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**The Influence of Channel Variables**

**on**

**Small Business Advertising**

**by**

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## EXECUTIVE SUMMARY

### Chapter One

#### **SMALL BUSINESS, ADVERTISING, AND THE CANADIAN ECONOMY**

#### Introduction

This report is an outgrowth of a paper presented to a conference co-sponsored by the American Marketing Association and the International Council for Small Business. The paper, "The Advertising Decision Process in Small Business," included the statement that, ". . . many [small] organizations possess little real control over either the size of their advertising expenditure or how such money is spent." [1] The purpose of this project is to investigate in greater detail the causes and extent of this situation as it applies to small business in Canada.

The past twenty years have witnessed numerous major developments in the Canadian economy which have produced an impact on small business. Under the fire of increased foreign competition combined with a series of sharp recessions, the mature resource industries were forced into shutdowns, consolidations, and ownership changes. Those sectors of the economy fortunate enough to escape these adversities found themselves confronted by inflation and fluctuating interest rates. Faced with these conditions, managers were forced to re-think their operating procedures in an effort to adapt to the changing economic environment. At the same time, the past two decades have provided numerous opportunities for well-financed entrepreneurs to enter the market with new, and often better, ideas. In these circumstances, the independent business

owner has faced a dynamic and sometimes bewildering competitive environment.

Among the more fundamental changes in the business environment has been the re-structuring of the systems used to deliver goods and services. Many business firms have sought and achieved dramatic shifts in their relationships with both suppliers and customers. Whereas a manufacturer might formerly have "shopped" for standard components on a regular basis, it is likely that such procurements are now accomplished on the basis of a long term contract with terms which include not only prices and quantities, but also delivery dates, the level of safety stocks, allowances for defects, and so on. Such relationships have also been influenced by technological advances. For example, it is now commonplace for the computer of large grocery firms to automatically place orders with the computers of major suppliers - all without the intervention of humans except, of course, for the previously negotiated rules of such transactions.

An increasingly frequent subject of negotiation between channel members would appear to involve the expenditure of promotional funds. As part of a transaction, the seller may agree to provide money, in one form or another, to the buyer for use in advertising or other promotional purposes. Perhaps nowhere has this issue become more apparent than in the grocery distribution system with trade promotions in the United States now exceeding \$8 billion per year as compared with \$1 billion in 1973. [2] Clearly, the amounts of money involved are immense. Less evident is the impact of such changes on the welfare of small business; however, there is no doubt that many of the fundamental issues involving small business management cannot be fully understood

without reference to the dynamics of our systems of distribution.

### Organization of the Report

This report is divided into five chapters. The remainder of Chapter One presents a model by which a channel system can be examined. This model serves as the conceptual framework throughout the entire report. The chapter concludes with a listing of the general objectives which guided the investigation.

Chapter Two applies the general model to Canada's distribution system and elaborates on specific issues as they relate to small business. Of particular interest to this investigation is the impact of these issues on small business advertising. As such, it is necessary to examine the relative merits and limitations of various advertising management systems.

Chapter Three attempts to provide an historical overview of the small business sector in Canada. Because of the nature of the secondary data which are available, the chapter focuses primarily on certain structural dimensions of our economy.

Chapter Four begins with an assessment of the need for primary research to get a better picture of small business advertising. This discussion is followed by a review of the rather extensive literature in the area in order to provide the reader with a background to the methodologies employed in field research. The subsequent section describes the methodology and fieldwork employed in this investigation. Finally, the results of the field studies are reported.

Chapter Five attempts to provide some overall conclusions and offers some ideas which might serve as topics of debate or future examination.

The organization of the overall report and of certain chapters moves gradually from the general situation to more specific topics. In particular, the field work described in Chapter Four is devoted exclusively to retail and service organizations which cater to the consumer. There are several reasons for this approach. First, the literature indicates that gathering data in certain sectors would prove very difficult. Second, a large portion of the total advertising funds expended by small business occurs in the sectors examined - as does much of the controversy. Finally, any attempt to provide a detailed examination of the entire small business field is well beyond the time, budget, and intellectual resources available for this investigation.

#### A Systems Model

The complexity of organizations has prompted many hundreds of scholars to devise models by which to organize and guide systems research. Of these numerous conceptualizations, the one developed by Harold Leavitt would appear to hold particular promise for this investigation. [3] Although designed primarily for application within large organizations, the model can be easily adapted for use in distribution research.

As presented in Figure 1.1, the Leavitt model visualizes a system as consisting of four components - task, structure, technology, and behavior. The term "task" refers to the organization's mission - manufacturing, transportation, education, and so on. The "behavior" label, while including consideration of individual actors, is primarily directed toward the broader behavioral issues of importance to any firm - motivation, needs, attitudes. "Technology" refers to the tools and procedures by which work is accomplished - hardware such as machines

and buildings as well as software such as quality control systems and job scheduling. Finally, the "structure" variable is used to describe both the formal organizational design and systems of authority as well as the sometimes less formal systems of communication.

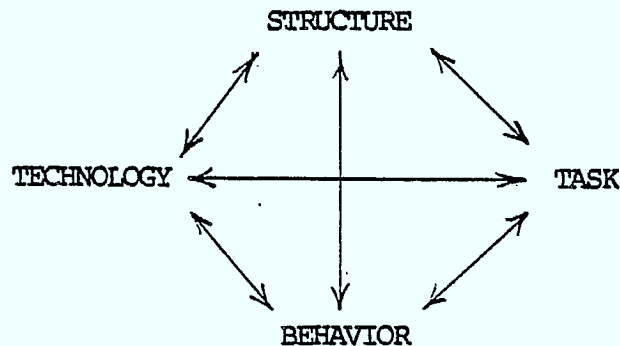


Figure 1.1. The Leavitt Model

The Leavitt model is particularly valuable in its recognition of the interdependence of the four components. Thus, a change in any one of the components will most probably result in a change in the others. Leavitt expressed this phenomenon in a far more colorful manner:

If we introduce something into one part of the system, bells ring and lights flash all over the system (often in places we never knew were wired for sound or light). [4]

To take a oversimplified example, the recent decision by a major department store to transfer its buying function from the store units to head office (structural change) had a major effect on both the number of buyers that were required and their required expertise (people). The buying power associated with large volume, concentrated purchasing dramatically changed the nature of the job (task) and allowed for the application of more economical methods of transportation, warehousing, and inventory control (technology). Similar case examples abound.

As previously indicated, the model can be extended from an organizational setting to encompass an overall channel of distribution. The structure of a channel is clearly evident in the linkages of the institutions required to deliver goods and services to a customer. Similarly, technology is easily recognized. The tasks of a distribution system have long been defined with the question of the allocation of tasks between organizations being a matter of long standing and continuous investigation. The only aspect of the model which may be somewhat obscure in its application to channels is the "behavior" components. As will be demonstrated, "channel behavior" is a much studied phenomenon, thus the entire model can be readily employed without violation of Leavitt's original conceptualization.

#### Statement of Objectives

The objectives of this study can be stated as follows:

- 1) To identify and briefly discuss how expected technological changes will affect small business.
- 2) To identify and discuss the major structural dimensions affecting small business in Canada.
- 3) To examine the influence of these structural changes on the small business sector, especially as it relates to advertising.
- 4) To measure the satisfaction of small business owners with respect to the structural influences on their advertising and other merchandising activities.

Endnotes

1. Dart, J. "The Advertising Decision Process in Small Business," in Marketing and Small Business/Entrepreneurship, Hills, Barnaby, Duffus (editors), Washington: International Council for Small Business, 1983 (pp. 24-35).

2. "The No-Win Game of Price Promotion." Fortune, July 11, 1983 (pp. 92-102).

3. Leavitt, Harold J. New Perspectives in Organization Research (New York: John Wiley & Sons, Inc.), 1964.

4. Leavitt, H. J.; Dill, W. R.; Eyring, H. B. The Organizational World (New York: Harcourt, Brace, Jovanovich, Inc.), 1973, p. 9.

## RÉSUMÉ

### Chapitre Un

## LA PETITE ENTREPRISE, LA PUBLICITÉ ET L'ÉCONOMIE CANADIENNE

### Introduction

Le présent rapport découle d'un article présenté lors d'une conférence parrainée conjointement par l'American Marketing Association et le Conseil international de la petite entreprise. Cet article intitulé "The Advertising Decision Process in Small Business" contenait la déclaration suivante :

"... de nombreux (petits) organismes ont très peu de contrôle réel sur le montant de leurs dépenses de publicité ou sur la façon dont cet argent est dépensé" <sup>1</sup>. Le présent projet a pour but d'étudier plus en profondeur les causes et l'ampleur de cette situation dans la petite entreprise au Canada.

Les vingt dernières années ont été les témoins, dans l'économie canadienne, de nombreux développements d'importance qui ont eu une incidence sur la petite entreprise. Sous l'effet d'une concurrence étrangère accrue et d'une série de dures récessions, les vieilles industries basées sur les richesses naturelles ont été obligées de fermer, de se consolider ou de changer de propriétaire. Les secteurs de l'économie qui ont été assez chanceux pour échapper à ces conditions d'infortune se sont retrouvés confrontés à l'inflation et à la fluctuation des taux d'intérêt. Dans ces conditions, les gestionnaires ont été obligés de repenser leurs modalités d'exploitation dans le but de s'adapter à l'évolution du milieu économique. En même temps, les deux dernières décennies ont offert aux entrepreneurs disposant de fonds de nombreuses possibilités de pénétrer sur le marché avec des idées nouvelles et souvent meilleures. Dans ces circonstances, le propriétaire d'une entreprise indépendante a fait face à un environnement concurrentiel dynamique et parfois déroutant.

Parmi les changements les plus fondamentaux intervenus dans le milieu des affaires figure la restructuration des systèmes utilisés pour délivrer les biens et services. De nombreuses entreprises commerciales ont cherché et réussi à modifier considérablement leurs relations avec leurs fournisseurs et

leurs clients. Alors qu'un fabricant a pu officiellement "cherché" des éléments normalisés sur une base régulière, il est probable que de tels achats soient maintenant effectués en vertu d'un contrat à long terme comportant des conditions qui touchent non seulement les prix et les quantités mais également les dates de livraison, le niveau de sécurité des stocks, des indemnités pour les articles défectueux, etc. De telles relations ont également été influencées par les progrès technologiques. Par exemple, il est maintenant courant de voir l'ordinateur de grosses épiceries placer directement des commandes auprès des ordinateurs des principaux fournisseurs - tout cela sans l'intervention de l'homme, sauf évidemment pour les règles de ces transactions négociées à l'avance.

La dépense des fonds de promotion semble être un sujet de plus en plus fréquent de négociation entre les membres du circuit. Dans le cadre d'une transaction, le vendeur peut convenir de fournir l'argent, sous une forme quelconque, à l'acheteur à des fins de publicité ou à d'autres fins de promotion. Cette question n'est peut-être apparue nulle part davantage que dans le système de distribution des produits d'épicerie où les promotions commerciales dépassent maintenant 8 milliards \$ par an aux États-Unis, comparativement à 1 milliard \$ en 1973<sup>2</sup>. Il est clair que les sommes d'argent impliquées sont énormes. Par contre, l'incidence de ces changements sur le bien-être de la petite entreprise est moins évidente; il ne fait cependant aucun doute qu'il est impossible de comprendre entièrement bon nombre de questions fondamentales impliquant la gestion de la petite entreprise sans parler de la dynamique de nos systèmes de distribution.

#### Plan du rapport

Le présent rapport est divisé en cinq chapitres. Le reste du chapitre Un présente un modèle permettant d'étudier un système de circuit. Ce modèle sert de cadre conceptuel tout au long du rapport. Ce chapitre se termine par une énumération des objectifs généraux qui ont orienté l'étude.

Le chapitre Deux applique le modèle général au système canadien de distribution et aborde des questions spécifiques se rapportant à la petite entreprise. L'incidence de ces questions sur la publicité dans les petites entreprises présente un intérêt particulier dans le cadre de cette recherche.

Il faut donc étudier les contraintes et les mérites relatifs des divers systèmes de gestion de la publicité.

Le chapitre Trois tente de fournir un aperçu historique de la petite entreprise au Canada. Étant donné la nature des données secondaires disponibles, ce chapitre se concentre surtout sur certaines dimensions structurelles de notre économie.

Le chapitre Quatre commence par évaluer la nécessité d'effectuer des recherches primaires pour obtenir un meilleur tableau de la publicité dans les petites entreprises. Cette discussion est suivie par un examen de la documentation plutôt extensive dans le domaine afin de fournir au lecteur un historique des méthodes utilisées dans les recherches effectuées sur place. La section suivante décrit la méthodologie employée dans cette étude et le travail effectué sur place. Enfin, ce chapitre présente les résultats des études effectuées sur place.

Le chapitre Cinq tente de tirer quelques conclusions globales et offre certaines idées qui pourraient constituer des sujets de débat ou d'examen futur.

Le plan du rapport global et de certains chapitres passe progressivement de la situation générale à des sujets plus précis. En particulier, le travail sur place décrit au chapitre Quatre est consacré exclusivement aux entreprises de vente au détail et de services qui approvisionnent le consommateur. Cette approche comporte plusieurs raisons. Tout d'abord, la documentation démontre qu'il serait très difficile de recueillir des données dans certains secteurs. Ensuite, une grande partie des budgets publicitaires totaux dépensés par la petite entreprise se retrouve dans les secteurs étudiés, tout comme une grande partie de la controverse. Enfin, toute tentative visant à effectuer une étude détaillée de tout le domaine de la petite entreprise dépasse nettement le temps, le budget et les ressources intellectuelles disponibles pour mener à bien cette étude.

