceptions to the rule, but these exceptions often help to prove the rule in comparative context. Costco, for instance, takes a relatively high-wage, high training approach, attempting to hire part-time college students who transition to full-time employees after rapid wage increases. However even in this American deviation, non-manager workers max out at $25/hr. (starting wage is $11/hr.), which is approximately the *average* wage in Danish retailing. (Interview with John Matthews, Costo Sr. VP HR and Risk Management.)

[105] First year turnover is even higher, around 65%, according to the National Retail Federation. In France, first year turnover is around 40% (calculated based on Askenazy et al., 2008, using total turnover rate of 20%, the 80% percentage of workers with more than one year of tenure, and a 15% turnover rate amongst these "tenured" workers.

annually, which is well above the US retail average of $156,000. Nevertheless it represents a quite different strategy from the most productive European retailers on this dimension (the French average is around $234,000 per employee). Again we see lean retailers emphasizing quantity over quality.

Table 4.1 Labor Relations in American and French Retailing

| | Year | US | France |
|---|---|---|---|
| % Below 2/3 median | 2003 | 42 | 18 |
| % Labor turnover/yr. | 2002 | 50 | 20 |
| % Part-time | 2007, 2006 | 28 | 28 |
| % Workers represented by unions | 2009 | 6 | 3 |
| EPL* | 2010 | 0.2 | 3.0 |
| Average wage | 2007 | 12.75 | 16.09 |
| Average annual sales ($) per employee | 2003 | 156,300 | 234,900 |

Sources: Russel Sage Foundation, US Bureau of Labor Statistics, OECD (2010), Reynolds et al. (2005)
Wages in dollars based on long term exchange rates (1/1/90-9/29/10).
*Employment Protection Legislation OECD scores. Ranges from 0 (no protection) to 6 (most strict)

The liberal US environment supports low labor costs in retail in a variety of ways including weak unions and low levels of labor protection that enable easy hiring and firing. The flexibility of these two factors has allowed retailers to use ICT to further drive down labor costs. Point-of-Sale (pos) data has replaced the middle level of employment, disrupting career hierarchies and keeping costs down and more generally, technology has replaced labor.[106] ICT also permits constant monitoring and performance evaluations of workers. The regulatory environment allows the active anti-union stance taken by many retailers. It does not require employers to provide benefits for workers. Only 47% of wholesale and retail workers nationally are covered by health insurance, and this number is certainly lower when considering just the retail sector.

**Value-Added Services:** Given their cost model and a low quality workforce, lean retailers do not add much value to their retail services – a practice that would drive up prices and conflict with the low-margin, high-turnover model.[107] In most cases this

[106] For example, Home Depot has instituted self-checkout in many stores using bar codes. RFID may increase this trend.
[107] There are exceptions to this rule, such as the supermarket bagger (which is practically unheard of in Europe), but added services are typically low-skill and efficiency producing services that are replaced by technology when cost-effective. Carré et al. (2008) find that starting wages for baggers were approximately $6.00/hr and training costs almost non-existent.

means low levels of labor and product expertise on the retail floor. Where services are provided, there is usually an additional charge, and those services are provided by a separate, more educated, and better paid staff.

Low-wage and part-time workers do allow US retailers to create some expanded service roles. For instance baggers, workers to walk carts to cars, and greeters are service roles in US retail that are rarely seen in Europe. This is the one place that US retailers tend to add service "value", with limited low-cost service roles.

Lean retailers are also willing to increase their service offerings in targeted ways that create complementarities with products. For an example, take the example of lean retailing electronics store like Best Buy, where shop floor workers are essentially non-existent and low-knowledge stockers where they exist, but customers can pay additional fees for the Geek Squad knowledge service.[108] Similarly, Walmart has low-cost lean optometry, automotive, and financial services, all at an additional charge and all built around selling more products. In automotive, the firm tried a full repair service briefly, before refocusing it on their classic low-margin high turnover model with a limited list of services.

In the early 1980s, other retailers were experimenting with auto service. Walmart started with just a few stores having auto services of its own. A particular executive, Lowell Kinder was in charge.[109] Using sales data, Kinder quickly recognized that product sales in the auto department went up in the stores with auto-centers. The program quickly expanded to hundreds of stores. At that level, however, the business was unmanageable and complimentary sales weren't increasing with increased services. Kinder decided that the full auto-repair business was too complicated, but that some service was worth having. Today, Walmart operates over two thousand automotive service departments that do nothing other than tires, batteries, and oil changes. Company reports indicate that auto product sales are higher at these stores than those without service departments. (Fishman, 2006.)

**Digital Strategies:** As will be argued more extensively in the next section, lean retailer's digital strategies, involving close information connections between the firm and suppliers and customers, are the lynchpin of their market dominance, supplier relationships, and low-margin, high-turnover strategy. The typical connection to customers starts with loyalty cards, allowing the gathering of individual sales information. From there, retailers can connect with customers directly, offering targeted coupons, notifications of sales on typically purchased products, and a more individualized shopping experience designed to increase turnover.

On the supplier end, the precise demand knowledge generated from aggregating sales data means that large retailers knew more about the consumers of supplier's products than the suppliers themselves. Lean retailers typically share access to this

[108] Geek Squad provides technology services for Best Buy products. For instance, computer setup in store starts at $69.99. Again, these services are added when they help drive sales. Best Buy found that Geek Squad improved sales in stores, particularly by female customers.
[109] Interestingly, Kinder reported to no one unless sales did not meet expectations.

information with suppliers, but at a price. Walmart makes real time sales information available to suppliers about the sales of their products through their Retail Link system. Instead of being a service, however, Walmart uses the Retail Link system to past costs, requiring suppliers to analyze sales data and pass their findings back to Walmart.

In sum, lean retailers are the cost squeezers, competing on price and product diversity, and offering little in the way of retail value added, though they may offer other services in conjunction with their retail offerings. Powerful scale advantages and high turnover make them formidable partners in supplier relationships, though many suppliers have no option other than to enter asymmetric contracts in order to gain access to the distribution networks of lean retailers.

Variations in management strategy within the US – which are often minor or along a single dimension – can be seen through a comparison with Costco. In the case of Costco, differences emerge primarily in labor relations. According to Cascio (2006), Costco's formula is pretty simple: "sell a limited number of items, keep costs down, rely on high volume, pay workers well, have customers buy memberships and aim for upscale shoppers, especially small business owners. In addition, don't advertise -- that saves 2 percent a year in costs." Exacting out the membership fee and more limited numbers of items (Sam's Club has a similar strategy), labor usage and remuneration is one primary difference between Costco and ideal type lean retailer strategy. Costco runs cost focused, volume selling, large stores, simply with a higher road labor component.[110]

Costco's labor strategies, however, resemble a cooperative relational contractor more than their American counterparts.[111] Costco's HR policies focus on higher retention rates and worker skills through better wages and benefits, across their organization. For workers who have been with Costco for over a year, the turnover rate is only 6.5% and company wide turnover is a low 20%. According to the National Retail Federation, the industry average is closer to 65%. These retention rates go hand in hand with Costco's overall training and HR investment policy. All of Costco's warehouse managers are recruited in house, and the majority started by pushing carts and stocking shelves. Costco also targets college students as part-time workers, hoping that post-graduation these students will choose to stay within the organization based on good pay and benefits. In an interview, the firm identified similar benefits from these policies, such as lower employee turnover and training costs, higher worker productivity, lower shrinkage, and a better source of in-house managers, as those described by firms in the Danish case.

With this exception, lean retailers have become the dominant feature in the American retailing landscape.[112] Their emergence and dominance has altered a variety of

[110] Costco markets its stores toward a more upscale cliental then many lean retailers, but this simply demonstrates that low margins should not be associated only with low-quality goods.
[111] Based on interview with Costco Vice President of HR and company statistics.
[112] Other than Costco, none of the other top-25 retailers in the United States (listed in Appendix A) could be described as having a "high road" labor strategy, with the exception of e-commerce giant Amazon.com, which uses a quite different business model than brick and mortar retailers.

secondary variables, including both sectoral and national productivity growth. The foundation of both the lean retailing management strategy and American retailing growth has increasingly rested on digital technology. Unlike the other cases, technology allows the dominance that is that heart of American strategy. The next section traces the development of the technology tools that have allowed these new trajectories, highlighting the variety of potential opportunities opened by the marriage of digital technology and scale, before a final section elaborates on why the American political environment supported the path overwhelmingly chosen by American firms.

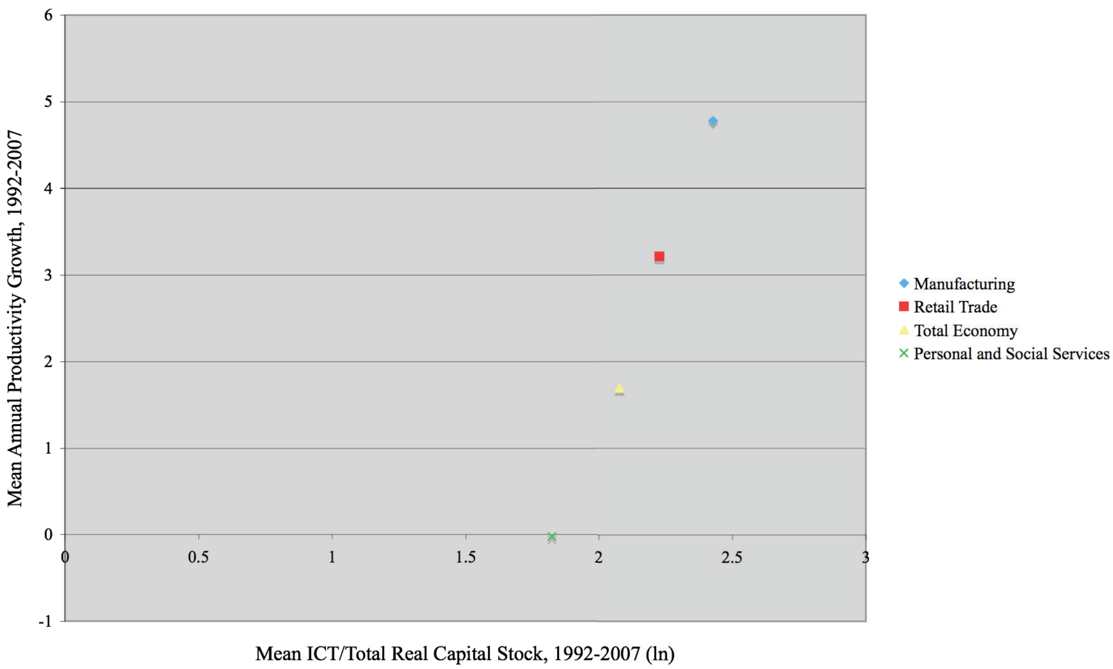
### III. Lean Retailing's Silicon Foundation

The United States, like the other economies of the advanced, formerly industrial democracies is undergoing a radical transformation. Services, once a productivity quagmire, are now recognized as a source of productivity growth and engine of the economy, altering the structure of employment, the division of labor, and the location of value in the economy. The transformation, however, has not covered the entirety of the service sector. Rather, it has been focused in sectors with high levels of ICT-usage, like retail trade.

As argued in Chapter IV, the digital services revolution is not simply about the growing importance of services to the advanced economies, but additionally a story of how digital technology transforms service activities and re-organizes the service components of the economy and their relationship with firms, workers, producers, and policy-makers.

The American retailing case is an ideal one to explore the character of the services revolution; how it is shaped by politics, how it alters modes of value creation and the core processes of retailers, and how it re-awakens fights over the distribution of wealth in the economy. In terms of technology, the American lean-retailers are arguably among the most sophisticated, though as argued throughout, this does not equate to the most efficient, nor does it mean they are the leaders in all types of technological innovation in retailing. Nevertheless, the majority of scholarship on technology in retailing is derived from the American experience. Much of this can be traced to Walmart, the global retailing behemoth and oft technology leader. The American case -- a large, diverse, and dynamic retailing market -- therefore provides an excellent template of the possibilities and perils of the digital transformation of retailing services.

**Figure 5.1 Productivity Growth and ICT, 1992-2007**



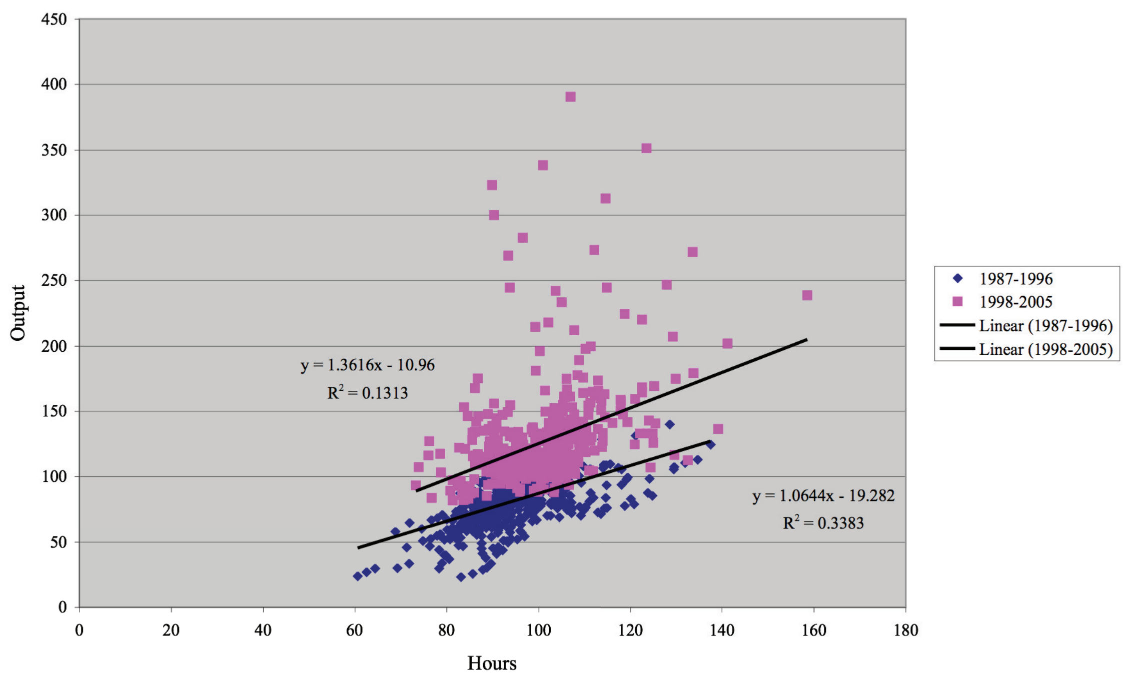

Source: EU KLEMS database.

Figure 5.1 breaks down the relationship between productivity growth and ICT usage by sector. Once again we see the sectors with higher than average IT levels exhibiting stronger productivity growth than both the total economy and the segments of the service sector with lower IT usage. Not listed is financial intermediation, which has similarly experienced strong productivity growth and high levels of ICT-usage in recent years. Nevertheless as the financial sector's long experience with the "Solow paradox" demonstrates, ICT may be necessary for productivity growth in services, but it is not sufficient.

In the United States, the shift from productivity-challenged sector to productivity-charged sector occurred during the mid-1990s. Figure 5.2 below shows the relationship between an index for output (measured as VA) and hours worked in a variety of retail subsectors. Prior to 1996, the relationship is almost perfectly linear. An increase of one unit of labor input increases output by the same amount. This is a Baumol world, where the only way to increase production is to increase labor inputs. After 1998, the relationship changes, and hours worked suddenly starts losing its ability to predict output in retailing sub-sectors. Post-1998 an increase of one unit of labor increases output by 30% more than before. Whereas this acceleration in productivity occurred in the mid-1990s in the United States, there are reasons to believe it occurred earlier in many European countries as seen in table 1.1 (page 7), for the reasons elaborated in the critique of the liberal thesis.

Although scale is part of the retail revolution in every country, unprecedented scale is a particularly important component to the American story. For one, the natural size of the United States and its market means that any firm with national ambitions requires a scale beyond that seen from all but the largest European firms. Correspondingly, the size of retailing partners, particularly prominent national producers, is also larger. The nature of the liberal American market means that to compete with American producers, American retailers either needed to negotiate politically with partners, which was highly unlikely, or be larger than their European counterparts in order to reverse market power relationships. Digital technology played a large role in making this possible.

**Figure 5.2 US Retailing: Output and Hours**




Source: BLS (2010)

For example, in 1945, sales at Sears and Roebuck, the largest US retailer for the first half of the postwar period, passed $1 billion, around 0.45% of US GDP (63.9 billion in 2009 relative GDP) or around $11.90 billion in 2009 equivalent dollars.[113] Sears struggled with its size. In 1946, General Wood, then president of the company noted its problems, stating, "I have been in an unusual position to observe the problems that "bigness" brings to a business."[114] The solution was massive decentralization, breaking

[113] Using CPI. Using a GDP deflator method, it is equivalent to around $9.90 billion.
[114] Quoted in Emmet (1950) *Catalogues and Counters*, p. 365.

the firm into five almost wholly autonomous territories, and within each stores still had considerable flexibility. In 1964, a *Forbes* article described Sears as "number one in the US, and also number 2, 3, 4, and 5."[115] Even with its successful decentralization, Sears was the anomaly, able to succeed at its size only because it set the market, telling consumers what to buy rather than simply providing goods, helping reduce demand management risks.

Fast forward to 2009. That year, Walmart totaled $406 Billion in sales, the equivalent of 2.84% of GDP[116]. Six other retail firms (Home Depot, CVS, Kroger, Costco, Target, and Walgreen) had revenue equivalent or larger to Sears' 1945 level of GDP, another five (Sears, Lowe's, SuperValu, Best Buy, and Safeway) had sales above $40 billion, and eleven more had revenues at or above $11.90 billion, the 2009 dollar equivalent of Sears' 1945 level.[117] In dollar equivalents, all 23 of these firms would have been America's largest retailer in 1945.[118] This explosion of enormous retail empires was made possible by increasing wealth and the power of the barcode.[119]

Once American firms had scale and a steady information stream about what customers were buying, when they were buying it, and under what store and price conditions, they faced an array of new business challenges and opportunities. How should they integrate technology into existing patterns of labor implementation – using information to automate or enable? Should they share sales data with their suppliers? How should they gather information from customers and connect with customers to better individualize service provision? Finally, what additional value opportunities were available? Which should be attached with partners and which should be captured alone? Gathering information from customers?

As described above, the American strategy has evolved into cost squeezing strategy, lean retailing.[120] Lean retailers -- best embodied by the American behemoth

[115] Katz (1987), p. 15.

[116] This is not to say that Walmart (or Sears) accounted for this portion of GDP (since the sale price includes far more value added than that produced by the retailer alone), simply that the dollar value of their sales were equal to this percentage.

[117] And this only counts pure retail firms – the list would certainly be longer if we included sales of firms with retail as part of their portfolios. Firms are: Rite Aid, Publix, Amazon.com, Staples, Macy's, TJX, J.C. Penney, Kohl's, Gap, Toys "R" Us, and Office Depot, which went bankrupt in 2009.

[118] The US is not the only country where firms have gotten bigger. The three largest retail groups in France had sales of $134 billion (Carrefour), $55.3 billion (Auchan), and 45.6 billion (E. Leclerc) in 2009. Even the leading firms in tiny Denmark approached the equivalent of Sears' 1945 sales. Dansk Supermarked's sales were $10.7 billion in 2009 and Coop Denmark had retail sales of 7.8 billion. Nevertheless the number of firms that have achieved such massive scale is much higher in the large US market.

[119] Although the barcode is certainly a critical component of lean retailing, it should not be seen as determinative, as barcode technology was equally available in Denmark and France.

[120] The name invites parallels to lean production, with its focus on just-in-time production, lean inventories, and horizontal networks of suppliers organized around a final "assembly" firm. The parallel with lean production should not be taken too far, however, as there are numerous

Walmart -- employ a low-cost, low-service, high turnover strategy based on squeezing costs and contested relationships with labor, suppliers, and local governments. Retailers pass some of the savings from cost-savings on to consumers, while largely excluding workers and suppliers from the gains. Economic scale certainly plays a role, but technology also helped retailers firmly gain the upper hand in these relationships, as firms use technology to gather information, and the information gathered as a club.

The reasons that this particular cost-squeezing, dominating partners management style emerge are again rooted in politics and coalitions. Unlike their foreign counterparts, American retailers were not forced to organize nationally in the 1960s and 1970s to win fights with independent small-shop retailers over rules on such issues as prices, planning, opening hours, and store size, though local political fights, particularly around planning were common. Rather, they were able to rely on a political-economic system where the market was the primary adjudicator of wealth distribution. Competition in such an environment locked in particular modes of combative interaction with suppliers and workers, prompting unique business-model configurations in the search for efficiency and competitive advantage. Tracing forward, these initial plans continue to shape the business strategies and lead large retailers to eschew political alliances in the current era – one where growth stems from using technology in core processes to create innovation.

### IV. Fragmentation over National Politics: America's Retail Trajectory

The answers to questions about why retailers used technology for competition over cooperation are neither simple, nor inherent in the technological capabilities of digital tools. Looking comparatively at outcomes, we find that cross-nationally firms have solved them in a multitude of ways. American firms are not the only model, but rather have implemented unique processes of routinization, data analysis, and value capture, part of a larger focus on cost squeezing that can be seen in how technology is used for product strategy, labor strategy, supplier-relations, and value-added strategy.

As in the other countries, the road toward American lean retailing originated in political deals about the distribution of wealth in the economy and the political pathways they created as political struggles pushed firms toward American-specific calculations about the market, firm, and relational contracting choice for firms poised by Williamson (1985). American retailers were not predestined for this strategy. Nevertheless, powerful institutional, cultural, and political forces pushed them down the path toward using technology as a club in relations with suppliers and workers, similar to the strategies seen in other sectors such as the machine tool industry.[121]

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differences. Outside of the logistics, "lean" inventories, and just-in-time delivery, lean retailing resembles Fordism more than it does a Japanese automaker, with unskilled workers and repetitive tasks. Whereas some of the features of the logistics features of lean production are present in all of the successful models of retailing – most notably a reduction in inventories in relation to sales and more frequent just-in-time delivery of goods, the lean retailing model best approximates the acute cost focus across the board. It is also worth noting that the term lean production was first applied to the automobile industry as a comparison with supermarkets (Magee, 2007).

[121] See Noble (1984).

Although digital technology remains integral to the American lean retailing model, it is the political environment that shaped technology implementation strategies within American firms, rather than vice-versa. Importantly, many of the divergences in digital strategy appeared before digital technology was central to core retail processes. Therefore, we must understand the longer political-economic arc of American retailer firms to fully understand their management strategies.

The beginning of the story is a familiar one. Like the majority of powerful retailers in the global economy, many of the American leaders are actually relatively new firms, with few leading retailers existing with any size prior to the 1950s.[122] By the 1960s, however, a new class of retailers began to emerge in the United States. These retailers were spurred common social and economic changes in the post-war period and process innovations including self-service, ample automobile parking, larger stores, and more product diversity.

The rapid entrance and growth in scale retailers, as in the other case countries, had the potential to precipitate political conflict. Retailers are among the most connected actors in the economy, interacting with a variety of economic, political, and social groups. Politically, they must manage relationships ranging from international trade organizations and national regulators down to municipal governments. Within national economies, they connect with consumers, suppliers and producers, manufacturing firms, and wholesalers. Independent shopkeepers want protection from what they see as either unfair or socially disruptive aspects of scale retail development including predatory pricing, out-of-town development, large stores, and their scale more generally. These types of conflicts are true of any economic entrant, but are particularly applicable to retailers.

A possible political conflict, therefore, was brewing. In the United States, however, retailers faced the most fragmented and decentralized national environment, including the least organized opposition, and consequently needed the fewest political partners to solve what were largely local obstacles. No national peak bargaining associations existed. Localities, not the national or even state government, set planning policy. States set sales tax, minimum wage, and labor rules. Nationally, they encountered the most liberal regulatory environment with the weakest institutional incentives for coalition formation. Consequently, they began to form strategies designed to first maximize and use market power, structuring lean retailing business strategies built on low levels of political cooperation with workers, suppliers, and governments. Without a political coalition to re-shape the economic calculations of retail firms, American retailers were free to purse low cost, high-turnover, large scale market competition, leading to combative and low cost strategy of labor relations, power-based supplier connections, nationally-branded and low cost product strategies, low levels if any of

[122] This is particularly unusual in Europe, where only 29% of its 156 FT Global 500 firms were founded after 1901. Eighteen firms on the list were primarily retailers. Of these, only one was founded prior to 1901. Twelve were founded after 1946 and eleven were founded in 1957 or later. For data, see the Bruegel database of Corporate Birthdates: http://www.bruegel.org/8358.

value added-services and ultimately the digital strategies that now underpin each of these dimensions of business competition.

Each of the three antecedent variables to coalition formation (power resources, institutions, and market structure, seen in table 4.2) points in the direction of retailers relying on unilateral political action and market competition rather than political compromise. Together they formed powerful structuring frame leading retailers to eschew political partnerships. Let us consider each of these three variables in turn.

Although many of the retailers who would come to dominate the market were still minnows in 1970, American retailers already comprised the most powerful retail sector in the world as measured either by the sector's contributions to total economic activity or by its value relative to other sectors, such as manufacturing. Though the leading firms would change, the retail market was also amongst the most (if not the most consolidated) in the world, a more impressive feat considering the overall size of the American market. The largest three American firms controlled 8.7% of the retail market while the 30 largest controlled 25.0%. For comparison, in the same year, the largest 30 French firms only controlled 13.3% of the French retail market. So retailers were powerful relative to other economic players.

Perhaps even more important may have been the institutions. At the national level, the United States has amongst the most majoritarian (Lijphart, 1999), the least corporatist (Wilensky, 2002), or the most liberal (Soskice and Hall, 2001) political and economic institutions in the world all of which discourage broad-based or cross-class coalitions. Within the retail sector, policy has been set largely at the local level, particularly planning rules.[123] This has allowed retailers to use a divide and conquer strategy, using their significant resources to win favorable planning and development concessions from local governments hungry for sales tax revenues.

In fact, the relationship between local sales taxes and big-box development may be more important than has been previously recognized. A simple linear regression explaining the number of Walmart $ft^2$ per capita in each state by the average local sales tax and the (log) distance of the center of that state from Bentonville, AR (Walmart headqurters) has an $r^2 = .82$ and an F-test gives a score of 111.6, which has a $p < .001$. The logic is that large stores want to locate where local sales taxes are high, since they are more likely to be able to pressure local governments – who fear losing sales tax revenues to competing municipalities – to grant them prime developmental locations or even help support store development.

[123] One exception to this rule is anti-trust policy, which Wrigley (1992) argues was important for American retail development. Even anti-trust policy in retail has been highly liberal beginning with the Reagan administration, leaving few national rules in place that create a need for political compromise.

Table 4.2 Determinants of American Retail Coalitions, 1970

**Power Resources**

| Retailer Power (10 largest market share) | Ratio of Retail VA/ Manuf. VA (%) | Labor Power (Union Density) | Total Retailer Power |
|---|---|---|---|
| High (15.9%) | Medium (25.9%) | Low (23.5%) | **High** |

**Institutions**

| Electoral Rules | Level of Corporatism | Administrative Control of Retail | Overall Support for Coalitions |
|---|---|---|---|
| Majoritarian | Low[124] | Local | **Low** |

**Opposition**

| Small Shop Economic Power[125] | Type of Resistance | Political Support for Small Shops | Overall Strength of Opposition |
|---|---|---|---|
| Low | Local | Low | **Low** |

**Overall**

| Power Resources of Retail | Institutional Support for Coalition | Strength of Small Store Opposition | Final Coalition | Firm Logic |
|---|---|---|---|---|
| High | Low | Low | None | Market |

[124] Source: Lijphart (1999). In his index of interest group pluralism, where 0 = most corporatist and 4 = least corporatist, the United States scores a 3.31, amongst the most fragmented and decentralized democracies.

[125] Although the American retail sector was both large and fragmented locally or regionally, small shops tended not to be organized into economic groups such as cooperative associations or purchasing groups, the country lacks powerful small shop specific peak organizations or purchasing groups that either aggregate preferences or multiply economic power and large business interests were already influential in the American retail sector.

National regulatory policy and the liberal US economy also support key portions of the lean retailing strategy. A product strategy built on pressuring suppliers to lower costs is partially enabled by liberal rules which easily allow the outsourcing or even offshoring of production. The United States economy is strongly import-oriented (the US trade deficit was a record 763.3. billion dollars in 2006), allowing retailers to use international commodity sub-contracting. This is supported by a growing infrastructure designed to accommodate high levels of imported goods and a liberal foreign trade policy that supports lowering global barriers over protectionist strategies, at least in consumer goods.

Deregulation in other sectors supports other portions of the model. For instance, deregulation in the transport industry has facilitated the growth of the massive lean logistics infrastructures increasingly controlled by retailers. When transport is more highly regulated and costs are higher, the benefits of large distribution centers supporting enormous stores may decrease or power may reside in the hands of those who previously controlled logistics, such as producers.

Finally, opposition within the retail sector was low. As described in Chapter II, a previous movement toward chain stores had already swept the United States, and small shopkeepers had already fought and lost a losing battle against big business in retailing. Combined with strong consumer demand for new retail formats in suburban locations and fragmented or non-existent small shop political organizations and retailers faced little opposition as they spread across the country. Consumer groups also appreciated the lower prices of large chains and the convenience of parking lots and one-stop shopping. Similarly, producer groups were largely supportive of larger, more established retail channels, as the 1960s saw the development of increased producer efforts in national branding and marketing, which synched well with larger chains, large stores, and self-service in retailing.

**V. Conclusion**

The American case is often treated as an exceptional case in political economy, set apart from the other affluent economies because of culture, structure history, policy or politics (for instance Lipset, 1996). In many ways the United States does stand apart, but as demonstrated by Wilensky (2002, Ch. 18) among others, this exceptionalism is largely in line with that of any advanced economy and is driven by the same social, economic, and political variables that drive outcomes in the European cases such as Denmark or France.

In contrast, in the service sector, the American case is rarely treated as exceptional, but rather as either an archetype or the endpoint of teleological arguments about the direction of innovation and regulation. Retailing frequently is placed in this category of arguments and the American case and its constituent retail firms are often heralded as the natural model of retail development and retail politics in the future for other affluent economies. In this case, however, despite the existence of a general theory, it is not matched by the corresponding presence of general empirics.

