

STRATEGIC GROUPS IN RETAILING

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ABSTRACT

The first study of strategic groups was conducted by Hunt in 1972. Since then, there have been a number of studies investigating the concept of strategic groups. However, there is still a lot of confusion, and there is very little consensus on a number of issues related to this concept. This paper has three goals: (1) to define the concept of strategic groups so that it is theory based, (2) to clarify how competition takes place within and among strategic groups, and (3) to clarify the strategy-performance relationship in strategic groups. The paper then tests four hypotheses related to the above issues using data collected from the retail sector.

Five hundred questionnaires were mailed to general managers of different types of retailers. The strategy construct is measured using Porter's three generic strategies of differentiation, low cost, and focus/niche. Multiple items are used to measure the three generic strategies. Seventy-six completed questionnaires were received out of which only sixty-six were usable.

Factor analysis is used to reduce the data without sacrificing the meaningfulness of all the variables involved in the study. This is then followed by cluster analysis to group firms into different strategic groups. This resulted in five clusters. Firms in the first two clusters are competing based on low cost, but they concentrate on different factors to achieve low cost. Firms in the next cluster are following a niche strategy. Firms in the fourth cluster are using a differentiation strategy, while firms in the fifth cluster do not have a coherent strategy and are labeled as stuck in the middle. This finding supports the first hypothesis which states that firms within a strategic group use similar strategy.

The second hypothesis is also supported which states that different strategic groups pursue different groups of customers. Firms in cluster 1 and 2 are following the low cost strategy, and consistent with that, the customers of cluster 1 and 2 have the highest score on the issue of price sensitivity. Clusters three and four have the highest scores on brand consciousness, willing to pay extra for services and shopping experience, which is consistent with the focus/niche and differentiation strategy of the two clusters. Cluster 5 has scores that are in the middle for all of the four variables indicating a strategy of stuck in the middle.

Hypothesis three states that it is easy to enter a segment, and replicate the strategy of companies in that segment. Findings also support hypothesis three. Cluster four has the highest score on ease of entry to its segments and the highest score on ease in replicating a successful strategy. Cluster four has the second highest score on sustaining a successful strategy. Firms within this strategic group also say that their segment is the most profitable segment in the industry. Hypothesis four states that there is no relationship between strategic groups and their performance. Findings show that there is a relationship between strategic groups and performance, thus not supporting hypothesis four. However, this author thinks that this is simply a short term phenomenon, and in the long run, there should be no relationship between strategic groups and their performance.