### Un modèle de systèmes

La complexité des organismes a poussé plusieurs centaines de chercheurs boursiers à concevoir des modèles permettant d'organiser et d'orienter la recherche sur les systèmes. Parmi ces nombreuses conceptualisations, celle mise au point par Harold Leavitt semble prometteuse pour la présente enquête<sup>3</sup>.

Bien que conçue à l'origine pour une application au sein des grandes sociétés, le modèle peut être facilement adapté pour être utilisé dans la recherche sur la distribution.

Comme le montre la figure 1.1, le modèle de Leavitt visualise un système qui comporte quatre éléments : tâche, structure, technologie et comportement. Le terme "tâche" se rapporte à la mission de l'organisme - fabrication, transport, éducation, etc. Le terme "comportement", tout en tenant compte des acteurs individuels, est surtout orienté vers les questions plus vastes de comportement qui sont importantes pour toute entreprise - motivation, besoins, attitudes . La "technologie" s'applique aux outils et aux modalités permettant d'accomplir le travail : le matériel, comme les machines et les bâtiments, ainsi que le logiciel, comme les systèmes de contrôle de la qualité et l'établissement des horaires au travail. Enfin, la variable "structure" sert à décrire à la fois la conception officielle de l'organisation et les lignes d'autorité, ainsi que les systèmes de communications parfois moins officiels.

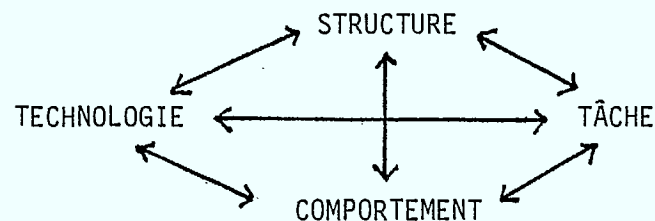


Figure 1.1. Modèle de Leavitt

Le modèle de Leavitt est particulièrement bon parce qu'il reconnaît l'interdépendance des quatre éléments. Une modification qui intervient dans l'un quelconque des éléments provoquera donc très probablement un changement chez les autres. Leavitt a expliqué ce phénomène d'une façon beaucoup plus colorée :

Si nous introduisons quelque chose dans une partie du système, des cloches sonnent et des lumières clignotent dans tout le système (souvent à des endroits que l'on n'aurait jamais soupçonné d'être équipés pour le son ou la lumière)<sup>4</sup>

Pour prendre un exemple très simplifié, la récente décision prise par un important magasin à rayons de transférer sa fonction d'achat des magasins au siège social (changement structurel) a eu une grande incidence à la fois sur le nombre d'acheteurs nécessaires et sur les compétences (personnes) requises.

Le pouvoir d'achat découlant d'achats concentrés en grosses quantités a modifié considérablement la nature du travail (tâche) et a permis d'appliquer des méthodes plus économiques de transport, d'entreposage et de contrôle des stocks (technologie). Les exemples de cas semblables ne manquent pas.

Comme nous l'avons déjà mentionné, le modèle peut être élargi depuis une entreprise pour englober un circuit de distribution complet. La structure d'un circuit se retrouve nettement dans les liens entre les organismes requis pour livrer les biens et services à un consommateur. De même, on reconnaît facilement la technologie. Les tâches d'un système de distribution sont définies depuis longtemps et la question de la répartition des tâches entre les organismes fait l'objet d'une étude permanente de longue date. Les éléments du "comportement" constituent le seul aspect du modèle qui peut sembler quelque peu obscur dans son application aux circuits. Comme nous allons le montrer, "le comportement dans le circuit" est un phénomène très étudié, si bien que l'on peut facilement employer tout le modèle sans violer la conceptualisation initiale de Leavitt.

#### Énoncé des objectifs

Les objectifs de cette étude sont les suivants :

- 1) identifier et dire brièvement comment les changements technologiques anticipés affecteront la petite entreprise;
- 2) identifier et débattre les principales dimensions structurelles qui touchent la petite entreprise au Canada;
- 3) étudier l'influence de ces changements structurels sur le secteur de la petite entreprise, surtout en relation avec la publicité;
- 4) mesurer la satisfaction des propriétaires de petites entreprises à propos des influences structurelles sur leurs dépenses publicitaires et d'autres activités de mise en marché.

## Renvois

<sup>1</sup> Dart, J. "The Advertising Decision Process in Small Business", dans Marketing and Small Business/Entrepreneurship, Hills, Barnaby, Duffus (editors), Washington : International Council for Small Business, 1983 (pp. 24-35).

<sup>2</sup> "The No-Win Game of Price Promotion." Fortune, 11 juillet 1983 (pp. 92-102).

<sup>3</sup> Leavitt, Harold J. New Perspectives in Organization Research (New York : John Wiley & Sons, Inc.), 1964.

<sup>4</sup> Leavitt, H.J.; Dill, W.R.; Eyring, H.B. The Organizational World (New York : Harcourt, Brace, Jovanovich, Inc.), 1973, p. 9.

## Chapter Two

### THE ADVERTISING ENVIRONMENT FOR SMALL BUSINESS

The objective of this chapter is to examine some of the major changes in Canada's distribution systems that have occurred during the past two decades. The emphasis of this discussion is focused on the impact of such developments on the viability and operation of small business. The Leavitt Model is employed as a framework for this analysis; thus, the discussion begins with a brief theoretical explanation of the components of the model followed by an examination of the major issues as they apply to the Canadian environment.

#### Leavitt's Model in Action

##### Task

As is well known to any student of introductory marketing, a channel of distribution has as its raison d'être the performance of certain tasks. These tasks, or "flows", consist simply of all those activities which are required to move a product or service from the producer to a customer. According to the traditional classification system, a channel performs eight universal flows - physical possession, ownership, promotion, negotiation, financing, risking, ordering, and payment. [1]

A fundamental principle of distribution channels holds that while a particular institution might be by-passed, the functions it performs cannot be eliminated; thus, while the institutional



arrangements in a channel may vary, the tasks do not. An equally fundamental concept argues that these tasks are relatively separate economic activities, each with its own characteristic cost curve. As a result, any single entity which attempted to execute all eight flows would almost certainly be performing certain tasks in a less than optimally efficient manner. To avoid this situation, an organization will invariably decide to use the more specialized, and less expensive, services of other institutions, thereby giving rise to a channel of distribution. Thus, the design of a channel of distribution does not involve a definition of task but, rather, the question of how tasks can be allocated so as to achieve optimal performance. [2]

Small business has long played an important role in the operation of distribution channels - retailers, manufacturer's agents, rack jobbers, truck distributors, and many more. In each case, the small organization is able to survive by virtue of serving a limited market, or applying a specialized knowledge, or simply working hard to earn a profit level which some larger firm finds insufficiently attractive to attempt to duplicate. This is not to suggest that channels provide a risk free haven for small business. The day-to-day shifts in the economics of performing channel tasks create a kaleidoscope of economic variances - certain niches are created for small business, others disappear. Long term patterns are also evident. Of particular concern for this investigation is how the task of promotion is allocated among channel participants. As discussed in the next section, it would appear that promotion, especially advertising, is becoming increasingly centralized among certain "channel commanders."

### Structure

The structure of a channel is defined as that set of institutions, agencies, and other organizations required to provide a product or service to a customer. The focus of analysis in most distribution studies is the collection of business firms between manufacturer and consumer or between industrial seller and industrial user. Alternatively, there have been a few attempts to trace the ultimate sources of common products and to identify all the institutions required to both manufacture and distribute the item in its final form. These latter studies reveal an amazingly complex process. In 1968, for example, Mallen completed a study relating to the distribution of a simple incandescent light bulb which discovered that a total of 277 separate business entities from 14 countries participated in the process. [3] Against this background, it is not surprising that researchers are content to examine more finite segments of the channel.

With 277 separate businesses involved in the distribution of a light bulb or its components, it is difficult to visualize any successful attempt to plan and integrate the necessary activities. Indeed, until relatively recently, few attempts were made to coordinate the job of distributing products in their final form. Typically, retailers would purchase from numerous competing manufacturers and/or their agents. The result of this aggressive behavior was to generate short term, deal-oriented competition and highly fragmented, loosely aligned distribution networks.

Fragmented distribution channels survived for many years; however, the trend toward centrally managed systems was inevitable. The franchise model as pioneered in the automobile industry proved readily

adaptable to a variety of other limited line operations including fast foods, motels, car rentals, farm equipment, and so on. In those areas requiring a wide assortment of goods - groceries, hardware, drygoods - the emergence of large, vertically integrated retail chain stores presented a severe competitive threat to both the independent retailer and the traditional wholesaler. The chains were able to ensure the consumer of uniformity in the quality of goods and services and offer wider varieties, often at lower prices. While the independent retailer was obviously in an unfavourable competitive position, so too was the wholesaler who was often by-passed as manufacturers sold direct to these chain stores. As one response to this challenge, groups of retailers banded together to form voluntary group chains. The initiative in organizing these groups was sometimes generated by retailers but, perhaps more often, was the result of wholesaler efforts. In either case, the objective was to match the franchises and corporate chains through creation of a vertically aligned and horizontally co-ordinated means of distribution; definitionally, a vertical marketing system.

There is one other structural development which has had a major influence in Canadian retailing - the shopping centre. Few, if any, institutions have developed more quickly or produced such a profound effect on the competitive and social environment as the shopping centre. In a span of approximately 30 years, this retailing format has captured a major portion of the consumer dollar and profoundly changed shopping habits. While achieving obvious economic success, shopping malls have also become a focus of controversy. In their ". . . spread like fungi, unstoppable in their growth and unbeatable for their earning power" [4] they are blamed for the rapid deterioration of the downtown sections of

many larger cities. Ironically, many of the urban renewal projects for these same cities employ a shopping centre as the centrepiece for reconstruction.

Each of the major structural developments - corporate chains, franchises, buying groups, and shopping centres - have had a strong influence on the management practices of small business operators. These influences are examined below.

#### (1) Corporate Chains

The concentration of Canadian industry has long been a source of concern for policy makers. With the possible exception of the banking sector, the extent of concentration is most visible in retailing. The Financial Post recently cited figures to indicate that the five largest supermarket chains capture 43 cents of every food dollar; the top five apparel retailers receive 45 cents of every clothing dollar; and five hardware organizations account for 38 cents of every dollar spent in their category. [5] This same publication characterized such concentrations as "remarkable." A less visible but equally important feature associated with such concentration is that the dominance of the chains extends well beyond the retail sector. In the words of one observer, ". . . there is no such thing as just a 'large retailer.' There are only large, or huge, retail-wholesale integrated organizations . . . [often with] . . . direct ownership or control of manufacturing and service facilities." [6]

The existence of major integrated corporations affects small business in several ways. The small retailer must, obviously, compete with some extremely powerful organizations. The positions of small

wholesalers and manufacturers who would like to regard the corporations as customers is less obvious. In a few cases, these latter types of small firms are precluded from selling to the chain by virtue of an "in-house" facility which performs the same function. In other cases, small firms do sell to the large chains - an experience which does not always prove profitable.

The relationship between suppliers and large retailers has evoked considerable attention over the past 15 years. Centered primarily in the food sector, the level of debate has been such to spark the creation of three different enquiries of a governmental nature [7,8,9]. Stated briefly, there has been, and continues to be, considerable controversy regarding the various discounts, allowances, rebates, and other forms of promotional funding offered by, or demanded of, manufacturers and processors when selling to the retail sector, especially the major supermarket chains. The major policy issue underlying the operation of Canada's food channels concerns the question as to whether the consumer prices are too high as a result of the costs of the various rebate schemes paid by the manufacturer.

Rebates exist in a somewhat bewildering array of forms including volume discounts, promotional allowances, cooperative advertising, freight equalization, payment discounts, and so on. One study reported, "There are twenty distinct types of rebates which can be categorized into five distinct groups of rebates . . . of which advertising allowances account for over 50 percent of the total dollars involved." [10] With regard to these latter allowances, the major chains have developed a series of promotional packages which are offered to various suppliers. The prices of these programs, which can exceed \$25,000 for a one-week

campaign, vary according to the number of stores involved and the various services require - media advertising, end-of-aisle displays, demonstrations, and so on.

There is little agreement among channel members as to the appropriateness of the various rebate programs. Reduced to their simplest form, the position of the two major channel antagonists can be stated as follows:

Position of manufacturer/processor: Large supermarkets demand rebate programs as a condition of stocking the product - such demands, on occasion, exceed what might be interpreted as normal, hard bargaining. Were it not for the extraordinary power of the major chains, processors would not necessarily choose to promote their products in the manner required by retailers.

Position of the supermarkets: Food retailing is extremely competitive, so much so that the level of rebates received represent an amount well in excess of profit margins. In the absence of rebates, manufacturers would have to lower prices; alternatively supermarkets would have to raise prices in order to survive, much less remain profitable.

While each of the previously noted investigations have expressed some astonishment at the level of antagonism existing in Canada's food distribution system, they have found no convincing evidence to indicate that consumer prices are adversely affected by the rebate system. Somewhat less clear is the effect of the system on the small business sector. In this regard, there are at least two issues that are of concern; first, the extent to which small retailers receive supplier

discounts; second, whether small processors and manufacturers have the ability to pay such rebates and, if so, whether such promotions represent an efficient use of advertising funds.