Therefore, although frequently presented as either an exceptional or an ideal-type case, the management and trajectory of the American retailing sector follows from similar logical and institutional bases as those seen in the French and Danish case studies. In addition, although they emphasize different competitive strategies, retailers in the European cases have done as well as better as American lean retailers. The differences, therefore, are rooted in politics rather than efficiency. Unlike the European cases, the structural conditions of the American retail sector and a fragmented and decentralized political environment strongly discouraged coalition formation, leading to a logic of competition based around dominating relationships with weaker partners, rather than political cooperation or competition.

Consequently, firms developed strategies designed first to maximize market power and then utilize it as a club in relationships with workers, suppliers, and local governments. With the addition of technology, the marriage between scale and the bar-code allowed them to push this model to the extreme, creating lean logistics, combative supplier relations, and a low road labor strategy all designed to squeeze costs in the hope of reducing margins and increasing turnover.

These changes within American retailing firms have also had an effect on the broader American economy, dramatically shifting its productivity trajectory, re-shaping tangential sectors such as transportation, and accelerating changes in manufacturing such as the outsourcing and offshoring of production. At the same time, they have provided extensive benefits for consumers, most notably through lower prices. A cottage industry has developed in studying the so-called "Walmart Effect" on jobs (Basker, 2005; Neumark, Zhang, and Ciccarella, 2007), firm entry and exit (Jia, 2008), wages (Dube et al., 2007), and consumer welfare (Hausman and Leibtag, 2005). Although their conclusions at times differ, all support the central theme of this work, that there are tradeoffs in how the retail sector grows, changes, and distributes wealth in the economy. Acknowledging therefore, that political structure and patterns of policy-making have a profound effect on longer-term firm development and management should highlight that these tradeoffs are not fixed, but rather open for constant societal negotiation. Next we turn to a case marked by much high levels of negotiation: Denmark.

# Chapter V: Danish Relational Contracting

*Increased productivity would, it was hoped, make it possible to raise wages. Training was necessary to increase productivity.*

*- Ruth Prince Mack (Controlling Retailers, 1936)*

## I. Introduction: The Danish Case

The Danish model of retailing is relational contracting. Where American lean retailing sought efficiency by squeezing costs, particularly by pressing on workers and suppliers, relational contracting seeks to share and lower costs by partnering with workers and collaborating with suppliers. As the case most in contrast with the American model, both in management and policy terms, Denmark offers a strong test for the primary rival hypotheses to the argument of this dissertation: that the liberalization of markets brings efficiency in services; or that the service sector faces a series of gloomy tradeoffs between outcomes like wage equality and employment creation. If either of these hypotheses is correct, the Danish case should exhibit serious deficiencies in relation to the American retail sector.

In point of fact, however, the evidence in this chapter will present a vibrant and healthy Danish retailing sector that combines efficiency with strong job quality and growth. In this way it updates many of the earlier findings of the manufacturing literature on the benefits of supportive relationships with workers and suppliers. Many of the same advantages appear in retailing, including lower costs of retention and re-training, more innovation and productivity from happier and better-trained workers, and reduced oversight and litigation costs.

As with the American case, the process of coalition formation was critical for driving retailers toward these partnerships. In contrast to the American case, however, Danish retailers joined a broad political coalition designed to distribute the gains from retail growth more evenly among small-shops, large firms, producers, workers, and consumers than seen in other countries. The explanation for this coalition can again be found in the structure of Danish institutions and interests, which as a late-developing, highly consensual and corporatist country look quite different than those in the United States.

In terms of power resources, retailers were not only weak, but faced powerful external interest groups including labor unions and producer organizations. These groups, and corresponding retailer coalition, were highly organized through a set of bargaining institutions that aggregated and magnified interest group power. Finally, small shops in Denmark were more organized than in the United States, typically organized into cooperative organizations or voluntary wholesale buying groups. With weak large-scale retailers, powerful opposition, unified small-shop opposition, and an institutional environment that encouraged coalitions and compromise, retailers partnered with a broad range of actors including small shops, producers, and workers. Together, these groups agreed that liberalization was needed, but chose to preserve regulations that ensured an equitable distribution of market gains across the partners.

These broad political compromises germinated into relational contracting business models built on cost sharing and saving through long-term stable partnerships. Political partnerships transitioned to economic relationships and turned the interests of large retailers toward finding successful partnerships with both labor and manufacturing partners rather than face the political and economic consequences of conflict.

In Denmark, where small shop networks and fledgling large firms faced each other on equal footing, the outcomes show features of each side's vision of how the retail sector should be organized. Again, because of the uncertainty over which of these competing preferences over the shape of the retail sector would ultimately be adopted, finding social and political allies became essential. Retailers reached out to workers and producers to ensure that market liberalization occurred and was preserved.

The rest of this chapter will trace the history of Danish retailing from its sleepy post-war order through the powerful relational contracting firms that populate the market today. It will highlight the key dimensions of the relational contracting model, noting particularly the differences in labor strategy from American lean retailing. Once this quite different outcome is described, it will analyze the history of Danish retail politics, linking its quite different set of power resources, institutions, and retail structure to the broad Danish coalition and finally connecting this coalition to the strategies of Danish retailers.

## II. The Danish Relational Contracting Model

American lean retailing creates efficiency through cost squeezing. Retailers pressure suppliers, take logistical control to streamline operations, and adopt a low-road labor strategy involving limited tasks, interchangeable workers and high turnover. Relational contracting adopts a different strategy, attempting to work with these partners. Danish retailers use these partnerships to find ways to improve the productivity of their workforce and eliminate or save on the costs of the low-road strategy.

This is not to say that there are not similarities. In terms of **product strategy**, relational contracting firms tend to look a lot like the lean retailers, with high levels of nationally-branded products. That said, as will be discussed more extensively in the section on labor relations, how these products are selected and the relationships with suppliers look quite different. Rather than attempting to constantly commodify national brands and compete on price and turnover, relational contractors cultivate more supportive relationships with suppliers and keeping their brands strong is seen as part of the competitive strategy.

In private labeling, relational contracting firms offer low quality alternatives, "simply because customers expect and demand them," but these are a "low profile" part of the package of products offered in Danish stores.[126] Unlike, lean retailers, therefore, these products are rarely used as sticks to force suppliers to lower prices. In fact, in an

[126] Interview with leading Danish retail firm.

interview with one of the major Danish firms, they indicated that when they want to create a private label, they go to their existing partners and ask them about doing it.[127]

Accordingly, **supplier relations** in the relational contracting model are built on longer-term time horizons. How these relationships are managed varies, from shop floor workers responsible for individual aisles up to more systematic purchasing agreements, but key advantages are found in the stability of the relationships, allowing learning and accruing benefits based on trust. One reason for the unique relationship between retailers and suppliers in relational contracting countries is the service dimension embedded in manufacturing in these countries. Logistics, quality control, and other activities typically that fall under the purview of retail firms in lean retailing and vertical integration countries are often an expected component of manufacturing firms in Germany and to a lesser extent Denmark. (Christopherson, 2007.)

At the same time, retailers take on extensive marketing and branding activities that would often be avoided by American lean retailers. The circulars of the two leading retailers compete to be the leading weekly magazine in Denmark and typically feature nationally branded products rather than private labels.

Working with suppliers allows Danish retailers to approximate many of the benefits achieved by unilateral action in the French and American cases. While POS data have begun to shift the locus of consumer information, suppliers provide a source institutional knowledge that can prove useful, especially as retailing firms move across borders. Danish retailers have achieved success in foreign markets linking with local suppliers while other foreign entrants struggle to import goods from their own domestic suppliers. In terms of logistics, leading relational contracting retailers have continued to work with suppliers to enhance the traditional capabilities of manufacturing logistics, giving up control in order to share logistics costs with suppliers.

Regarding **service value-added**, the Danish relational contracting model sits between the stripped down American lean retailers and the complementarity seeking French vertical integrators. Danish stores tend to have medium levels of service in store (high worker knowledge, but few additional or complementary services) and despite the high level of worker training in Denmark, part of the explanation is a lack of qualified labor. Interviews with major retailers highlighted a lack of quality candidates in many areas that might add value, such as bakers and butchers. One firm noted that it had been forced to import qualified bakers from Germany and Poland. Nevertheless, as explained at length shop-floor workers are typically more knowledgeable than their lean retailing counterparts, though this model is under strain with the growth of part-time workers. In the Danish case, major retailing firms have taken on extensive marketing and promotional activities, but these offer little value to customers.

[127] This cooperation should not be overstated. Although they prefer to use existing suppliers for private label products, the same interview stressed that while they love cooperation and strong supplier relationships "these are still business decisions." Consequently, they approach multiple suppliers and seek the lowest price possible.

**Digital Strategies:** As with the other models digital technology underpins the success of leading Danish retailing companies. The automation of core processes, including inventory and checkout happens much the same in Denmark as in other countries. What is different in Denmark is what retailers choose to do (and not to do) with the information generated by point-of-sale digital data. For one, Danish retailers have not used the data on sales to monitor or sanction workers for fear of undermining the collaborative relationship with labor described in the next section.[128] In an interview with a Danish retailer, it stated that an outside consultant had suggested it implement a system that tracked worker performance, but it declined, pointing out the negative consequences it might have on their relationship with its workers.

Workers also have a greater ability to use and interact with the data that are generated. Shop-floor workers often have control over a particular section of the store, and while re-ordering and inventory processes are highly automated, individual workers have the ability to change orders based on their knowledge of their products. This is the type of data access and control that would be virtually unheard of from a large American retailer. Consequently, Danish retailers use digital tools extensively in worker training.

Finally, Danish stores have sought innovative ways of integrating the capabilities of digital technology into their existing strategy. Danish retailing has long been heavily promotional – the Danish retailers' weekly ad-sheets are amongst the most popular weekly "magazines" in the country – and in support of this have begun using digital pricing labels in stores to rapidly change prices. Workers simply enter prices into the store system and prices change automatically on the shelves.

**Workers under Relational Contracting:** Retailers have high levels of cooperation with workers. Cooperation was neither assured nor historically consistent. During the 1970s, a period of high inflation in Denmark, HK (the Danish retail union) focused primarily on wage concerns. While these actions raised wages, they also created conflict with employers and began to cut into employment. The pathways of political cooperation developed earlier, however, allowed retailers and unions an institutionalized dialogue to resolve their differences, and union strategy shifted toward working with employers to improve job quality, rather than simply wages. Much of this meant an increased emphasis on training for retail workers.

A political process that stresses cooperation is critically important for up-skilling Danish labor. Studies that suggest that Danish retail workers are actually *less* skilled than workers in many other countries prior to entering the retail sector. Martin and Knudsen (2010) argue that Britain actually has more skilled workers entering the retail labor force than Denmark. It should be noted that this study is pre-employment and does not account for training workers receive within the sector, a large portion of the Danish model. Tight

[128] In contrast, Walmart has an extensive monitoring system, which reportedly monitors every keystroke across Walmart computer networks. A company statement defended the practice, stating "Like most major corporations, it is our corporate responsibility to have systems in place, including software systems, to monitor threats to our network, intellectual property and our people."

Danish labor markets mean that Danish retailers aren't getting their first pick of potential workers and so training occurs despite, rather than because of, the quality of the labor supply. As one interviewee put it, "we obviously aren't getting college graduates, so we have an internal educational system that helps increase labor performance within our business."[129]

Basic education (grades 8-10) accounts for 42.4% of retail workers in Denmark, compared with 49.5% for high school or vocational education. Danish retail workers typically have lower educational achievement than the broader Danish workforce and in some ways lower education than American retail workers. While few American workers have vocational training in retailing, only 12.5% of American retailer workers have less than a high school education, compared to 42.4% in Denmark.[130]

Table 5.1 Danish and American Worker Education Levels by Sector (2007, 2009)

| | Basic | Vocational/ High School | Medium & Higher |
|---|---|---|---|
| **Denmark (2007)** | | | |
| Retail | 42.4% | 49.5% | 8.1% |
| Manufacturing | 31.7% | 48.6% | 19.7% |
| **United States (2009)** | | | |
| Retail | 12.5% | 58.5% | 29.0% |
| Manufacturing | 11.6% | 61.0% | 27.6% |

Source: Statistics Denmark, BLS & National Retail Federation

Despite poorly educated workers and low unionization, Danish retailer cooperation with workers has led to a high-wage, high-skill strategy relative to the other

[129] Martin and Knudsen's account ignores the differences between wholesale and retail. Wholesale workers in Denmark are much better educated than retail workers and most likely better educated than their British counterparts. In wholesale trade only 22.5% of workers have a basic education (grades 8-10) and 55.9% have high school or vocational training, with a further 17.2% in the medium education category (BA or some other cycle of higher-education). These education levels in wholesale are comparable or even above those in Danish manufacturing, which has long been placed under the high-end manufacturing label.

[130] Although vocational training systems are often criticized as being out of synch with the needs of service industry workers, as they tend to focus on specific skills rather than general skills, both Danish retailers and HK reported high levels of satisfaction with vocational retail training in Denmark. If there was one complaint, it was that not enough workers were taking advantage of vocational opportunities.

country cases.[131] Table 5.2 below shows wages in the Danish and American retail and wholesale sectors. Denmark and the United States employ roughly similar percentages of their workforces through the combined wholesale and retail sectors, while Danish workers are paid substantially more. Therefore, it is clearly possible to get different wage structures at similar levels of employment. The gap between the two sectors is slightly lower in Denmark (wholesale workers make 34% more than retail workers on average in Denmark and 54% more on average in the US), but this is clearly not a case of substantially lower wages in the Danish wholesale sector subsidizing Danish retail workers.

Table 5.2. Mean Hourly Earnings by Country and Sector, 2007

| | Retail | Wholesale | % Diff. Btw. Sectors |
|---|---|---|---|
| **US** | 12.75 | 19.59 | 54% |
| **Denmark** | 23.62 | 32.54 | 38% |
| % Diff | 85% | 66% | |

Sources: BLS (CES) and Statbank Denmark, Danish figures are converted from DKK at a rate of 1DKK = $0.173102, conversion on 2-11-09. Note: These figures are *exclusive* of other forms of earning including pensions, fringe benefits, holiday allowances, etc. While comparable data was not available, when considering these other forms of remuneration, Danish earnings are approximately 40% higher, most likely increasing the total earnings gap between Danish and American workers.

Although it is clear that there are quite different outcomes in labor relations in the two countries, the question remains whether these differences reflect productivity and skill advantages of Danish retailers or whether they are simply higher costs brought about by higher levels of labor market regulation and then passed on the consumers through higher prices. The remainder of this section will debunk the former before extrapolating on the advantages of a high-wage, high-skill labor force for Danish retailers.

The idea that higher prices support higher wages is somewhat of a concern for the idea that the Danish model is similarly efficient to the American and French models. The assumption in most studies is that price-level data reflect a roughly similar value of goods and services, though this is notoriously tricky. An interview at DG Health and Consumer Protection in Brussels with an expert on retail prices highlighted the difficulty in separating price from quality, especially when comparing products across borders. It involves trying to lock down a high number of variables (cost inputs, product quality, local demand, local wealth, etc.) and any data comparisons are therefore quite rough. Consumer satisfaction data are often used to get a sense, but these are also quite

[131] One partial explanation for low educational levels in Danish retailing is the high percentage of young workers using the job as a temporary rung on the employment ladder. In 2009 an incredible 37% of Danish retail workers were 19 or younger, making it difficult for a large portion of the Danish retail workforce to have above a high school education. Source: StatBank Denmark (2011).

imperfect and biased by local expectations. Prices also reflect the service component of services, which are higher in Denmark than in many countries. Equating higher prices with less efficiency, therefore, highly oversimplifies a complex issue.

Taking these cautions into account, Denmark does appear in general to have slightly higher prices, though the data are mixed. In 2007, the OECD estimated that consumer prices were 13% higher in Denmark than the United States. However, high price levels can reflect a number of more expensive inputs, including land, rather than simply labor. Given Danish urbanization and the fact that Danish shops tend to be in more urban locations, this (and possible decreased competition) seems a more likely explanation for high prices than a wage subsidy. In addition, food costs (a major share of retail sales) are much higher in Denmark (perhaps as much as 40% according to OECD estimates) suggesting it is high product costs, rather than labor costs that are leading to price differences. Price differences as a percentage are also much lower than the wage gap, which as seen in Table 1, is well beyond 13%. Finally, it's worth noting that Danish price levels and American price levels have tracked remarkably well over the past 30 years. From 1980-2008, Danish prices increased by 291% and American prices increased by 297% (OECD Statistics). This means that all else being equal, if prices were the only consideration driving wages, an American worker's pay should have increased slightly more than a Danish worker's since 1980, which is not the case.[132] Danish compensation per hour worked increased 254% while American compensation increased only 189%. Had American workers seen similarly increases, they would have made on average about $3 more an hour in 2008.

**The Benefits of High-Wage Labor:** Labor cooperation provides retailers with two categories of benefits: better, more productive workers and effective recruitment, training, and internal job ladders. Both these benefits reduce costs. Well-trained Danish workers are able to work more effectively for Danish employers and the focus on training by both workers and employers has strengthened in recent years.

High levels of training are common throughout the Danish economy, bolstered by an extensive active labor market policy. In Denmark, the training measures for the unemployed are organizationally tied in with the continuing training (or lifelong learning) activities of the currently employed, improving their quality compared to the programs in other countries and reducing potential stigmas of participation. The important role of training as an 'active' and 'capacity-building' social policy is widely recognized. Indeed, it is an instrument used so intensively that Denmark is the undisputed leader in the provision of worker training in the OECD and the European Union. Danish workers spend more time in training and skill formation programs than workers in any other EU member state, and Denmark is the OECD country with the highest level of employment policy expenditures.[133]

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[132] TO DO: Need Danish and American wage data from 1980

[133] In 2003, participation rates in training and lifelong learning activities during the past 12 months in Denmark was about twice the average of the EU 25 in 2003, 80 versus 42 per cent for the population aged 25-64, and 41 versus 14 percent among the unemployed. See Eurostat,

Crucially, the Danish training programmes deliver the desired effects, with the active labor market policies putting workers into the position to connect with the market in ways impossible without public support. The Danish workforce excels in continuous up-skilling and re-skilling, in contrast to other countries, where vocational or university education is often largely (or even solely) provided at the beginning of workers' narrowly circumscribed careers. Additionally, lifelong learning activities are available to the entire Danish population, which combines the promotion of competitiveness with the encouragement of social cohesion. Finally, the Danish training system seems to do a very good job in teaching the skills needed by companies in the digital era, such as the ability to independently acquire more knowledge, to engage in complex interpersonal communication and to autonomously develop solutions to encountered problems.[134] These skills are easily transferable on external labor markets and allow for higher functional flexibility in internal labor markets.[135]

In the retail sector, workers are extensively trained relative to retail workers in non-relational contracting countries. Like the national system, the training system is a patchwork of national vocational training, lifetime education, and firm-specific training, with multiple pots of money controlled by all the social partners. HK has worked across these systems to help ensure training is about up-skilling, integrating technology in training and working to constantly modernize and upgrade curricula. Unions also control training funds designed for lifetime learning that can be used for retail-specific training or building general skills.

What can retailers gain from such highly-trained retail workers? Interviews highlighted five major areas:

1. **Worker autonomy**: In larger formats, workers are responsible for an area of the store, reducing costs associated with oversight.[136] Employees at Føtex, a Danish hypermarket, are given responsibility over an area of the store, including vendor negotiations for products in their area. Interviews identified that autonomy is complemented by a unique Danish management style with low levels of corporate direction and management direction toward workers.

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'Lifelong learning in Europe', Statistics in Focus, Populations and Social Conditions (08/2005). The OECD uses more narrow measures and reports participation rates in non-formal, job-related continuing education and training activities of 35 per cent for the unemployed and 47 per cent for the employed, both of which represent the highest shares within the OECD. See Bredgaard, Larsen, and Madsen (2006).

[134] For a discussion of the skills needed in the future, see Frank Levy and Richard J. Murnane, The New Division of Labor – How Computers are Creating the Next Job Market (Princeton University Press, 2004).

[135] Bredgaard, Larsen & Madsen, 'Opportunities and Challenges for Flexicurity – the Danish Example'.

[136] Again, this is not just in retailing. Frank Dobbin & Terry Boychuk, 'National Employment Systems and Job Autonomy: Why Job Autonomy is High in the Nordic Counties and Low in the United States, Canada and Australia', *Organization Studies*, Vol. 20, No. 2 (1999), pp. 257-92.

Surprisingly, while interviews at leading Danish retail companies stressed the benefits of worker autonomy and how it has changed the role of managers, this has not led to fewer managers. Danish firms continue to employ more managers as a percentage of their organizations than US retailers. The ratio of managers to non-managers lower than their American counterparts in both sub-sectors, about 1 manager for every 7 workers in Danish wholesaling and 1 manager for every 15 workers in Danish retailing.[137] In the US, the divide is much starker, according to the BLS, there is only 1 manager for every 44 non-management workers in American retail and managers earn 240% more than non-managers. At Walmart in 2000, company figures showed that the 2000 ratio was 1:22.
Two possible explanations for this lower worker-manager ratio might be store size and the smaller gaps in tasks and pay between managers and workers in Danish stores. Larger stores tend to be more hierarchical and have fewer managers per worker in general, and Denmark utilizes more small format retail outlets than the US.[138] While beyond the scope of this study, future work looking at manager ratios in Denmark and the United States that control for store size might show the benefits of reduced managerial oversight that one would expect from better-trained Danish workers. Secondly, when tasks overlap and the pay divide is not as high, being a manager may not be as important a distinction.[139] In Denmark retail managers make on average about 50% more than non-managerial workers. In the United States, "managerial occupations" make 360% more than "sales and related occupations" in the retail sector (BLS-OES, 2011).

2. **Worker innovation and productivity**: Experienced Danish workers who control an area of the store are actively involved in stock management, and may lead vendor negotiations or have input on product selection. This helps retailers identify product trends sooner and eliminate poor selling items more quickly. Much of the success of large, global retailers like Walmart and Tesco has been ascribed to the ability to identify these factors and more, including which shelf locations and product groupings lead to increased sales. In contrast to Danish firms, however, Walmart and Tesco rely on technology and data mining rather than workers. Nevertheless, given the number of variables involved, product and store layout choices may match better with the non-routine cognitive tasks where people still outperform computers (see Levy and Murnane, 2004). Interviews with leading Danish retailers identified that workers at the store-level are actively involved in these types of decisions.

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[137] 2009 Figures. Source: StatBank Denmark (2011). In both cases managers are categorized as "Top managers" and "Employees – upper level", categories which generally cover central management and store managers respectively.
[138] Dansk Supermarked A/S, which utilizes more large stores in its store portfolio indeed has a lower manager to worker ratio than Coop Danmark, which operates more small stores.
[139] Although the pay gap is smaller, Danish retail managers still make slightly more than US managers.

Happier and better-trained workers also prove internal flexibility and the functioning of internal job ladders. This provides at least two additional benefits to firms:

3. **Worker interest and pride in jobs**: Career minded workers are more likely to work hard, have fewer problems at work, and continue to improve their skills. Content, career-focused workers not only turnover less (see #4), they also have fewer absences, less theft – the retail euphemism is "shrinkage" – and better interactions with customers. These lead to additional savings, as security costs and internal audits decrease.
   In the United States, a 2002 National Retail Security Survey conducted by University of Florida researchers estimated that 48% of inventory shrinkage, which in the US equals about 2% of sales, resulted from employee theft. This amounted to slightly over $15 billion in 2002 (out of $31.3 billion total). A 16 country cross-sectional analysis by Bamfield (2004) found that in 2001 Denmark was tied for the third lowest shrinkage rate in Europe (behind Austria and Switzerland and tied with Germany) at 1.2%. In addition, the author found that only 29% of shrinkage in Europe was perceived as coming from employees, as opposed to their estimate of 46% in the United States (p. 238).
   The explanation is likely in the labor policies of Danish (and European) retailers. The National Retail Security Survey found that much of the variation in shrinkage could be explained by turnover, *particularly managerial turnover*. Given the Danish focus on recruiting managers in-house and high retention rates for managers, this may provide a significant cost savings across Danish retail.[140] Firms with lower manager turnover were able to save around .5% of total turnover. Given that total turnover in Danish retail trade was 35833.1 million euros in 2006, the full impact of these savings for Danish retailers may be up to around 900 euros an employee a year, or a raise of 65 euro cents per hour (and this is probably a conservative estimate).[141] Although the evidence on shrinkage must remain fundamentally correlation-based, the concept that there exist significant cost savings from workers embedded in a corporate culture that values them, trains them, and where workers feel a greater sense of ownership in the store are supported throughout the Danish retail sector; firms, unions, and workers all believe it provides them with significant benefits.

4. **Lower turnover:** Lower employee turnover is beneficial for a retail organization in a number of ways. It reduces the costs associated with new training. It reduces costs associated with recruitment. In addition, if the workers in an organization

[140] These savings are not limited to Danish firms. US firms with similar high-road labor strategies, such as Costco, report similarly low shrinkage rates.
[141] Hours worked from Groningen, employees from Statbank Denmark, turnover from Eurostat.

are of high enough quality, it supports #5 – providing an internal pool of potential managers or other company leaders.[142] Danish retailers stressed the importance of retention rates in the context of a tight labor market. One interviewee stated that, "workers are a scarce resource, so not only do we want to attract them, we want to keep them in our system."

5. **A ready supply of managers**: Workers with experience and training who view retail work as a career. About 80% of store managers come from shop-floor workers and the same company that referred to workers as a scarce resource has a stated goal to keep that number above the 80% mark. They find that recruiting in-house rather than externally is invariably cheaper, both in initial cost and in training costs.

Retailers also save money from institutions that could only exist in an environment of labor peace. Rather than fight with workers in civil courts, Danish retailers and unions typically work together to find solutions through specialized labor courts. Using these courts, Danish retailers have found enormous savings from avoiding expensive litigation and working with a court system that is focused on finding solutions rather than ruling on the position on one side or the other. Even these courts are a last resort as the retailers prefer to solve problems before they reach these courts. One retailer stated that it tries to bring as few cases as possible and that the cases that do end up in court are often those caused by low-level managers "who don't understand how we work" and push workers too hard.[143] As with previous studies in manufacturing, this labor peace has provided cost saving (for both sides). Over the past thirty years the unions have agreed to limit strikes while the retailers agreed to closed-shop agreements.

Finally, stores that pay workers well, provide high levels of training, and seek to reduce turnover may also see benefits from workers who are willing to participate in the process of change rather than obstruct changes for fears of having jobs cut or skills outdated. One interviewee noted that in the case of automatic replenishment (where computer software automatically reorders products from vendors), unions that were initially skeptical came around as retailers made it clear they expected this change to boost, rather than reduce worker skills and training. Unlike in the United States where technology is used to replace worker knowledge, Danish retailers see worker's

[142] Again, while widely realized in Denmark, these cost savings do not have to be exclusive to Danish retailers. An interview with a Senior Vice President of HR at Costco showed that lowering turnover rates is clearly a part of their overall strategy, even as a low cost retailer. Turnover at Costco is about 20%, and with employees who have been with the firm over a year, it is only 6.5% (compare this to a firm like Walmart, where turnover for first-year employees is almost 70% and overall turnover 45%). To accomplish this, Costco pays above average wages and has a pay scale with rapid increases built in. By the time an employee starts thinking about another jobs, they will be making a wage that is hard to leave. This is coupled with extensive training and a promotion system that focuses on promoting from within.

[143] Interview with Jesper Due.

experience-based knowledge base as a tool for extending the digital information available to the central management.

In summation, the cooperative relationships formed by Danish retailers with suppliers and more importantly workers, have provided significant sources of competitive advantage derived from a more knowledgeable and productive workforce, better internal labor markets, reduced oversight, and decreased legal costs. But why did Danish retailers head down this high road while their American counterparts emphasized markets, scale, and dominance? The answer, like in the American and French cases, lies in the late 1960s and early 1970s as retailing shifted gears from sleepy sheltered sector to become an engine of productivity growth.

### III. The Politics of Liberalization and Regulation in Danish Retailing

The Danish relational contracting model has developed along a quite different management path than American lean retailing. The next section explores why, examining how the lack of large-scale firms, weak power resources, powerful interest aggregation institutions, and a cohesive opposition led retailers toward a quite different pattern of coalition formation. Given a larger set of partners, retailing policy also took on a more consensual, national tone, culminating in a broad national-level coalition of workers, producers, and retailers. In order to receive political support and reduce the uncertainty of economic outcomes, retailers were willing to split more of the gains from retail liberalization and growth with workers and producers.

The retail sector in Denmark had considerably fewer power resources than retailers in the United States, both absolutely in terms of the economic power of leading firms and relative to potential opposition groups such as producers and labor unions, as seen in table 5.3.[144] Retailers did occupy a large percentage of the economy relative to producers, but they were weak individually, with few powerful firms. More cohesive and powerful voices were heard from producer groups, because of their larger firm size, because leading members wanted to enter the retail sector and begin capturing retail service value (most notably the largest firm in Denmark, A.P. Moeller) but also because the inefficient retailing sector was seen as driving up prices and driving down domestic consumer demand for Danish products. Retailers therefore needed the help of producers in order to achieve their desired reforms. Labor unions were also powerful actors in Denmark – Union density was 60.3% in 1970 and Denmark had a system of bargaining that was amongst the most centralized in the world – and stood ready to help retailers, but only if retailers were willing to work with unions to create a worker-friendly shop floor environment.

Danish institutions supported this broad coalition. Proportional representation elections enabled cross-class coalition building and discouraged a winner-take-all mentality. Secondly, retail policy was set at either the national or regional level,

[144] Retailing was still a large percentage of economic activity in the 1960s and 1970s, but this was largely because it was still quite inefficient, in the same way that agriculture occupies a larger percentage of the economy prior to mechanization.

eliminating the ability of retailers to game the system by playing individual localities off one another.[145] In addition, corporatist institutions both supported interest aggregation and allowed interest groups a protected voice in policy-making.

Table 5.3 Determinants of Danish Retail Coalitions, 1970

| | | | |
|---|---|---|---|
| **Power Resources** | | | |
| Retailer Power | VA Relative to Producers | Labor Power | Total Retailer Power |
| Low | High | Very High | Low |
| **Institutions** | | | |
| Electoral Rules | Level of Corporatism | Administrative Control of Retail | Overall Support for Coalitions |
| Proportional Representation | High[146] | Regional | High |
| **Opposition** | | | |
| Small Shop Economic Power[147] | Type of Resistance | Political Support for Small Shops | Overall Strength of Opposition |
| High | Economic/Political | Medium | High |
| **Overall** | | | |
| Power Resources of Retail | Institutional Support for Coalition | Strength of Small Store Opposition | Final Coalition |
| Low | High | High | Broad Coordination |

[145] This stopped being true for a period, but has since returned as the norm for retail policy.
[146] Source: Lijphart (1999). In his index of interest group pluralism, where 0 = most corporatist and 4 = least corporatist, Denmark scores 1.00, in line with other highly consensual democracies.
[147] The Danish retail sector large was large in 1970, small shops tended to be organized into economic groups such as cooperative associations or purchasing groups, and the country had several powerful small shop specific peak organizations and purchasing groups aggregated preferences and multiply economic power.

Accordingly, the dominant small shops in the retail sector were highly organized, either economically around cooperative networks and purchasing groups or politically through industry associations.[148] Although the general political environment was fundamentally pro-liberalization during the period of reform, these groups were a powerful brake on dramatic liberalization given both their cohesion, their institutionalized role in policy making, and their political alliances with both sides of the political spectrum.

The debate therefore matched weak but cohesive small-shops against weak large-scale chains backed by powerful producer and labor groups. At times these interests overlapped. Rules on retail location had created advantages for producers who wished to sell their products as retail goods and many of the largest retailers in the country were those backed by producers, such as dairies, but producers wanted larger, more stable distribution channels connecting them to consumers. Unions wanted to transform the retail sector from one filled with independent shopkeepers to one filled with union workers.

Even when positions were more contested, uncertainty about the eventual outcomes and the inherent weaknesses of both sides created incentives to seek compromises. Retailers, small shops and larger chains alike, lacked the economic resources to challenge powerful producers. Labor unions were powerful in the Danish economy, but small, independent shops still largely dominated the retail sector. Producers were powerful, but saw benefits from building on the existing small shop infrastructure.

The result was that both sides sought compromise and coalition partners. Small retailers wanted assurances that they would be protected and producers wanted easier entry into and liberalization of the retail market. For their support, labor groups wanted standardized hours, better wages, and social protections. Consumer groups wanted lower prices and more retail options. Local governments wanted growing tax bases.

The result was a broad compromise that liberalized the market by eliminating rules that curtailed multiple-shop networks, but still controlled development through strict rules on planning. This created greater advantages for scale retailing while allowing time for groups of small shops to organize into larger networks. This satisfied small shops looking for increased opportunities for growth and producers and worker groups who wanted to see greater concentration in the retail sector.

A liberalized market with negotiated regulations (on rules such as planning and labor) that controlled social disruption satisfied all parties. This cross-class coalition proved enduring. Despite a relatively liberal environment, the partnerships formed

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[148] There were and still are a number of retail associations in Denmark, organized primarily by type of goods sold. Examples include the Association of Household Appliance Retailers (*Foreningen af Husholdnings-Apparat Forhandlere*), the Danish Grocers Association, and more broadly the Danish Chamber of Commerce.

during this period have persisted, as retailers (now large scale) continue to work with producers, small shops, and workers to distribute the gains and keep the peace in the retail sector. These partnerships can be seen in both business and politics, as groups negotiate jointly to set regulatory policies in a variety of areas. For example, the negotiations over price information in marketing included retail associations, a major retailer, producer groups, and the leading Danish consumer group.[149]

**IV. The Rise of Retailing in Denmark**

A comparative chronology of the Danish retail sector shows a late developer. Emerging from a highly regulated market in the immediate post-war period, the retail market in Denmark perfectly encapsulated the image of European retailing as a sleepy, sheltered sector. A combination of strict planning and market rules with tight producer control of logistics and infrastructure created a fragmented sector dominated by small, independent shops that were slow to adopt the self-service process innovations seen across the affluent economies. In line with this description, wage earners were few, labor power and retail union workers were virtually non-existent, and there were no national retail chains.

The immediate post-war period was marked by the dominance of the manufacturing, the decline of agriculture, and the relative unimportance of the private service sector, including retail and wholesale trade. Denmark underwent the dramatic industrialization of agriculture and the urbanization experienced across Western Europe. The relatively low number of agricultural workers meant they could be easily taken up by the manufacturing sector while the relatively even distribution of Denmark's population meant that urban centers did not experience the rapid growth seen in other parts of Europe.[150]

The main challenges of the immediate post-war period were to restore productivity growth in manufacturing, return supply to meet demand, and begin re-building the Danish economy. The most dramatic macroeconomic change, as in France, was the decline in agricultural employment. From 1940 to 1975, Danish agricultural workers dropped from just below a million workers to just above a quarter million, a total decrease of 72%.[151] Agriculture as a percentage of GNP dropped from 20% to around 6-7% during the same period (Johansen, 1987; p. 22). Private services did not play a major role in offseting these changes. Rather, manufacturing and public services collectively picked up the slack (ibid, p. 22).

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[149] http://www.consumerombudsman.dk/Regulatory-framework/dcoguides/Price-Information
[150] The possible exception is Copenhagen, whose population increased by 300,000 from a base of around one million in the two decades following the war.
[151] Source: Christensen (1983). Full-time agricultural workers dropped from 478,000 to 132,000 (-77%), Casually employed workers dropped from 296,000 to 23,000 (-93%), and farmers dropped from 181,000 to 108,000 (41%). In comparison, over a similar time period US full-time agricultural employment dropped by approximately six million jobs, with much greater re-location (Department of Agriculture, Statistics Division).

Regulatory goals prioritizing manufacturing meant that these industries dominated distribution. The *Naeringsloven*, the rules governing retail licenses necessary to operate shops, strongly curtailed the expansion of multiple-shop retailers as discussed in chapter II. This meant that powerful manufacturing firms could largely dictate prices to small-scale retailers. Those retailers that did manage to achieve any scale were required to have a manufacturing or co-operative component (and most co-ops were also producers of various goods), further aligning retail interests with the manufacturing sector.

The regulatory goals in postwar private service sector were social more than economic. The period from the post-war through the 1960s was dominated politically by the Social Democratic party, who made social rights and labor issues as important as business competition issues, particularly in private service sectors that were not required to generate employment or productivity growth. After a decade of relative labor peace, a series of strikes over wages and working hours erupted in 1956. Given the weakness of retailers, they had little say in the final compromise between the government and the unions, which included fixed price levels and wage increases (Johansen, p. 122-23).

Following the strife of the mid-1950s, the Danish labor 'Constitution' was revised in 1960 and renamed the Basic Agreement (see Jørgensen, 2000 and Madsen, 2006 for more on the history of Danish flexicurity). It balanced the rights of workers with the needs of management, setting the stage for a long history of tripartite compromise.

Other retail regulations that were seen as protecting the economic rights of workers placed limits on economic liberalization. Opening hour rules and prohibitions on Sunday openings, which were reformed in 1946 and again in 1950, were essentially a continuation of policies implemented by King Christian VIII in 1845. Initially designed to ensure Sunday church attendance, these rules were defended and expanded (to include rules on non-Sunday days) in the 20th century by unions determined to secure adequate leisure time (MTI, 2000).

It was from this baseline – a small, highly regulated, sleepy corner of the economy – that the Danish service sector began to change in the 1960s and 1970s. New retailers began to emerge, consumer wealth began to increase, and policymakers increasingly saw the need for an updated regulatory regime to allow growth and development in consumer retailing.

Like other affluent economies, the late 1960s and early 1970s saw a dramatic transformation in the Danish economy and in retail trade for both regulators and businesses. As these changes were occurring, increasing consumer wealth raised purchasing power while population growth and urban geography raised and shifted the locational demand for retail services. In Denmark, the population during the "baby boom" era grew by about one fifth, increasing by around one million people.

Strong productivity growth in the post-war period had raised real incomes – 1950 GDP per capita had doubled by 1973 -- turning workers into consumers (GGDC, total economy database). Consumer habits were also changing, with increased car use from the 1950s onward (see Johansen, 1987; p. 147 and European Commission, 1976; p. 89). Globally, Denmark was moving toward joining the European Economic Community, which it would do in 1973, increasing competitive pressures. Denmark was joining the global economy and Danish policy makers recognized that changes would need to be made in order to remain competitive.

In particular, slowing productivity growth and rising inflation had policymakers concerned both with business innovation and price levels. Producers were the most powerful players in the economy, though this era was the turning point in Danish manufacturing's contributions to economic growth. From this point on, industry as a percentage of GNP would begin a long slow decline.[152] Rationalization was needed not only in manufacturing, therefore, but also in the rising service sector. Johansen (1987) writes: "The Population demanded new and better types of services, the growth process in itself demanded an improved infrastructure, and the politicians were only too eager to meet all the demands." Not unlike France and the United States, the era of services was beginning and political struggles began to emerge over the character of and the distribution of wealth in various service sectors.

Throughout the economy the focus was shifting to creating firms that would improve domestic service provision and compete in European markets. This meant liberalization of existing service rules. Some rules were already quite liberal. Unlike the United States, which has historically had active government regulation of mergers and anti-trust, the government in Denmark has historically done little to regulate mergers.[153] Denmark was the last EU country to impose effective control on mergers by law in 2000. This meant that during the 1960s sectoral concentration rose throughout the economy as companies sought to consolidate their economic power within sectors (See Andersen et. al, 2001, p. 191 and Johansen, 1987). Distribution was no exception, spurred by a slew of legislation from 1966-1973.

Few large-scale retailers in Denmark existed prior to the 1960s, but retailing groups now looked at opportunities for expansion. Large firms rapidly emerged, some through mergers and others as new entrants backed by industrial groups. These two paths, each with different ideas and interests, can be seen in the two leading firms that today dominate Danish retailing. One, FDB (Coop Denmark), is a direct descendant of the small shops that populated the Danish market in the 1960s. The other, Dansk Supermarked, was a product of liberalization and brought with it a new vision of how the Danish retail market should be organized. How these two firms – and the political constituencies they represent – fought and ultimately compromised over the retail sector helps explain the distinctive character to Danish retailing described above.

FDB (the Coops) and Dansk Supermarked A/S would soon dominate Danish retailing. Both of these firms nimbly applied the process innovations of the period such as self-service, centralized purchasing, larger stores, and more product choice and thrived

[152] Johansen places the high point in the period from 1956-69 (p. 22). Correspondingly, the growth in private services doubled as share of GNP from 65-69 to 1980). This was a result of both increasing wealth and increasing consumption of services in consumers overall basket of purchases. "Commerce" increased as a percentage of GDP from 18 to 20% during this period.
[153] The text of US merger and anti-trust policy in retailing has changed little over the years, though it has been interpreted by the government in a much more liberal, pro-business fashion starting with the Presidency of Ronald Reagan. See Wrigley (1992).

in the liberal market environment created after retailing reform from 1966-1973. Although both now exhibit the majority of the relational contracting features described in this chapter, they reached this stage after holding quite different initial business models and political preferences. The aggregation of these two positions through the broad retailing coalition has been the foundation of Danish retailing regulation and the subsequent relational contracting retailing model.

Dansk Supermarked A/S (DSM) is a general goods and grocery retailer, which since its inception has focused on cost as its main value proposition, while emphasizing large stores in its development. DSM was founded in 1964 in anticipation of regulatory changes in 1966 (these changes are discussed in greater depth on pages 114-116) and marked the entry of big business into the Danish retail market (Gardner, 2003). Dansk Supermarked was created as a joint venture of Heman Salling's Jysk Supermarked and A.P. Moller (now the Maersk Group), which has long been the largest firm in Denmark. F. Salling (the company that owned Jysk Supermarked) got the capital to rapidly expand while A.P. Moller gained immediate expertise and entry into a market that was set to rapidly expand and transform following the 1966 reforms, which took effect in 1968.

Until recently, it has utilized two primary formats: the discount format and the hypermarket format. Hypermarkets in Denmark were introduced by Dansk Supermarked through its Bilka stores (mixed food and non-food), of which it had four in 1976.[154] They expanded their hypermarket line in 1981 with Tøj & Sko a non-food hypermarket. Together, Bilka and Føtex (another hypermarket) today represent approximately 60% of Dansk Supermarked's total market share (25%). Interviews with the company indicate that top managers chose the hypermarket formats on a "commercial analysis basis", as they viewed this as the format most desired by consumers.[155] This led to political preferences based around longer opening hours and freedom to build both out of town and large formats.

DSM has always featured efficiency and cost as primary concerns and so was on the leading edge of introducing self-service formats in Denmark. As a large-scale commercial retailer, is has always used wage-based employees in their stores and historically held closed-shop agreements with HK. Its training system is typical of a Danish retail firm (distinguishing these from foreign firms operating retail businesses in Denmark).[156] The system is designed with basic training for all employees, focusing on applied knowledge, with an extensive system of both in-house and options for external training for motivated individuals and managers.[157] Managers account for 6.7% (in 1995),

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[154] See EC (1976) for more on the opening of these stores and their innovativeness in the Danish context.

[155] Interview with Erik Eisenberg, *informationschef* of Dansk Supermarked A/S.

[156] Following is a compilation of findings from interviews with DSM and FORCE (1995).

[157] DSM doesn't use HK courses but will pay for workers who want to take them if relevant. In addition to internal training – they have built their own training center in Jopland – DSM offers continuing vocational training through HE, acollaboration of DA/BKA and HK. Given recent labor shortages, this has begun evolving toward a two-track labor relations system, with "company" workers rapidly identified and non-career workers receiving little or no training.

far below the average ratio of 14% in Danish retail, though well above the American average of 2% (Wal-Mart is 4.5%).[158] Managers have very low turnover at only 8%, while turnover is much higher among cashiers, approximately 60%. Wage negotiations show a larger gap between managers and shop-floor workers than seen at many Danish firms. Managers are dealt with centrally in negotiations while lower-tier workers have decentralized store negotiations. The stores are highly unionized, with 40-50% unionization in the Copenhagen area and 70-80% in the rest of Denmark.

DSM's main competition is from Coop Danmark. The Danish Co-operative Movement, *Andelsbevaegelsen*, has a broader history outside of retail and was a dominant force in the rural Danish economy in the early 20th century (see Christensen, 1983; Christiansen, 1999; and Svendsen and Svendsen, 2000 for more on the origins and breadth of this movement). By the time of the 1931 law (on retail planning) a number of retail cooperatives had sprung up around the country, but they were primarily local and fragmented. These cooperatives continued to expand throughout the 1930-1960 period. The company that is currently the largest retailer in Denmark, FDB (*Fællesforeningen for Danmarks Brugsforeninger* or Danish Consumers Cooperative Society) was founded in 1896 as the merger between two smaller *Fællesforeningen*. It took on both the co-operative and manufacturing roles, producing its own coffee and chocolate among other goods (Co-op Danmark A/S website and Gardener, 2003). It steadily grew in size, though FDB remained a hub for purchasing, logistics, and education without actually operating shops.

FDB now controls the vast majority of the Danish Cooperative movement, either through its purchasing role or through its direct ownership of Coop Denmark.[159] FDB has been the largest co-operative retail organization in Denmark since its 1973 merger with the Copenhagen Cooperation Movement. Prior to 1973 FDB was a loose organization of independent cooperatives that fell under the FDB umbrella. After 1973 it began acting more like a singular firm, operating its own stores and allowing members to visit any of FDB's stores. Today, FDB continues to both operate stores directly under its control as well as serving as a central franchise for independent cooperatives that purchase goods from its wholesaling arm.[160] Both sets of members (those associated with Coop Denmark and the members of independent cooperatives that use FDB's wholesaling services) have the same democratic voting power in the governance structure.[161]

FDB has traditionally differed from in its store construction and location strategy (in addition to its cooperative structure), leading to a different set of political preferences.

[158] 2% number based on BLS occupational data for retail sector.
[159] The ownership structure is a bit more complicated now that the cooperative retailers in Denmark, Sweden, and Norway have combined to form Coop Norden. The merger was designed to increase purchasing power. FDB owns 38% of the Coop Norden structure and still exercises control over Coop Denmark.
[160] As a Coop, it has a democratic membership that controls the grand direction of the firm. Interviews the FDB CEO Thomas Bagge Olesen indicated that this contributes to the role of social responsibility the company attempts to embody.
[161] From interview with Thomas Bagge Olesen, CEO of FDB.

It has long operated a variety of formats, including supermarkets, higher-end convenience stores, hard and soft discounters, and hypermarkets. The firm credits this portfolio approach as one of its strengths, allowing the firm to rapidly switch strategies when necessary.[162] Accordingly, Coop has continued its focus on small in-town formats, meaning that Coop is one of the few large-scale retailers that actively supports regulations that block large stores or out of town development.

FDB has a similar emphasis on training than the one seen at DSM. FDB acknowledges the difficultly of getting college graduates or other educated workers, so it has built an extensive internal educational system that helps increase labor performance within their business. It offers in-house commercial education degrees, which are especially attractive since they are recognized outside the Coop structure. Workers can use their Coop degree as a stepping-stone for further study. This is all part of a way to attract people in what is a very tight and competitive labor environment. Workers are a scarce resource, and it not only wants to attract them, it wants to keep them in their system. Ideally, the firm aims to keep a worker for a long time, moving workers between formats and giving employees an idea of how the overall system works. DSM's goal is that 80% of its managers are recruited internally.

Together, the preferences of these two firms capture the positions, strengths, and weaknesses of the interests concerned with retail reform in the 1960s. Both sides wanted reform to shake up the sleepy status quo. Both were backed by a broad coalition of diffuse interest support. At the same time, both had limited economic resources and were constrained in their actions by social partners including workers and consumers. What emerged was a system that balanced market freedom with social protections for workers, consumers, and small shops. Protections included a planning regime limiting development, nationally-regulated opening hours, centralized bargaining for wages, and one of the most extensive consumer protection regimes in Europe, which was strengthened by the 1974 Trade Designations Act (see Zacco, 2010). Purely market controls were largely ignored, such as price rules over margins, supplier relations, or heavily restricted sales periods.[163]

Both small-shop retailers and new large-scale retail interests needed to balance the sheltered status quo alternative with a more interventionist planning system, with either pole untenable for strategic-economic, political, and interest group reasons. Strategically, economic growth and the construction of larger firms outweighed planning concerns. Danish population growth and density lagged behind that of many of its

[162] This happens primarily with the Coop owned shops, since they can't force the independents to switch (though presumably they would help if one wanted to). When a shift is made, previous staff members stay on during the shifts while a new manager with format-specific knowledge is brought in.

[163] The *Markedsforingsloven*, or law governing retail promotions, does restrict certain activities as selling below cost to protect small independent retailers – though there are ways around many of them. That said, low prices and sales are a major part of Danish retailing, and each of the leading retailers competes to have the most read weekly periodical of sale items, which are often cited as the most read weekly media in Denmark.

neighbors, making economic growth a higher priority than urban planning.[164] French market rules were in part caused by worries of foreign entries (particularly from German discounters), while the small Danish market made it less desirable and so foreign firms entered later, allowing Danish firms more time to adjust. Denmark needed to build large, European competitive firms as quickly as possible, and broad liberalization was seen as the most conducive method.

Politically, both major parties supported reform and unlike France, the Danish post-war period was dominated politically by the left, which relied less on shopkeepers and more on wage earners for its electoral support. The right supported liberalization primarily for ideological reasons, preferring a free market. The left, led by Jens Otto Krag (Social Democratic Prime Minister from 1962-1968 and 1971-1972), needed liberalization as a pre-condition for European integration, something Krag pursued vigorously. In addition, liberalization shifted power from small shopkeepers who tend to vote for the right toward wage earners, who tend to support the left. Analyses of Danish behavior have shown social class to be a primary determinant of left-right voting, with working class voters supporting the left and the self-employed strongly favoring the right (see Borre and Goul Andersen, 1997).

Finally, the broad interest group coalition of workers, consumers, producers, and retailers lined up in support of limited reform. Unions excitedly awaited the opportunity to organize the increasing wage-earning employees that would be created by liberalization. Consumer groups looked forward to lower prices and more retailing options.

Producers and other connected sectors, such as transportation services, saw growing opportunities in the distribution sector from liberalization. Many of the vertically integrated firms, such as dairy producer Irma, had reached a size to go national as solely as retailers, either eliminating or selling their production divisions (see EC, 1976, p. 113-114). As stated, the largest firm in Denmark, the Maersk Group, which is a major shipping and manufacturing concern, entered the retail market with a bang following the 1966 deregulation. In all, producers saw little risk from liberalization of a domestic market led by a few small co-operatives and much to gain through liberal policies designed to support export competitiveness. A 1980 European Commission report on the Danish economy showed that the share of exports in total output was rising throughout the 50s, 60s, and 70s and that manufacturers increasingly relied on foreign rather than domestic markets during this period (Ølgaard, 1980). Producers saw their opportunities to expand at home as limited and so largely ignored any fears about price competition with retailers in exchange for reforms promoting European integration and larger firms that could compete internationally.

[164] From 1950-1965, Denmark's population increased by only 11%, compared to 15% in West Germany, 17% in France and 22% in the Netherlands. Germany and the Netherlands were already much more (2-3 times) densely populated than Denmark while France has comparable density.

Small retailers tended to be organized into local cooperatives, which stood to benefit from a loosening of the rules as they could more rapidly expand purchasing operations and stores. More importantly, they could now sell to consumers other than their members.

In all, large-scale retailer weakness, small-shop retailer and producer strength, and a set of coordinated institutions drove overlapping interests from both the proponents of critics of large-scale retail development. The result was a series of retail reforms from 1966-1973 that liberalized the retail market while conditioning growth.

**Retail Reforms from 1966-1973:** Three acts can be seen as indicative of a larger trend of liberalization in the distribution and private service sectors: the Shops Act (1966), the Danish Milk Act (1969), and the Foodstuffs Act (1973). In addition to these retail specific reforms, legislators in the period passed the Danish Competition (and Marketing) Act, the Danish Licensing Act, the Danish Monopolies Act, and prices and profits legislation. Reforms in distribution became extremely important in the 1970s as competition and price issues rose to the forefront of economic goals. The goals were only lightly focused on growing the distribution sector per se, even though distribution as a percentage of GDP actually shrunk from 16.0% in 1950 to 12.9% in 1973 (Ølgaard, 1980).[165] Rather, retail was a means to an end, with liberalization seen as a way to support changes in manufacturing and agriculture, such as lower prices and greater competition, that could not be accomplished by reform in those sectors alone.

The first major retailing from was the Shops Act (1966), which introduced a new *Naeringsloven* (planning law). The new rules provided more freedom for multiple-store networks, allowing multiple-store networks within municipalities, making the co-operative and vertical integration requirements obsolete. They also allowed for co-operatives to directly own and operate their stores as well as allowing them to sell to non-members. While retailers still needed a license, from this point forward any retailer with a license was essentially free to trade how it wanted. Tradesmen (including butchers, bakers, etc.) no longer had to restrict products to their trade. The law included a transition until January 1st 1970 (EC, 1976). These rules remained quite liberal until 1977, when they began to be revised with hypermarkets specifically in mind. Though national, the rules were implemented at either the local or regional level. In all, this was the most important act in liberalizing the retail market, opening the door for both large store networks and large stores and was broadly supported by all groups.

Subsequent rules changes liberalized the markets for products that the new retailers were selling. Indicative of these changes was the Danish Milk Act (1969).[166]

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[165] As previous noted, this was a period when all private services had experienced slow growth. In addition, this is not to say that distribution was shrinking. Total trade was going up. Distribution trades experienced a real expansion in turnover of ~600% during the period. See Ølgaard (1980), p. 90.

[166] It is worth noting that the new Danish Milk of 1969 was repealed in 1972 as Denmark moved to join the European Community, as the wholesale components of the law still contradicted common market principles laid down in the Treaty of Rome. A new more liberal set of rules took its place.

Dairy retailing was long one of the most regulated service industries in Denmark, both owing to safety concerns and because of the strong political power of the Danish dairy cooperative movement, one of the first and most organized agricultural sub-sectors. Producer enthusiasm for retail liberalization meant ending the protections on retailing sub-sectors and breaking the privileged connections between manufacturing and retailing. In this case dairy retailing was thrust open to free trade. The result was also indicative of the effect of severing this connection on distribution market concentration, as the number of retail dairies dropped by 35% from 1970-1973 alone (EC, 1976; Table 2.11).

As Vogel (1998) has taught us, freer markets often bring more rules. Retailing was no exception, as consumers and producers both demanded new protections in a liberalized retail market, perhaps best seen in the Foodstuffs Act (1973). These rules were part of an overall modernization of regulation for the food retailing industry and pertained primarily to deep-frozen and refrigerated foodstuffs. While the rules limited the types of goods certain stores could carry, they proved a de facto liberalization, expanding the range of goods most shops could carry in practice, providing they followed a few simple steps regarding proper storage (see EC, 1976).

At a market level, liberalization immediately altered retail service provision in line with developments in other affluent economies. Market changes were not simply due to the freedom of a new liberal retailing environment, but also supported by underlying shifts in consumer wealth, changing population geography and transportation patterns, and market rationalization. Changing patterns of consumption are seen most clearly through consumer spending data.[167] Between 1968-74, consumption in real terms increased 18% (EC, 1976, p. 22). Some of this consumption can be attributed to population growth (ibid, p.26), but real consumption per capita still increased by 15% in these six years alone. Consumption also diversified as wealthier consumers demanded not only more goods, but also a wider range of goods.

Rapidly growing retailers quickly to adopt new strategies to gain market share and attract more of the growing demand for both more and new goods. In terms of process innovation, self-service rapidly replaced full-service. In 1963, only 15% of grocery shops in Denmark were self-service (FORCE, 1995 , p. 14). The move to self-service was intertwined with two related movements: growing product diversity and larger stores. A 1976 European Commission Report on the food-retailing sub-sector saw increased numbers of available products as so obvious that it did not even bother to gather data on it. It was an "evident fact, which need not be substantiated, that during recent years the range of foodstuffs has become substantially broader and deeper (EC, 1976, p. 27)."

[167] It is worth noting that these patterns affected sectors outside of retail as well and accordingly led to different patterns of consumption across retail sub-sector. The story being told here is perhaps most applicable to general goods retailers, though it certainly has relevance for nearly all sub-sectors. Food retailing illustrates some of the diversity. While increasing and diversifying consumption increased sales, a similar rise in restaurant consumption simultaneously dampened retail food sales (though not wholesalers who sold to those eateries).

Retailers also began building larger stores and larger format stores to house their increasing number of goods. In addition to replacing small formats with larger ones, all formats increased in size. The average sales area for supermarkets increased 77% from 1970 to 1980 and the average sales area for the already large hypermarket format increased 26% (FORCE, 1995, p. 15).

Workers initially saw only marginal benefits from these transformations, as wages initially grew only slightly as a percentage of turnover.[168] Wages did rise sharply during the period, more than doubling for both skilled and unskilled workers, but these gains were largely offset by high levels of inflation. The shift toward wage-earners did have the effect of increasing unionization in Danish retail, though unionization in retail trade never reached the levels seen in other sectors of the economy. This development set the stage for increasing employer-worker cooperation and training in the next period of retailing innovation.

The period from 1966-1973 set the basic parameters of retailing regulation for years to come. The economically weak but political cohesive small shops, faced with an uncertain future, had formed a broad coalition with producers, workers, and consumers that liberalized the retail market while preserving socially-driven rules designed to limit the disruption of this liberalization. The end result was a more even distribution of the gains from retailing growth than seen in the United States or France, though this bargain would be tested as the retail market consolidated and the formerly weak retailers began to grow in economic power.

After this spurt of legislation from 1966-1973, there was little consistency or dramatic change in policy from 1973-80, aside from minor liberalizing changes in opening hours legislation. This is not surprising when considering both the struggles of the broader Danish economy in the 1970s, which suffered through the oil shocks and turbulent growth like most of Europe. Likewise, it matches with the contested politics in the period in Danish politics, which historian Hans Christian Johansen (1987) labels as "A House Divided Against Itself". However, dramatic changes were brewing in distribution as the political coalition formed to open the retail market shaped the character of new large-scale retailers as they matured.

**1980-onward:** The period from 1980 saw the business and market movements begun in the 1970s not only deepened, but also transformed with the application of digital technology. Increased implementation and application of these tools allowed the business winners from the 1970s – particularly the retail winners – to buttress their market position, move into adjoining sectors, and beginning introducing new services. In addition, their market and political power began to reach a stage where retailers were the

[168] Measuring wage levels relative to turnover is a complicated process that hides a number of underlying and often conflicting issues. During this period the increasing number of wage-earners relative to owners or family members caused this ratio to increase while increasing use of self-service created downward pressures on wages. Higher demand for workers stood to raise wages while the entry of more women into the workforce threatened to lower wages. There was also extensive variation by subsector. For detailed data on 1970-1974, see EC, 1976, p. 28.

dominant political and economic players in regulatory reform. Nevertheless, the competing vision and the role of social partners continued to mean a balance between liberalization and social buffering.

The two major winners of the 1970s, Dansk Supermarked and FDB (the Coops) followed different paths to success. The Cooperatives grew by acquisition; organizing small independent retailers. Across its network the firm emphasized format flexibility, using technology tools to nimbly array their growing portfolio of formats, increase efficiency through centralized purchasing, and a robust system of in-house vocational training. In stores, the business focus sought to attract customers through products as much as through low costs (see Juhl et al., 2002).

Dansk Supermarked followed the success of the Coops by creating a system of centralized distribution and purchasing. It also increased labor training and supplier cooperation. In contrast to the Coops format and customer-attraction strategies, however, the firm focused on large format, discount stores and a strict low price strategy.

The shift toward a concentrated sector dominated by two players can been seen through data on the number of shops organized by wholesale firms, retail firms, and independently and the market shares of these firms. In 1972, the breakdown of shops was 55% wholesale-organized, 28% retail-organized, and 17% independent. In 1980 these numbers had begun to shift toward the new retailers, but only slightly, 49-28-22. By 1990, the dramatic re-organization of the sector was apparent. Wholesale-organized retailers controlled only 22% of Danish shops, while retail-organized shops constituted 56% of shops and independents the remaining 22%.

FDB (Coop Denmark) and Dansk Supermarked (DSM) were the clear winners during the re-organization. Take for example, grocery turnover. In 1982, DSM controlled 7.8% of the Danish market while FDB and Irma (a firm FDB bought in 1982) controlled 36.5% for a total of 44.3% of the Grocery market. In 1990, these two firms controlled 51.9% (15.2% and 36.7%). While FDB's share did not increase appreciably, this static market share hides increased control and ownership over that share, as it purchased and began to operate formerly independent chains that were already operating under the FDB umbrella by utilizing its wholesale role.