The question of whether advertising allowances are available to small buyers has been a question that has long troubled Canadian policy makers. Indeed, a 1935 Royal Commission considered this issue when recommending legislation that subsequently became part of the Combines Investigation Act. [11] The concern then, as now, is to ensure that small retailers receive such rebates in a just and equitable manner. To do otherwise would place the small retailer at a competitive disadvantage. [12] Further, because the suppliers' cost structure must necessarily reflect the cost of the various rebate programs, it has also been argued that the small retailer may well be subsidizing the display and advertising programs of much larger competitors. [13]

The evidence relating to differences between rebate levels as between different store sizes remains somewhat clouded. The most recent investigation in this area concluded that, "It appears that there is no significant difference in the level of rebates received by small or large retailers". [14] This statement must be treated with caution. First, the Commission itself reported significant differences at a 95 percent confidence level in rebate levels in seven of ten product categories examined although the differences were not always in the direction one might predict. [15] Secondly, the nature of the statistical tests employed was not reported; further, the sample sizes used apparently were very small. Since tests for significant differences are highly dependent on sample size, it is hardly surprising that no overall difference in rebate sizes could be detected.

The second area of concern is whether small suppliers are forced to "buy distribution" by granting rebates to large chains. The focus of the previously cited enquiries was directed to the relationship between rebate size and the size of the supplier. Evidence of such a relationship has not been established, although, certainly, there are a few very large manufacturers who refuse to participate in rebate schemes and are successful in maintaining distribution. Far more difficult to determine is whether such rebate plans preclude some small suppliers from the market entirely or impede their sales growth. There can be no doubt that the dollars required to fund a promotion for each chain in each of their regional divisions represents a significant sum and, as such, may provide an entry barrier to a small producer attempting to market a new product. [16]

The existence of the rebate system also calls into question the issue of whether promotional funds are optimally allocated. To the extent that a supplier pays promotional allowances, advertising expenditures in other areas must be reduced or the total budget increased. [17] At the extreme, the small processor may face a choice between efficient advertising but poor distribution or less efficient promotion but widespread distribution. A related issue concerns the timing and philosophy of supermarket promotions. They are, by design, short-term and price oriented in nature. As such, they may do very little for the long term reputation of the brand. Further, there is evidence that both supermarkets and consumers engage in the practice of forward buying - that is, they stock up during the price promotion, then wait for the next deal. This, clearly, introduces uncertainty into the inventory control systems of manufacturer and retailer alike, probably resulting

in increased storage costs. [18]

The above discussion has focused on the food industry since much of the public controversy centered on this sector. To a lesser extent, the problems of a small supplier attempting to sell to a large customer are found in other industries as well. During the recent recession, for example, the term "squeezing suppliers" became part of the vocabulary of most purchasing agents working for manufacturers of consumer durables. As well, many apparently isolated examples can be cited; for example, in 1978 the T. Eaton Company requested a 3 percent unconditional discount on all purchases of women's dresses and sportswear - an industry characterized by many small firms. [19] Unfortunately, investigations of such matters is extremely difficult, even under the authority of a Royal Commission.

## (2) Buying Groups

In the broadest sense, a buying group can be said to exist when two or more businesses pool their orders to a particular supplier as a means of achieving some economies in purchasing or transportation. Undoubtedly such arrangements have occurred repeatedly throughout history as otherwise independent businesses recognized the potential savings of joint purchasing. Such savings continue to this day. Nor are such arrangements restricted to small firms. The largest retailers in North America, probably without exception, are members of buying groups designed to take advantage of particular situations. For example, many purchases from Asia are acquired through buyers under the employ of such groups. Considerable savings are derived through volume purchasing, payment discounts, bulk transportation rates, and the not

inconsiderable reduction in the expenses of processing the required paper work associated with international commerce.

Small business, too, has employed the buying group strategy as a means of achieving savings. In the case of retailer-owned groups, small retailers banded together as a means of qualifying for the quantity discounts enjoyed by their larger competitors or, in some cases, in order to obtain goods which would not otherwise be available. [20] While many such groups operate simply as a mechanism to assemble orders, other organizations are a good deal more aggressive. Recognizing that the success of chain stores is derived as much from their wide consumer awareness as to their prices, numerous groups have proceeded beyond order pooling and now have members operate under a common name (Home Hardware, OK Tires, etc.).

Once the members of a group operate under a common name, it is a short step from the decision to establish a centrally administered advertising program. Indeed, there is some evidence that the benefits of central advertising are growing in importance. In a 1980 survey, voluntary group managers were asked to rank the importance of various group services to the success of their organizations. [21] Advertising programs ranked second to only "quantity buying" among 23 different services, well ahead of supplier rebate programs, market information bulletins, and lower logistical costs. Indeed, there are a number of "buying" groups who do not engage in buying but simply have allowed members to band together under a common name for purposes of advertising. [22]

The impetus behind the formation of wholesaler-sponsored voluntary groups is somewhat different than for retailer-owned organizations.

In the former, wholesalers were able to recruit retailers who would commit to purchasing their requirements on a regular and/or exclusive basis in return for lower prices. These organizations, most commonly found in the grocery sector, also typically operate under a common name and often have a group advertising program. In both the retailer-owned and wholesaler-sponsored groups, it is common to assess an advertising levy based on some percentage of a member's purchases. These funds become the budget for the group manager (or a promotions manager in larger groups) who conceives and directs the advertising plan on behalf of its members.

Voluntary groups of both types have, in some cases, developed into large and successful enterprises - often in the face of severe competition. Part of this growth has been derived from expanding the membership base, even to including chain stores, a trend apparently initiated and now well established in U.S. drug retailing. This phenomenon is particularly ironic since voluntary groups were formed in response to competition from such organizations. The major source of growth, however, would appear to be derived from diversification and vertical integration. In regard to the latter, it is of interest that not all has been "backward" in its direction, as when a hardware group establishes a paint manufacturing plant. An interesting example of forward integration comes from Alberta Grocers Wholesale Ltd. which began in 1960 with 39 retail members facing severe competition from supermarket operators. This organization, with a wholesale volume of approximately \$130 million, now operates a chain of corporate stores.

The emergence of the voluntary group as an increasingly structured vertical marketing system has a profound impact on the independent

retailer. [23] Membership in such organizations has become a virtual necessity for success in hardware, grocery, and drug retailing. The implication to the potential small retailer should be clear. Membership in a voluntary group will tend to reduce, although not eliminate, the risk of failure but can have the effect of systematically reducing the opportunity for entrepreneurial endeavor in that particular retail activity.

### (3) Franchising

Franchising is a form of distribution in which a parent company, or franchisor, grants other companies, franchisees, the right to conduct business in a prescribed manner in a defined territory, usually for a specified period of time. Unfortunately, in this area, as in other areas, definitions seldom find common agreement:

. . . some classification schemes include wholesaler-sponsored voluntary chains as franchise systems. Others include channels in which a retailer is franchised to sell a product in a specified territory along with products obtained from other sources. . . . This confusion leads to inaccurate statistics on the number of franchisors and franchisees as well as the sales volume of franchise systems. One of the major sources of confusion is the variety of franchise agreements, which take many forms. [24]

Regardless of definition, there is little doubt that franchise systems have become a major force in the North American environment, perhaps accounting for as much as 40 cents of every consumer dollar.

[25] Clearly, a phenomenon of such magnitude could not have been achieved without some very positive characteristics.

The advantages of operating a franchise as opposed to an independent business are frequently reported. The franchisee has access to a proven system of doing business - established product lines, store

layout, employee training, consumer awareness, start-up assistance, etc. - plus ongoing support in the form of periodic inspections, book-keeping services, marketing research, and, of course, centralized advertising. Reported less often, but equally well-known, are the benefits which accrue to the franchisor. As opposed to establishing a chain of corporate stores, franchising requires considerably less capital and harnesses the expected motivational differences between committed franchisees and paid managers. In effect, a franchise agreement provides the franchisor with "decision leverage" - the power to deploy resources that extend well beyond the franchisor's equity.

Two basic concerns continue to haunt the franchise industry. First, the apparent ease by which a franchise system can be established has attracted to the industry more than its share of hucksters. Made to order for such individuals are statements such as, "More millionaires have been created through franchising during the past 20 years than from any other field." [26] In many cases, the unscrupulous operator has focused on the sale of franchise units with little regard to what must be the strength of any firm - the ability to satisfy customer needs. Unfortunately, many former franchisees discovered this fundamental principle to be a very expensive lesson. Further, they have found little comfort in the often reported - but suspect - figures which suggest that a franchise is considerably less likely to fail than an independent business. [27]

A second issue of concern relates to the division of authority in a franchise system. The franchisor often attempts to recruit aggressive, highly motivated individuals, exactly the type of person who is likely to chafe under the controls imposed by many franchise systems.

Aware of this problem, franchisors have long sought to achieve some effective balance between franchisee autonomy and centralized decision making. [28,29,30] Complicating this problem is the need of a system to react to change. The highly visible "pop wars" of the past several years provides an interesting example of this problem. As the media warfare escalated, both Pepsi-Cola Canada Ltd. and Seven-Up Canada Inc. advised their bottlers of the need to restructure advertising spending to permit increased centralized ad purchasing. In both cases, the franchisees were hit with advertising fee increases of from 30 to 48 percent. The bottlers were not impressed with the dictate but had little apparent legal power to resist. [31] Recently a number of other disputes have become evident, an indication that franchisees are becoming increasingly resistant to what they consider to be inappropriate franchisor behavior. [32]

#### (4) Shopping Centres

The relationship between small business and shopping centres has long been somewhat tenuous, a situation which can be traced to the arrangements necessary to finance construction. By their nature, shopping centres require a substantial capital investment. In the early days of the industry, financial institutions proved very cautious, often insisting on letters of intent from "A-tenants" - the major chain organizations - as a condition of granting mortgage loans. In order to attract these prime lessees, many developers offered very favorable rental terms. With the anchor stores and other key tenants in place, the developer would proceed to entice "locals" into the centre with the promise of guaranteed traffic, albeit at a per foot rental that could

reach ten times the rates charged to majors.

Once located in a shopping centre, the independent often found cause for dissatisfaction. Obviously, all tenants are not equal in their importance to the centre with the result that the interests of the major units tend to prevail. [33] Of course, the simple fact that a shopping centre manager may be dealing with 100 or so tenants, each with different needs, merchandising concepts, and personalities, suggests that complete harmony will be found but rarely. In view of the dominance of the shopping centre, it is surprising that very few studies have attempted to focus on the management of these institutions. Among the investigations that have been undertaken is one which attempted to identify and rank those factors which are likely to cause conflict between shopping centre manager and retailer. Of the 15 items identified, four of the top five related to advertising or promotion. [34]

Shopping centres, as with the other marketing structures identified, have a strong interest in centralizing the advertising efforts of their members. While there are numerous variations, perhaps the most common lease arrangement calls for the tenant to contribute to an advertising pool which is used to pay for "common" advertising - billboards, production costs for broadcast, headlines and theme illustrations in print ads, and so on. In addition, the centre's manager, or promotion assistant, encourages tenants to purchase additional space in flyers, newspaper ads, etc. For example, in a two-page newspaper ad promoting a sales event, perhaps 70 percent of the space may contain advertisements paid for by the individual merchants, the remaining space is paid by the pool. As a result, a high proportion of the advertising dollar spent by small tenants is directed by the shopping centre.

### Technology

The influence of technology on a channel system is most appreciated when viewed in a longitudinal perspective. Such a view was presented by Brand who, in 1963, described, the evolution of North American retailing institutions. [35] In this article, Brand described the emergence and sequence of different types of retailers: general stores, mail order houses, specialty retailers, department stores, chain stores, supermarkets, discount houses, and shopping centres.

For the most part, each new type of institution is made possible by the invention or development of a particular technology. [36] The viability of the mail order house was made possible through the development of catalogue printing technology and a reasonably efficient postal system made possible by the growth in railway networks. Specialty retailers required, simply, a sufficiently large customer base made possible by increased urbanization. Chain stores, on the other hand, awaited the development of technologies which would allow at-a-distance management - the telephone for communication and cost accounting techniques to provide controls. Department stores, requiring a huge customer base, emerged as mass transit systems were developed in large cities. These multi-storey operations were, of course, also dependent on the invention of the modern passenger elevator. The genesis of the modern supermarket arose, not coincidentally, with low cost refrigeration and developments in packaging which facilitated self-serve operation. Numerous other innovations have found ready acceptance in this industry with each contributing to the development of food retailing. [37] Finally, both the discounter and the suburban shopping centre were

made possible by the mass ownership of automobiles plus, to some extent, improvements in air conditioning equipment.

In Brand's analysis, he suggested that the sequence of the development observed over the past century might be cyclical in nature, thereby providing clues to future forms of institutions. In proposing this theory, Brand compared the general store with the modern shopping centre - both attempt to provide a wide variety of goods to customers in a relatively defined geographic area. What is different, certainly, is the scale of operation between the two forms. This twenty-one-year-old cycle hypothesis directs attention to what might be next generation of the mail order house. From the vantage point of 1984, such a development is clearly evident as in-home tele-shopping finally begins to take root much to the relief of numerous academic prognosticators. [38] While much slower to develop than once anticipated, rapid growth now seems assured. [39] For example, one study estimates that 15 to 20 percent of Canadian households will have videotex by 1990. [40]

The impact of the developing technology on the viability of small business is difficult to assess. One approach to this problem is to examine, in a general way, how the sector has fared in recent years - a time of considerable innovation:

Laser-scanning checkouts of sophisticated point-of-sale terminals . . . computerized product-line planning . . . instant credit checks . . . optical character recognition word readers . . . electronic article surveillance to prevent shoplifting . . . teleshopping from home . . . electronic sales clerks that not only display merchandise but write up a customer's order . . . CRT's that can show a gigantic inventory, updated to the very minute . . . buyers at video conferences selecting merchandise that is exhibited by laser . . . earth stations . . . communications satellites . . . robots that can label goods, haul them to a shelf, and even direct traffic in a large parking lot. The elements of a science-fiction movie? Hardly. They are all part and parcel of the retail industry of today. [41]

Judged against the nonstop pace of technological innovation, the pace of small business is somewhat clearer. At the manufacturing level, many of the developments identified above were created in the first instance by entrepreneurs in small business. Certainly there is little reason to doubt that the technological authority exhibited by this sector will decline. In the distribution sector, a somewhat different picture emerges. Many of the new technologies require a capital investment well beyond the reach of most business operators. Further, many require an enormous scale of operation in order to operate efficiently - an extreme example would include J. C. Penny's leased satellites, but the comparatively simple automated checkout provides an equally valid illustration. Further, developments in communication provide a means by which manufacturers can enjoy easy access to consumers, either directly or through buying services such as Comp-U-Card. In either case, the small-scale operator is unlikely to benefit from such developments.

The above discussion should not be interpreted as indicating an unwillingness on the part of small business to accept change. Indeed, certain small firms already utilize technologies only dreamed about 20 years ago - hand-held electronic order entry equipment, computerized inventory control, and so on. For the most part, however, access to many of the newer technological developments is made possible only because of the firm's membership in a larger institutional framework. It seems likely that this pattern will continue.

The view described above is pessimistic with respect to its expected impact on small business. The adoption of the new technologies seems likely to favor the growth of large retailers to the detriment of the independent. [42] On the positive side, small business had always

had certain advantages over their larger competitors - the ability to deal directly with the customer, the ability to customize a service, the ability to react quickly to changing circumstances, and the ability to focus on the "art" of doing business rather than simply the science. Technology cannot significantly diminish strengths of this nature - it can, however, increase the risks to the small business owner who forgets their importance.

### Behavior

In contrast to the other three elements in the Leavitt model, the academic literature relating to behavioral issues in distribution channels is rich, vast, and complex. Indeed, in some respects the existing body of knowledge relating to channels more closely resembles the field of psychology than economics.

As a means of simplifying this diverse body of literature, it is possible to view many of the studies as being concerned with the inter-relationship between the subject areas of channel power (the ability of one channel member to force another member to behave in some manner), channel conflict (disagreements between channel members which may lead to direct, opponent centered behavior), and participant satisfaction. As illustrated in Figure 2.1, this behavioral dimension can be viewed as a system within a system with each of the components being interrelated. Thus, conflict might be traced to behavioral causes - dissatisfaction on the part of one participant might lead to the exercise of power, resulting in conflict with or among other channel members. Dissatisfaction may be caused by disputes over task allocation (or, in channel's jargon, "domain dissensus"), or result from changes in technology or structure.

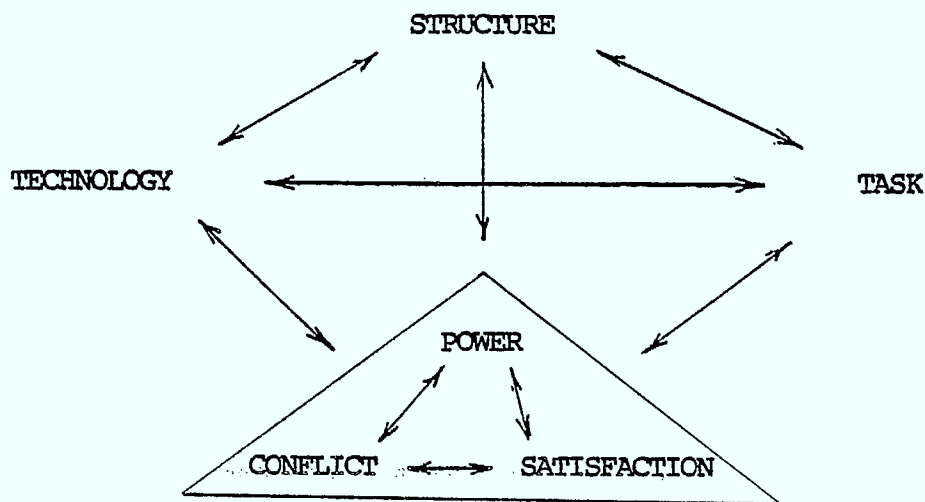


Figure 2.1. Leavitt's Model Applied to Channel Systems

A review of the channel literature indicates that few studies have been directed specifically to small business firms although many such organizations have served as test units. On the other hand, most studies have questioned respondents about advertising - who in the channel has control over this task? Is this allocation a source of conflict? How are such conflicts resolved? and so on. Regretably, the answers to such questions are seldom reported; rather, the scores on those items are combined with other scores in order to come up with overall measures of interest to the authors. In other words, while advertising is recognized as an important aspect of channel systems, the majority of the research to date has been directed to broader issues.

There is no question that the channel research conducted to date has a useful application to the question of small business advertising. Unfortunately, as indicated, this value does not come in the form of answers; rather, the major contribution has been in the development of

methodology - a topic explored in greater depth in Chapter Four. However, in order to provide an overview of the nature of channels research, Figure 2.2 identifies some recent studies which are illustrative of the type conducted in the area. In deference to the various researchers cited, it must be noted that the investigations listed were a good deal more complex than implied; further, not all authors stated their hypotheses in precisely the form noted. Finally, some studies were concerned with sub-categorical issues; for example, the identification of various types of conflict or analysis of the sources of power. For purposes of Figure 2.2, such issues have been subsumed under the general title.

Hypotheses	Source	Advertising	
		An Issue?	Type of Respondent
Satisfaction = f (power)	[43]	No	Auto Dealers
Satisfaction (motivation) = f (power)	[44]	Yes	Auto Dealers
Conflict = f (structure)	[45]	No	Retail Managers
Conflict = f (power)	[46]	Yes	Hotel Managers
Conflict = f (task allocation)	[47]	Yes	Drug Wholesale/Mfgs.
Satisfaction = f (power)	[48]	Yes	Student Experiment
Channel performance = f (power)	[49]	Yes	Farm Equip. Dealers
Satisfaction = f (power)	[50]	Yes	Mfg./Dist./Retailer
Power = f (structure)	[51]	Yes	Retailers
Channel performance = f (conflict)	[52]	Yes	Auto Dealers

Figure 2.2. Illustrative Studies in Channels Research

### Why Small Business?

The utilization of a channel's perspective as a framework by which to examine small business leads to the inescapable, if not original, conclusion that such organizations operate in an ever more structured environment. Further, some of the more recent developments in technology cast a shadow on the ability of the small firm to survive.

Does it matter if a small business operates as an "independent" or as a component in a larger marketing system? A more fundamental question, if somewhat moot, is whether small business deserves to survive in the face of more successful, large competitors? The remainder of this section provides a brief assessment of these key questions.

Any assessment of the importance of small business to society pre-supposes the existence of performance criteria. A review of the literature indicates a wide range of suggestions as to the type and number of such judgment categories. For purposes of this study, eight criteria are identified; the first seven are those proposed by Bucklin and Stasch [53] with the eighth having been suggested by numerous other authors. The discussion, by necessity, is brief.

#### 1) Cost

The question of cost concerns the expense required to deliver a product or service to the user. Typically, small business has not demonstrated a particular strength in this dimension although, paradoxically, many cost saving techniques originate with individual entrepreneurs. There is, however, a complication associated with measurement. Based on the basic principle that tasks can be delegated but not avoided, it is possible to provide a customer with a lower price if the customer is willing to perform certain tasks such as transportation and storage. Unfortunately, the costs incurred by the customer in performing such tasks are not easily measurable. [54] Since many small businesses offer a high service level to particular market segments, they appear to be a good deal less cost efficient than what may actually be the case.

## 2) Productivity

Productivity analysis is directed toward the issue of how efficiently resources are utilized. There is little problem in measuring the efficiency associated with any particular type of service - number of employees, size of facilities, capital investment, hours of operation, and so on. Many studies in this area suggest that larger organizations are more productive, a conclusion that must be qualified:

While there is a tendency for many of the major measurements of business efficiency to favour large firms over small, this tendency is not universal. In terms of sales-to-inventory ratios, for example, the performance of small manufacturing firms approximates or matches the performance of large companies. Similar results are attained in other business sectors, including retail trade and construction. This comparability does not hold for profitability figures: large firms in Canada have a greater return on sales than small, but small firms have a greater return on assets employed. [55]

The above quotation suggests that small firms hold certain advantages in productivity in some areas, larger firms in others. The question of productivity cannot be resolved unequivocally. Certain systems of organization seem, whether by accident or intention, to be able to take advantage of these characteristic patterns of efficiency. Based on historical examination of auto, gasoline, and tire industries, Thomas Marx concluded that the franchise method of organization was a structural strategy designed to capture the efficiencies of both large and small firms simultaneously. [56]

## 3) Profits

The question of profits, as to their size and distribution, will always be a source of controversy. The previously discussed dispute between food processors and supermarket chains provides just one of many possible illustrations. Another example concerns the relationship

between franchisor and franchisee: "... the franchisor may be reaching into the pocket of his franchisee to extract earnings which in a normal competitive relationship would not belong to him." [57]

No discussion of this dimension, however brief, can exclude a comment on the importance of profits to the small business owner: "To a large sector of the small business community, independence and personal control of the business outweigh in importance the growth of sales or even of profits." [58] There is no doubt that the real profits of many small organizations are measured as much in psychic rewards as in cash.

#### 4) Economic Growth

There is general agreement that small business generates a good deal of employment which, in turn, provides a basis for economic growth. Indeed, it has been observed that the entire increase in Canada's labor force over the past five years can be accounted for by the hirings of small business. On the U.S. side of the International Boundary, the faster than expected decline in the unemployment rate has been attributed, in part, to many thousands of individuals opting for self-employment as an alternative to middle management positions in large corporations. [59] Certainly no government concerned with high unemployment would ignore the small business sector for long. Further, if one might use an analogy from financial management, the small business sector can be viewed as a valuable mechanism by which society can diversify its investment in the economy to avoid an over-reliance on particular industries or structures.

#### 5) Equity

The issue of equity involves the fairness accorded the

participants in the system which, for this study, involves questions fundamental to small business. Such questions have been posed on numerous occasions:

We have within the American business system the ethic that the small businessman is its real backbone and that he must be preserved. Yet in some places the small businessman does not fare well at all. Is this the fault of the system which operates to deprive him of some medieval concept of a just price for his services? If so, does it reflect obsolescence of the small entrepreneur's economic role or imperfections in the competitive process that divert profits to some more powerful entity? [60]

To provide an example, small retailers in shopping centres pay many times more rent per unit of floor space than their large competitors. Obviously the retailer was a voluntary party to the terms of the lease; therefore, the market will sort out those retailers willing and able to meet such rents from those who are not. At the same time, it can be argued that the rents paid by anchor tenants do not result from a test of the total market but, rather, result from structural imperfections relating to financing. To what extent, if at all, do the high rents paid by small business subsidize the lower than market rates enjoyed by key tenants? To what extent do these imperfections contribute to the lack of variation, to the point of boredom, that characterizes the tenant mix in Canadian shopping centres?

Questions of equity have also been raised with respect to franchise systems. Mallen has described the potential for abuse of franchise rights, an issue he describes as economic exploitation resulting from the exercise of channel power. [61] Other observers have postulated franchises in many sectors should be viewed as an intermediate form of organization. According to this argument, franchisors employ this approach in order to gain rapid market penetration with

minimal investment and low risk. Once the concept is refined and has achieved market acceptance, the franchisor proceeds to acquire the franchised outlets and operates them as corporate stores. The fast food industry appears to provide some support for this argument. [62] Ironically, not all issues of equity involve the franchisee. Small franchisors also claim a lack of fairness with respect to certain requirements of registration, the costs of which preclude small operators from certain legal jurisdictions. [63]

One further issue of equity should be noted, ". . . whether all those who potentially would like to trade in the market, or product, have a real opportunity to present their bids and offers. Or are some excluded by virtue of law, monopoly, unscalable entry barriers, or indifference by existing participants." [64] As indicated in a previous discussion, there has long been a concern that small business might be precluded from the market by virtue of an overly concentrated industrial structure. While previous studies have suggested that such concerns are ill-founded, the potential for such inequitable treatment remains substantial.

#### 6) Responsiveness

The issue of responsiveness is multi-dimensional although for this discussion the primary concern is whether the system is open to innovation. On this criterion, small business performs well, often providing the mechanism for the innovation and risk-taking essential to Canada's economic system. Further, with the introduction of new products and services, "small business firms serve a useful purpose in the Canadian economy by helping to keep the bigger firms 'on their toes'."

[65]

Is there any evidence that large distributive organizations are less effective in responding to shifting customer needs and other changes? A number of researchers have considered this question and, while their analyses depend on anecdotal evidence, it would appear that large firms are less responsive. Perhaps the best analysis of this problem comes from Moyer who sought to identify the causes of slow response by large retailers. [66] Moyer concluded that increased capital intensiveness, more part-time staff, systems selling, and the increasing isolation of executives and staff specialists from the selling floor all contributed to the problem.