Non-affiliated, independent stores, therefore, declined and market power increasingly concentrated with the leading players. From 1970 to 1995, the number of stores in the convenience goods sectors and specialty foods sectors decreased by approximately 60-70% (Sorensen, 2004). Over 40 years, Denmark moved from a retail market with one of the highest percentage of independent retailers (albeit many of them organized into small co-operative networks and purchasing associations) to one where two firms controlled approximately 60% of grocery turnover.[169] The dominant position

[169] By 2005, DSM and Co-op controlled 28.4% of the total (not just grocery) market in Denmark. In other words, more than 1 out of every 4 DKK was being spent under the roofs of these two companies. In contrast, in 2008, the top two US retailers in sales terms, Wal-Mart and Home Depot, controlled 10.2% of the American retail market. 2008 market size data from US census bureau, company data and rankings from Forbes.

of these firms gave them the political clout to push for further liberalizations to buttress their position. As an example, retailers began broadcast advertising in 1988 after bans on these advertisements were lifted in response to heavy lobbying.

It was not growth in market share, however, that most distinguishes 1980s retailing from previous periods, but rather the role of technology in creating in store changes. The 1980s saw leading retailers embrace the use of information technology in retailing, including bar-codes on products, scanning systems at checkout, software-based demand management systems, electronic based training, electronic payment systems, and more. Both organizations were early adopters, though FDB was only able to ensure cutting-edge technology in the stores it owned, being limited to an advisory role for its independent members. Both retailers experienced the four stages of technology implementation describe in chapter III (routinization, data analysis, new business strategies, and blurring sectoral lines) and throughout these changes moved toward the high road relational contracting strategy.

Danish retailers were early adopters of retail technology, but this push was led heavily by players outside the retail sector. During the 1980s the Danish banks created Dankort, a Denmark specific electronic payment system. Banks initially helped retailers by giving them the terminals necessary for the system, starting in 1986. This plan backfired on retailers, however, when initial agreements expired and the banks started charging retailers fees for electronic transactions.[170] Despite these costs, the Dankort system helped retailers to upgrade technology and payment systems faster than in many neighboring countries.

The liberalization of the early 1970s set the stage for a period of rapid market change in the distribution sector, marked by growing concentration in the hands of a few large firms, decreasing numbers of stores, particularly independent stores, and increased out of town development. While these changes were most notable in food and general goods retailing, they affected the entire sector to some extent. These changes did provide a number of the economic benefits expected by coalition partners.

For one, Danish retailing experienced strong productivity growth. From 1980-94 productivity rose 94%, an annualized rate of almost 5%. By 1994, value added per hour was 52% higher in Denmark than in the United States.[171] Denmark retailing also helped stabilize consumer prices. Between 1986 (first year data available)-1995 domestic producer prices for consumer goods rose an average of 4.0% a year, but consumer prices only rose 2.9% a year (OECD, 2010). Retailers certainly played a role in this gap. Retailers were also leaders in technology diffusion. In 1995, EAN scanner data[172] and store outlet data from Euromonitor show that despite having approximately one-fourth

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[170] The fight over payment systems continues and is perhaps the issue that EuroCommerce (the EU level retail lobbyist) is most active and concerned with, precisely because so many national retailers lost that fight and had systems imposed on them.

[171] Statistics calculated using the Groningen 60-industry database. In 1994, US VA/hr was \$16.54 vs. \$25.18 for Danish retail workers. Conversions based on average exchange rate for period from 1-1-94 to 12-31-94.

[172] Thanks to John Beck for this data.

the number of retail outlets as the Netherlands, Denmark actually had more total outlets with sophisticated scanning systems in place (approximately 10% of stores versus 2% in the Netherlands). Together, these benefits also helped Danish retailers protect against foreign entrants.[173]

At the same time, the broad coalition that had supported retail liberalization, including municipal governments, workers, consumer protection groups, and environmental groups began to worry about how these changes were causing social, environmental, and even market problems. These concerns included: large out-of-town developments starving in-town retail options[174]; consumer access to retail, particularly food retail via non-car alternatives[175]; market concentration; the health of independent retailers; and the growing power concerns vis-à-vis small suppliers (retailers as monopsonists).

Denmark has traditionally had one of the most "evenly distributed and finely masked retailing" systems in the world. This has meshed well with social patterns, such as in-town shopping and low car ownership. In the 1980s, however, a government report predicted that by 1992 1.6% of the population would be more than three kilometers from a food outlet (Kiel and Nilsson, 1983, p. 96).[176] Starting in 1981, the government began

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173 MNCs in retail are a relatively recent phenomenon. Aldi (North) was the first foreign retailer to enter the Danish market in 1977. In general, Danish retailers have been successful exporters of their stores than foreign firms have been as entrants. Part of this stems from the small Danish market, which makes the substantial start-up costs not worth the risks for many large retailers.

174 Unlike Germany or the Netherlands, after the 1966 reforms, there existed few if any planning restrictions in Danish retail trade until the 1990s, opening the door for large store development. The linkages between regulation and format outcomes in the German case provide powerful evidence of the effect of planning rules. The German regulations fall under the *Baunutzungsverordnung* (regulations on the use of buildings) and are a combination of both locational and size rules (see Barth and Hartmann, 2003). Since 1977, rules have limited to the construction of large scale buildings to central areas. These size limits, starting at only 1,500 $m^2$ have decreased over time, and the approved sales area was lowered to 700 $m^2$ in 1996. These size limits are perfect for discounters; the average selling space of Lidl and Aldi are 686 and 666 $m^2$, respectively, as discounters are designed to sell fewer items at lower cost (the first discounters were built to hold 600 items – the maximum number a cashier could remember). In contrast, they severely limit larger formats, even supermarkets. Opening hours rules, which until recently have been the norm in Germany, also support small stores. Dutch planning rules have been even stricter in the post-war period and until recently have almost entirely curtailed both large retail developments and out of town developments (see Evers).

175 Given urban density in Denmark (~85% urbanized), car ownership is low. In the early 1990s 305 out of 1000 inhabitants had an automobile compared with 435 in the UK and in 2000 43.1 % of households had 1 car. More important for our discussion, almost a plurality 47.2% (of households) did not have access to a car (Gardener, 2003).

176 This concern shows both the importance of social outcomes over purely economic concerns in Denmark as well as the different perspective of a small, urban country. In the United States, the focus is often on the number of citizens both some distance (for instance a mile) from food outlets AND without a car. A 2009 study by the USDA estimated that this was the case for 2.2% of all

to take proactive steps to help retailers in rural areas, such as locating public services in them (FORCE, 1995, p. 16).

Retailing in Denmark had again reached a crossroads, but in contrast to the 1960s, the challenge was not catalyzing growth in the retail sector, but reigning in disruptive development that was generating social concerns. A broad coalition of retailers, government, and social partners was once again called upon to find a solution to the social disruption of large retail formats, without destroying productivity and employment growth. Within the retail sector, fractures appeared about the best way to deal with these issues. One side, led by DSM, largely ignored social concerns, preferring business as usual. The other, led by Coop, was more eager to accept increased sectoral regulations to mitigate the social consequences. Part of this was due to its business model more heavily emphasizing small stores, though the firm was at the same time swayed by input from its members as concerned consumers. Interviews with FDB highlighted the importance of its governance structure for its position on consumer issues. As FDB's CEO put it:

> "Consumer issues are separate. We get our guidance on these issues through their democratic structure. This rarely brings up issues that they aren't aware of, but gives our organization a lot of legitimacy in decision making with the backing of 1.6 million members."

Coop's coalition was the broader of the two, backed by diffuse interest group support and a broad coalition of social partners, including workers and local governments. The collective power of these groups and the diffuse interest group support of Coop's own members gave this second coalition a greater measure of legitimacy. Although both sides were represented in negotiations with the central government, it was the second position championed by Coop favoring more controls on retailing development that won the favor of policymakers. Although this is not surprising, it is worth stressing. With the mixture of social and economic concerns in the retail sector, broad coalition support is a prerequisite for setting retail policy.

In 1995, a new round of legislation began to emerge, designed to limit practices such as large formats and out-of-town developments seen as disruptive while preserving the market freedoms that generated economic benefits. To control un-desirable formats, regulators piggybacked on the 1992 Planning Act, which provided an integrated and simplified set of provisions on zoning and planning that were previously part of several acts (Ministry of Environment and Energy, 2000). It sought to create "appropriate development", particularly with a focus on revitalizing center of town development. This combined concerns for planning issues with a larger push for simplified government under the government headed by Poul Schlüter of the Conservative People's Party.

Following a six month "planning stop" in 1995, the rules laid down in the 1992 were customized and extended in 1997 with the passage of strict new planning laws on

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households. Given this finding, the percentage of the population more than three kilometers from a food outlet (with or without a vehicle) certainly far exceeds the 1.6% level that raised alarms in Denmark.

Danish retail development, culminating a planning and regulatory movement begun in 1992. Danish planning occurs on three levels: nationally, regionally (14 counties plus the Great Copenhagen Development Council), and municipally (275 before 2007 and 98 after). The 1992 Planning Act implemented the principle of "framework management and control", which dictates that planning at any level must agree with rules established at the higher level (1992 Planning Act).

Nevertheless, a 1995 report by the Spatial Planning Department within the Ministry of the Environment, now under the control of the Social Democrats headed by Prime Minister Poul Nyrup Rasmussen, found that the 1992 rules had done little to slow large out of town retail development. In addition to threatening in-town retailers, these developments were seen as environmental threats, problematic for "weak consumers" including the less mobile, and possible drags on employment (Sorensen, 2004).[177]

In particular, retailers were using a common strategy (seen commonly in a variety of national contexts) by playing up the competition between localities (see Sorensen, 2004 for three case studies). Retailers would use the threat of moving location – and hence taxes – just across municipal lines as a way to force the hands of planning authorities. Retailers also used loopholes in planning rules, such as separating food and non-food sections of stores in two stores under different names, with only a wall separating them, allowing them to effectively double the size of stores allowed.[178] Such unilateral action by retailers was not well received by either the municipalities or the government. The 1997 Act solved the dilemma faced by the regions and municipalities by simply blocking large out-of-town developments.

On the other end of the spectrum, while planners were contemplating how to stop hypermarket development, the 1995 Shops Act was latest and most dramatic step in the steady process of liberalizing opening hours. The government viewed the vale of the Shops Act in primarily economic terms. In its analysis after the fact (MTI, 2000) saw economic benefits to employment and competitiveness[179] coupled with welfare benefits to consumers.

Labor market policy also continued the pattern of attempting to balance social and economic goals. Even in the Shops Act analysis, the government conceded that increases in employment from extended hours must be balanced against the possibility that irregular hours might reduce worker welfare. Labor market reforms in 1994 and 1996

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[177] It is worth noting the contrast with France, where leftist governments made a distinction between employment and salaried employment, a traditional voting bloc of the left. See Betrand and Kramarz for more on how these politics played out at the local level in France.

[178] DSM attempted to do just this with its A-Z warehouse stores, before deciding that the format was simply untenable under the new regulatory regime. Interview with Erik Eisenberg, *Informationschef* of DSM A/S.

[179] The government report suggested that 1995 Shops Acts anticipated positive effects for both small and large shops. Interviews with Dansk Supermarked contradicted this view, suggesting that small shops have far less to gain from opening hours liberalization than large shops. The 2000 report weakly confirms the later view as large shops increased sales more than small shops in the period following the Act.

deepened the "flexicurity" system in Denmark. Throughout these reforms, the notion of increased market flexibility was blended with increased active labor market and activation schemes designed to re-insert displaced workers (see Jorgensen, 2000 and Madsen, 2006).

The Retail Planning and Shops Acts of 1997 and 1995 did little to stop the trend toward market concentration and continued to provide a growing market for incumbents, while cushioning many of the social aspects of large-scale development. Danish opening hours are still regulated, flying in the face of a 7 day a week 24-hour trend seen in many other countries.[180] Additionally, the rules effectively closed large out-of-town shop development in Denmark, a fact that was confirmed in interviews with both major players, reshaping the strategies of incumbents.[181] As such, the leading retailers have focused their efforts on urban development, accelerating the decline of independent shopkeepers.

The reforms of the 1990s show the power of forming broad coalitions in Denmark's coordinated institutional environment. Sensing dissatisfaction with the current regime, both political parties shifted their strategic-economic goals for the retail sector to align with the new interest group coalition concerned with planning and the social consequences of unfettered retail growth and the consensual of nature of Danish politics also meant both sides found aspects to support.

For the right, the 1992 planning reforms that were adapted and extended into retail trade were part of a larger movement to streamline Danish government and regulatory efficiency. For the left, these changes were adapted and applied in 1997 by the Social Democrats in response to growing concerns about the environmental and social issues from their electorate (see Borre and Goul Andersen, 1997 for more on Danish voter and party re-alignment). Furthermore, the Social Democratic position has always been tilted toward labor over business and both major reforms can be seen as labor increasing. Slowing retail productivity has certainly helped to expand retail employment while extending opening hours does the same.[182]

Broad consensus existed over the need for planning reform, and it is worth noting that the 1997 law was preserved when the right, heading by Prime Minister Anders Fugh Rasmussen of the Liberal Party, returned to power. This was a surprise to some commentators (Sorensen, 2004), but should be seen as a specific application of a general process started by the right. In all, while the rules have been adjusted slightly since their

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[180] Opening hour rules now allow stores to be open 24 hours a day Monday through Saturday, though 7-eleven is the only major chain in Denmark to take advantage of this flexibility. Weak consumer demand for all hours shopping coupled with high labor costs for non-routine hours leads to low profitability during late night hours. Even Døgn Netto (which means all the time Netto) is only open until 10.

[181] In fact, it may have furthered market concentration by encouraging the large players to expand through acquisition rather than development.

[182] It will be interesting to compare and contrast these motives with those in France, where an "increased work" logic was combined with liberalizing reforms on store construction.

passage (store size adjusted slightly upward for instance), retail planning rules appear to be a stable regulatory pattern for the time being.

At the same time, economic reforms designed to control retail market movements would have met extreme opposition, with few groups ready to champion the cause. While Danish consumers would have certainly appreciated attempts to protect town centers, they largely exhibited rational ambivalence to any proposed reforms given their concerns about price levels.[183] In addition, unlike planning, both leading Danish retail firms (and the distribution sector more generally) would have vociferously opposed any price or market distorting rules that decreased their scale advantages.

The current regulatory pattern in Denmark attempts, therefore, to strike a balance between periods in its past of slow and socially disruptive growth. In doing so, policymakers hope to preserve the market features that have made Danish firms early technology adopters, business model exporters, and contributors to economic growth while at the same time remaining highly responsive to social goals set by a broad coalition of social partners. When retailers have been aligned with this coalition they have been quite successful in setting their own policy agenda. When fractures appear, however, the position more aligned with the broad coalition of local governments, workers, and consumers has ultimately triumphed. Both economic and social goals continue to be routinely invoked in follow-up reports, which are required in both the Planning and Shops Acts every five years.

In both the 1960s and 1990s, reforms in Danish retailing have sought to walk the path between unfettered development and slow growth. In the 1960s, a broad social coalition agreed on the need to liberalize retail regulation, ushering in a new era of growth and development. During the 1980s new business models and technology allowed powerful retail players to consolidate power. Although these firms provided numerous economic benefits, including productivity and employment growth, the continued development of the retail sector led to a new set of social concerns during the late 1980s and late 1990s. Splits appeared within retailers as to how to respond to these concerns politically, with the ultimate victors returning to the broad coalitional approach of the 1960s. The result was a set of planning acts in which retailers voluntarily reigned in out-of-town and large-format development in return for political peace.

## V. Conclusion

If the lean retailing model is marked by retailers and consumers cutting suppliers and workers out of the benefits of retail productivity growth and the vertical integration model is about retailers and insider producers and workers attempting to capture all of the value themselves, the relational contracting model exhibits a more even distribution of wealth between retailers, workers, producers, and consumers and a regulatory system

[183] These concerns extend far beyond actual conditions. In their extensive investigation of voter knowledge and perception of Danish economic conditions, Paldam and Nannestad (1999) find that the number of Danish voters who worry about price increases is twice that of those with knowledge about actual inflation.

designed to preserve that balance. Nevertheless, this model, as seen in the Danish case, still provides numerous competitive advantages for retail firms; advantages built on a higher quality and loyal workforce and long-term stable relationships with suppliers. Consumers benefit too, but not in the form of lower prices. Rather they gain a retail system that is more attuned to their social goals, such as access and locational advantages.

The relational contracting system developed where economic uncertainty and institutions – both electoral and retail specific, the shape of the retailer sector, and the power resources of retailers relative to producers led retailers to form broad coalitions with workers, producers, consumers, and local governments. In Denmark, these coalitions opened up markets, but with an eye toward reinstating regulation where growth proved disruptive. This meshes well with previous literature on both small states and Denmark in particular. Katzenstein (1985) writes that the strategy of small states is "flexible, reactive, and incremental." While Katzenstein was talking about industrial policy, his characterization matches well with the stepwise and discussion-based Danish approach to retail policy.

Similarly, the retail case matches well with Danish policy in other areas, most notably in labor markets. The Danish system of 'flexicurity', i.e. one that combines the promotion of labour market flexibility with the provision of social security has recently been identified as sustaining the country's 'institutional competitiveness'.[184] In a similar fashion, retail policy has focused on allowing retailers market freedom, while buffering social groups, such as consumers, workers, and local governments, against the disruptive consequences of that freedom.

Both retail competition and flexicurity share an ideological focus on balancing free markets and active social policies like training systems as a primary protection.[185] Denmark's unique system of 'protected mobility' contrasts with many other European countries by granting little protection *against* unemployment through statutory rules preventing worker lay-offs.[186] Instead, the country offers social protection in a different way by providing protection *during* unemployment and promoting chances for workers to increase their *employability*. Similarly, Danish retailing rules offer few protections in the marketplace while attempting to lessen the costs of that competition on social partners.

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[184] See John L. Campbell, 'Institutional Competitiveness – A Broad Perspective on Competitiveness', paper prepared for presentation at the Danish Globalization Council's meeting on 'Challenges for Cohesion in a Globalised World', Copenhagen, 23-24 February 2006, http://www.globalisering.dk (accessed 08 July 2006).

[185] See e.g. Peer Hull Kristensen, 'Business Systems in Age of the "New Economy": Denmark Facing the Challenge', all in Campbell, Hall & Pedersen (eds), *National Identity and the Varieties of Capitalism: The Danish Experience* (McGill-Queen's University Press, 2006); alternatively, see Campbell, 'Institutional Competitiveness – A Broad Perspective on Competitiveness'.

[186] See e.g. Peer Hull Kristensen, 'Business Systems in Age of the "New Economy": Denmark Facing the Challenge', all in Campbell, Hall & Pedersen (eds), *National Identity and the Varieties of Capitalism: The Danish Experience* (McGill-Queen's University Press, 2006); alternatively, see Campbell, 'Institutional Competitiveness – A Broad Perspective on Competitiveness'.

At the same time, this account adds interesting twists to the way that political economy scholars should view the Danish – and perhaps other Scandinavian cases. For one, it suggests that the service sector can be a strength, not a weakness of these high-wage, high-equality countries. More specifically, it discounts those who view vocational training as out-dated in an era of non-specific tasks and growing service employment. In addition, it provides more evidence about the mechanisms by which concertation among social partners shifts policy.[187] The important role that diffuse interest group support lends to policy positions implicates national "structure" as much as "institutions" in shaping policy. It is this interplay of national context and political and economic coalitions with regulatory institutions that drives changes both in policy and firm strategies.[188] It also gives insights into the economic conditions – in this case a new and uncertain market – most conducive to exhibiting concertation. Accordingly, as the uncertainty has declined for the major retail players, so has their desire to work with a broad coalition in setting policy.

If the Danish case is one full of coordinated politics, the next case, the French, illustrates how permanent contestation in politics can also drive innovation, albeit in quite different management direction. The rise of retailing in the United States pushed retailers to dominate their workers and suppliers, both economically and politically. In Denmark it led retailers to work with suppliers and producers as partners in stores and at the bargaining table. The French case falls between these extremes, with a mixture of partners and competitors, engaged in an active, ongoing series of political fights.

[187] By concertation I mean collaborative forms of policy making among organized actors. Neo-corporatism refers to institutional linkages and a constellation of organized interests, see Schmitter (1979). Concertation often takes place within neo-corporatist channels, but does not have to. For more on this topic, see Baccaro (2003).

[188] For a more structured theoretical view of this argument, see Goertz, 1994 on context; Hall, 2010 on coalitions.

# Chapter VI: France: Vertical Integration and the Politics of Permanent Contestation

*Lui, accusait les grands magasins de ruiner la fabrication française; trois ou quatre lui faisaient la loi, régnaient en maîtres sur le marché; et il laissait entendre que la seule façon de les combattre était de favoriser le petit commerce, les spécialités surtout, auxquelles l'avenir appartenait.*

*He accused the department stores of ruining French manufacturing; three or four made the law, reigned supreme on the market; and he let it be known that the only way to combat them was to favor small business, especially the specialists, to whom the future belonged.*

*- Emile Zola (Au Bonheur Des Dames, 1883)*

## I. Introduction: French Retailing and the Politics of Permanent Contestation

The plot of French retailing has remained largely unchanged since Zola wrote his fictional classic, *Au Bonheur des Dames*, which parallels the real history of Paris's (and the world's) first department store, Au Bon Marché, opened in 1852. Retailers are still accused of ruining French manufacturing, politicians still create laws designed to favor small business, and through it all, a handful of large retailing firms dominate the market; in one manner Zola was incorrect, the future did not belong to the specialists. French large format retailers dominate markets that are no longer limited to just Paris, however, but include both France's and increasingly other national markets around the globe.

Despite this considerable success for French retailers, the structure and competitiveness of the French private service sector rarely registers in scholarly discussions of French political economy. Squeezed between French industrial policy and the largesse of the public sector, the private service sector has been an afterthought for both policymakers and researchers alike. Retailing does not break this mold. Napoleon's famous repurposing of Adam Smith's "nation of shopkeepers" as a derisive epithet for the United Kingdom set the tone for the mentality that France's strengths lie in the industrial sector. This belief has largely continued despite the fact that 5 of the largest 25 retailing groups in the world are now French (Carrefour, Auchan, E. Leclerc, Intermarché, and Casino).

Ironically, the French state's obliviousness to the strength and innovation of its retailing firms may have spurred, rather than hampered their success. Raised in a political arena of permanent contestation with small shops, workers, and producers, French retailers have developed a unique model of competition – vertical integration – finding the product and service complementarities that add value to retail services.

French retailers seek to capture additional value along each of the five dimensions of competitive strategy looked at in this study: product strategy, supplier relations, labor use, service value-added, and digital connections.

The story of how they came to this approach involves an endless series of political showdowns at a variety of levels between large-scale retailers and small shopkeepers, suppliers, and workers over the structure of and distribution of wealth in the service sector. The coalitions on each side of these fights have a quicksilver quality, shifting fight-to-fight and issue-to-issue, with neither enduring compromises nor unequivocal victories. In response, retailers have increasingly developed dual strategies in regards to labor and suppliers, building strong partnerships with insiders while continuing contestation with outsiders. Neither the retailer dominance seen in the United States nor the more general partnerships seen in Denmark ever developed.

The answer lies in the dual nature of French retail politics. Although French retailers have been good at forming pro-business coalitions when necessary to solve national political issues and forestall further state intervention, they have been unwilling to partake in longer-term forms of consensual policy-making and therefore unable to definitively resolve local or issue-specific political fights ranging from planning to prices.

Unlike the liberal American or institutionally dense Danish cases, French retailers operate in a middle ground, with a mixture of institutions that balance fragmented interest representation with neo-corporatist concertation. French retailers have leveraged this structure to join pro-business lobbying coalitions at the national level, but have been unable to form a more enduring coalition at either the local level or with other business groups on the structure and distribution of market outcomes.

The dualistic structure of retailer coalitions is matched by divided political loyalties, especially on the French right, with support for both more markets and more planning. Split by its dual constituencies (big business and the *petit artisan*), the French right has attempted to balance both goals and create a regulatory environment based on local planning, reduced risks, and managed competition. Rather than dampen the innovation of large-retailers, however, this system created protected rents for retailers. Protected rents, a consistently antagonistic political environment, and rules that discouraged the type of retailer-supplier dominance seen in the United States led large scale retailers to expand their activities into tangential sectors, putting them in competition with producers for value along the consumer products value chain.

The rest of the chapter will lay out the French vertical integration model, highlighting the unique competitive strategy reliant on private labels and service value-added, the dualism in supplier and labor relations, and the implementation of digital tools that underpin it. The chapter will then develop the argument as to why this model emerged, highlighting the combination of motive -- permanent political contestation over the rules of the game -- and opportunity in the form of protected rents. A final section will conclude by offering some suggestions as to how the retail cases should change our understanding of French political economy and the differences in the actions of the French state in regard to manufacturing and services.

## II. The Vertical Integration Model

**Products:** At the forefront of the vertical integration model is a product strategy centered on high levels of private label goods across a variety of price points. For vertical integrators, private labels are not about competing on price or forcing manufacturers to lower costs. Rather, they are a core component of the value proposition offered to customers.

Taking direct control over product strategy presents vertical integrators with a unique set of opportunities and challenges. Controlling more of the value chain carries higher risks and rewards. Although vertical integrators have better quality control and can match product features with carefully targeted customer niches, they also carry promotional and design costs not borne by lean retailers.

Again, this is not to say that vertical integrators are the only retailers carrying private labels. Similarly to lean logistics, some level of private label strategy is ubiquitous among large retail firms. The level is the key; in vertical integration countries like France, private labels are a default strategy for scale retailers, occupying a much larger portion of sales. These retailers also offer private labels at a variety of price and quality points, rather than as simply low-cost alternatives to nationally-branded goods.[189]

**Supplier Relations:** Supplier relations for vertical integration firms have evolved two tracks: heavy levels of control/ownership with dedicated suppliers and price focused contestation with powerful national brands. Although not all private label goods are directly owned or even directly produced by the retail firm with the label on the product, retailers are focused on maintaining control of these products in order to capture value through close suppliers interactions, going beyond contractual relationships and take on activities in design, branding, and the production process. At times, direct ownership of the producers is the result, but more common are long-term subsidiary relationships between a powerful retailer and weaker producers. As a Casino Group memo put it, "our role is no longer as a passive distributor of products elaborated by the large industrialists. We want to be a selector of products, capable of *actively* orienting our commercial politics in collaboration with the whole chain [emphasis added]."[190]

Relationships with more powerful nationally-branded suppliers also developed to allow retailers to capture value added from promotional activities, through the "back margin" systems where retailers received payments from producers for in-store marketing activities. Although newer regulatory regimes have placed pressure on the back-margins system, French retailers still seek to use their scale to control pieces of the value chain in their relationships with suppliers.

**Labor:** Labor usage in vertical integration retailers also has evolved dual tiers, with a higher-tier value-adding set of workers and a low-skill, limited-task set of workers. French retailers have had to contend with medium levels of unionization and a patchwork of employment regulations designed to protect insider full-time workers while layering

[189] For instance, Tesco, a British firm, has eleven private label orange juices at eight price points and eight private label yogurt brands at seven price points (Kumar and Steenkamp, 2007).
[190] "Engagements de collaboration PME, Group Casino" 3-31-10, translation by author.

flexibility with part-time workers. This regulatory dualism has led to quite different labor strategies for leading retailers between their relatively well-paid and trained full-time insiders, including managers, and poorly paid, part-timers. The roles and tasks of the full-time workers are similar to those emerging in Denmark, where full-timers complete complicated knowledge infused tasks with part-timers filling low-skill stocking and checkout roles.

French labor relations are also quite hierarchical, with a large management-shop floor gap. French firm strategies emphasize massive hypermarkets, which tend to be more hierarchically run than smaller stores with fewer workers. This may explain France's high worker-manager ratio, which was 20:1 in self-service food retailing in the 1990s (Source INSEE reported in Force, 1994). In Denmark, a country of smaller stores and a more permeable worker-manager barrier, the ratio is 15:1.[191] French firms have also been at the forefront of labor-shifting technologies in store, passing tasks to customers through technology in an effort to reduce labor costs. Examples include extensive use of self-weighing in produce and self-checkout.

Table 6.1 shows a comparison of labor relations in the American and French retail sectors (see also table 4.1, page 76 in the US case chapter). High levels of employment protection legislation not only raise wages, they make hiring and firing difficult (one reason French retailers are increasingly turning to the flexibility of temporary and part-time contracts). These rules reduce labor turnover and increase the incentives for French retailers to invest in worker training. In turn, increased training allows French workers to work more effectively and take on more complex tasks. These investments appear to be paying off, as French retailers are getting far more sales per hour worked and higher numbers of items scanned a minute for only slightly higher labor costs. Surprisingly, as in the Danish case, American workers may in fact be better educated before receiving their retail training. 51% of American retail workers have above a high school education, compared to only 10% in France (NRF, 2010; Russell Sage Foundation, 2008).[192]

A comparative Russell Sage Foundation study of work in the retail trade sector found that France falls in between the "task centered" organization of work seen in the US and the "function centered" work organization seen in Germany and Denmark. In other words, workers are given more autonomy in task completion than in the United States. A big reason is that French workers are more highly trained and competent. Almost 50% of French retail workers have a *Baccalauréat*, the equivalent of college entrance exam and although there is no system of vocational training for retail workers, French retail firms typically engage in medium levels of in-house training.

[191] These are 2009 Danish figures. Source: StatBank Denmark (2011). This includes "Top Managers" and "Employees – upper level" as managers.

[192] Of the 90% of French workers with high school equivalency or less, half (45% of all workers) have less than high school. In the United States, of the 49% with a high school equivalency or less, only about a quarter of workers (12% of all workers) have less than a high school education. This further underlines the impressive accomplishments of French worker training in the retail sector.

Table 6.1 Labor Characteristics and Performance of French and American Super-Hypermarkets, 2004

| | US | France |
|---|---|---|
| Sales per hour worked ($'s) | 130 | 200 |
| Total labor costs per hour | 12.10 | 13.70 |
| Target items scanned at checkout/minute | 20-25 | 40-45 |
| Education, % above H.S. education | 51 | 10 |

Source: Russell Sage Foundation (2008), NRF (2011)

Like in the Danish case, flexible, well-trained workers make sense in a high-cost environment, since increased productivity can compensate for lower levels of labor inputs. At the same time, French retailers also tend to eliminate or pass on to customers service activities typically filled by workers in low-cost environments like the United States. Take checkouts for instance. In the United States, cashiers typically have targets of 20-25 scanned items a minute. In France, target rates are typically between 40-45 items a minute. French rates are not higher simply because the workers are better trained. In the US, workers – either the cashier or another worker – are expected to complete additional tasks, like weighing bulk and produce items or bagging groceries. By passing these tasks to customers, French retailers save on labor costs.[193]

Reducing labor costs in areas such as checkout, however, allows French retailers to improve service quality in other areas, such as specialty departments. In food retailing, specialty departments like butcheries, bakeries, or cheese counters require higher levels of craft-like skills. French retailers are more likely to perform these tasks in house than American retailers, who typically contract out such work or have it performed off site. The tendency for French retailers to invest in specialty departments has increased over time as French customers continue to demand these services and the competition has shifted from a pure price basis to a mixture of price and service quality.

**Service-Value Added:** Saved labor costs can then be used to improve service quality in areas that concern French consumers, such as having a knowledgeable (and more costly) butcher, baker, or *fromagier* in-store. In general, French vertical integration firms have developed much higher service value-added strategies in both stores and products than their lean retailing counterparts. Müller-Lankenau et al. (2005-2006), in their broad survey of European retailing, found that all of the French retailers surveyed (including Casino, E.Leclerc, Intermarché, Auchan, and Carrefour) had "extensive use of value-adding features (p. 97)." They also note that hypermarkets, a dominant French

[193] Reducing service quality also increases VA/Hr., the primary statistic used to measure productivity, though it can be argued it does little to improve actual productivity. This is one of many problems related to measurement in comparative retail analysis.

format, tend to "offer a wide range of services and other customer-retention measures (p. 96)."

Different historical patterns of market building and competition offer a partial explanation. Earlier network buildouts in France coupled with rules that dampened price competition between large retailers meant that competition strategies between large retail chains focused on adding services and key products in stores. Labor strategies evolved as a result, with more knowledgeable shop-floor workers like those listed above and products that involve service value added, such as fresh prepared ready-to-go meals.

Another reason that French stores have brought these workers in store is that the large hypermarkets had more difficulty competing for consumers in these niche markets. Looking at data from the 1960s and 1970s shows how the *grandes surfaces* rapidly won market share from independent grocers while struggling to win market share in specialty markets, such as meats. In 1962, independent self-service "*supérettes*", or small grocers held 31.3% of the food market. In 1979, this share had dropped to 16.9%, a loss of 14.4%. In contrast, butcher shops and specialized grocers had 36.1% of the market in 1962 and still held 29.5% in 1979, losing only 5.6% of their market share. Together the losses of these two small surface sub-sectors total about 80% of the market share gained by the *grand surfaces*, with three-quarters coming from the small grocers and only one-quarter from the specialty shops. (INSEE, 1980.)

**Digital Strategies:** The digital strategies of French retailers support these strategies. Web presence strategies vary in offering products, but all attempt to add value to the brand proposition by "providing extensive information on their products and services as well as contextual information related to their value propositions. Information about the company and customer assistance and advice can also be made available on the Web site (Müller-Lankenau et al., 2005-2006, p. 88-89)." Prior to current web-based e-commerce strategies, French retailers also had significant Minitel strategies. Unlike American digital strategies, which serve both an information gathering function and an increasing turnover function, French strategies are primarily focused on improving service, adding value, or reducing labor costs.

In all, the vertical integration model gains significant competitive advantages from the ability to compete with producers and offer products in well-researched and demanded product niches. Direct quality control ensures that low-cost does not mean low-quality and high service value added typically makes for a more enjoyable customer experience than in the lean retailing model.

### III. Mixing Monopolies and Markets

The remainder of this chapter examines how French retailers came to first adopt and continue developing the vertical integration model into the form seen today. The political history of French retailing is among the most active and diverse, replete with political movements, sudden policy shifts, and seeming contractions. Nevertheless, there are consistent political foundations to these plot twists, all of which have inexorably turned the provenance of the *petit commerçant* into the country of Carrefour.

Institutions, economic power, and politics all had a role to play. Structurally, France presents a mixed institutional system which historically contained a retailing environment with numerous but weak small shops. Both of these factors made coalition formation difficult. The actors were also well balanced. Unlike their position of strength in the United States or weakness in Denmark, large-scale retailers in France had power resources that were more balanced against those of producers and workers. Finally, the French state was split by the divided loyalties on the right, unwilling either to let markets reign or to fully dampen competition. Together, these markets, institutions, power resources, and politics coalesced to create perpetual fighting over the rules of the game and the distribution of value in the French retailing sector.

Although the political economy of French retailing is often accused by analysts of being overly regulated, regulation should not be viewed as precluding innovation. France has produced more than its fair share of retailing innovations, including the department store, the hypermarket, and pallet presentation. Although these innovations have occurred throughout the retail sector, they have been particularly clustered around large-format retailers (see Cliquet, 2000).

These innovations and the development of the vertical integration retailing strategy have occurred because of, rather than in spite of French regulatory patterns. This observation should not be read to contain a statement of intentionality. French politicians had mixed feelings about the big-business, small-shop conflict and regulators tried to create a stable marketplace that slowed the entry of large-scale retailers. In fact, planning regulations encouraged retailers to build both larger stores and more rapidly than they might have otherwise, with planning commissions that privileged first movers. Planning rules provided retailers with protected fiefdoms, but limited further development. In the end, easily navigated barriers to entry simply created rents for large-retailers once they built stores.

Once retailers had store networks and protected profits, they had to decide where to expand next. Expansion abroad would come, but at first was quite limited due to the inherent risks. Given the contested nature of relations with suppliers and the fact that producers were largely able to set their own prices independent of retailers, the retail firms designed to go on the offensive and create private-label strategies. Retail concentration also helped. Private labels were one method of differentiation, particularly in a market with largely fixed prices on producer-branded products. In the United Kingdom, similar power relations and early concentration produced a similar pattern of private labels, suggesting that price rules were secondary to fights with producers (which price rules were a reflection of) in conditioning own-label goods strategies.

The innovation of French retailers has been well-documented over time, with steady leadership in both qualitative and quantitative measures. Reynolds et al. (2005) finds that French retail sales per sq. foot are higher than in the US, even when measured in PPP. Similarly, in 2001, Planet Retail calculated that sales per average employee were 75% higher in France than in the US.[194] Qualitatively, numerous of innovations in

[194] Planet Retail numbers as they appear in J. Reynolds et al.

modern retailing are French, especially those built around the hypermarket, including the supermarket-discounter hypermarket combination itself and subsequent in-store innovations, such as pallet presentation.[195]

Economic innovation, however, is seldom universally loved, and French retailing is no exception. The creative destruction in French retailing has brought with it a long history of political conflicts between purveyors of new formats and established French shopkeepers, with shopkeeper militancy against economic and political change dating back to at least the 1880s (Nord, 1986). It was in this spirit that Zola wrote his classic, *Au Bonheur des Dames*, loosely based around Paris's (and the world's) first department store, Au Bon Marché, opened in 1852. For Zola, the new *grands magasins* captured not only the conflict between department stores and boutiques, but the conflict over new Paris, its Haussmannization, and economic progress versus traditional life in general. The work is neither isolated nor a fantasy. Nord (1986) details how shopkeepers took the lead in a lower-middle-class militancy in the late nineteenth century, the *Ligue syndicale*, that provided one of the many challenges to the French Third Republic.

Despite their frequency, the *Ligue syndicale* and subsequent shopkeeper revolts, including the post-war *Poujadist and Nicoudist* movements, have lacked continuity, been highly fractured, and been positioned as opposed to change rather than as a part of that change. This has left them marginalized in the process of economic and political change, winning only a minimum level of concessions while new, larger retail players have played a central role.

The remainder of this chapter charts the modern history of French retailing regulation in more depth, examining the linkages between political fights, regulatory outcomes, and the economic choices of French retail firms, pushing them toward the vertical integration model described at the outset. It demonstrates how the initially weak power resources of retailers, institutions that did not support interest aggregation, and fractured independent shop movement encouraged retailers to form limited coalitions with both producers and workers. These limited coalitions for liberalization and split political loyalties created a regulatory environment designed to protect small retailers from the market, while allowing large retailers the freedom they needed to grow and expand. The protections, however, turned into enablers, allowing retailers to diverge from their coalition partners and create dual strategies: close relationships with insider private-label producers and high-skill, full-time workers and contested relationships with national-brand producers and low-skill, part-time workers.

### IV. Institutions, Rents, and Contestation

Three variables shaped how large-scale retailers organized politically in response to conflicts with first shopkeepers and later producers: the power resources of the retail

[195] Innovations did not end with the hypermarket. Chronodrive, a French company, has just introduced a new format, the drive-up grocery, a combination of e-commerce and physical stores where consumers order online and pick up while staying in their cars (Wall Street Journal, January 14, 2010).

sector relative to labor and manufacturing, the formal institutional rules that shape coalition formation (electoral, bargaining, and administrative rules), and the internal structure of the retail sector and the coordination of small store or supplier resistance. Each presents a middle ground between the powerful but solitary position of retailers in the fragmented United States and the weak and coalition-tied position of retailers in the Danish case.

Table 6.2 below summarizes the general structural variables that led to the weak, shifting coalitions in the French case (**Overall)**. It also breaks down the three primary variables (**Power Resources, Institutional Support, and Opposition)** into constituent sub-variables. For power resources, French retailers entered the period in a relatively weak position. Leading French firms were small, and retail occupied a very small portion of the economy relative to manufacturing. Both of these factors predisposed policymakers to ignore them and retailers to seek and form coalitions in order to magnify their influence. The one relationship in which retailers were roughly equivalent was with workers, who had low levels of organization in France.[196]

French institutions, however, discouraged broad or enduring coalition formation. Majoritarian electoral rules meant electoral competition focused around winner-take all positions, rather than broad consensus building platforms.[197] The country lacks powerful peak associations to aggregate preferences, and there are few institutions that guarantee a role for the social partners in policy-making. In addition, the majority of retail-specific policy, particularly planning, is set at the local level, allowing retailers to eschew national coalitions and focus their resources locally. Although the lack of institutional support for coalitions has hindered retailers, it has hindered small shopkeepers, with their fractured economic as well as political base, even more.

Finally, retailers faced vocal but decentralized opposition from small shopkeepers. The fractured opposition was both the result of institutions that did little to support either interest aggregation or broad cross-class coalitions and extremely low levels of economic organization (such as cooperative networks or purchasing groups) in the retailing sector prior to the 1960s emergence of large retailing firms. Unlike Denmark or Germany, where associations, purchasing groups, and co-operative networks multiplied the economic power of shopkeepers, French shopkeepers tended to remain completely independent.

Coupled with a market environment and a series of governments that were essentially pro-big business, the small shopkeepers had low chances of survival without significant state intervention. With a few notable exceptions, the French state, however,

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196 That said, labor power in France has traditionally been higher than measures of union density of centralized bargaining would indicate owing to the links between labor groups and French political parties.

197 This characterization is of the French V$^{th}$ Republic, which began in 1958, not the French IV$^{th}$ Republic. Majoritarian electoral rules are characterized by presidential elections and first past the post single member electoral districts. France is a semi-presidential system, but its focus on winner take all national elections generates more competition and less compromise in national elections.

chose to avoid active involvement and regulation of the political fights in French retailing, preferring to enact broad symbolic legislation that left plenty of room for local implementation and local political fights.

Table 6.2 Determinants of French Retail Coalitions, 1970

| | | | |
|---|---|---|---|
| **Power Resources** | | | |
| Retailer Power (10 largest market share) | Ratio of Retail VA/ Manuf. VA (%) | Labor Power (Union Density) | Total Retailer Power |
| Low (9.5%) | Low (19.0%) | Low (21.7%) | Low |
| **Institutions** | | | |
| Electoral Rules | Level of Corporatism | Administrative Control of Retail | Overall Support for Coalitions |
| Majoritarian | Low[198] | Local | Low |
| **Opposition** | | | |
| Small Shop Economic Power[199] | Type of Resistance | Political Support for Small Shops | Overall Strength of Opposition |
| Medium | Political | Medium | Medium |
| **Overall** | | | |
| Power Resources of Retail | Institutional Support for Coalition | Strength of Small Store Opposition | Final Coalition |
| Low | Low | Medium | Weak |

198 Source: Lijphart (1999). In his index of interest group pluralism, where 0 = most corporatist and 4 = least corporatist, France scores a 2.84, in line with other fragmented and decentralized democracies.
199 The French retail sector was quite small in 1970, small shops tended not to be organized into economic groups such as cooperative associations or purchasing groups, and the country lacks powerful small shop specific peak organizations or purchasing groups that either aggregate preferences or multiply economic power. That said, small shops constituted over 95% of the sector.

Large retailers quickly turned local fights to their advantage, mobilizing greater resources than the shopkeepers, aligning with consumer groups, and forming a set of weak, single-issue short-term coalitions with local governments, producers, and workers. Although shopkeepers managed to win regulations that in principle would slow the scale retailer onslaught, as the next section demonstrates, in practice these regulations provided protected rents to retailers once they navigated the planning system. This supported accelerated large store build-outs for large-scale retailers by reducing the risk of expansion and placing a premium on building large stores as quickly as possible. A limited number of development locations existed and each would largely be closed for competition once developed. Consequently, large-format, large-scale retailers quickly gained market share.

The first chapter of this story begins in the late 1960s and early 1970s as a new crop of retailers – now the largest French firms such as Carrefour and E. Leclerc –began to emerge. These retailers rapidly won market share from the dominant but fractured small shopkeepers of France, who mobilized up to block them. Following in the tradition of the *Ligue syndicale* the post-war shopkeeper movement produced a vocal, but fractured, and ultimately unsuccessful opposition seeking both state protection and aid in modernizing.

The political fight over retail development and planning was the first major clash between retailers and small shopkeepers, but not the last. The weak coalitions formed and the split state preferences resulted in mixed regulation. Both the outcome and the politics set the pattern for a future of permanent contestation over the rules of the game.

**French Retailing at a Crossroads: Nicoud, Carrefour, and Royer:** Despite Paris's reputation as a shopping Mecca and the high-profile example of *Au Bon Marché* as a retailing innovator, post-war France was a retailing laggard. In 1962, when French supermarkets earned their first 1% of the food market share (and hypermarkets still were at 0%), American supermarkets had already captured over the 65% of the market (Progressive grocer, 33rd annual report, cited in Thil, 1966).[200] Small shopkeepers, therefore, continued to be a powerful and vocal interest group. This posed a particular problem for the French right, who as Stoetzel (1955) pointed out, were supported by a curious coalition of "shopkeepers and of executives (p. 107)".[201] Although the right certainly appreciated the votes, shopkeepers stood directly in the path of economic modernization, development, and the building of French national economic champions.

Outside the state and the primary national political parties, France was dominated by a series of powerful but fractured interest groups. Workers unions were fragmented

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[200] The self-service supermarket was an American innovation, a concept patented by Clarence Saunders in 1917 for his store Piggly Wiggly.

[201] As we will see, this coalition became particularly curious in the late 1960s and early 1970s. When explaining his shopkeeper movement, the CID-UNATI, Gérard Nicoud stated, "Whose fault is it that concertation often takes place in the street? It is primarily the responsibility of the Executive (Nicoud, 1972, p. 83)."

and politicized, bargaining centralized, and unable to assert much control over their members (Howell, 2006). Employer groups were more organized, but given that large retail firms were yet to emerge, quite weak in the retail sector. In all, few institutions supported interest group aggregation and the French state was not highly permeable for social actors.[202] The one exception to this rule might be producer groups, particularly given France's post-war obsession with industrial expansion.

The basic post-war regulatory regime for retailing was built with a small-shop mentality in mind. Trumbull (2006) notes that prices were regulated until 1986, helping producers to plan and shopkeepers to keep prices manageable in asymmetric power relationships with producers. He also argues that the French system focused primary on the first stages of the distribution system, particularly on problems related to producers, rather than on the final stages including retail distribution and consumption problems. In other words, regulators focused on creating an economy that efficiently produced goods and moved them away from producers, without giving much thought to how those goods would find their way to consumers. No national standards existed for retail planning; any rules that existed were local. Consequently, regulation in the retail sector would need to be rethought as the sector began to modernize and rapidly evolve in the early to mid-1960s.

Many of the changing business ideas were based on American retailing principles, particularly those espoused by Bernardo Trujillo, a consultant working for National Cash Register (NCR). Trujillo's seminars were attended by nearly every leading French retailing executive and out of the 13,000 or so business executives who attended his conferences in Dayton, Ohio, over 2,300 were French, more than any other country, including the United States (Thil, 1966, p. 131).[203] His catch phrases, including "no parking, no business" and "stack it high and sell it cheap" helped catalyze the French retail revolution.

Buoyed by new ideas such as those espoused by Trujillo, new capital, and French consumers increasing focused on product diversity and price levels, new French supermarket and hypermarkets (and combination supermarket and general merchandise discounter) firms emerged and thrived through the 1960s. Following an American model built around edge of town development, self-service, low prices, and high turnover, these *grands surfaces* increased their market share from 1.0% of the food market in 1962 to 11.1% in 1970 (INSEE, 1980). The hypermarket was a new twist, developed by Carrefour in 1963, but other than product strategy (carrying both food and non-food), business models of the new French firms looked quite similar to those emerging in any of the case countries.

[202] This statement relates to the French V$^{th}$ Republic, which was introduced in 1958. The political outcome might have been quite different had the political challenge from small shopkeepers been more forcefully mounted during the more permeable IV$^{th}$ Republic

[203] Trujillo's legacy on French retailing was significant. Although not scientific in any way, it is notable that Trujillo, an American, has a French Wikipedia page and not an English one. It is also noteworthy that he was given a chapter in *Les Inventeurs Du Commerce Moderne* by Etienne Thil, who was Carrefour's first director of publicity and public relations.

The political reaction that these business models generated were anything but ordinary. Gérard Nicoud's CID-UNATI movement of the late 1960s early 1970s can be seen domestically as a simple outgrowth of Poujade movement of the 1950s or as part of a longer series of mobilizations by the French traditional middle classes (Berger 1981), but when viewed from a comparative retailing point of view it is unique. What started as a tax revolt against a system biased in favor of large firms turned into open revolt against the government and the new hypermarkets and supermarkets.

The change occurred in April of 1969 when " a commando force of 600 merchants" sacked a tax office in La Tour-Du-Pin (a small town near Lyons, New York Times, April 12, 1969). Protestors later kidnapped the Mayor of La Tour-Du-Pin and two plainclothes police officers. Nicoud was arrested, but the actions only increased support for his movement. In 1970, the CID-UNATI held a rally in Paris that was attended by 40,000 and in 1971 the CID-UNATI won 43% of the seats in the *chambres de métiers* (Berger 1981).[204] With the combination of legislative elections in 1973, the high profile *Nicoudist* movement and its popular support, the electoral importance of small shopkeepers for the right, and the clear need to regulate a dynamic and changing sector (not to mention keep out rival German firms) meant that retail competition was a high priority for the government. Nicoud was amnestied by parliament and the winning coalition in the 1973 elections, led by the Gaullist *Union des Démocrates pour la Republique* (UDR), promised reform.

Two dimensions were particularly important: taxes and planning. These two carryovers of the postwar French consensus match well with split loyalties of the French right, which sought to encourage business development while limiting its effects on smaller economic actors. The 1973 *Loi Royer* set out to fix both. On tax policy, the status quo policy actively supported large retail development, while the reforms simply liberalized the tax rules, stopping short of the more anti-development tax regime sought by the shopkeeper movement.

For planning, the law set a size cap on new development, above which any store had to be approved by local zoning boards.[205] The size limits applied to both total construction and the sales floor. For sales floors, the commissions were triggered at 1000 $m^2$ in towns below 40,000 people and 1500 $m^2$ in towns above 40,000. The stores themselves had to be under 2000 $m^2$ in the smaller (below 40,000 municipalities) and under 3000 $m^2$ in the larger municipalities. Various other limits were debated, ranging up to 3,000 $m^2$, which would have still been sufficient to route hypermarket development through the boards. The lower level, however, allowed local governments to also block the German hard discounters who had begun moving into to France in addition to the big

[204] A quasi-corporatist consular body designed to give tradesmen and craftsmen some representation in government.
[205] See Article 29, no. 1 of Loi 73-1193 1973-12-27, available at: http://www.legifrance.gouv.fr/affichTexte.do;jsessionid=1CD84B25AD32CBA37CD54ED2978001B7.tpdjo03v_3?cidTexte=JORFTEXT000000509757&dateTexte=19731230&categorieLien=id#JORFTEXT000000509757)

French players. The language of the law was distinctly anti-modern in nature, protecting against the "unruly growth of new forms of distribution."[206]

In all, the powerful pro-business coalition of retailers, producers, and workers had achieved moderate success. Although the pro-large business tax regime was replaced, the law stopped short of the more sweeping changes hoped for by small retailers. In addition, although no national planning regime emerged, the pro-development coalition was unable to block the local planning dimension of the *Royer* law.

The law was broadly supported by both shopkeepers and the center-right and opposed universally by the left. The Socialist party was moderate in their opposition, arguing that the new tax rules shifted the tax burden to workers and that it lacked enough "boldness" in its modernizing aid. The French Communist Party went further, calling it a "law of illusions". Both parties abstained in the final vote.[207]

In contrast, the center and right of the political spectrum were supportive of the law. The centrist *Réformateurs démocrates sociaux* party voiced support throughout the parliamentary debate, noting especially their attachment to provisions that provided aid to small shopkeepers. Nevertheless, once presented with options to shift the balance of power further in favor of the shopkeepers, the government and rightist voters balked. Perhaps for ideological reasons, but more likely for partisan electoral reasons, the left introduced a series of amendments designed to increase the power of shopkeepers in the process, including reserving seats for "*petits commerçants et artisans*" to be on local planning boards (as opposed to seats simply reserved for representatives of the profession, which after the law were rapidly filled by representatives of large retail firms), but these were rejected. The consistent rejection of similar amendments to allow small shops a continued voice in the retail sector would prove fateful for the *petits commerçants*.

In fact, the character of the French law in comparison to other national outcomes (such as those in Germany and Denmark), shows the importance of prior economic and political organization by small shops in winning reforms that provided a real balance of power against large-scale retailers. Despite winning tax reform and broader protections in principle, small retailers had earned neither a seat at the table nor lasting protections on a wide variety of issues important to their survival, including rules on opening hours, real hard caps on the size of new stores, price rules, and out-of-town development.[208] The lack of French institutional density kept shopkeepers in the game, but not as an equal player. French shopkeepers were treated as a dying sector that needed to be protected, not as a solution for the future retail economy.

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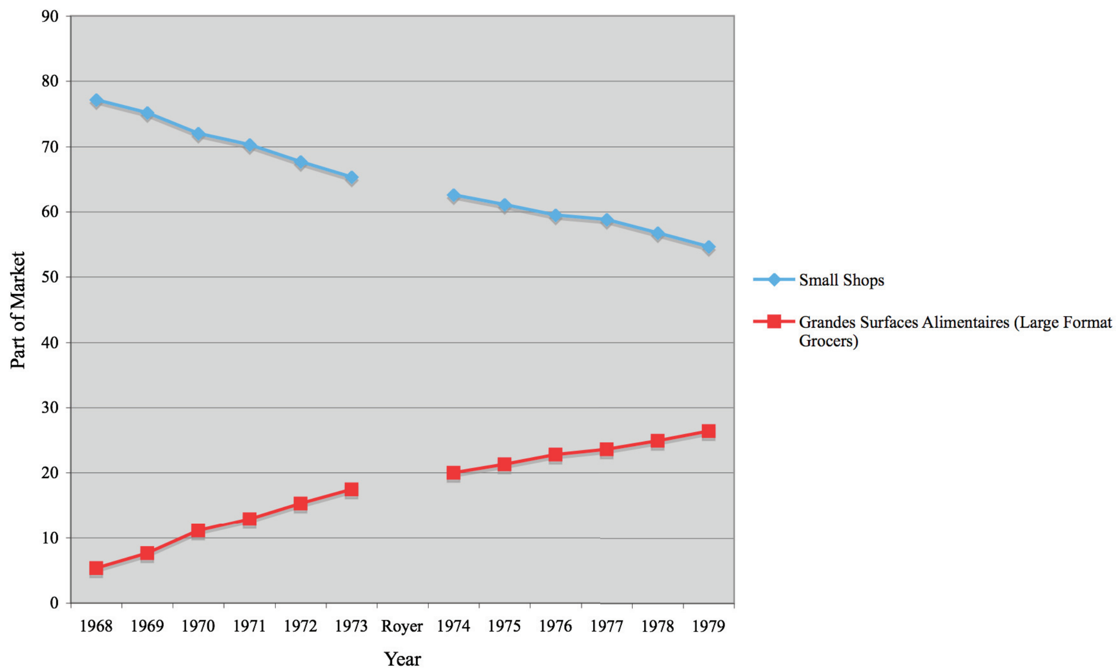
[206] As quoted in Bertrand and Kramarz

[207] Quotations taken from the *Journal Official de la République Francaise: Debats Parlementaires de l'Assemblée Nationale.* Translation by author.

[208] There are some exceptions, such as rules that banned loss-leaders. Nevertheless, the French pricing regime was rapidly liberalized after 1973 (Trumbull, 2006) severely harming the fortunes of small retailers.

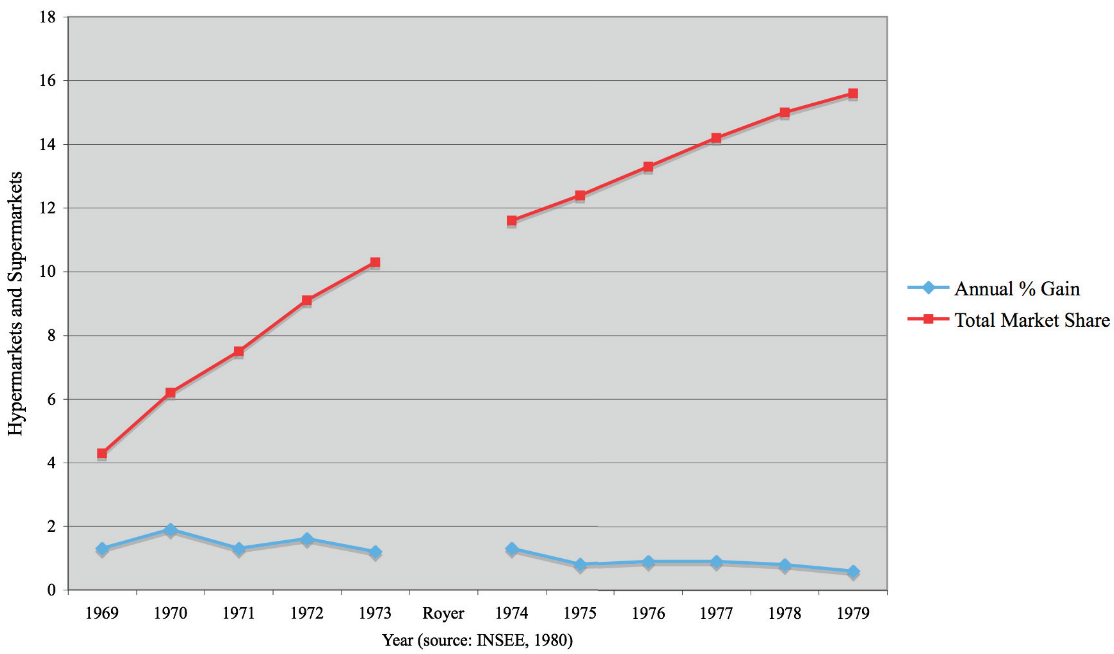
Even the planning rules provided scant protection. Despite the argument that the Royer law would slow the development of large format retailers, data on market share shows little change before and after the law. Figure 1 shows the food retailing food retailing of small shops and large-format food retailers before and after the Royer. In food retailing, hypermarkets and supermarkets gained an average of 1.5% of market share a year between 1962-1973. From 1973-1979 they continued to the gobble up the food retailing market at the same 1.5% of total market share a year rate (INSEE, 1980).

**Figure 6.1 Market Share of French Food Retailing by Store Type**




Similar evidence exists in non-food retailing. *Grandes surfaces* (hypermarkets and supermarkets) increased their market share by 0.5% a year from '62-'73 before and the same 0.5% from 1973-1979. Figure 6.2 below shows the % of total retail market share earned by large-format food retailers by year. Some analysts have pointed to a drop in growth after 1974 as evidence that the law worked, but a more likely claim is that the economic slowdown beginning in 1974 accelerated the negative maturation trend from the *grandes surfaces'* peak growth year of 1970, as the best retail sites were rapidly developed. Note that the percentage of the market gained in 1974 is nearly identical to that in 1973.

**Figure 6.2 Annual Market Gains and Total Market Share in Commercial Products for Large Format Retailers**




In fact, the law not only promoted large-retail store development, but pushed development toward more large store formats, particularly the hypermarket format. Since local incumbents got seats on planning boards, once large stores were built, the Royer law created a system of virtual local monopolies. Such a system sped up network building in retailing two ways: first by increasing competition for these lucrative sites, incentivizing early movers, and secondly by giving retailers more secure revenue streams from their local stores, allowing accelerated investments in store network construction.

The low threshold of the size restrictions also shifted the size of stores built. Since nearly any new retail development would trigger the planning process, retailers proposed gigantic stores. Fewer new openings meant an incentive to maximize the floor space of the stores that did pass the zoning process, pushing firms even further toward hypermarket development (defined by INSEE as stores of greater than 2500 $m^2$) rather than building separate food and general goods stores and going through the approval process twice. The effects of Royer can be seen both in the growth of hypermarkets versus supermarkets immediately following the law and today, as France is now the unquestioned king of the hypermarket in Europe.

In food retailing, between 1962-1973 (an admittedly small sample size) supermarkets gained market share at a rate of 0.8% a year, versus 0.7% for hypermarkets. From 1973-1979 these growth rates switched, with hypermarkets leading 0.9% to 0.6%. Over time, hypermarkets came to dominate the market. For instance, in the market for food, hypermarkets control 53% of the market, compared to 14% in neighboring Belgium and 22% in neighboring Italy, while traditional small stores below 400 m$^2$ hold only 4% of the market (Rochefort, 2008). This is a striking contrast to Southern European countries such as Spain, Portugal, Italy and Greece, where hypermarkets average 25% of the market and small stores 26%. Only in the UK, another country with strict planning restrictions, do hypermarkets possess a similar share of the market (56%).

Jérôme Bedier, President of the Fédération des Entreprises du Commerce et de la Distribution (FCD), pointed out in an interview the role that tax system had in furthering large scale retail development. After 1974-1975 the *taxe professionelle*, a tax on buildings based on square footage, meant that local revenues increased more with large scale developments. Local mayors, therefore were highly supportive of large scale development and retailers could easily play one off another as they sought approval. Guillaume Simonin, of the Union de Grand Commerce de Centre Ville (UCV), confirmed this view, saying that small cities couldn't refuse the taxes and public improvements that came from large developments. He also indicated that the benefits for towns went beyond taxes to municipal improvements bordering on bribes, noting that retailers built a large percentage of the swimming pools in France.