#### 7) Stability

The stability of a system refers to its ability to limit variation in the quality and prices of its products to tolerable ranges. Recent history involving the energy crisis indicates the extreme levels of discomfort which can be caused by sudden changes in price.

Over the long term, there often is little that big or small firms can do to overcome a fundamental imbalance of supply and demand. It has been demonstrated, however, that in times of shortages the independent entrepreneur proves amazingly adept at linking together parts of the economy not normally in contact with each other. [67] In addition, small business has often been quick to explore alternative sources or uses of materials, thereby injecting some stability into the market. The entrepreneur's response to the previously noted energy crises generated a flurry of activity in solar power, alcohol fermentation, wood burning furnaces, insulation services, wind generators, and

so on. Not only were many of these manufacturers quite small, but many of the products developed spurred the creation of new distribution systems which involved other small business operators.

#### 8) Social Concerns

Over the past 15 or so years, an increasing number of observers have suggested that a distributive structure should also attempt to respond to social concerns. For example, franchising has been cited as a mechanism to provide increased opportunity to minorities and women [68] while distribution systems involving marketing boards have been charged with the responsibility of preserving the family farm. [69]

Small business, whether by accident or intention, often serve markets which are isolated from the main stream - small towns, northern communities, slum areas in large cities, ethnic minorities, and so on. Further, since owners of small business tend to be less mobile than paid managers of large firms, the former tend to weld closer community ties and are active in promoting the activities of church, sport, charity and other groups.

As judged against the above criteria, a strong argument can be made for a society to foster its small business sector.

#### Why Advertising?

Viewed against the larger issues of small business survival, a concern for the advertising function in such organizations may seem trivial. Such is not the case. First, the combined advertising budgets of small firms in Canada represent many hundreds of millions of dollars per year. These funds underwrite the survival of the vast majority of newspapers and broadcasting (especially radio) stations which, in turn,

make a major contribution to an informed citizenry. Second, as previously noted, advertising may constitute an effective entry barrier in some industries - a concern which helped prompt several previous investigations. Finally, and of particular importance to this study, advertising represents a particularly sensitive indicator of channel power. With the increasing tendency of small firms to operate as part of some larger marketing system, the monitoring of the advertising decision process might serve as a litmus test for other critical issues of channel management.

An increasingly common feature of the emerging marketing systems that include small firms relates to the requirement that members contribute to a centrally administered advertising pool. Buying groups typically include an advertising surcharge on merchandise purchases; franchises most frequently require the franchisee to pay a percent of gross sales into a fund; shopping centres, through a variety of leasing arrangements, generate an advertising pool to be spent on behalf of the centre. In each case, the individual contributes funds to a centrally administered advertising program. The remainder of this section examines the arguments for and against this practice.

#### Vertical Marketing Systems: Buying Groups and Franchises

There are a number of strong arguments in favor of centralizing the promotional decisions of buying groups and franchise organization.

- 1) By pooling funds, it may become feasible for a group of firms to advertise effectively in magazines and network television. These media are typically out of the reach for most independent firms yet often produce very efficient promotional buys when considered on a

cost per thousand basis. In contrast, the media accessible to the independent may be affordable and at times inefficient.

2) With larger advertising budgets, it is possible to justify the production costs associated with high quality advertisements and commercials which, presumably, are more effective than locally produced equivalents. A similar argument can be presented to justify expenditures in marketing research.

3) Larger promotional expenditures permit the utilization of advertising agencies which many small firms cannot realistically employ in an effective manner. Further, those agencies serving national clients may, arguably, be superior to the small agencies available to the individual firm.

4) Advertising can help create an overall appeal for the entire organization. This image umbrella fosters a long term awareness and helps avoid the expensive "price advertising" associated with much small firm promotion. [70]

There are also a number of disadvantages associated with centralized advertising in vertical marketing systems.

1) Any system-wide advertising must, by necessity, deal with averages - economic conditions, extent of competition, identity of competitors, market awareness, and so on. Clearly, the composite picture will vary in accuracy as a proxy measure for local conditions. As a result, the local operator must still formulate promotional objectives and may have to augment national advertising with locally directed efforts. In that sense, centralizing the advertising function does little to free the local operator from this responsibility.

2) Promotional buys which are efficient at the national level may not generate effective results for the local enterprise. Due to differences in viewing habits, for example, a network television commercial may prove more efficient in the Maritimes than in southern British Columbia.

3) In situations where the franchise is better established in certain parts of the country than others, the central advertising manager is forced to select between wasting funds by reaching viewers or readers with little opportunity to shop at the franchise or concentrating advertising in those regions where the most outlets are present. In the latter case, the "isolated" location pays but does not receive national support. [71]

4) Contracts for successful franchises tend to become more restrictive over time. On occasion, certain franchisors, notably in fast foods, have found it useful to advertise new items, special sales events, even store hours on a national basis. These advertisements often have the effect of pressuring "old franchisees" into accepting conditions not specified in the original contract.

#### Horizontal Marketing Systems: Shopping Centres

In the case of shopping centres, the major advantage of centralizing advertising is to provide sufficient funds to purchase large display ads and to provide for repetition in broadcast media. Both strategies dramatically increase the "attention getting" potential of the campaign. Further, the steep volume discounts available from most local media can dramatically reduce cost per thousand figures. For example, a newspaper ad, placed independently, can easily cost twice as

much as the identical ad placed as part of a two-page spread promoting the entire shopping centre.

The disadvantages associated with centralized advertising in a shopping centre are as follows:

1) Most lease agreements call for tenants to pay the larger of a base rate or percentage of sales; thus, it is in the interest of the shopping centre management to maximize the sales of its tenants.

There would appear to be a tendency of mall management to emphasize traffic and sale-oriented, event advertising as opposed to more continuous, longer term, image promotion. Further, the timing of these intermittent "sales" may not be optimal for individual tenants.

2) The overall image of a shopping centre may not correspond to the desired or optimal image of a particular tenant. It is apparent that many landlords have become less selective in their tenant mix during the past two years. This change in tenant mix, necessarily reflects in the centre's advertising.

### Endnotes

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3. Bruce Mallen, Principles of Marketing Channel Management (Lexington, Massachusetts: D. C. Heath and Company, 1977), pp. 41-49.
4. "A Nation of Malls," Esquire, June 1983, p. 329.
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7. Royal Commission of Inquiry into Discounting and Allowances in the Food Industry in Ontario, Hon. W. W. Leach, Commissioner, Province of Ontario, 1980.
8. Royal Commission on Price Spreads of Food Products, Government of Canada, 1951.
9. Select Standing Committee on Agriculture, Province of British Columbia, various reports, 1978-79.
10. Royal Commission - Leach, p. 52.
11. Royal Commission on Price Spreads, Government of Canada, 1935.
12. Section 35 of the Combines Investigation Act requires that promotional allowances granted to competing purchasers be offered on proportionate terms. It is worthy of note that this proportionate provision is not part of the legislation governing other types of discounts. For example, volume discounts are deliberately set to encourage large purchases (or discourage small ones) and by their very nature favor large retailers. Further, since the amount of such discounts do not have to be cost justified, the price structure may severely, but quite legally, penalize a small buyer to an extent well beyond any savings associated with order processing and transportation. The supplier's only legal requirement is that the same pricing structure be applied to all customers. In other words, customers of like quality and quantity are to receive the same price. Such discounts undoubtedly served as one incentive toward the formation of retail buying groups.

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21. J. Dart, "Voluntary Retail Groups: Performance and Promise," Proceedings, Administrative Sciences Association of Canada, 1980, pp. 117-125.
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31. "Bottlers Resisting Pepsi, Seven-Up Ad Control," The Globe and Mail, November 23, 1982, p. B2.

32. "Defections Grow in Franchise Disputes," The Globe and Mail, November 15, 1983, p. B1.

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67. Louis Kriesberg, "Occupational Controls Among Steel Distributors," American Journal of Sociology, November 1955, pp. 203-212.

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71. In the exploratory stages of this research, several franchisees (located in Saskatchewan) complained of this problem. Of those franchises mentioned, three are headquartered in the Toronto area; the fourth is in Montreal.

## Chapter Three

### A STATISTICAL OVERVIEW

The objective of this chapter is to present the available secondary data to verify or refute the trends identified in Chapter Two and their resulting impact on small business. Once again, the presentation is based on the premise that businesses which cater to the consumer account for the vast majority of total advertising expenditures. Examination of such firms, namely those in retailing and service sectors, suggests that many are members of larger marketing organizations which control much of the actual advertising activity. Consequently, understanding small business advertising necessarily involves consideration of these larger structural phenomena.

#### Advertising Data

It was recognized from the outset that relatively little information relating to advertising in small business is available. Published statistics concern media revenue, expenditures by product type, advertising agency billings, expenditures for the largest 50 Canadian advertisers, and so on. Nor is it possible to refer to taxation statistics since such sources include advertising in an "Other Expenses" category. Further, it is doubtful that reliable statistics could be gathered from this sector. Interviews with small business owners during the exploratory stage of this study revealed a wide range of accounting practices with regard to advertising - a long standing problem not

restricted to small business. [1] Several owners, including one with a C.A., regarded all charitable donations as "advertising;" one lessee in a shopping centre classified his advertising levy as "rent;" one franchisee accounted for her promotional fees as "royalties."

Table 3.1 examines the net share of advertising revenues by broadcast and print media. Two factors stand out. The media cited are primarily directed to the ultimate consumer; however other forms of advertising such as point of purchase material are excluded. Second, in spite of continuous experimentation with various media by individual advertisers, the overall allocation of expenditures has remained relatively static.

TABLE 3.1  
PERCENT SHARES OF NET ADVERTISING REVENUES BY MEDIA

	1970	1972	1974	1976	1978	1980
Radio	11	11	10	11	11	11
Television	13	13	13	14	16	17
Daily Newspaper	28	29	29	29	27	26
Other Newspaper	5	5	5	5	5	5
General Magazines	3	2	3	3	4	4
Business Publication	3	2	3	3	3	3
Directories	5	6	6	6	6	6
Direct mail, Catalogues	21	N/A	21	19	19	19
Outdoor	9	N/A	8	7	7	6

Source: Maclean-Hunter Research Bureau. Reproduced in W. J. Stanton, M. S. Sommers, J. G. Barnes, Fundamentals of Marketing (Toronto: McGraw-Hill Ryerson Limited, 1982), p. 524.

#### Business in Canada

The figures presented in Table 3.2 indicate that the total number of business enterprises increased in each of the 15 years between

1966 and 1980. This increase of over 434,000 firms was achieved in the face of some difficult economic times and during a period characterized by considerable merger activity. Further, there is reason to believe, indeed there is substantial evidence, that most of the new firms can be classified as small businesses. [2]

TABLE 3.2  
NUMBER OF BUSINESSES IN CANADA BY YEARS

Year	Corporations		Proprietors		Total	
	All Industry	Retail	All Industry	Retail	All Industry	Retail
1966	171,917	24,031	347,120	122,636	519,036	146,667
1967	182,094	25,861	344,036	123,129	526,130	148,990
1968	192,754	27,563	351,621	124,444	544,375	152,007
1969	207,422	30,438	361,678	127,450	569,100	157,888
1970	222,563	32,329	362,021	124,317	584,584	156,646
1971	231,536	333,851	367,629	126,636	599,165	160,487
1972	236,431	36,164	377,736	132,542	614,167	168,706
1973	260,493	40,461	389,753	128,217	650,246	168,678
1974	281,889	43,789	402,888	127,233	684,777	171,022
1975	298,350	46,886	413,319	124,003	711,669	170,889
1976	325,030	52,159	430,678	125,569	755,708	177,728
1977	346,695	56,214	442,957	129,131	789,652	185,345
1978	380,626	61,488	485,205	131,948	865,831	193,436
1979	413,034	66,813	496,150	138,426	909,184	205,239
1980	451,567	72,818	501,773	138,027	953,340	210,845
1981			493,234	137,226		

Sources: Corporate Financial Statistics, Statistics Canada, 61-207, various years.  
Taxation Statistics, Revenue Canada, various years.

During the same time period, the number of retail enterprises also increased although, as indicated in Table 3.3, the rate of increase

did not match net business formations as a whole. A more interesting statistic relates to the number of retail enterprises per 1000 population - a number which increased from 7.33 in 1966 to 8.81 in 1980. This increase is somewhat surprising. Since the numbers in Table 3.3 refer to business entities rather than retail locations, any growth in independent operation comes in the face of tough competition from the increasing number of units in corporate stores. Secondly, the average size of many corporate store outlets, especially supermarkets, has increased substantially during the time period considered. In order to be economically viable, such outlets depend on appealing to a huge market base - again, a competitive factor tending to reduce the number of retail enterprises. Judged on this basis, the figures suggest that the retail sector has provided a rather vibrant area for independent economic activity.

#### The Structure of Retailing

Table 3.4 attempts to categorize retail activity according to various structural elements - type of store, shopping centre activity, and franchising. With respect to the type of store, Statistics Canada divides retailers into two groups - chains and independents. An organization is classified as a chain by virtue of operating four or more retail outlets in the same kind of business under the same legal ownership. Franchise operations are specifically excluded. Firms which do not meet the classification criteria for a chain store are categorized as independents. The purpose of this classification is to provide some measure by which to distinguish between large and small firms.