Those who expected the law to protect shopkeepers also failed to account for how traditional political alignments might lead some local politicians to be more supportive of large-scale retailing development. Bertrand and Kramarz (2002), looking at decisions on retail space at the *département* level in France illustrate the importance of these ties.[209] Building on the work of Mayer (1986), who noted that shop-keepers are more likely to vote for parties of the right like the RPR (*Rassemblement Pour la République*)[210] and the UDF (*Union pour la Démocratie Française*) and that salaried workers tend to vote for the leftist PS (*Parti Socialiste*), they test the theory that political representation at the *département* level might affect the growth in retail space in the region. Accordingly, they find a strong positive affect on the approval of new retail space when the leftist PS holds power.

The argument about the Royer regime accelerating French retail development has its limits, and should not be conflated with an argument that French retailing has experienced more retail development than more liberal spatial planning countries like the United States. The French new store construction boom simply happened earlier, shaping the strategies of French retailers accordingly. Nevertheless, difficult entry into localities with existing hypermarkets has limited the total number of retail outlets across France. Essentially, French retail has fewer, larger stores that were built much earlier than similar large stores in the United States.[211] This was not always the case, but in recent years

[209] Unlike the United States, which regulates on the state or municipal level, regulation in France is legislated at the national level. In both places implementation is at the municipal level. This is excellent for the following point, since local actors have little control over actual policy, simply implementation. This means that regulation cannot be a possible confound.
[210] The RPR has changed form and is now the UMP (originally the Union pour la Majorité Presidentielle, now the Union pour un Mouvement Populaire)
[211] The International Council of Shopping Centers, for instance estimates that the US has almost 10 times as much shopping center retail space per capita as France, though a good part of this

store construction has slowed dramatically in France. Beck et al. (2005) find that between 1990 and 2000, French retail volume increased by only 7% compared to 67% in the United States.

French regulation that shaped the timing of construction and the size of the stores built across France also shaped the strategies retailers employed within those stores. The rules that reduced the risk of store expansion meant that large retailers quickly achieved substantial scale. Nevertheless, retailers were unable to use their scale to lower prices as effectively as retailers in more liberal environments. Although resale price maintenance had been banned in 1954, until full price liberalization in 1986, producers were still largely able to control final retail prices (Trumbull, 2006). This kept consumer prices high across French retailing. The Royer law and reforms of price rules in 1974 and 1976 did little to change this, as the combination of producer-set prices and rules about selling below costs limited retailers' pricing flexibility for nationally branded goods. Carrefour found the solution to the producer dominated system and a new a business opportunity in private label goods.

The key driver of the retailers' private label response was not the price-fixing regime itself, but the fact that the system was largely controlled by producers, who often had virtual monopolies on popular goods in the French market.[212] Although the Ministry of Economy and Finance's Office on Competition and Price had the final say over changes in pricing, any new product could register its intended price with the government.[213] By becoming (or controlling) their own producers, retailers could enter the market with goods priced significantly below those of nationally-branded producers. The power relations between retailers and producers were the key, therefore, as French retailers used private labels to combat powerful national brands. A similar logic emerged in the United Kingdom, without the presence of a similar pricing regime, but with parallel producer-retailer relations.[214]

The first step toward the vertical integration model occurred in 1976, when Carrefour introduced its *produits libres* line, signaling the beginning of private label brands in France. Although generic products had existed in the past, this marked the first time a retailer had begun to market and manage its own line. The line was a hit with French consumers and by 1993 Carrefour offered almost 4,300 lines of its own branded products with prices that normally ranged between 15 to 35 percent lower than that of national brands (AGSM, 2000). In a 1976 radio debate with Edouard Leclerc, Denis Defforey, the head of Carrefour at the time, stressed how important it was to offer consumers a choice. He asked listeners, "where would our freedom be if there was no brand comparison?" The promotional campaign supported the notion of freedom.

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difference can be explained by population density (Metropolitan France has a population density rough 3.5 times higher than the US). See: http://www.icsc.org/srch/sct/sct0404/page1a.php
[212] Prior to the 1986 liberalization of prices.
[213] Trumbull (2006) points out that producers often re-registered their goods with slight modifications in order to apply higher prices.
[214] See Fernie and Pierrel (1996).

Carrefour wasn't simply offering lower priced goods, it was offering similar quality goods that freed consumers from the monopoly of the producers. One ad asked consumers, "One still believes that a product is better because it has nice packaging. Is that freedom? Carrefour."[215]

This relatively go-it-alone strategy would have been unimaginable in countries like Germany or Denmark where retailers had aligned with producers to split to the benefits of a more regulated environment or even in the liberal United States where powerful retailers could simply demand price concessions from producers. Because of regulations stemming from the continued tension and more even balance of power between French producers and retailers, however, retailers moved toward novel private label strategies.

Planning restrictions that catalyzed early hypermarket development may have also led to earlier investments in information technology. Remembering that early development does not mean increased competition – as incumbent French firms were then able to block entry – reduced competition may have also allowed French retailers to adopt riskier first mover strategies in relation to information technology. Beck et al. (2005) analyze the link between hypermarket competition and IT diffusions, finding that increased competition reduces long-run technology diffusion. We see this pattern when contrasting the French market with the highly competitive German retail market, where German discounters adopted a strategy with low levels of in-store technology for cost reasons. Earlier technology adoption allowed French retailers numerous competitive advantages, including better demand management and higher returns to capital. Looking at French retailers between 1984-2001, Dawson (2005) finds that assets and liabilities dropped from 63.1% and 59.4% of sales in 1984 to 47.4% and 53.6% in 2001. As a percentage of sales, retailers were holding on to fewer goods as a percentage of assets, allowing productivity gains on capital, space, and labor. The ability to keep items in stock allowed storage space to be reduced or even eliminated, increasing productivity in terms of sales per square foot. Buying products from suppliers as they are needed cut down on overstocked inventory, increasing capital productivity. Again, although similar trends have happened across the affluent economies, this shifts occurred much earlier in the French market and with pervasive implications for firm strategies.

Similarly, new labor patterns developed in the large French retailers, which fall between the combative labor relations in American retail trade but less cooperative than the high-end strategies in countries like Denmark. In discussing labor relations, it is worth noting that variation exists within the diverse retailing sector. Askenazy et al. (2008), for instance, see different labor stories emerging in French food and electrical goods retailing sub-sectors. Nevertheless, these within-sector differences show a fairly consistent French pattern when placed in comparison with other national retailing sectors, including wage levels that significantly exceed the minimum wage, a sharp management-worker divide, a pattern of technology being used to replace labor, and a growing

[215] A picture of this ad is available at: http://www.distripedie.com/distripedie/spip.php?article1233

divergence between high-skill and better paid full-time workers and less-autonomous part-time workers.

In comparative perspective, French unions are typically viewed as relatively fractured and weak. Howell (1992), however, has noted that the French state has substituted for unions in ensuring labor protection and that labor laws has made it difficult for large employers to exclude labor entirely. The retail case is no exception, though it represents an even weaker than usual case of labor power. In 2003, a study by the Russell Sage Foundation found that union membership was only 2% in retail trade, compared to 5% in the private sector generally. This represents a decline from earlier periods, but unionization has never been a prominent feature of French retailing. A 1994 FORCE (Formation continue en Europe) report for the European commission estimated unionization at 7-8%. Even with low unionization, the five political oriented unions that have typically represented retail workers (CFDT, CGT, FO, CFTC, CGC) have managed to win some collective bargaining agreements both with individual companies and retailing sub-sectors.

The perpetual conflict over planning continued into the future. In 1997, proponents of increased competition in retailing introduced the *loi Raffarin*. Unlike French retailers, who utilized primarily large format stores, several German retailers had built "hard discount" business models revolving around very small stores.[216] These stores were often small enough to fall under the 1000 $m^2$ trigger for administrative authorization in the Royer law. The French retailers, seeing signs of German entrance into the French market, mobilized a broader coalition than normal to block the German firms. A broad-based lobbying effort across the retailing sector culminated in the 1997 Raffarin law, which lowered the threshold for obtaining authorization for new stores to 300 $m^2$.

Further protecting the French market did little to improve the now obvious and increasing high levels of prices in the French market. Over the next ten years, a mix of consumer group organization and populist politics would begin to break up the traditional French regulatory regime and move French retailing toward a more liberal market environment. Nevertheless, these changes did little to alter the basic conflict logic of French retail politics or the business trajectories begun by the French retailers, involving private label products, high levels of service complementarities in stores, mixed labor strategies, and conflictual relationships with large French producers.

Part of the reason that conflict has persisted is the lack of either full liberalization, like in the American market, or a more enduring coalition like in Denmark. The logic behind of recent French reforms – even liberalizing reforms – has extended beyond simple market freedom. The primary goals have been increases in consumer welfare, including lower prices, and increased retail development. Because of this, retailers have

[216] Hard discounters utilize smaller stores with more limited, typically shelf-stable, product lines, virtually no-service, and extremely low prices. Presentation and marketing are stripped to a bare minimum. See chapter 2 for more on where these stores fit in relation to other types of retail outlets.

neither played the role in guiding and shaping these reforms seen in Denmark, nor simply won through the market as in the United States.[217]

**Shifting the Conflict From Planning to Pricing:** The political pattern of contestation that emerged during the fight leading up to the Royer law and the business strategies that followed afterward would be repeated and reinforced over the next 20 years. Retailers continued to translate short-term coalitions of convenience to support a nationally-liberal and a locally-protective business environment that provided growing economic and market power. In 1970, there were under 100 hypermarkets in France controlling 6.2% of the market. By 1985, there were over 500 (Mayer, 1986). The continued growth of large-scale retailers again came at the expense of small shops, who were increasingly pushed out of their dominant position in the marketplace. As large-scale retailers became the dominant retail players in the 1980s and 1990s, however, a new conflict was brewing, this time between producers and retailers.

The new opposition came from producers emerged over price and terms of contract rules. Retailers had increased their power relative to producers and as retailers began cutting into the margins and markets of producers, the equilibrium of power and distribution of wealth during the Royer fight was upset. Producers, therefore, began to see the same menace from large-scale distribution that the shopkeepers had seen 20 years earlier.

The ending of price controls in 1986 coincided with a new era of price competition in the consumer goods sector. In the 10 years from the beginning of 1976 to the end of 1985, consumer prices had increased by an average annual rate of 10.1%.[218] In the ten years starting in 1986 through the end of 1995, this average annual rate dropped to 2.6%.[219] This period also coincided with the rapid consolidation of the French retail market by large players. Dismayed by increasing price competition, suppliers began complaining about the market power of these retailers. Additionally, during the 1980s

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[217] Different portions of the retail sector have had more or less influence. In an interview with Guillaume Simonin (UCV) and Jean-Marc Génis (FEH) they pointed out sarcastically that retailers do not get input because the ministries are populated by the elite and "they know better than you". That said, they agreed that the supermarket lobby had more input than the in-town and clothing retailers they represent.

[218] The changing rate of consumer price inflation in France was certainly solely the result of the ending of retail price fixing. The oil shocks of the 1970s and better economic management in the 1980s and 1990s were important changes among numerous other factors. Nevertheless, comparative data shows that the 1986 law probably had a powerful effect on French consumer prices. Looking at 19 other similarly rich democracies over the same periods (1976-1985 & 1986-1995) France had the largest relative improvement in ranking, moving up nine places from the bottom third in 1976-1985 to the top third in 1986-1995. It also had the second largest percentage change, behind only Ireland. While insignificant in this limited sample, the French drop in inflation was nearly a full standard deviation above the mean drop of 5.3%.

[219] Note that this is does not a causal relationship between the end of price controls and lower inflation. If anything, lower inflation allowed French regulators to end price controls. Similar drops in consumer price increases occurred across Europe during this period.

and 1990s, retailers were increasingly seen as selling below cost, even if the practice was technically prohibited.

Whereas small shop retailers had simply been the final chain in a push system of retailing, as producers pushed goods downward to consumers, large-scale retailers were able to use their market power to push back and begin taking control of supply chains. When supplier appeals over the patchwork regulatory system finally reached national regulators in the late 1980s and 1990s, retailers again attempted to mobilize a weak short-term coalition to limit any reforms against the regulation of price or supplier-relation rules. The status quo system benefited large retail players by protecting margins and reducing the risks of scale, while allowing them to use that scale against suppliers.

The ongoing conflict between producers and retailers had its first major skirmish in the 1990s, culminating in the *loi Galland,* passed in 1996. Unlike the previous weak national coalition that supported a pro-business environment, the *Galland* fight was between business factions, each seeking a regulatory environment that protected their interests. Without a broader policymaking consensus, national political conflict was inevitable. In the end, conflicting lobbying from producers and small retailers on one side and large retailers and consumers on the other end yielded the *Loi Galland*. The *Loi Galland* re-affirmed the French tradition of banning below-cost resale by more clearly defining retailers' purchase prices from suppliers, tightening official verification, and raising fines for violators.[220] The new pricing regime and supplier regulation regime again reduced the risks, but now by increasing the benefits associated with diversified private label product strategies and higher service value added in stores. Because sales at a loss were banned, retailers could introduce new private label brands at prices below those available for national brands.

The second round of political fights in French retailing in many ways paralleled the first along the relevant variables. Table 6.3 again outlines the overarching variables driving coalition formation and political conflict in French retailing as well as the sub-components of the constituent variables (power resources, institutions, and opposition). The dimension that had changed the most was the power resources available to French retailers. Retail trade was still a relatively weak sector within the French economy, but large-scale retailers had increased their market concentration, increased their share of value added relative to producers, and seen union density decline. These more powerful retailers faced an institutional picture that had changed little since the 1970s, with weak support for any sort of interest aggregation or concertation with social partners.

[220] The definition stated that: "The actual purchase price is the unit price stated on the invoice plus taxes on sales, specific taxes applied to the resale, and transportation costs." Note that this only applied to the margins on the product invoice, not to so-called "back margins", which were margins paid to retailers for services related to marketing or sales. As quoted in Boutin and Guerrero (2008).

Table 6.3 Determinants of French Retail Coalitions, 1990

| | | | |
|---|---|---|---|
| **Power Resources** | | | |
| Retailer Power (10 largest market share) | Ratio of Retail VA/ Manuf. VA (%) | Labor Power (Union Density) | Total Retailer Power |
| Medium (35.0%) | Medium (25.6%) | Low (10.1%) | Medium |
| **Institutions** | | | |
| Electoral Rules | Level of Corporatism | Administrative Control of Retail | Overall Support for Coalitions |
| Majoritarian | Low[221] | Mixed | Low |
| **Opposition** | | | |
| Small Shop Economic Power[222] | Type of Resistance | Political Support for Opposition | Overall Strength of Opposition |
| Low | Suppliers/Small Shops | Medium | Medium |
| **Overall** | | | |
| Power Resources of Retail | Institutional Support for Coalition | Strength of Small Store Opposition | Final Coalition |
| Medium | Low | Low | Weak |

Other important changes were the composition and strength of the opposition groups arrayed against the growth of large-scale retailing. Many of the opposition groups from the 1970s had weakened significantly. As large-scale retailers consolidated control

[221] Source: Lijphart (1999). In his index of interest group pluralism from 1971-1996, where 0 = most corporatist and 4 = least corporatist, France scores a 3.00, in line with other fragmented and decentralized democracies.

[222] The French retail sector was larger in 1990, small shops were still not organized into economic groups such as cooperative associations or purchasing groups, and the country lacks powerful small shop specific peak organizations or purchasing groups that either aggregate preferences or multiply economic power.

over the retail sector, they quashed internal opposition from small shopkeepers. Unions were also much weaker than they had been, with declining membership roles and less influence over the leftist political parties.

Examining this conflict over price rules in more depth shows the remarkable similarities with the earlier period, although the players and power had changed. Producers now sought restrictions on the market freedom of large-scale retailers and large retailers needed new allies to preserve the mix of liberalism and protection that had propelled their rise. In this struggle they turned to their newest ally, the consumer.

Despite the changing alliances, history has a way of repeating itself. The story of the run-up, political outcome, and subsequent firm strategies of the Galland Law reads like a modern version of the Royer story, with weak coalition building from both large-scale retailers and their opposition, this time a coalition of supplier groups and small shopkeepers. The final outcome once again forestalled significant national interventions in the distribution sector, while failing to institute a longer-term pattern of retail policymaking.

The opposition groups argued that retailers were abusing their market position and were driving small firms out of business. There is evidence this was true. Colla and Lapoule (2008) argue that prior to Galland, the rules that defined a loss threshold were unclear and the penalties for below cost sales were not effective. In an interview with the Fédération des Entreprises du Commerce et de la Distribution (FCD) it highlighted that the goal of the law was to "fight against predatory pricing" and "fight against abusively low prices". However, the rule opened a new loophole for "back margins", which are discounts producers give retailers for delivery, promotional support, or special purchases.[223] Such discounts aren't counted in the resale price threshold, but did offer another opportunity for retailers to use scale to pressure suppliers.

Retailers countered by mobilizing their new coalition with consumers, contending that they were simply using economies of scale to get the best prices for consumers and were lowering the overly high prices charged by French producers. The always colorful Michel-Edouard Leclerc was at the forefront of this effort, constantly pointing out the price increases of French producers, first through advertisements and press releases and then directly through his blog. The result of the competing coalitions was a weak law that clarified loopholes in rules that banned resale at a loss and increased the penalties for offenders. At the same time, it did little to reduce the advantages of scale held by large retailers and if anything increased the conflict between large retailer and producer groups by increasing the use of both private labels and the "back margin" system. The Galland law allowed retailers to forestall further intervention from the French state in supplier relations, but had left the terms of their firm relationships vague and un-resolved. Retailers would soon use the gray areas in the Galland regime both to increase their

[223] In effect these were required discounts given by suppliers to large retailers in exchange for privileged locations on the shelf or even as a condition of purchase. They were often applied to every step of the distribution process (a wholesale back margin, a transport back margin) making margins that were officially 1 or 2% in reality jump above 10%.

economic power and to begin building a new business model built on adding value in products and services.

In an interview with Enrico Colla, a leading academic of French retailing, Colla argued that the Galland law had a powerful effect, encouraging retailers to focus on the selling experience, increasing services in store, and international development rather than price competition. Since they could no longer simply compete over price, retailers used back margin side payments to re-invest in stores, improving service quality and in-store offerings.

The repeal of the Galland regime shows the importance it had on prices and products in stores.[224] Data on prices and product mixes show the different effects the rules had on nationally-branded products versus private-label products. FCD data from Nielsen tracking prices before and after the repeal of the Galland regime in April of 2006 shows that before its repeal, the price inflation of *grandes marques* (or national brands) exceeded total price inflation and significantly exceeded price inflation from private labels. After the repeal, these trends reversed.

The increase in the prices of national brands therefore accelerated the movement of French retailers toward private label goods. Because retailers were now effectively barred from price competition on brands outside of their control, they needed new modes of inter-retailer competition. Increasing service quality was one option. Another was simply to create their own brands at prices they specified and could therefore set more freely. Galland pushed retailers toward these strategies by reducing the inherent risks associated with producing consumer goods by regulating prices, reducing intra-brand (between retailer) competition. The *Loi Galland* created a hard floor, which the prices of nationally-branded products could not fall below. However, by dampening intra-brand price competition, French pricing law created an opportunity structure for new entrants and inter-brand (between producer) competition, which retailers filled with private labels.[225]

From 2003-2008, French *grands magasins* added on average 163 private-label goods a year while decreasing the number of products from large industrial groups by 120 a year (50 French and 70 foreign).[226] As one interviewee put it, the retailers began trying to turn "brands into products" and their store products into brands. An interview

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[224] The regime was repealed in 2005. In 2003 the Galland law was renamed the *Loi Dutreil*, but the change to Dutreil did little to alter back margins, price rules, or the relationship between large retailers and their suppliers.
Dutreil Act, which as a modification enacted in 2005)

[225] Intra-brand competition is competition between rival retailers over identical products and services. Inter-brand competition is competition between different producers selling the same type of product. For more on this topic, see Boutin and Guerrero (2008).

[226] An interesting side development was the increasingly close ties during the period between large French retailers and small and medium French producers. Large retailers averaged adding 95 new products a year from small and medium enterprises (55 French, 40 foreign). Source: Nielsen-FCD PME Study. Small and medium enterprises are defined in the study as those having less than 500 workers and incomes of less than 80 million euros.

with the FCD supported the notion that the Galland system increased retailers' focus on private label goods. The President of the association, Jérôme Bedier, indicated that the rise in prices of the big brands reduced competition over these "premier prix" goods and re-focused it toward own brands. Interviews with Jean Bergevin at the EU used a stronger phrase, calling the result of the Galland regulations a "price-fixing regime."[227] The FCD also stated that retailers had mixed feelings about the move, since though it increased stability, it reduced retailers decision making ability on prices, pushing them toward the own brand strategies.

In comparative context, the lessons of the Galland regime should not be drawn from the specifics of the regulation, but from the general systemic relations they represent. Unlike the United States, where market power led retailers to dominate suppliers, or Denmark, where dense networks of institutions conditioned cooperation, weak levels of intervention in the French retail market created strong incentives for competition between retailers and producers. Similar movements toward retailer private labels and competition with producer groups occurred in the United Kingdom, without similar pricing regulation, but with a similar history of politics caught in between liberalism and corporatism.

The perpetual politics of prices continued after Galland. The problems of back margins and high consumer prices continued to provide politicians with a populist issue. Nicolas Sarkozy, then the Minister of the Interior, seized on the price issue in 2004 in the form of the Sarkozy accords, an agreement between the government and major retailers designed to lower prices. The accords gave retailers more flexibility in the context of supplier negotiations under the loi Galland – though resale for loss was still prohibited. In return, French retailers and suppliers set a list of products that they would lower in prices – hitting at the margins of both large suppliers and retailers. In conjunction with the Finance Ministry, retailers acted fairly unilaterally throughout and although consumers were the targeted beneficiaries, they were largely excluded from negotiations and disappointed with the results.[228]

Although negotiated price reductions had some effect, continued consumer dissatisfaction with pricing and competition in French retailing pushed the government into further actions. After Sarkozy became President, he commissioned a report on economic reform, lead by a former Socialist adviser to Mitterrand, Jacques Attali. The Attali Commission pointed our problems throughout the retail and regulatory system, most notably in the system of back margins and the lack of competition based on planning legislation.

Sarkozy used the report and seized on retailing as he made the case for a broad set of liberalizing economic reforms, which eventually came together in 2008 as the *Loi de Modernisation de l'Économie* (Economic Modernization Law or LME). The law was seen as privileging retailers over suppliers as it gave retailers almost complete freedom in

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[227] Bergevin is head of unit E2 (Retail and Information services) in the Services division of GD Internal Market and Services.

[228] http://www.lexpansion.com/economie/baisse-des-prix-le-recul-de-sarkozy_105037.html

price negotiations, allowing the large players to use their market power to pressure suppliers on price. It also raised the floor space limit back to 1000 $m^2$, encouraging the entry of more small format retail chains like hard discounters.

What effect the LME will have on retailer strategies is still unclear. Although it moves French retail regulation in the direction of the liberal United States, the law stops short of full liberalization. Sales and promotions are still limited, and selling below cost is still illegal. Judges have power to rule that retailers are abusing their market power in relationships with suppliers. Small and town center shops are more unprotected than ever, though they still receive government aid and planning restrictions are still in place. Producer groups no longer appear to have upper hand in political conflicts with retailers, with most observers viewing the new rules as benefiting the large retail groups over the large producer groups.

The effect of the LME on politics may be more readily apparent. On the right, the small town support base of the right clashed with party elites and big business. Local mayors, who make up many of the deputies in the national assembly, were largely opposed to many of the provisions in the LME, even those from Sarkozy's own party.[229]

More importantly, the fight over the LME demonstrated both the increased power of consumer groups and the heightened importance of populist issues like price. Politicians and interest groups alike sought to mobilize diffuse interest group and public support for liberal reforms rather than consulting traditional support groups. This continues the tradition of shifting alliances and weak coalitions in French retailing politics.

Similar patterns can be seen in other recent reforms, such as the liberalization of Sunday opening hours. Sarkozy focused on the consumer dimension, promising "an extra day of economic growth", "additional spending power", and job creation. Shopkeepers, workers, and small town mayors responded with outrage that the president would consider opening stores on Sunday.[230] A *Liberation* poll on Sunday openings found that only 52.5% of the public supported store opening on Sunday, while 79% of the same sample thought that the opening would have negative consequences for commerce workers, and 68% were opposed to personally working regularly on Sundays. While the law passed, the Left filed over 4,000 amendments in attempts to block its passage, and numerous members of Sarkozy's own UMP party voted against it.

The battle over Sunday opening shows that French retailing today continues the legacy of contradiction in a land known for small shops and vast hypermarkets. Consumers want cheap goods and retail access at the same time they want a traditional work schedule, in-town development, and protection for small artisans.

[229] Although the rules concerning retail liberalization played a role, many of their objections were not retail specific but focused on the rearrangement of central government and local powers.
[230] WSJ, Friday July 24th, 2009

## V. Conclusion: The Politics of Permanent Contestation

Although the arguments about interest-group weakness or fragmentation and the triumph of big-business over small are familiar refrains in French political economy (see Levy, 1999; Schmidt, 1996), the retailing story in France neither aligns neatly either with traditional *dirigiste* accounts of the French economy nor newer stories about the politics of institutional change in France. In fact, until the most recent Sarkozy administration, the governance of the retailing sector has run counter to general French regulatory strategy, suggesting that the French government has been slow to recognize the potential dynamism of its retailing firms in their own right, preferring to use retail trade as a buffer against other economic challenges.

French political economy has traditionally been marked by high levels of planning and state intervention (Shonfield, 1965; Hall, 1986). High levels of state involvement in the economy have typically been seen as good when viewed through a historical developmental state lens and more critically by more recent liberal market analyses (for instance Delpla and Wyploz, 2007). French retailing, however, like many other French service sectors, was not highly planned, and seen rather only as a complement to French manufacturing planning and national champion strategies. Despite France's image as a highly directed and regulated economy, the French state has largely ignored the retailing sector, except during those periods when it has been thrust to the forefront of national consciousness by the political action of shopkeepers or consumers. Even then, the state has tended not to regulate directly, pushing power downward to local governments, as with the *Royer* law.[231] Large retailers played a political role in this. Without the weak political coalitions formed by retailers, it is more likely that the French state would have imposed more active, national regulation on the retail sector.

The state, especially when led from the right, was been happy to comply, since the politics of the retailing sector cuts across the electoral bases of both parties, and typically involves a losing political equation. On the right, shopkeepers have provided solid electoral support for the Gaullist parties and their descendents, at the same time that these parties have attracted pro-big business votes. On the left, the tension between workers' rights and consumers' rights often confounds the left, and so both sides of the political spectrum have been happy to push fights toward local politics or industry associations.

Characterizing the politics of the retail sector, where the French state has been neither interventionist nor absent, involves identifying the recurring theme of a focus on politics over policy. Retailers and their opponents have consistent mobilized weak coalitions designed to forestall short-term state intervention rather than to advance longer-term policy agendas. Perhaps not surprisingly, the result has been a constant struggle over the rules of the game. On one side have been the large retailers,

[231] There are exceptions to this rule, notably the rules about prices and price information, where the state provided active guidance until the 1980s and continued to regulated in certain dimensions (particular prices, rules on predatory pricing and sales, etc.) after that point. For more on the history of price rules, see Trumbull, 2006.

continuously and loudly making the argument for freer markets. They have found allies along the way, short term partners with likeminded desires for market freedom. On the other side have stood first the shopkeepers, then the producers, and now even perhaps the consumers. Shopkeepers saw the destruction of their way of life as they conquered retailing. Producers saw retailers expanding their activities and taking control of the distribution sector. Consumers, once strong supporters of large-scale retailing, have grown impatient, as the advance of large retailers has done little to lower consumer prices, particularly relative to neighbor Germany.

This perpetual contestation has continued even in the face of liberalization in the broader economy. After the 1983 Mitterrand u-turn, however, French strategy turned in a liberal market direction. Hall and Thelen (2009) highlight the French u-turn in 1983 as a shift away from *dirigisme* toward market-oriented coordination (see also Hall, 1986). In the broader economy, the reforms toward market-orientation were driven by French firms, replacing state coordination with inter-corporate linkages (Hancké, 2002; Culpepper, 2006).

Although this account may capture developments in French manufacturing or labor markets, it again stands at odds with the empirics of the retail case. Inter-corporate linkages have failed to materialize as the struggle between producers and retailers has continued unabated. While the French state reduced its control over manufacturing, the opposite pattern emerged in the retail sector, with the state taking a much more active role in directing and planning the retail sector in an attempt to dampen constant inter-corporate competition. Efforts at liberalization have returned only under the most recent Sarkozy administration, with the economic modernization law. This suggests that perhaps French law makers are finally starting to see the retail trade sector as something other than a buffer or complement to manufacturing, as a vibrant part of the economy in its own right.

The actions of the state have also been somewhat puzzling. Despite a long history of state action, the French state has been surprisingly hands off in the retail sector. The explanations are two-fold. First, retailing has rarely been a primary goal of state policy. Rather it has solved tangential problems, such as building French national manufacturing champions, lowering consumer prices, or providing employment growth that buffers declines in other sectors. Secondly, the right, long the dominate political force in France, has conflicting goals in the retail sector, attempting to support big business and economic growth without alienating core constituencies such as independent shopkeepers. Pushing fights to the local level allows blame avoidance.

Despite claims that regulations have been a burden on French retailers, they spurred innovation, leading retailers toward the hypermarket, valuable store private labels, and international development. French service innovation has occurred because of, rather than in spite of the French regulatory environment. Regulations and institutions that fall between markets and neo-corporatism have created constant conflict over the rules of the game. In response, retailers have created new relationships with suppliers and workers they can dominate, forging a vertical integration strategy quite different from the scale and cost-squeezing strategy of American retailers or the high-wage, high-cooperation, high-road strategy in Denmark. It is to the future performance of each model of retailing in an era of globalization and advanced technology that we now turn.

# Chapter VII:
# Conclusion: Do Technology, Globalization, and Productivity Change Everything?

*Machines are as much a mirror as the motor of social development.*

*- Michael J. Piore and Charles F. Sabel (The Second Industrial Divide, 1984)*

**I. Coalitions are dead! Long live Coalitions!**

This dissertation has described three models of high growth retail capitalism. In addition, it has shown that the differentiating features these forms of modern retail capitalism have been shaped more by the coalitional politics of nations than by either the imperatives of the technology available to retailers or the vicissitudes of consumer preferences or markets.

During the period from 1930-1960, retail markets exhibited largely parallel structures across borders with powerful producers dominating small, independent shops. Increases in consumer affluence and economic geography in the 1960s offered retailers new opportunities to break free of these subservient relationships, and a new crop of merchant minded retailers emerged with similar visions of self-service, lower cost structures and larger stores and store networks. Technology supported their vision, giving retailers the necessary tools to build larger store networks with reduced risk.

The emergence of these new scale retailers, like any economic entrant, generated reactions. Across all three case countries, small shopkeepers began organizing to challenge the new entrants, seeking regulatory controls ranging from taxes to development stops. The strength and cohesion of these movements was at times aided and at times undermined by national structural factors including the power resources of the retail sector, electoral institutions, avenues of interest aggregation, and the existing economic structure of the small shops themselves. Where shopkeepers were powerful and posed a significant threat to development, retailers were forced to form political coalitions in order to lobby for their future. And, as retailers reached out to political allies, they also sowed the seeds of future economic partnerships.

In each case, therefore, the initial political coalition set in motion longer economic trajectories of firm management and policymaking. In the United States, the fragmented and decentralized political environment meant that the opposition to retailers was local and diffuse. Consequently retailers were able to counter with unilateral political action, which set the stage for a confrontational, and ultimately dominating, lean retailing business model built around using information and market power as a club against suppliers and workers.

In Denmark, weak retailers confronted powerful small shops, producers, and workers. Needing support, retailers reached a broad compromise involving all of these groups. The resulting coalition divided the gains from consumer distribution in a more stable, long-term and equitable fashion. Retailers were forced to work with partners, but eventually found numerous benefits from these alliances, and have continued their cooperation, labeled relational contraction, long after the initial political crisis had past. Policymaking has also continued its history of concertation, and new challenges are still tackled jointly by a broad coalition of groups.

Finally, in France, retailers faced a vocal and national, but disjointed opposition movement of shopkeepers. Reaching out to producers and workers produced an uneasy compromise, which solved the political crisis without finalizing many of the underlying policy questions. The tenuous retailer coalition quickly fractured, as former partners sought to solve the remaining policy questions about prices, supplier relations, and market control through further political action, creating an environment of permanent political contestation. Economically, retailers built a vertical integration business model. Retailers sought to control their partners, creating new tiers of inside workers and suppliers, and developed business models designed to capture as much value as possible from the distribution supply chain through new services and products.

In sum, the evidence has run counter to the arguments posited by adherents of convergence theory (see Martin, 1997 for a summary of these arguments), who argue for either technological or market reasons that any differences seen in national models are temporary dikes against the coming confluence. The predominant literature on the service sector in both economics and political science has argued that the only way to create jobs in services such as retailing is through the low-wage, high-inequality route epitomized by the United States. Nevertheless, in the retail trade sector, a number of European countries have matched or exceeded American productivity and employment growth, despite considerably higher wage levels.

Convergence arguments are sure to intensify given two dramatic movements in retailing: the continued rise in the power and use of information and communications technology (ICT) and the increasing transnational nature of the retail sector. Mirroring larger arguments about the way in which technology and globalization push convergence in firm strategies, each force is posited to force retailers toward particular global best practices, normally assumed to match a low-regulatory American, lean retailing model.

This conclusion will take the opposite track, arguing that the types of national coalitions – and their accompanying management models – described throughout this work will not only remain, but will continue to be important sources of divergence in firm strategy, competitive advantage, and national variation in such areas as wage equality, price levels, and patterns of technology implementation.

Each major topic – technology and retail globalization – will be considered in turn, looking at how each presses on previous models of value creation and modes of policy-making. The evidence presented shows that while both technology and globalization matter for retail politics, the effect of each shrinks when filtered though more conventional political variables, such as institutions, power resources, and current political economic structure.

This is not to say that these movements do not matter or that they will not change the way firms do business. Each will drive important changes in the way retail firms operate, both at home and abroad. Increasing mobility of firms will mean more challenges from foreign entrants and more opportunities to attract innovation and export services. In addition, the changing opportunities and challenges opened by technology and more mobile retail firms will alter the way policymakers must consider and regulate the retail sector. Increasing productivity levels means reducing employment relative to economic value, suggesting that future regulation should resemble a new approach between that used for manufacturing and that used for slower-growth social services.

Nevertheless, these changes will again be mediated by familiar patterns of institutional structures, coalitional channels, and policy patterns. The interplay between national politics and business strategy will continue to be the primary lens that conditions firm outcomes. Part of the reason is that the social aspect of the retail sector and its fundamental connectedness with workers, consumers, producers, and localities will not disappear. This means that entrants, more so than manufacturing firms, will operate under constraints. In addition, the lessons learned from broad coalitions may provide significant advantages during retail globalization, as partnerships with local workers, consumers, suppliers, and existing distribution channels help retailers to bridge difficult transitions.

This concluding chapter considers first how new digital and communications technology will affect the management strategies and relationships of retail firms, the relevant retail players in each country, and the policy channels in each of the case countries. A similar discussion will cover the strategies, players, and politics brought on by globalization. In both cases the argument will be that neither the basic competitive strategies nor the politics will change within domestic retail markets, and that new players – from purely e-commerce and mobile retailers, to foreign entrants, to new competitors in tangential sectors – will simply be integrated into existing coalitions in predictable ways. Nevertheless, shifting patterns of productivity and the new challenges and opportunities brought on by increased growth will shift the relationship between governments and firms, necessitating more deliberate public policy regimes in the retail sector. These regimes will need to differ substantially from those governing either sheltered service sectors or less embedded activities such as manufacturing. To be most effective, the regimes should be based on the existing strategies of retailers in each home country and support, rather than disrupt, the economic linkages that constitute each strategy.[232]

**II. From Bricks to Clicks: New Platforms, Old Politics**

As the Piore and Sabel quote to open this conclusion states, although information technology affects firm outcomes, players, and political patterns, information technology

[232] Even EuroCommerce, a European Union level lobbying group representing the retail, wholesale and international trade sectors in Europe and a strong proponent of further market integration, writes that "there is no one-size-fits all solution as member states differ in cultural, historical and social developments and their labour market situations differ (Eurocommerce, 2010)."

only reinforces a longer legacy of social and political decision making. As in the era of store construction and the rise of large retailers, the implementation of new digital and communications technologies has been filtered through national political systems, with new players and new conflicts being mediated by similar institutional frameworks. This means that although the precise manner of value creation may change, firms will pursue similar management logics in addressing these new opportunities.

Within firms, ICT, like other general-purpose digital technology tools, has diffused throughout the retail sector by being laid on top of existing relationships. Where suppliers and workers dominated as in the United States, IT networks became a tighter leash – allowing firms to increase evaluation of workers and demand more from suppliers in return for POS data. By contrast, in Germany and Denmark, point-of-sale (POS) information networks clashed with the close relationships developed between retailers and their smaller suppliers, leading to slower adoption of data exchange networks, while technology tools were deployed to up-skill and train workers. Strategic stability provides an intriguing contrast to technological change, emphasizing the importance of political institutions and regulation in conditioning and constraining firm trajectories.

What may be new in the ICT-age is the appearance of new retail players with new business models derived from the possibilities unlocked by these technologies, including e-commerce and mobile commerce (phone-based) retailers. These new players will be forced to negotiate both retail incumbents and other economic players in the economy to protect their preferred economic activities from regulation. This may also increase the number of relevant political arenas for the retail sector.

Nevertheless, the early evidence suggests that new patterns of negotiation will follow previous patterns of policymaking. American e-commerce rules are being driven by powerful business actors, French rules are being hotly contested between retailers and producers, and Danish frameworks are being heavily negotiated by a variety of social partners. Even with a new set of retail players, the basic political and economic structural variables that drove national patterns of policymaking continue to work in the digital era in the same manner as they did when the current crop of incumbent retailers first began their rise.

To better understand why the evidence points to a mixture of continuity in politics and change in economic activities and players (but not management or value creation strategies), it may be helpful to better understand how ICT alters the provision of retail services.[233] ICT-enabled services are the latest phase in a long history of production innovation and should be conceptually viewed as part of that longer trajectory. As ICT has become integral to the creation and delivery of services, *ICT-enabled services have taken on the characteristics of production normally assigned solely to manufacturing.* Controlling and structuring information has been the key. In the service sector, given its high informational component, this was difficult in any systematic, large-scale manner

[233] The following section on ICT in service production draws on a larger research program of the Berkeley Roundtable on the International Economy (BRIE) and reflects the collaboration of John Zysman, Kenji Kushida, and Derek Wong, among others.

prior to ICT. The challenges in converting information into codified form, replicating it, and communicating it were simply too great.

For some services – those that are inherently delivered by people, cutting hair or cleaning house, or are inherently physical activities – this is still the case. But many services, particularly the wave of innovative services resting on information technology are *principally* about information and are therefore directly and powerful affected by improving the capacity to process data. Even those services whose generation and delivery remain rooted in people and physical activities, restaurants and retail stores, are often very deeply influenced by ICT. The more segments of services that can be converted to digital information, the more that computing power can dramatically alter the organization, production, and delivery of services. Correspondingly, the rapid growth of computing power allows more segments of services to be converted to digital information.

There is a distinctive historical trajectory to the rapid growth of computing power and its drop in cost. Beginning about 150 years ago, there were relatively minor increases from the late 19th century until the 1940s – what can be called the mechanical age. Suddenly, modest jumps occurred during this era with the advent of mechanical calculators, punch card technologies, and general electromechanical innovations. Overall computational power improved in speed and performance during this period by about a factor of ten.

After the 1940s, however, the increases became rapid, with continuous acceleration. Vacuum technology, transistors, and microprocessors transformed the technological possibilities. Moore's Law – the term for the trend that Gordon Moore observed, where the number of transistors per square inch on integrated circuits doubled every twelve to eighteen months – drove the growth of processing power. If Moore's Law continues to hold, which it is projected to for another ten to fifteen years, we will see microprocessors that are 120 to 140 times more powerful than the ones today.

The power of these new ICT tools has profoundly shaped not just how goods are made, but also how services are constructed and delivered, allowing investments that are industrial in scale. These systems can then deliver services to consumers – services that were once produced by people at the same moment they were consumed. For example, think of a librarian compared to a Google search. The investments Google requires to offer its services – the array of $500 million dollar datacenters around the globe and the entire financial outlays to continually develop software and services – are all to create ICT systems that deliver its services.

Enormous business value is created by managing bits, data, and meta-data in order to identify the relationships, connections, and interactions among disparate pieces of information. For example, with information about the sales figures for forty different styles of dresses at the largest Zara clothing store in downtown Madrid during the first week of March, there can be significant economic value in the recognition that style 4137 was the best-selling style for the third week in a row. There is also value in the observation that the popularity of this style indicates that lower hemlines appear to be coming back into style this spring, at least among the customers of this particular store.

In all, the ability to organize, analyze, and replicate the information in services will increase as the power of ICT – as a parallel technology system – continues to expand. As ICT platforms move from the mainframe to the cloud, this means that the possibilities and challenges for retailers will only grow. It will also make defining "retailers" more difficult as the range of the services they offer diversifies and changes. Now that it offers cloud services, is Amazon.com a retailer or a technology company?[234]

More applicable for this study are questions about how existing retailers are integrating these technologies into their existing business models. Organizational changes brought about by the integration of digital technology can either reflect past models of competition or offer opportunities to break with the past. Determining which path is taken is important not only for the durability of this study's findings, but for the larger trajectory of the retail sector. Unlike previous turns of the "wheel of retailing", the opportunities being offered by e-commerce are being largely dominated by existing players, rather than new players. With notable exceptions – like internet giant Amazon – the leading players in e-commerce are incumbents from the brick and mortar world. In the United States, of the top 25 online retailers, only 3 (Amazon.com Inc., Newegg Inc., and Netflix Inc.) could be termed internet-first companies with two more as media based retailers from the pre-internet era (Liberty Media Corp. which owns QVC and the Home Shopping Network Inc.). The other twenty are giants (either retailers or producers who now sell directly) from the pre-internet age. Although it is entirely possible that these incumbents will lose in competition against agile new internet-only startups, the e-commerce "revolution" is currently a revolution from above.

E-commerce in each of the three case countries, therefore, exhibits a variety of political and economic parallels to the previous retail revolution. Retailers are tackling different value domains based on the trajectory of both national firm tendencies and domestic political coalitions. In addition, different political pressure points are emerging, which will arbitrate new distributions of wealth.

In the United States, market changes continues to be dictated by a liberal, fragmented, and decentralized political environment, rather than national level political conflict or negotiation. New e-commerce retailers such as Amazon.com have certainly altered retail's economic playing field, but the majority of new American e-retailers have management strategies that resemble their physical competitors, simply with lower levels of store infrastructures. Analyzing these firms in a comparative retail context is somewhat problematic, as they typically combine technology with wholesaling activities and have largely eliminated or codified the vast majority of what would typically be considered "retailing" activities. Previous work has noted the differences that exist

[234] Or even a producer? Amazon.com's role as one of the most intriguing companies in American retailing has only been enhanced by its strategy of selling its Kindle e-reader through other retailers. In May of 2011, this policy was extended to perhaps its biggest retail competitor, Walmart. Overlapping interests as a online services provider, retailer, and producer (or at least final assembler) make Amazon a wonderful example of the complex sets of activities that retailers now use to create value.

between brick-and-mortar and online only retailers, such as different cost structures – higher fixed costs online but lower marginal costs (Latcovich and Smith, 2001) – or different bundles of goods/services (Goldmanis et al., 2008).

Nevertheless, we can glean some insights both from the numerous failures in e-commerce and from the attempts of incumbent brick and mortar retailers to build their own e-commerce platforms. As for American e-commerce failures, the model has been remarkably similar to that seen in brick-and-mortar lean retailing, attempting to compete on cost using higher levels of cost squeezing and operational efficiency than competitors to achieve lower margins and higher levels of turnover. A primary example of this strategy was Webvan. Webvan was one of the first and most ambitious purely web-based grocery retailers. The model was that of an extreme lean retailer, envisaging optimized logistics and reduced labor costs allowing Webvan to compete with lower margins than traditional brick and mortar retailers.

These retailers typically failed because they overbuilt infrastructure relative to turnover or failed to achieve the scale necessary to allow the types of margins used by incumbent retailers. Existing retailers have been more successful simply largely because they have a large existing infrastructure to leverage. Rather than using new warehouses for online-only services, they can use their existing warehouse and store infrastructure to achieve similar cost structures as their physical businesses. Again, however, the strategy is based on squeezing with suppliers and workers to deliver the lowest possible costs.

The French e-commerce market also demonstrates numerous similarities with the past. French e-commerce patterns reflect some of the continuing dual nature of the French retailing market. A large percentage of the market continues to be dominated by local, highly specialized shops. These stores have done little in the direction of e-commerce. Their hesitation to make investments in e-commerce may have been strengthened by the collapse of Minitel, the French internet predecessor. Many retailers used this phone based system for distance selling and were correspondingly slow to transition to web-based platforms.

Because of this larger than usual population of small shops, French retailing statistics show France as a bit of a laggard in e-commerce. In the most recent Eurobarometer survey of European retailing taken in September and October 2010, only 55% of French retailers reported using the internet as a sales channel, just slightly above the EU27 average of 53% and well behind the leading UK at 78% (Eurobarometer, 2011).

However, the digital strategies of large retailers have been substantial and focused on strengthening the value proposition of the vertical integration model of adding value and services. French web presence strategies vary in offering products, but the they are marked by their attempt to add value to the brand proposition (Müller-Lankenau et al., 2005-2006). These value-adding features include one-to-one marketing, expanding the consumer role in product or service configuration, information provision (particularly about the value proposition of items), and online customer assistance and advice. Unlike American digital strategies, which serve both an information gathering function and an increasing turnover function, French strategies are focused primarily on improving service, adding value, or reducing labor costs.

Finally, the Danish case shows a distinctive transition toward e-commerce, fitting with the higher-service model of Danish retailing. Given that many of the value propositions of e-commerce (closer contact with customers, better information provision, etc.) were already present in Danish management strategies, many small Danish retail firms were initially quite reluctant to move into e-commerce, fearing that this would erode their traditional source of competitiveness. Despite a high level of technology literacy and internet access for the Danish population, therefore, e-commerce for some time lagged many of Denmark's neighbors. In 2004, the Economist Intelligence Unit ranked Denmark as the most "e-ready" economy in the world. Nevertheless, in 2010 "in-premise sales" still accounted for 80% of sales in Denmark, well above the EU-27 average of 73% (Eurobarometer, 2011).

Some aspects of slow technology platform adoption had little to do with retailers. For one, the logistics role traditionally played by suppliers means that many small retailers lack the infrastructure to easily add e-commerce as a selling channel. Interviews with retailers in Denmark highlighted a lack of logistics infrastructure (warehouses, delivery systems, etc.) as a barrier to e-commerce. The largest retailers, however, have had fewer problems in this regard and have been able to retrain existing infrastructure to align with web-based strategy.

Other tangential sectors have also played a role, as the logistics of transport firms and the postal service in Denmark have until recently been ill-suited for e-commerce. The Danish mail delivery system was until recently based on the assumption that the consumers would be at home (based on the model of 1900 when there was someone at home in the daytime or that consumers would wait for 2-5 days to go to the post office to pick up the package). The lack of easy delivery options means that the cost structure makes e-commerce difficult for small shops. An interview suggested that if a store has a certain volume the best thing to do is actually to open a branch in Germany, where the cost of mailing from Germany is lower than from within Denmark - even when sending a package to Denmark! As e-commerce has expanded, stores that offer delivery to home addresses in the evening hours often do so by Norwegian mail.

Secondly, consumer demand has traditionally been low – though the experiences in other countries suggest much of this is a question of chicken and egg. Danish consumers acclimated to the high-labor quality, high service component of Danish retailing have been slow to demand e-commerce services. Without reliable e-commerce options to evaluate, Danish consumers don't know what they are missing.

Given low consumer demand, high infrastructure costs, and market difficulties for small Danish shops to enter the e-commerce arena, foreign entrants into the e-commerce market may prove more dangerous to Danish retailers than physical entrants. A survey from December 2009 found 20 of the most popular 50 e-commerce sites in Denmark were foreign, including the three most popular (two Swedish firms [cdon.dk and Hennes & Mauritz] and one American firm [Amazon]).

Both of these factors, however, appear to be eroding, as Danish firms adapt their high service model to the digital age. With these changes, it is likely Danish retailers will regain their footing their footing in e-commerce. A 2008 Eurobarometer survey found that 63% of Danes had purchased goods or services via the internet domestically in the last 12 months, the third highest percentage in Europe (the Netherlands and Sweden were higher) and that 23% had purchased something abroad in the past year, the second highest level (trailing only tiny Luxembourg).[235]

Accordingly, John Christiansen of Copenhagen Business School sees sign that e-commerce has started taking off in Denmark.[236] Both logistics and consumer confidence are changing, as retailers built their own infrastructure, logistics services firms update and improve their service options, and consumers gain confidence based on worth-of-mouth their own experiences. Smaller domestic players, however, continue to be slow to match consumer demand. The same survey found that despite the high percentage of users only around 55% of retailers used e-commerce, eleventh in the EU and just above average. Small and medium firms, typically thoughg of as driving Danish innovation, are highly reluctant to shift investments in brick and mortar stores toward e-commerce. Christiansen and Quayle (2006) in a survey of small and medium Danish and British retailers, found that only 22% of Danish SMEs had implemented or were in the process of implementing e-commerce. In contrast, 89% of British small and medium enterprise (SME) retailers either had e-commerce capabilities or were in the process of implementing them. Given the high retail market concentration in Denmark, however, slow adoption by SMEs represents only a small percentage of the Danish retail market.

Apart from the efforts traditional retailers to update themselves for a digital age, a discussion of digital technology in retailing needs to account new retailers that provide retail services in a purely electronic commerce. Digital technology also opens new opportunities, including the opportunity to offer new digital services or open new distribution streams based on new technologies.[237] Each of the different models of physically-based retail capitalism will face quite different pressures both from these entrants and the commodification of existing digital strategies.

Although the scope of the existing retail revolution has been vast, there are signs that the entry of e-retailers will further transform retail markets. While e-commerce and mobile commerce are still in their infancy, experiments in and the expansion of e-commerce (internet) and mobile commerce (cell-phone based) have increased the number of available retail business models. As the ways in which consumers can connect to

[235] The high percentage making purchases abroad is more incredible when considering that 59% of Danes are "more confident" making purchases from retailers in Denmark than another EU country (versus only 2% in the other direction).
[236] Correspondance
[237] An example of the new service opportunities can be seen in the burgeoning cloud computing business of Amazon.com. Although this strategy certainly emerged partially due to Amazon's technological expertise, its server capacity and technical infrastructure are not wholly unique in the retailing world. Other large retailers have similar opportunities should they choose to expand their digital strategies.

manufacturers have increased, so too have the ways in which retailers have offered services to connect them, from companies which offer a wide of products like Amazon.com to niche sites that connect consumers with hard to find items. Table 7.1 shows the rise of e-commerce as a force in American retailing, with internet retailers constituting the vast majority of the "non-store retailers" category.[238] The data show that non-store retailers were the only sub-sector that significantly increased market share between 1992 and 2007. In addition, this figure shows that where consumers spend across sub-sectors is largely static in the United States, with the exception of non-store retailers and the decline in food and beverage stores.[239] Note that $7120 in 1992 is roughly equivalent to $13259 in 2007 using nominal GDP per capita.[240]

Additionally, these numbers largely exclude the next rising retailing stream: mobile (cell-phone based) commerce. Although mobile commerce sales totaled only $69 billion in 2010, they are expected to explode in the next five years, and projections suggest that mobile commerce sales will total more than $600 billion by 2014.[241] Although still relatively small compared to the global retail market, $600 billion dollars is 50% more than the total sales for Walmart in 2010 ($405 billion).

The purely digital provision of retail services via e-commerce will intensify many of the trends started by the digital revolution while opening new lines of conflict, especially in Europe where e-commerce will place increasing pressure on national regulatory differences, price levels, and product offerings.[242] It will also open new political fights between physical and digitally-based retailers over rules of the game. Extended the arguments of this dissertation forward, the prediction would be that these political battles – over digital signatures, privacy, consumer protections, content

[238] The category also includes the forerunner of e-commerce firms, the catalogue retailer.
[239] This oversimplifies a bit. Even a static group may actually have a high level of internal change. For instance, even though general merchandise stores (NAICS 452) shows little change, this hides the fact that within the sub-sector department stores experienced declines in sales (as a % of per capita spending) while discount and warehouse mass-merchandisers experienced sharp increases.
[240] Though the 2007 value is far more using CPI or a GDP deflator comparison. The nominal GDP per capita measure is perhaps a better comparison since we are less interested with a comparable basket of goods than with the size of the basket that consumers are buying. Source: Measuringworth.com
[241] Kenney and Pon (2011, forthcoming).
[242] An interviewee at the EU suggested that retailers will push back to disrupt any market convergence in Europe. He suggested that although electronic goods often sell at quite difference prices in France (more expensive) than in England and the internet should force price convergence, it largely has not. Why? While electronic goods like DVD players and TVs are sold more cheaply via the internet from England to France, he argued that a secondary market in *manuals* has sprung up, where French manuals now cost roughly the price difference between the two countries. Despite this claim, there is little evidence that this kind of secondary market for manuals has developed.

regulation, copyright, new distribution patterns, and taxes[243] – will follow the established patterns of policymaking.[244]

Table 7.1 American Retail Sub-Sector Market Share, 1992 & 2007

| NAICS Code | Kind of business | 1992 | 2007 | Change[245] |
|---|---|---|---|---|
| | Per capita spending, total | **7,120** | **13,259** | |
| | Total (excl. motor vehicle and parts dealers) | 5,475 | 10,249 | |
| | **Percent Share** | | | |
| 441 | Motor vehicle and parts dealers | 23 | 23 | 0 |
| 442 | Furniture and home furnishings stores | 3 | 3 | 0 |
| 443 | Electronics and appliance stores | 2 | 3 | 0 |
| 444 | Building mat. and garden equip. and supplies dealers | 7 | 8 | 1 |
| 445 | Food and beverage stores | 20 | 14 | -6 |
| 446 | Health and personal care stores | 5 | 6 | 1 |
| 447 | Gasoline stations | 9 | 11 | 2 |
| 448 | Clothing and clothing access. Stores | 7 | 6 | -1 |
| 451 | Sporting goods, hobby, book and music stores | 3 | 2 | -1 |
| 452 | General merchandise stores | 14 | 14 | 1 |
| 453 | Miscellaneous store retailers | 3 | 3 | 0 |
| 454 | Nonstore retailers | 4 | 7 | 3 |

[243] See J. Gibbs et al. (2003) for a somewhat dated view into where each case country has passed e-commerce specific regulations in each area.

[244] Some rules will cut across the digital-physical divide and become more general societal fights. One good example is data privacy, which matters for both physical and online retailers as they gather information about their customers (and for online retailers, their visitors). For physical stores in the US and increasingly the UK, loyalty cards are the primary method of linking sales data to individual customers, but loyalty cards are not the only way to tie consumer information to sales data. Ito-Yokado, the firm that now owns the 7-eleven franchise, has workers enter basic customer information (age, gender, local or visitor) into computers before ringing up purchases. The way data is gathered is certainly one of the variables most affected by regulation, notably privacy laws. Differential privacy laws mean that European companies are more likely to collect aggregate data from the cards instead of customer specific data. In addition, it is harder from them to share the data with third parties. If they were to gather individual data, they need consent agreement on the front end. This also makes future mergers harder if merged companies want to use any individual data across products. See Newman, 2008 for more on cross-national data-privacy regulation and a special thanks to Abe Newman for helping me think through this complicated subject.

[245] Numbers may not compute due to rounding.

In Denmark for instance, e-commerce issues have been coordinated and debated by a broad coalition of actors. Prior to the 2002 E-commerce act, the 1999 Focus on E-commerce Committee (*Fælles fokus på e-handel*) received input and made joint recommendations from 13 societal groups including members of local and national government, business groups, labor unions, and consumer organizations.[246]

In France, the perpetual conflict continues, and the fights are often about whether to replicate/update the rules that existed in physical distribution. For instance, the 1981 Lang Law prohibited the sale of books for less than five per cent below the price set by publishers. In November 2010 the French government extended the law to include e-books after extensive lobbying by retailers, internet retailers, and book producers.

In the United States these conflicts are typically fought outside the political realm, with market winners enjoying great freedom to define commercial strategies on the internet as they see fit.[247] Amazon and the growing market for e-books is a good example.

In sum, digital technology has accelerated the move toward scale as a permanent feature of the retailing landscape in every affluent economy. At the same time, the political pressures that pushed firms down different paths of value creation have channeled them toward corresponding nationally-based digital strategies. Each has been successful in increasing the productivity potential of the retail sector, breaking the bond between wage-equality and job creation, and underpinning the high-wage strategies that were described in earlier chapters on Denmark (IV) and to a lesser extent France (III). The digital revolution is not over, however, and a new wave of entrants building on purely digital or mobile platforms is emerging to challenge the incumbent scale retailers, much as they challenged the independent shopkeepers in the 1960s. The early suggestions are that these conflicts will follow similar political patterns to previous conflicts. What those patterns mean for the firm strategies and organization of these digital entrants will provide an intriguing set of questions for future work.

### III. Global Merchants, Local Politics

The second great challenge and opportunity facing retailers is ongoing process of retail internationalization. Although observers of "globalization" typically argue that

[246] The 13 groups were: Forskningsministeriet (Ministry of Technology, now defunct), Erhvervsministeriet (Ministry of the Economy), Amtsrådsforeningen (Association of County Councils), Dansk Dataforening (Danish Data Association), Dansk Handel og Service (Danish Commerce and Services), Dansk Industri (Danish Industry), Finansrådet (Finance Association), Forbrugerrådet (Consumer Council), Foreningen for Dansk Internet Handel (Association of Danish Internet Commerce), Handelskammeret (Chamber of Commerce), HK-handel (Service Union), IT-brancheforeningen (IT-industry Association), Kommunernes Landsforening (Association of Communes), LO (Danish Trade Union Confederation), Multimediabranchen.dk (Multimedia Industry Association)

[247] This is not to say that rules are not being passed in American e-commerce. In fact, the opposite is true. Because many of the rules are ill-defined or limited in nature, the United States has accumulated among the most e-commerce laws of any country.

services globalization has proceeded much more slowly than manufacturing, the internationalization of retailing is less about trade in services than about the building of multi-national retail firms that physically exist in multiple markets.[248] This move creates a host of opportunities and challenges both at home and abroad for retailers as new competitors enter, new markets beckon, new political rules are tested, and new political coalitions become necessary. Because of the dual nature of the internationalization phenomenon (retailers as entrants and as incumbents) three distinct sets of questions emerge for the coalition framework presented in this work. The first concerns domestic politics. The increasing mobility and entrance of retailing firms has the potential to either fracture domestic coalitions or reformulating them in new ways. How new entrants are integrated into existing coalitions may in turn affect political deals about retail regulation. The presence of new entrants, therefore, has the potential to re-shape national business models, particularly in high-wage, high cooperation environments like Denmark.

The second question pertains to how retailers act abroad. Firms have the choice to either adapt to local strategies or pursue the management strategies from their home markets. This means revisiting how firms choose to integrate into, work with, or ignore existing political coalitions. Firms will have to manage similar political challenges to those they faced as entrants in domestic markets in the 1960s and 1970s. For these questions, there is the distinct possibility that the answers will vary by firm strategy, so care must be taken to differentiate how each model behaves as it moves abroad.

Finally, there are questions about feedback between the domestic and international level. The barbarians at the gate can bring with them strategies or ideas about regulation that can be adopted at home or can be purely adversaries. Successes and failures abroad may also feedback into domestic models. Across borders, there is the potential for new transnational retailing coalitions. The outcomes have implications for scholarship and may affect the level of aggregation that future work on the political economy of services should examine.

The final section will consider each of these sets of questions through the lens of firm strategies, actors, and coalitions. As with digital and communications technologies, the early evidence suggests that the argument of this dissertation continues to hold weight in a global era. At home, new entrants may in fact strengthen retail commitments to coalitions where they exist. Abroad, retailers as entrants are punished if they fail to adopt local political and economic practices. In the short run, this may provide benefits for retailers who have experience working in higher regulatory environments and with political partners.