TABLE 3.3

## RETAIL ENTERPRISES RELATED TO ALL FIRMS AND POPULATION

Year	Total Number of Retail Enterprises	Retail Enterprises as a % of all Businesses	Retail Enterprises per 1000 Population
1966	146,667	28.3	7.33
1967	148,990	28.3	7.31
1968	152,007	27.9	7.34
1969	157,888	27.7	7.52
1970	156,646	26.8	7.36
1971	160,487	26.8	7.44
1972	168,706	27.4	7.74
1973	168,678	25.9	7.65
1974	171,022	25.0	7.65
1975	170,889	24.0	7.53
1976	177,728	23.5	7.73
1977	185,345	23.5	7.96
1978	193,436	22.3	8.23
1979	205,239	22.6	8.66
1980	210,845	22.1	8.81

TABLE 3.4

## STRUCTURE OF CANADIAN RETAILING

Year	(1) Total Retail Sales (\$000,000)  current \$	(2) Independent <sup>a</sup> Share  [% of (1)]	(3) Shopping Centre Share  [% of (1)]	(4) Retail Franchise <sup>b,c</sup> Share  [% of (1)]	(5) Retail Franchise <sup>b,c</sup> Share of Independent  [% of (2)]
1956	14,089	71.0	1.8		
1957	14,654	70.6	2.6		
1958	15,252	70.0	3.2		
1959	16,149	69.8	4.0		
1960	16,413	69.0	5.0		
1961	16,073	68.2	6.2		
1962	17,137	68.7	6.9		
1963	18,207	68.6	7.4		
1964	19,493	67.9	8.2		
1965	21,155	67.3	8.8		

Table 3.4 - Continued

Year	(1) Total Retail Sales (\$000,000)  current \$	(2) Independent <sup>a</sup> Share  [% of (1)]	(3) Shopping Centre Share  [% of (1)]	(4) Retail Franchise <sup>b,c</sup> Share  [% of (1)]	(5) Retail Franchise <sup>b,c</sup> Share of Independent [% of (2)]
1966	22,686	66.6	9.5		
1967	24,155	65.8	10.8		
1968	25,711	65.3	11.4		
1969	27,401	64.0	12.3		
1970	28,034	61.8	14.0		
1971	30,646	61.4	—		
1972	34,086	59.6	16.0		
1973	38,313	59.1	17.6		
1974	44,789	58.0			
1975	51,362	57.7			
1976	57,128	58.2		2.1/30.8	3.6/53.0
1977	61,623	57.8		2.2/30.9	3.8/53.4
1978	68,779	58.2		2.9/31.4	4.0/54.0
1979	77,025	58.4		3.3/32.3	4.5/55.4
1980	84,027	57.7		3.0/32.2	5.3/55.8
1981	94,538	57.7		3.4/32.7	5.9/56.6

<sup>a</sup>Statistics Canada (catalogue 63-538) divides retail sales into "chain" and "independent" categories. A chain organization is defined as a business enterprise which operates four or more retail outlets in the same kind of business under the same legal ownership. This definition excludes franchise operations. An independent is, simply, not a chain.

<sup>b</sup>The first number given is for franchises in record, audio, computer and video stores, bakeries, convenience and grocery stores, drugstores and clothing stores.

<sup>c</sup>The second number includes the stores in "b" plus automotive products and services, motor vehicle dealers, service stations, and soft drink bottlers (the latter are not retailers).

Sources: Statistics Canada, Catalogues 63-538, 63-527 (various years) and the information report, Franchising in the Canadian Economy, 1976-1981.

The figures in Table 3.4 indicate a major decline in the market share held by independents indicating, by transposition, a major increase in the proportion of the consumer dollar captured by chains. One apparent bright note for the independents is that their market share appears to have stabilized during the past few years.

Also evident in Table 3.4 is that franchise operations have demonstrated an unrelenting record of growth during the past six years. Franchising, as a system of organization, is not confined to any particular sector; thus, in order to provide a better indication of franchise activity, Table 3.4 specifically cites the more recent forms - computers, clothing, drugstores, bakeries, and convenience stores. The second set of figures includes both these newer sectors as well as the traditional franchise systems - automobiles, service stations, and soft drink bottlers (the latter not being retailers). Both sets of data reveal the same steady growth pattern - franchises continue to capture a larger share of both the independent sector and of overall sales.

Table 3.5 presents more data relating to franchising in Canada. As indicated, overall growth has been impressive, even allowing for inflation, with the newer categories showing particular sparkle. Indeed, when the rate of growth is calculated in constant dollars (not presented), all sections experienced a positive growth with the exception of the "traditional" category. While this latter classification experienced a 4.3 percent decline in real dollar sales, it contains both service stations and automobile dealers, both of whose markets were set into turmoil by the energy crises. In contrast, all other sectors of franchising demonstrated a positive, six-year growth ranging from 8.8 percent for recreation and lodging to a phenomenal thirteen-fold

increase in business services.

TABLE 3.5

FRANCHISING IN THE CANADIAN ECONOMY  
Sales by Years (\$000,000)

	1976	1977	1978	1979	1980	1981
Retail Trade <sup>a</sup>	1,188.5	1,359.2	1,597.6	2,003.3	2,559.5	3,234.9
Home Related <sup>b</sup>	719.8	832.8	998.3	1,170.7	1,363.4	1,532.2
Recreation & Lodging	481.0	517.4	579.5	662.4	752.7	851.6
Business Services	497.0	760.7	1,421.0	3,321.0	7,713.2	11,174.5
Automotive Products	1,188.5	1,339.7	1,596.5	1,935.2	2,373.8	2,928.6
Restaurants	800.8	1,018.2	1,308.3	1,706.5	2,008.3	2,349.1
Traditional <sup>c</sup>	15,237.7	16,316.0	18,403.8	20,976.0	22,127.8	24,705.8
Total	20,113.3	22,144.1	25,904.8	31,775.1	38,898.6	46,776.6

<sup>a</sup>Includes: record, audio, computer & video stores; bakeries, convenience & grocery stores; drugstores and clothing stores.

<sup>b</sup>Includes: construction, home improvement, maintenance & cleaning services.

<sup>c</sup>Includes: motor vehicle dealers, service stations, soft drink bottlers.

Source: Statistics Canada, Franchising in the Canadian Economy 1976-1981.

If the decline in market share by independent merchants as revealed in Table 3.4 can be termed major, an even stronger adjective must be employed to describe the rapid market penetration achieved by shopping centres during the period from 1956 to 1973. From a base of 1.8 percent of retail sales in 1956, shopping centres went on to capture 17.6 percent of the retail market by 1973 - even this a conservative figure in view of Statistics Canada's somewhat restrictive definition of

a shopping centre. Unfortunately, Statistics Canada chose to discontinue their series on shopping centres with the result that it is now considerably more difficult to monitor activity in this area.

While no data are published to indicate the percentage of retail sales currently captured by tenants in shopping centres, Table 3.6 reveals that the growth of such operations has continued unabated. Some caution must be exercised in comparing the figures for 1972 and 1976 as the two sources cited employ a different definition of shopping centres. Nevertheless, the increase in the numbers over the years cited leave little doubt that a shopping centre location has become essential for many types of retailers. Further confirmation of this trend is evident in Table 3.7 which indicates the number of retail outlets currently operating from shopping centres as well as their total floor area. In both cases, the magnitude of the figures is impressive.

Attempts were also made to measure the influence of voluntary buying groups on today's retailing. Unfortunately, there is no easy method to achieve this objective. Statistics Canada discontinued their series on voluntary groups with the comment:

From its inception, the survey on voluntary groups has been subject to statistical weaknesses of various kinds. . . . Conflicting statements are still received from the wholesaler and the retailer on the membership status of the retail outlet. [3]

### Conclusion

A review of the tables presented in this chapter leaves little doubt that the vast majority of retailing is conducted in corporate stores and franchises with voluntary groups constituting an important, if unmeasured, form of organization. In each case, these vertical associations have moved to capture the economies of centralized

TABLE 3.6  
NUMBER OF SHOPPING CENTRES BY PROVINCE

	1956 <sup>a</sup>	1964 <sup>a</sup>	1972 <sup>a</sup>	1976 <sup>b</sup>	1983 <sup>b</sup>
British Columbia <sup>c</sup>	5	51	80	99	159
Alberta	7	46	64	65	149
Saskatchewan	-	12	19	27	50
Manitoba	-	11	23	25	45
Ontario	41	170	247	264	459
Quebec	10	68	143	146	207
New Brunswick	-	2	10	26	48
Nova Scotia	1	8	9	31	63
Prince Edward Island	-	-	1	7	9
Newfoundland	-	1	3	12	23
Total	64	369	599	702	1212

<sup>a</sup>Defined, in part, as: "A group of stores which are planned, developed, and designed as a unit, containing a minimum of five retail establishments [and] a minimum of 20,000 square feet of [free] parking area . . ." This definition excludes most downtown malls who do not provide free parking.

<sup>b</sup>Undefined except requiring a minimum of 50,000 square feet.

<sup>c</sup>Includes Yukon and N.W.T.

Sources: 1. Statistics Canada, Catalogue 63-527, Shopping Centres in Canada, August, 1976.  
2. 1984 Canadian Directory of Shopping Centres, Maclean Hunter, Ltd., Toronto, 1983.

advertising, thereby removing at least some of the advertising dollars from the retail level. Further, the shopping centre has developed to a dominant place in Canadian retailing. Those horizontal marketing structures attempt to centralize much of the advertising activities of their tenants. Indeed, it is not unusual that an independent merchant would contribute to the advertising pool of both the franchise/buying group and the shopping centre. Left unanswered is whether this retailer

TABLE 3.7

## 1983 SHOPPING CENTRE CHARACTERISTICS BY PROVINCE

	Total <sup>a</sup> Number of Outlets	Total <sup>b</sup> Floor Area of Outlets (000 ft <sup>2</sup> )	Number <sup>c</sup> Enclosed Malls	Number <sup>c</sup> Open Centres
British Columbia <sup>d</sup>	5,905	26,880	102	54
Alberta	6,270	30,438	97	45
Saskatchewan	1,470	7,642	32	17
Manitoba	1,386	6,943	23	18
Ontario	16,785	81,362	264	175
Quebec	10,205	45,188	165	38
New Brunswick	1,215	6,142	40	8
Nova Scotia	1,828	9,761	45	17
Prince Edward Island	212	1,150	6	3
Newfoundland	682	3,524	20	2
Total	45,958	219,030	794	377

<sup>a</sup>Information for 40 centres was not available.

<sup>b</sup>Information for 15 centres was not available.

<sup>c</sup>Forty-one of 1212 centres could not be classified.

<sup>d</sup>Includes Yukon and N.W.T.

Source: 1984 Canadian Directory of Shopping Centres, Maclean Hunter Ltd., Toronto, 1983.

regards the current state as desirable or as a necessary evil associated with remaining viable in today's structured environment. Chapter Four examines this question.

Endnotes

1. Printer's Ink, December 16, 1960.
2. Small Business in Canada, 1981. Department of Industry,  
Trade and Commerce, Government of Canada.
3. Statistics Canada, Voluntary Group Stores, 63-215, 1972,  
p. 9.

## Chapter Four

### THROUGH THE EYES OF SMALL BUSINESS

The analysis presented in Chapter Three indicates a strong trend toward the growth of large marketing systems - both horizontal and vertical - with an increasing degree of centralized decision making. While the economic reasons underlying this development are evident, unanswered are some rather fundamental questions of concern to the small business operator: does the small business owner actively favor such organizational arrangements or regard them as a necessary evil? is the small operator satisfied with the terms and conditions that characterize these systems or simply backed into them? what are the complaints? can they be resolved?

In order to gain some insight into the attitudes of small business owners toward the issues discussed in this study, it was decided to conduct a formal, nationwide survey. A questionnaire was subsequently prepared and mailed to a group of independent merchants who were tenants in community and regional shopping centres. A second version of the questionnaire was directed to franchise operators, both forms appear in Appendix A. An attempt was made to match sample groups with respect to geographic location and type of business.

The channel model employed throughout this study once again provided a useful conceptual framework. Clearly, the questions posed to small business operators touch on issues of satisfaction, power, conflict and similar behavioral concerns (see Figure 2.1). Since marketing

academics first began to regard channels of distribution as social systems rather than simple economic entities, the vast majority of research has been directed toward such behavioral concepts. As a result, the literature provides numerous examples of methodological approaches which facilitate measurements in this area.

### Development of the Research Instrument

This section describes some of the methodological concerns that impinged on the design of the questionnaire. For the most part, the process proved straight forward and the questions are self explanatory. An exception relates to the measurement of power. There is no one generally accepted measurement approach; indeed, as will be indicated, the entire area has generated a good deal of controversy. As a result, it is necessary to describe the power component of the questionnaire in somewhat greater detail.

### Power Measures

The concept of power has held a particular fascination for researchers in the area of channels. Borrowing directly from the behavioral sciences, power was initially defined in terms of the ability of one individual or group to induce another to do what would not otherwise have been done. Under this definition, power proved a very difficult concept to analyze, especially in the context of a distribution channel. In the words of one author:

It should be evident why power is somewhat tricky to measure and operationalize. In order to assess power, one must be able to estimate a) what would have happened in the absence of the exercise of power; b) the intentions of the actor attempting to exercise power; and c) the effect of the actions taken by that actor on the probability that what was desired would in fact be likely to occur. [1]

In 1972, El-Ansary and Stern formulated a definition of channel power which avoided some of these problems and has since been widely adopted. According to these authors:

. . . we can operationally define the power of a channel member as his ability to control the decision variables in the marketing strategy of another member in a given channel at a different level of distribution. [2]

Using the approach, the majority of researchers subsequently sought to measure perceived power relationships rather than manifest attempts to exercise power. For example, in a 1974 investigation of the franchised sector of the fast food industry, power was defined as, ". . . the ability of the franchisor, as perceived by the franchisee, to control the decision variables of the franchisee." [3] The rationale for this approach is that if a franchisee believes that the franchisor has the power to control prices throughout the franchise system, it matters little whether the facts of the situation may differ.

This investigation attempted to determine the business owner's perception of the power relationship in two types of marketing systems - shopping centres and franchises - with particular emphasis on decision variables involving advertising. As a result, survey respondents were questioned as to the number of sales events per year, the amount spent on local advertising, the quality of this advertising, and the media employed. Other merchandising variables were also presented which related to pricing, product line decisions, quality standards, employee qualifications, hours of operation, signs and displays, and housekeeping standards. Also included were decision variables relating to the owner's bookkeeping system and community activities - the latter an attempt to tap the involvement of the independent in local affairs. In

addition to these 16 decision variables, respondents were requested to indicate their agreement with two statements, one relating to advertising, the other an overall power measure: Specifically, the questions, one version, for each type of respondent, were posed as follows:

(overall)

The [franchise/lease] agreement gives the [franchisor/landlord] too much control over the direction of my business.

(advertising)

I would be better off if I could spend [locally/on my own behalf] the money I am required to [pay into the advertising pool/contribute to mall promotions].

#### Power Sources

Researchers have frequently examined the question of why one channel member might be said to have power rather than some other member or, more succinctly what are the sources of power? Two basic approaches to this question have emerged although, to some extent, they represent opposite sides of the same coin. The first approach seeks to identify the leader's power bases; the second approach focuses on the reasons for the follower's dependence. These approaches are described in greater detail below.

##### a) Raven & French: Sources of Leader Power

The majority of the literature relating to channel power is dependent on a conceptual formulation developed by French and Raven. [4] Pointing out that, ". . . there are undoubtedly many possible bases of power which may be distinguished, we shall define five . . .," subsequently labeled expert, coercive, legitimate, referent, and reward. [5]

Borrowing liberally from the authors' descriptions, these power bases can be defined in terms of the influence on person "P" by a social agent, "O".

Reward power is based on the ability of O to reward P for appropriate behavior. The strength of O's power over P increases with the magnitude of the rewards which P perceives that O can mediate.

Coercive power stems from the expectation by P that he will be punished by O if he fails to conform to the influence attempt.

Legitimate power stems from internalized values in P which dictate that O has a legitimate right to influence P and that P has an obligation to accept this influence.

Referent power has its basis in the identification of P with O - a power which arises when, ". . . one person accedes to the influence efforts of another because he is attracted to him, wishes to identify with him, and wants to be like him." [6]

Expert power refers to the power available to O by virtue of some knowledge or expertise. The extent of O's power over P varies with P's evaluation of this expertise in relation to his own knowledge as well as against some absolute standard.

While the classification of power sources into the five types identified has enjoyed wide acceptance, the practical difficulties of distinguishing between them in the complex economic environment associated with channels research has forced many researchers to seek a simpler model. Most popular has been to distinguish between coercive and "noncoercive" bases of power, the latter subsuming the four categories remaining after excluding coercive power. [7] Other authors have grouped reward and coercive power into an "economic" power base with

expert, legitimate, and referent power grouped into a "noneconomic" category. [8]

In contrast to those authors who have attempted to collapse the Raven and French categories, there have also been periodic attempts to enlarge the number of power bases. Recently, for example, Kasulis and Spekman discussed seven power sources. [9] In addition to expert, reward, coercive, and referent power bases, the authors distinguished between "traditional legitimate" (as defined by French and Raven) and "legal legitimate" power in which O is able to mandate the behavior of P in certain areas covered by a legal contract. The seventh power source was identified as "informational power" predicated on, "[O's] ability to explicate information or contingencies not adequately considered by [P]". [10] In regard to this latter power base, French and Raven had considered, but discounted its use since, ". . . we had difficulty phrasing a question which would be clearly understood by all respondents . . . and which would not become something of a 'catchall' item." [11]

As indicated by the above discussion, the French and Raven formulation presents a number of practical difficulties to channel researchers. These problems may be traced to a number of more fundamental issues. First, the classifications were not derived from empirical investigation but, rather, were proposed as a tentative explanation to account for the divergent results emerging from studies of social influence. Second, the categories are neither exhaustive nor mutually exclusive, limitations readily acknowledged by the authors. Third, the measurement techniques used to measure power are relatively insensitive: "Power attributions may be low when the attributing party has rarely seen the sources of power in action; hence, a well-defined power

structure seems to be a requisite for measurement." [12] Finally, a small number of observers have charged that much of the research that attempts to relate the exercise of power to various power bases do nothing more than offer, ". . . tautological explanations whereby observed behavior is used to explain itself." [13]

In spite of the apparent problems, it was decided to examine the respondents' perceptions of the power relationship underlying the 16 decision areas previously identified. For reasons of parsimony in what was a fairly complex parallel set of questionnaires, respondents were simply asked to select from nine answers the one that best described their relationship with their franchisor or shopping centre manager with respect to each of the decision areas. The answers provided on the franchise version questionnaire are listed below; similar alternatives were presented on the shopping centre form.

1. I generally go along with the franchisor's suggestions because:
  - . . . the franchisor can give special help to those who cooperate. [reward power]
2. . . . it's in the franchise agreement. [legal legitimate power]
3. . . . it's important that the franchisor and I agree since we must work together to be successful. [referent power]
4. . . . the franchisor can apply pressure and penalize those who do not cooperate. [coercive power]
5. . . . they have more expertise in this area than I do. [expert power]
6. The franchisor has little involvement in this area and makes few suggestions. [no perceived power relationship]
7. The franchisor makes suggestions but I usually do not implement them

because they do not apply very well to my particular operation.

[rejected attempt to apply power]

8. Other, please specify in the area provided.

9. Not relevant to my operation.

#### **b) Emerson: Power-Dependency Relationships**

In any situation involving cooperation between individuals, or institutions, a certain degree of mutual dependence must exist. Each member of a channel of distribution, for example, is in a position to impede or facilitate the goal attainment of another. Thus, a certain balance of power can be said to exist. Emerson described the dynamics of such mutual dependence as follows:

The dependence of actor [P] upon actor [O] is (1) directly related to [P's] motivational investment in goals mediated by [O], and (2) inversely proportional to the availability of those goals to [P] outside of the [O-P] relationship. [14]

In contrast to the efforts devoted to power sources, the dependency measures developed to date have been situation-specific and consisting of relatively few items. To illustrate, Etgar investigated the behavioral interactions that occurred in the distribution of property and casualty insurance. [15] In this study, an agent's dependence was determined on the bases of:

- 1) the proportion of casualty insurance in his product mix,
- 2) the number of insurers represented,
- 3) the concentration of business placed with particular insurers, and
- 4) the difficulty in replacing one leading insurer with another.

In the current investigation, it was not possible to develop industry specific statements since respondents were from various retail and service sectors. As a result, respondents were asked to state their

agreement with the following items:

I could not do as well if I tried to operate this business (as an "independent" under a different name/at a different location).

The success of my operation depends a great deal on the performance of the (franchisor/shopping centre manager).

Now that I know the system, the franchisor is of little real help to me. [reverse scored; no equivalent question for shopping centre version]

Finally, those respondents who operated a franchise within a shopping centre were asked their degree of agreement with the statement:

My shopping centre manager influences my operation more than my franchisor.

This question was also asked of the independent sample as a check on a possible misclassification of the respondent.

### Conflict Measures

No dynamic social system such as a channel of distribution can remain free of internal disputes for very long. The Canadian food distribution system described in Chapter Two demonstrates a dramatic, but by no means unique, illustration of an environment characterized by conflict. Lawsuits between franchisor and franchisee, disagreements between wholesaler and manufacturer as to who should service large retail customers, the discord among tenants regarding shopping centre hours are only a few of many examples than can be cited.

Researchers of channel behavior have generally viewed conflict as a process evolving through four distinct, if overlapping, stages: latent, perceived, affective, and manifest. [16] Research directed to the latent stage has centered on the identification of the fundamental causes of channel conflict - those conditions which are likely to lead

to future problems. [17] At the perceived stage, one or more members of the channel become aware of these fundamental differences. The affective stage is characterized by the arousal of emotions, the conflict may become person-centered and feelings of hostility develop. The logical final step - manifest conflict - involves action; argument, suspension of services, litigation, attempts to lobby governments, and so on.

Two additional conflict issues have captured the concern of channel observers - how conflict is or might be resolved and the desirability of conflict. With respect to conflict resolution, a number of inventive mechanisms have been suggested by which a dispute can be ameliorated. [18] While beyond the scope of this study, it is important to note that loosely aligned channels provide the small business owner with a good deal of flexibility. In the event of a major conflict, an alternative is to seek alternate suppliers (or major accounts). The members of integrated marketing systems do not have this alternative. Bound by the terms of a franchise and/or lease agreement, walking away from a dispute represents a rather desparate "final solution."

It is possible to identify both positive and negative outcomes of conflict. Conflict can be viewed as positive, especially when it emerges at times of fundamental change. The formation of voluntary groups, for example, arose in part from conflicts with manufacturers who were giving more favorable terms to large, corporate retailers. On the other hand, conflict can divert the energy and resources of the parties involved to the detriment of the entire system. The complete failure of a number of franchise systems as a result of internal disputes provides an illustration of almost pathological behavior.

This study attempted to measure the affective stage of conflict

involving the intensity of feelings among franchisees and tenant retailers. Respondents were asked to rate 18 items having the potential for conflict on a 10-point scale anchored by "complete harmony" on one end and "intense conflict" on the other. Respondents were also asked to indicate the importance of each item on the assumption that conflict over a relatively unimportant aspect of the operation would contribute much less to an overall attitude than conflict on a key item. Again, a 10-point scale was employed ranging from "very unimportant" to "very important."

In the event that the 18 items listed did not capture all the areas of conflict, respondents were also asked to identify and briefly describe the major sources of problems they had encountered with their franchisor or mall manager. A classification scheme was subsequently devised to account for the answers to these open questions.

Finally, respondents were asked to indicate their agreement with a statement designed to indicate a summary measure of manifest conflict:

Overall, I have had few disputes with the [franchisor/shopping centre manager].

#### Satisfaction Measures

Two basic measures of satisfaction were devised. The first approach requested respondents to indicate their satisfaction with 18 aspects of their operation, the same 18 items employed in the conflict measure. These items were measured on a 10-point scale ranging from "very dissatisfied" to "very satisfied." Since importance scores were also obtained for the same items, it was possible to derive an overall, weighted satisfaction score. The second approach asked respondents to indicate their agreement with five statements referring to the system as

a whole; for example, "If I had it to do again, I would probably still choose to go with this franchise system." This latter approach attempted to tap a global level of satisfaction toward the marketing system as opposed to individual operating items.

### Classification Measures

The remaining questions on the two survey forms were directed to information concerning the firm - size, extent of advertising, leasing arrangements - and the respondent - sex, experience, age, and education. Questions requesting information which might be considered sensitive, for example "sales," were identified as being optional.

### Methodology

The research design employed in this project involved the completion of three distinct stages. The initial stage centered on a pilot study to verify a number of critical assumptions employed throughout the project: one, that franchisers and shopping centres do collect funds for centralized advertising; two, that these funds represent more than a trivial proportion of the independent's advertising budget; three, that the existence of centralized campaigns affect the advertising practices of the independent business. For purpose of this pilot study, personal interviews were conducted with 110 owners and managers of restaurants - both franchised and independent, located in shopping centres and elsewhere. [19]

The second stage of the study involved developing instruments by which to measure the satisfaction - conflict - power relationship existing within the marketing structures to be investigated. It was apparent that a nation-wide study was in order, thus ruling out any

methodology involving personal interviews. A review of the channels' literature revealed that the scaling techniques that had been developed were quite complex thereby making telephone interviews impractical. Unfortunately, the same literature also indicated that response rates for mail surveys have been declining in recent years. While the likelihood of nonresponse bias in mail interviews is very real, this procedure offered the only logical approach to the problem.

As indicated in the discussions concerning questionnaire development, the measurement of behavioral variables often generates controversy; further, the instruments developed to date are crude. This study aimed at measuring several different behavioral constructs yet, in the face of expected low response rates, required a form which was relatively short and easy to complete. Several different questionnaires were developed and pretested before the final forms were produced. This extensive pretest period, while very time-consuming, did have the benefit of offering additional insights into the problems and opportunities afforded small business.

The pilot study and preliminary interviews appeared to indicate that the two marketing systems of interest - shopping centres and franchises - produced quite different behavioral environments. If true, a direct comparison of the two types might offer insight into the behavioral dynamics of channel relations. To this end, it was decided to select respondents from similar areas in retailing and services - cleaners, bakery products, restaurants, picture and framing, clothing, stereo and related goods, plus retail specialties. The names of franchised systems in these areas were identified in The 1983 Franchise Annual. [20] Potential respondents, in both categories, were selected

from the 1984 Canadian Directory of Shopping Centres. [21]

Potential respondents received a package containing a letter of introduction, a copy of the questionnaire(s), and an addressed business reply envelope. In addition, a small incentive gift was enclosed. A single mailing was directed to both types of respondents. As a check for a nonresponse bias, it was intended to monitor the replies as to their origin and type of business. This procedure proved only partly successful. In order to provide for anonymity, certain identification questions were made optional - an option some respondents selected. Further, the use of postmarks was inadequate since fewer than half the reply envelopes had been cancelled by the Post Office.