In addition, given the nature of the service sector, the necessity of close geographic proximity for production, and its relationship to social and cultural norms, it appears less likely that domestic rules will feel the same pressures to change as seen in

[248] Globalization is used as a catch-all for a variety of concepts (see Woods, 1998; Drezner, 1998), which is why it is typically eschewed here for trans-nationalization or internationalization, by which I mean the building of international business networks. See Hufbauer and Warren (1999) for a discussion and data on the globalization (their term) of services.

manufacturing. Unlike the famous Hoover factory[249], retailers face serious challenges in providing their retail services from weak regulatory for delivery in countries with stricter rules. New entrants will certainly revive political debates and retailing markets will change, but the dominant logic of value creation will continue to have a national character.

The exception to this rule is the developing world, which to this point has been outside the purview of this work. The lessons of retail internationalization may be very different for the developing world. For one, the relationship between retailers and the economies, governments, and regulations of these countries will be quite different than in the developed world. Because of lower levels of infrastructure, economic and network development, capital, and technical know-how, retailers from the affluent economies bring chips to the table in the developing world that they do not in the developed world. This makes it possible for them to shape regulation in a way that is not possible in many of the developed service economies of Western Europe and North America.

The two countries that provide the biggest potential opportunities for developed retailers are India and China, which have adopted quite different regulatory approaches to retail FDI and the entry of foreign firms. India has adopted a more protective, slow-paced strategy, forcing retailers to invest and partner with domestic firms through FDI and partial ownership rather than direct entrance. Although this allows Indian retailers opportunities to learn from Western retailers and face more gradual competition, it has reduced Western interest in the Indian retail market. In contrast, China has allowed greater opportunities for Western firms in return for larger investments and faster network and infrastructure development. Walmart and Carrefour have both accepted this challenge and entered China with large investments. Interestingly, they have adopted different strategies that may reflect domestic experiences. Walmart has set out to build its own lean infrastructure, allowing it to compete on costs and logistics like in the United States.[250] Carrefour has attempted to find local partners to more rapidly adapt to local conditions, though as in France, these partnerships are tenuous and rapidly decreasing, as Carrefour gains market power and know how.[251]

In terms of firm strategy, the early evidence of entrant firms reinforces many of the findings of the earlier literature on multinational manufacturing corporations. As the growing literature on transnational retailing is increasingly finding (see for instance Coe and Wrigley, 2007), entrants remain enmeshed in the national social practices of their host economy. Like previous MNCs, retailers adapt to local and national laws and customs (demonstrated previously by Abo, 1994), pay wages, benefits, and train in a manner consistent with local standards (Harrison, 1994), and succeed in environments

[249] Hoover moved a factory from France to Scotland in search of more flexible labor rules and lower wages.
[250] As an ironic side note, China is the one country in the world where Walmart has unionized stores. The irony stems from the fact that the Chinese state union is the one union whose primary goal is to restrain wages rather than raise them.
[251] See Child's (2006) interview with then President of Carrefour China Jean-Luc Chéreau.

with familiar rules and customs (*The Economist,* "A Survey of Multinationals," March 27, 1993, p. 12; Davidson, 1980).

The conclusions then run counter to the predictions of those predicting convergence in global retail markets: firms with strategies and experiences developed in countries with strong retail coalitions move across borders more easily than those originating in liberal environments. These findings may apply only to the affluent service economies, as lean retailers (notably Walmart) have had considerable success in the developing world, though there is little evidence that American firms hold advantages over European firms in these markets.

None of this is to say that the move across borders is easy for retailers following any strategy. Failures, in all countries and from all countries, abound throughout the history of retail internationalization. Rather, the point is simply that the hurdles faced by relational contracting or vertical integration firms may be less steep than those faced by lean retailers, who must simultaneously adapt to a new environment and to unaccustomed levels of political maneuvering.

Incumbent firms embedded in powerful coalitions can easily leverage those coalitions as resources to force entrants to compete on their terms of face the consequences. Interviews in Denmark highlighted the powerful, united front that an established retail coalition can offer, even against firms from neighboring countries. Discussing the entrance of German hard discounters in Denmark a union official stated that entrants "play nice" in Denmark and "realize that they have to play by the rules." In the face of foreign entrants, Danish retailers rapidly align with HK (the Danish retail union) against entrants and together use any available channel, including political pressure and the press, to make sure that foreign retailers can't come in and undercut domestic retailers. He noted that "Danish retailers are quite good at their style of high-wage retailing, so they have an incentive to make sure it stays."[252] If anything, the presence of foreign entrants has *strengthened* the Danish coalition. All sides of the deal see advantages in preserving the high-wage model – retailers as a source of their competitive advantage, unions for the benefits it brings their members, and producers as more equal partners in their cooperative relationship – and have worked to defend it within Denmark.

Where retailers refuse to play by established local rules or run afoul of local political coalitions, the transitions have typically been difficult, highlighted by Walmart's colossal failure to enter the German market in the late 1990s and early 2000s. Again, many of the challenges were less economic and more political. In a foreign regulatory environment and without the advantage of its enormous American scale in Germany, Walmart struggled to cut deals with wholesalers, producers, and workers used to a very different way of doing business. The technical specifications of Walmart's strategy may have worked on paper (had it been able to implement them fully), but Walmart could not

[252] Note that any cooperation by foreign entrants at the domestic level does not signal broader cooperation. In the same HK interview, the union representative stated that the same retailers who play nice in Denmark are quite happy to play dirty at the EU level.

reproduce the main factors behind its success, including low wages, dominance of suppliers, and a divide and conquer strategy with local governments (Christophersen, 2007). Walmart was simply unable to realize its vision of a lean supply chain in the German market without the cooperation of political partners. Nevertheless, the increasing number of cross-border success stories suggests that retailers are finding better ways to adapt their business models to new regulatory environments, preserving the strengths they honed at home while addressing the weaknesses of these models abroad.

In the liberal United States, entrants have more freedom to define business models and relationships as they please, but as many have found out, competing in the American marketplace without the advantage of local scale can be difficult. Carrefour failed when its hypermarkets in Philadelphia and New Jersey were unable to turn expected profits. Successful firms have adopted American scale and cost techniques, like Dutch giant Ahold, which bought existing American retailers (Giant and Stop and Shop) to rapidly gain scale. Tesco, the British behemoth, is currently trying a more European strategy with its new Fresh N Easy stores in West Coast states. These stores resemble French and British vertical integrated stores with high levels of value-added products.

Interviews with Danish retailers identifying their successes in internationalization identified ties with local partners, particularly suppliers, as one of the keys to their success as they entered Eastern European markets. In addition to more quickly optimizing goods provision to local tastes, the complex set of informal rules governing retail markets in Eastern Europe initially flummoxed many Western entrants. Local suppliers better understood the processes required to build stores, obtain permits, and establish robust supply chains.

French firms have been amongst the most successful abroad, but largely in markets outside of Europe, including South America and Asia. When abroad, these vertical integrators have relied on the strategies that worked at home, creating their own product lines (with local twists) and bringing a combination of scale and service to new markets.

### IV. Changing Challenges for Public Policy

Taken together, e-commerce, accelerating productivity, and retail trans-nationalization will create new public policy demands on national governments who have slowly updated their of view retailers as simply sheltered domestic players. Once again, there will likely be political conflicts over the distribution of wealth, as retailers press to protect their formerly sheltered sector, and the fights of the 1970s are replayed, this time with the previous victors on the defensive. In order to maximize the benefits from national retail sectors, however, policymakers may need to re-conceptualize how they view the retail sector. Although retailing should not be viewed in the same light as mobile manufacturing, no longer should it be lumped with slow-growth, sheltered service sectors in policymaking models.

One primary reason is that the increasing productivity growth in the retail sector means that the trade-off between employment growth and equality no longer holds as tightly in IT-enabled service sectors like retail trade as it does in more traditional

Baumol-afflicted activities. In the short and medium run, this allows high-wage, high-road strategies like those seen in Denmark, paralleling the high road jobs trajectory previously seen in manufacturing. In the longer run, however, it poses problems for employment across all economies. As with manufacturing, increasing productivity over long periods of time means fewer workers are needed to provide what is essentially flat demand for retail services. This means that retail jobs regardless of the quality are likely to disappear as productivity increases and technology tools replace the need for workers.

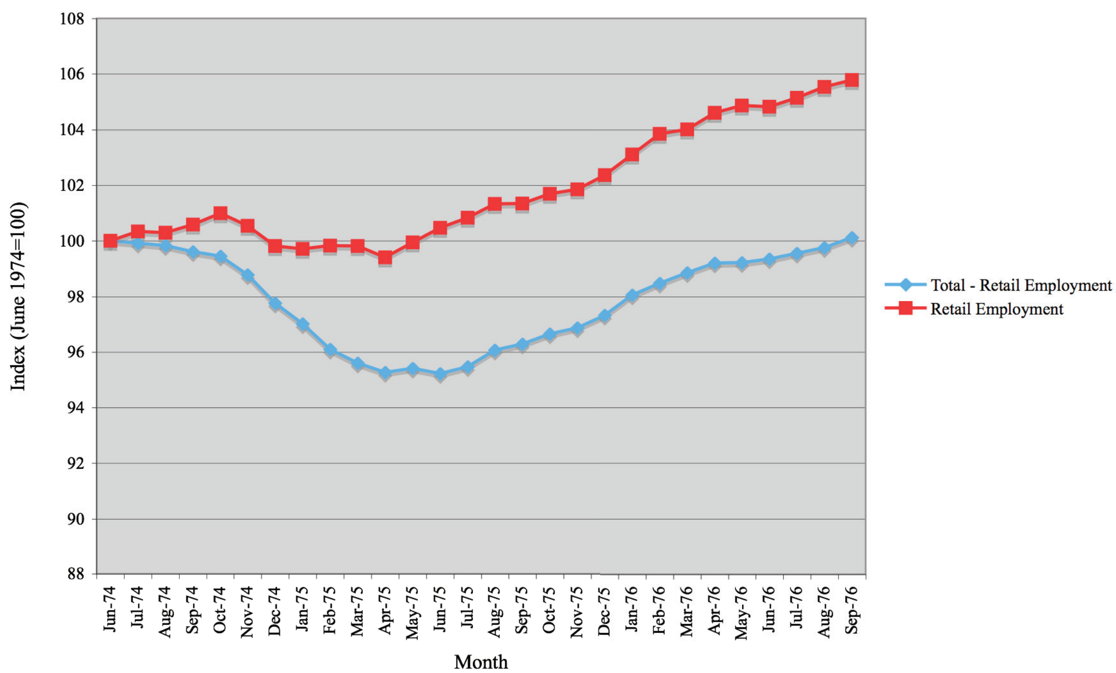
Ironically, the economies previously created higher levels of low quality jobs through extreme wage inequality may be the hardest hit by this transformation. Poorly-trained workers typically have the least essential knowledge for retail organizations. Retailers employing these strategies also have fewer avenues to add value in order to employ more workers. Policymakers, therefore, may have a new tradeoff between policies that support worker training and education to avoid technological replacement and preserving lower cost structures for retailers and consumers. In employment terms, it is unlikely that either strategy will produce the jobs that retailing has created in the past.

The evidence already shows that employment patterns in retailing are changing in response to digitization, as the rise of digital retailers (of both physical and digital goods) coupled with the increasing replacement of workers with digital tools (such as self checkout kiosks) has begun to change the link between economic growth and employment in the retail trade sector. This introduces a new set of challenges for policymakers as an industry known for its steady employment growth may be entering a long period of decline in employment, just as manufacturing did before it. Retailing growth has traditionally been highly linked with retail employment; in the past retailers that sought to increase output had few alternatives to simply increasing hours worked. With the increased potential of information technology, however, retailers suddenly have options other than adding labor when they seek to increase output.[253]

The changing way retailers view employment has been starkly apparent during the recent Great Recession. In the past during downturns, retailing was often a fairly sheltered sector, where firms kept employment steady even during tough economic times. For instance in the recession of 1974-1975 (figure 7.1), total employment dropped by 2.7 million jobs (-4.2% of the total) while retailing lost only 61,000 jobs (-0.6% of the retail total).[254] Retailing jobs were also among the first to return. From June 1975 to June 1976 retailers added almost 400,000 employees.

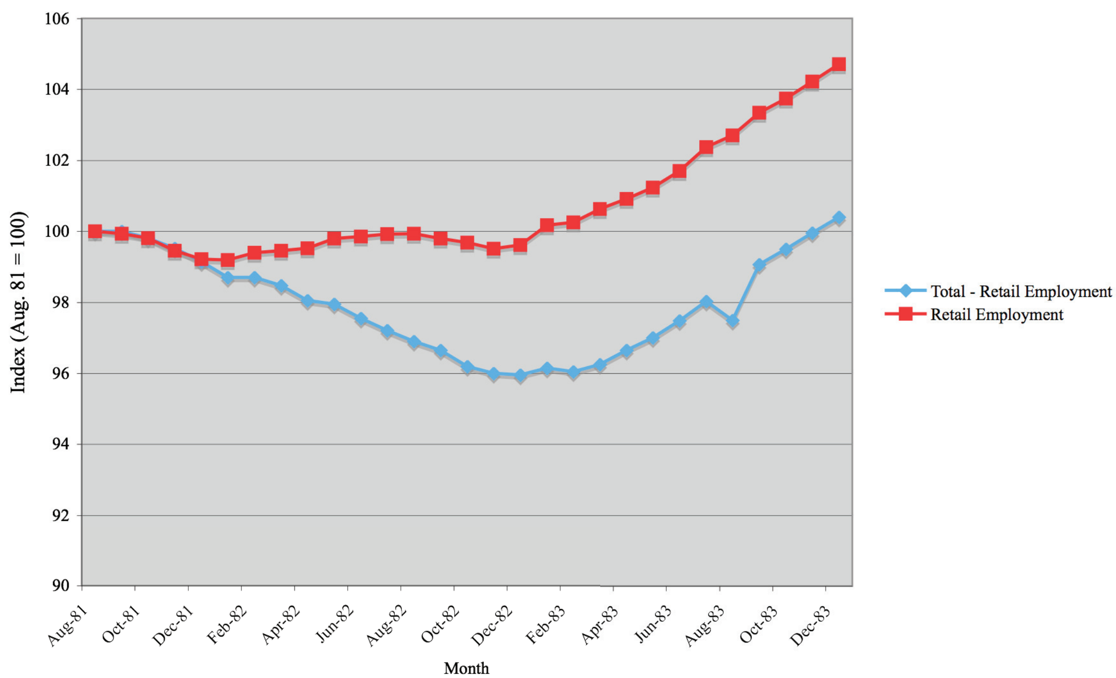
[253] For a more in-depth analysis of technology in retailing, see Watson (2011).
[254] Source: BLS historical seasonally adjusted monthly employment data. Total employment is for total private sector. Measured from peak of employment pre-recession to nadir. Does not follow NBER definition of the recession, simply charts employment's fall during recession.

**Figure 7.1 Employment Index, June 1974-June 1976**




Similarly, during the 1981-1982 recession (figure 7.2), total employment dropped by 2.7 million jobs (-3.5% of total employment) while retailing lost only 40,000 jobs (-0.4% of the retail total). Again, retailing rebounded quickly, adding more than 250,000 jobs from June 1982 to June 1983. In both cases, by the time non-retailing private sector jobs returned to their previous level, retailing jobs had increased by an average of 5%.

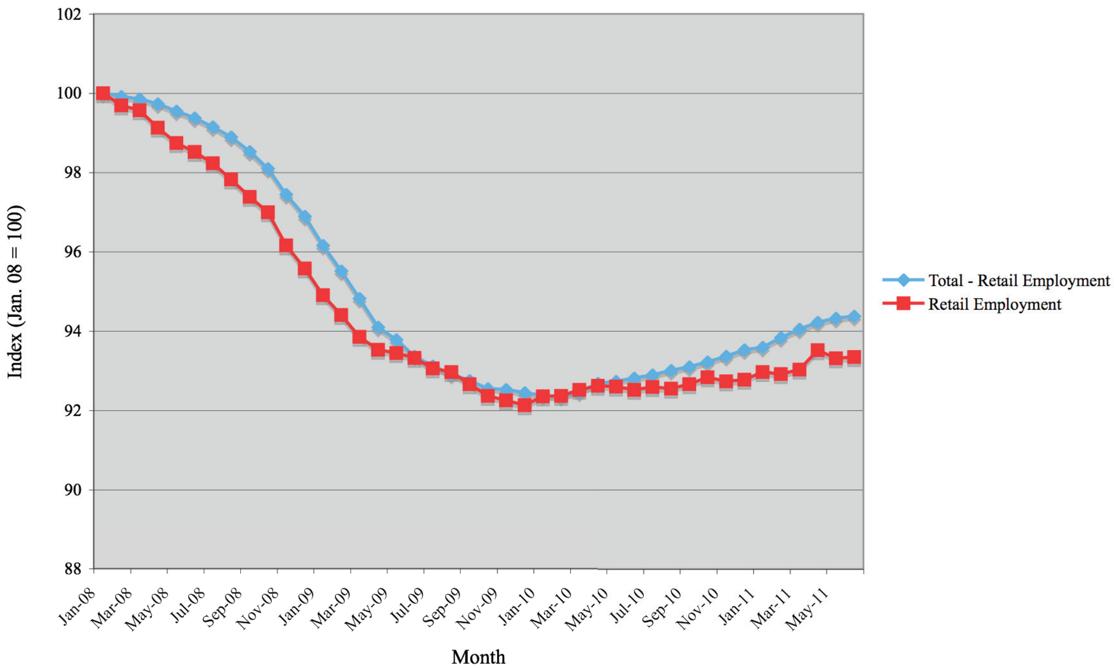
**Figure 7.2 Employment Index, August 1981-December 1983**




In contrast, from March 2008-March 2010 (figure 7.3), retailing lost over a million jobs, representing 13.5% of the total private sector job losses for the period (BLS). This is a percentage roughly in line with retail's percentage of total jobs in the economy and shows that at least in the current downturn, retailing moved more like a productive sector of the economy than a Baumol-afflicted sheltered sector. The jobs have also not returned at the same rate as previous downturns. In January 2011, retailing employment had added less than 100,000 jobs since January 2010, with jobs numbering at a level roughly equivalent to 1997-1998 jobs.

Although retailers may no longer be the job providing thoroughbreds they once were, the news is not all dark, as increasing opportunities to expand abroad offer advanced country retailers the potential to provide better jobs at home as the managers of global retail empires.

**Figure 7.3 Employment Index, January 2008-June 2011**




Many policymakers may be tempted to see liberalization as the answer for falling retail employment or increasing domestic prices. However, as this dissertation has shown, for countries with more densely institutionalized retail sectors, the results are likely to be disappointing or even counter-productive. More liberal systems have displayed little advantage in employment; the liberalization of densely institutionalized retail sectors will only lower the barriers to entry for lean retailers and other cost-squeezing retail strategies, displacing local firms.

### V. Conclusion: Post-"Services" Growth and Employment

Much ink has been spilled in academia examining the host of opportunities facing affluent countries in the "post-industrial" economy. A central theme of this dissertation, however, has been to disaggregate the service sector, not only comparatively across borders, but internally among types of services. Unlike the traditional depiction of a pick your poison slow-growth, sheltered, social service sector, the retail trade industry has evolved into a source of growth and prosperity for the affluent economies. And it is not the only service sector similarly transformed. Scholars of political economy, therefore, most move beyond a discussion of "services" to a more nuanced and flexible understanding of the economy in the digital age. The growing percentage of dynamic services will change the character of post-"services" growth and employment among the affluent economies. As with manufacturing, these changes are likely to exhibit significant cross-national variation.

One of the most dramatic changes will be the continuing shift in economic power away from its manufacturing foundations. In 1987, Cohen and Zysman noted that "manufacturing mattered," not only because of the contributions of the industrial sector to national GDP, but because manufacturing industries were those that organized and controlled production in the larger economy. The retail case has shown that the era of manufacturing dominance appears to be ending. Within the consumer goods sector, retailing matters, at times organizing production more powerfully and extensively than the producers themselves. This is not to say that the titans of distribution control the entirety of national economies, but rather that foundations of production have bifurcated between those consumer products dominated by services and those still controlled by industry.

At the same time, retailers are products of their political environments, their strategies shaped both by political and institutional structure and the actions of political coalitions. Given the existing literature on types of political economy, future research agendas might seek to connect types of political economy to specific societal outcomes dictated by the service economy. The retail case shows that the types and character of products and services can be controlled by various economic actors in unique, nationally-specific patterns. This raises the question of whether "retailing matters" more in the liberal United States than in coordinated Germany or Denmark.

If there is one question within this agenda that this work has attempted to answer, it is about employment and what the increasing productivity potential of the service sector means for the future of national employment. The answer has been more positive than previous gloomy visions. IT-enabled service sectors such as retail trade are no longer constrained by the trilemma of the service sector. Employment growth can come, even with low inequality. Although growing productivity may eventually transform these services to lower employment sectors similar to manufacturing, in the short-term, this gives high-wage countries incentives to continue investing in skills and education, even for lower-tier service sector workers.

For employment and employment policy, the retail case suggests that a more nuanced sectoral understanding of how firms emerge and evolve will help both scholars and policymakers understanding the character and growth of employment moving forward. Although not all service sectors are as embedded in their national environments as retailing, many are, and almost all service sectors share more characteristics with retailing than they do with manufacturing. Therefore, as other portions of the service begin to grow, develop, and transform with technology tools, coalitions and politics will once again be at the forefront in shaping the strategies of national firms.

More broadly for policy, the changing nature of services within political economy should force governments to rethink the relationship between governments, markets, and services growth. Charlie Wilson once famously remarked that "what was good for the country was good for General Motors and vice versa." The same could arguably be applied to Renault, Toyota, Volkswagen, or a host of other national car producers. Can this same claim be applied to Walmart, Carrefour, and Dansk Supermarked today? The answer is a qualified yes. Retailers are now amongst the economic actors most critical for directing and improving the national economy. Nevertheless, they are good for their countries only if they stand for the goals of policymakers and the citizens they represent.

Writing in 1955, Joseph Palamountain Jr. declared that "For the most part, however, mass distributors have not developed sufficient unrestrained power to endanger our economic, social, or political values (p. 262)." Economic, social, or political values, however, are not simply dependent variables. Coalitions capture economic, social, and political values and translate them into political outcomes. As retailers continue to grow in power across national economies, it will be up to these coalitions to ensure that political outcomes continue to reflect the goals of society.

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## Appendix A

The following is a list of the largest American retailers ranked by 2007 revenues. Of these 100 firms, 79 were selected for examination.

| Company, Headquarters | Founding Year | Revenues (2007), '000,000s $ | Category |
|---|---|---|---|
| Wal-Mart Bentonville, Ark. | 1962 | 378799 | Mass Merchandisers |
| Home Depot Atlanta | 1978 | 77349 | Category killer |
| CVS Caremark Woonsocket, R.I. | 1963 | 76330 | Drug |
| Kroger Cincinnati | 1883 | 70235 | Grocery |
| Costco Issaquah, Wash. | 1983 | 64400 | Mass Merchandisers |
| Target Minneapolis | 1969 | 63367 | Mass Merchandisers |
| Walgreen Deerfield, Ill. | 1901 | 53762 | Drug |
| Sears Holdings Hoffman Estates, Ill. | 1886 | 50703 | Department |
| Lowe's Mooresville, N.C. | 1946 | 48283 | Category killer |
| SUPERVALU Eden Prairie, Minn. | 1926 | 44048 | Grocery |
| Safeway Pleasanton, Calif. | 1915 | 42286 | Grocery |
| Best Buy Minneapolis | 1966 | 40023 | Category killer |
| Macy's Cincinnati | 1858 | 26313 | Department |
| Rite Aid Camp Hill, Pa. | 1962 | 24327 | Drug |
| Publix Lakeland, Fla. | 1930 | 23000 | Grocery |
| JCPenney Plano, Texas | 1902 | 19860 | Department |
| Staples Framingham, Mass. | 1985 | 19373 | Category killer |
| TJX Framingham, Mass. | 1956 | 18647 | Clothing |
| Kohl's Menomonee Falls, Wis. | 1962 | 16474 | Department |
| Gap San Francisco | 1969 | 15763 | Clothing |
| Office Depot Delray Beach, Fla. | 1986 | 15528 | Category killer |
| Amazon.com Seattle | 1994 | 14835 | E-commerce |
| Toys "R" Us Wayne, N.J. | 1957 | 13794 | Category killer |
| H.E.B. San Antonio | 1905 | 13400 | Grocery |
| Meijer Grand Rapids, Mich. | 1934 | 13300 | Grocery |
| PTC Knoxville, Tenn. | 2001 | 12500 | Travel Stops |
| Dollar General Goodlettsville, Tenn. | 1939 | 9495 | Discount |
| OfficeMax Naperville, Ill. | 1988 | 9082 | Category killer |
| BJ's Wholesale Club Natick, Mass. | 1984 | 9005 | Mass Merchandisers |
| Nordstrom Seattle | 1901 | 8828 | Department |
| Giant Eagle Pittsburgh | 1931 | 7400 | Grocery |
| QVC West Chester, Pa. | 1986 | 7397 | TV |
| Dillard's Little Rock, Ark. | 1938 | 7371 | Department |
| Menard Eau Claire, Wis. | 1962 | 7300 | Category killer |
| Winn-Dixie Jacksonville, Fla. | 1925 | 7201 | Grocery |
| GameStop Grapevine, Texas | 1984 | 7094 | Category killer |
| Bed Bath & Beyond Union, N.J. | 1971 | 7049 | Category killer |

| | | | |
|---|---|---|---|
| Love's Oklahoma City, Okla. | 1964 | 7000 | Travel Stops |
| The Pantry Sanford, N.C. | 1967 | 6911 | Gas/Convenience |
| Family Dollar Matthews, N.C. | 1959 | 6834 | Discount |
| Whole Foods Markets Austin, Texas | 1980 | 6592 | Grocery |
| A&P Montvale, N.J. | 1859 | 6401 | Grocery |
| Dell Retail Round Rock, Texas | 1984 | 6224 | Electronics |
| AutoZone Memphis, Tenn. | 1979 | 6170 | Specialty |
| Travel Centers of America Westlake, Ohio | 1972 | 6166 | Travel Stops |
| Albertsons Boise, Idaho | 1939 | 6000 | Grocery |
| Ross Stores Pleasanton, Calif. | 1957 | 5975 | Clothing |
| Hy-Vee West Des Moines, Iowa | 1930 | 5600 | Grocery |
| Blockbuster Dallas | 1985 | 5542 | Specialty |
| Foot Locker New York | 1974 | 5437 | Clothing |
| Barnes & Noble New York | 1917 | 5411 | Bookstore |
| Longs Drug Stores Walnut Creek, Calif. | 1938 | 5263 | Drug |
| RaceTrac Petroleum Atlanta | 1934 | 5000 | Gas/Convenience |
| Advance Auto Parts Roanoke, Va. | 1932 | 4844 | Specialty |
| Casey's General Stores Ankeny, Iowa | 1968 | 4827 | Gas/Convenience |
| PetSmart Phoenix | 1986 | 4573 | Category killer |
| Big Lots Columbus, Ohio | 1967 | 4656 | Category killer |
| Save Mart Modesto, Calif. | 1952 | 4550 | Grocery |
| Quik Trip Tulsa, Okla. | 1958 | 4500 | Gas/Convenience |
| Neiman Marcus Group Dallas | 1907 | 4390 | Department |
| Wegman's Rochester, N.Y. | 1916 | 4300 | Grocery |
| RadioShack Fort Worth, Texas | 1921 | 4252 | Category killer |
| Dollar Tree Stores Chesapeake, Va. | 1986 | 4243 | Discount |
| Williams-Sonoma San Francisco | 1956 | 3945 | Specialty |
| Roundy's Milwaukee, Wis. | 1870 | 3900 | Grocery |
| Sheetz Altoona, Pa. | 1952 | 3900 | Gas/Convenience |
| Dick's Sporting Goods Pittsburgh | 1948 | 3888 | Category killer |
| Michaels Stores Irving, Texas | 1984 | 3862 | Category killer |
| Belk Charlotte, N.C. | 1888 | 3825 | Department |
| Borders Group Ann Arbor, Mich. | 1971 | 3821 | Bookstore |
| Abercrombie & Fitch New Albany, Ohio | 1978 | 3750 | Clothing |
| Stater Bros. San Bernardino, Calif. | 1936 | 3574 | Grocery |
| The Bon-Ton Stores York, Pa. | 1898 | 3458 | Department |
| Raley's West Sacramento, Calif. | 1935 | 3400 | Grocery |
| Burlington Coat Factory Burlington, N.J. | 1972 | 3393 | Clothing |
| Bass Pro Shops Springfield, Mo. | 1972 | 3350 | Category killer |
| Wawa Wawa, Pa. | 1964 | 3300 | Gas/Convenience |
| Harris Teeter Charlotte, N.C. | 1936 | 3299 | Grocery |
| Saks New York | 1898 | 3283 | Department |

**Excluded Firms:**

The 21 excluded firms were left off because primarily for two reasons: either they were foreign-owned or their primary revenues were not derived from retail sales. Since the period of creation was a primary interest of this data set, foreign ownership was seemed as problematic given that many of foreign entrants bought existing US firms and significantly changed their direction. Although changes in business direction are a part of many successful retailers, foreign ownership as a further complicating factor made the inclusion of these firms analytically suspect. Their inclusion only strengthens the findings that the late 1950s and early 1960s was an important period in the retail sector, as four of the seven foreign-owned firms were founded during this period. The seven excluded firms are: Ahold USA, Delhaize America, 7-Eleven, Alimentation Couche Tarde Laval, Trader Joe's, Luxottica, and Aldi Batavia. Collectively, they accounted for approximately 3.5% of the sales of the top 87 retail firms in the United States in 2008. Another 12 firms were eliminated since their activities lie outside of what is traditionally thought of as retail services, including food/restaurant services, internet services, financial services, production, or wireless services. As such their retail business may be run in ways quite distinct from those firms with retailing as a primary activitity. These firms were: McDonald's, Yum Brands, Limited Brands, Starbucks, Valero, Apple Stores, Verizon Wireless, Darden Restaurants, Brinker International, AT&T Wireless, Bershire-Hathaway Retail, and IACI Retail. Finally, two firms were eliminated for other reasons. The first – Circuit City – has since gone out of business. The second – the Army-Air Force Exchange – has unique characteristics that make it difficult to compare with other consumer goods retailers.