### Results

#### Analysis of Response

Table 4-1 presents a summary of responses. As indicated, the response rates were in the 21-26 percent range, a disappointing but not unexpected result in light of other studies of this type. While only about 90 percent of the respondents could be identified as to their location, it appears that Western Canadians replied to the questionnaire in a greater proportion than, in order, those from Ontario, Quebec, and the Maritimes. There was no apparent response differential as between the nature of those businesses contacted and those replying.

A surprising number of mailing pieces could not be delivered by the Post Office. The sampling frame was apparently compiled in the early months of 1983; in any event, the publication did not become available until September of that year. In spite of the apparent currency of listings, 79 out of 979 questionnaires that were mailed were

TABLE 4.1  
RESPONSE PATTERNS BY TYPE OF BUSINESS

Business Type	Number Forms Sent	Apparently Out of Business	Apparent Failure Rate*	Number of Useable Responses	Effective Response Rate
Franchise	499	23	4.6%	102	21.4%
Independent	480	56	11.7%	108	25.5%

\*Difference significant at  $p < .01$ .

"returned to sender." Apparently, Canadian shopping centres suffered a large turnover in tenants in 1983 - an indication, perhaps, of the severity of the recent recession. While the table identifies an "apparent failure rate," some caution must be exercised. Those firms may not have failed in a business sense; owners retire, sell to other parties who change the organization's name, or in some other manner decide against continuing the business. An unlikely explanation is that the firm moved but did not provide the Post Office with the new address. Even more caution must be directed to the apparent difference in failure rates between the two types of businesses. While it would appear that franchises are considerably less likely to fail, it must be remembered that the franchisor has the opportunity to replace operators; thus, the facility continues to operate in spite of a business failure on the part of the previous franchisee.

#### Comparison of Samples

Table 4.2 provides a description of the two sample groups employed in the study. As indicated, franchisees and independents

exhibit very similar pattern of age, sex, education, and size of business operation. The sole exception to this similarity occurs with experience in the organization. Perhaps reflecting the more recent development of franchising, respondents in that category were more homogeneous with respect to experience and had been with their firms for fewer years.

#### The Advertising Function: The Independent

As is the case for most survey based research, not all respondents answered all questions; however, the level of response was quite acceptable. For example, 97 of 108 respondents supplied information relating to their leasing costs, a question involving some sensitivity. The average rent among the cooperating sub-group amounted to \$21.75 per foot, a figure which includes leasing, occupancy, real estate taxes, levies for advertising, and membership in the Merchants Association, if any. In something of a surprise, only 63 percent of respondents reported that their lease with the shopping centre required a contribution to a centralized promotional fund. Among those paying such a levy, the mean allocation amounted to \$1.33 per square foot although, in one case, the figure reached \$5.75.

Table 4.3 examines the promotional budgets as between those organizations operating in shopping centres that levy a promotional fee and those which do not. While considerable variation in budget allocations were observed within each category, the mean figures suggest a considerable similarity. In both situations, firms spend approximately 60 percent of their budget in independent advertising with the remainder spent in joint advertising with other tenants - whether required by the

TABLE 4.2  
COMPARISON OF FRANCHISE AND INDEPENDENT SAMPLES  
n = (sample size)

Descriptor	Franchise Group	Independent Group	Statistical Significance
Sex: Male	79	84	N.S.
Female	14 (93)	20 (104)	
Age: 20-29	26	16	N.S.
30-39	31	44	
40-49	25	28	
50-59	11	13	
60 or over	5 (98)	5 (106)	
Education			N.S.
< high school	6	6	
high school	16	26	
post secondary	31	34	
college degree	34 (87)	36 (102)	
Years with Firm mean/std deviation	5.69/4.19 (91)	7.58/6.92 (93)	p < .05 two-tailed
Annual Sales (000)			N.S.
less than \$100	8	8	
100 - 250	27	27	
250 - 500	39	43	
500 - 1000	13	22	
1000 - 2000	6	1	
over 2000	8 (101)	3 (104)	

terms of the lease or not.

Table 4.4 presents summary measures of responses to 18 factors which influence business success. These items are grouped into three categories - promotion handled by the shopping centre, independent advertising, and other items. For each item, mean scores are reported

TABLE 4.3  
PROMOTIONAL BUDGET ALLOCATIONS  
(percentages)

	Promotional Levy in Lease	No Promotional Levy in Lease
Required Mall Advertising	21.0	0
Voluntary Mall Advertising	21.2	39.8
Independent Advertising	57.8	60.2
	n = 66	n = 39

for the sample's perception of importance, the conflict it generates with the shopping centre manager, and the respondent's satisfaction with that aspect of business. As a crude indicator of directionality, the mean scores on each item may be compared with the overall mean for all 18 items. As indicated, respondents rate promotion as being a relatively less important determinant to business success as compared to some of the other factors; all four items relating to shopping centre promotion scored less than the overall average as did the three items concerning independent advertising. Of interest is the relatively low importance attached to the day-to-day support provided by the shopping centre manager ("support by management").

Examination of the conflict measures in Table 4.4 suggests a fairly harmonious relationship between tenants and lessees - none of the 18 items scored greater than 5.5, the mid-point on the one-to-ten scale employed. On a relative basis, however, the items relating to mall promotion, hours of operation, and management support, all generated

TABLE 4.4

INDEPENDENTS: IMPORTANCE, CONFLICT, SATISFACTION SCORES  
(maximum scores = 10)

Item	Importance	Conflict	Satisfaction
Centre Controlled Promotion			
1. The amount of advertising	6.12	4.88	5.60
2. Suitability of mall advertising	5.65	4.54	5.51
3. Number sales/year	7.17	4.33	6.50
4. In-mall promotions	6.80	4.82	5.36
Independent Advertising			
5. Amount spent	6.35	3.51	7.10
6. Ad quality	7.03	3.70	6.14
7. Media employed	6.99	3.25	6.69
Other Items			
8. Pricing	8.16	2.96	7.93
9. Product Assortment	7.39	2.98	7.74
10. Product Quality	8.82	2.87	7.94
11. Employee qualifications	8.66	2.62	7.30
12. Hours	8.01	4.87	6.57
13. Support by management	5.30	4.95	4.95
14. Store decor, signs	8.36	3.64	7.64
15. Layout	8.12	2.57	7.66
16. Community activities	5.14	2.42	7.39
17. Bookkeeping system	7.35	2.71	7.83
18. Housekeeping standards	8.21	2.82	7.92
Overall Mean Scores	7.20	3.58	6.88

greater conflict than indicated by the overall mean. These same items all scored relatively low in satisfaction. Fortunately, most of the items falling into this high conflict - low satisfaction category are regarded as being relatively unimportant - the exception being store hours. Table 4.5 presents the correlations (Pearsonian) between the mean importance, conflict, and satisfaction scores.

Table 4.6 classifies the responses received to the question,

TABLE 4.5

CORRELATIONS BETWEEN IMPORTANCE, CONFLICT  
AND SATISFACTION SCORES: INDEPENDENTS

	Conflict	Satisfaction
Importance	-.42 p < .05	.66 p < .01
Conflict		-.87 p < .001

"What are the major sources of problems between you and your shopping centre manager?" As indicated, approximately 16 percent of the complaints were directed to promotional issues. For example, several respondents pointed out that the manager was volume, rather than profit, oriented, resulting in, "Silly promotions that bring out people looking for freebies." A much larger source of complaint concerned the lack of merchandising expertise among mall managers. Again and again, respondents suggested that managers had more aptitude for real estate management, especially collecting rents, than for promotion and merchandising. One respondent with this complaint concluded that, ". . . being a janitor does not qualify a person to run a mall." Other complaints were directed at the personality of the manager - "authoritarian," "rule bound," "not aggressive," "plays favorites," "hard to talk to," and so on. Store hours were the subject of complaint approximately 11 percent of the time, the same level of complaint directed at the mall owners. This latter category included comments of two general types: lack of

upkeep for the facility and an over-centralized management style which did not provide the on-site manager with sufficient authority.

TABLE 4.6  
CLASSIFICATION OF RESPONDENT COMPLAINTS

Type of Problem	% of Complaints
1. Problems with Centre's promotion	16.1
2. Manager lacks merchandising expertise	41.1
3. Manager's personality	21.4
4. Hours of operation	10.7
5. Problems with Centre's owners	10.7
	100

Respondents were asked to indicate their agreement with 10 statements designed to capture overall perceptions of conflict, power, dependence, and, in particular, satisfaction associated with conducting business in a shopping centre location. Table 4.7 presents an inter-item analysis of the statements. Inspection of the table suggests some criterion validity - demonstrated when a measure of a construct behaves as expected in relation to other constructs. The negative relationship between the items relating to power and satisfaction, for example, demonstrate the expected relationship.

In Table 4.8, mean conflict and satisfaction scores relating to the 18 items presented in Table 4.4 are correlated with the overall scores of conflict, power, dependence, and satisfaction. In effect, this Table attempts to answer the question, "How does conflict with a shopping centre manager affect the opinion of the business owner in

TABLE 4.7

## OVERALL MEASURES: INTER-ITEM CORRELATIONS

CONFLICT	DEPENDENCE		POWER		SATISFACTION					Item Number
4 <sub>r</sub>	1	8	2	5	3	6	7	9	10	
#	-.02	-.09	.01	.24***	-.29***	-.48***	-.35***	-.33***	-.15*	4
#		.22**	-.08	-.34***	.14*	.11	.05	.08	.48***	1
#			-.05	-.19**	.15*	.17**	.13*	.09	.02	8
#				.38***	-.36***	-.32***	.06	-.18**	-.33***	2
#					-.35***	-.28***	-.10	-.04	-.35***	5
#						.27***	.03	.15*	.26***	3
#							.26***	.52***	.24***	6
#								.56***	.11	7
#									.32***	9
#										10

ITEMS

1. I could not do as well if I tried to operate this business at a different location.
2. The lease agreement gives the landlord too much control over the direction of my business.
3. The money I pay in leasing costs is well worth the value I receive.
4. Overall, I have had few disagreements with the shopping centre manager.
5. I would be better off if I could spend on my own behalf the money I am required to contribute to mall promotions.
6. I am generally satisfied with my relationship with the shopping centre's management.
7. The shopping centre management is a good source of merchandising expertise.
8. The success of my operation depends a good deal on the performance of the shopping centre management.
9. The shopping centre management is very interested in helping me make my operation profitable.
10. If I had it to do again, I would probably still wish to locate in this particular mall.

\* p < .10  
 \*\* p < .05  
 \*\*\* p < .01  
 r = reverse scored

regard to his or her overall operation?" As indicated, it would appear that conflict on matters regarding those promotional activities under the control of the centre provides a fairly sensitive predictor of the respondent's perception of overall satisfaction.

TABLE 4.8

CONFLICT AND SATISFACTION: MERCHANDISING VS. OVERALL MEASURES  
Pearsonian Correlation Coefficients

	Overall Scores			
	Conflict	Satisfaction	Dependence	Power
Conflict on centre controlled advertising	.36 p < .01	-.39 p < .01	-.35 p < .01	.49 p < .01
Conflict on 18 merchandising variables	.07 NS	-.21 NS	-.40 p < .01	.53 p < .01
Satisfaction on 18 merchandising variables	-.24 p < .05	.45 p < .01	.34 p < .01	-.33 p < .01

Table 4.9 presents the respondents' perceptions of the use of power in various decision areas. Not surprisingly, mall managers are concerned with their tenants' activities more in some areas than others. Among those areas evoking the managers' interest are hours of operation, sales events, bookkeeping system (obviously related to percentage rent situations), and store decor. This latter decision area is characterized by the highest reported use of coercive tactics which, in turn, sparked several comments to the effect that signs and displays were often the focus of heated discussion. The items relating to

advertising are interesting only in the variety of power bases the centre manager appears to bring to the area. While the numbers are very small, it would appear that the respondents accord more expertise to the manager in this area than in any other.

In examining the overall pattern of responses, it is apparent that while the terms of the lease agreement, legitimate power, influence the respondents' mode of operation - especially in the area of store hours - an equally powerful stimulus comes from referent sources. This power base was indicated by agreement with the statement, "... it's important that the mall manager and I agree since we must work together to be successful." Also notable is the relative lack of expert power, a perception strongly reinforced by the number of complaints directed to this area (Table 4.6). Overall, however, the lack of coercive power attempts by the mall managers coupled with a high degree of tenant willingness to cooperate would suggest that most respondents are satisfied with their existing arrangement. Confirmation of this conclusion is available; 67.4 percent of respondents either agreed or strongly agreed with the statement, "If I had it to do again, I would probably still wish to locate in this particular mall."

#### The Advertising Function: Franchisees

Franchise agreements frequently require the franchisee to contribute funds to a centralized pool to be employed for national advertising. Alternatively, or in addition, the agreement may require the franchisee to spend a certain level of funds on local advertising. Table 4.10 presents a summary overview of the advertising practices among this type of respondent. As indicated, approximately two-thirds

TABLE 4.9

INDEPENDENT'S PERCEPTIONS OF THE USE OF POWER BY THE  
SHOPPING CENTRE MANAGER  
(% of respondents)

Decision Area	Power Base					Rejected Influence Attempts	No Influence Attempts	Other Not Relevant
	Reward	Legitimate	Referent	Coercive	Expertise			
Pricing	-	1.0	8.2	-	1.0	-	46.4	43.3
Assortment	2.1	2.1	4.1	3.1	1.0	2.1	44.3	41.2
Quality Standards	3.1	2.1	7.2	-	-	-	44.3	43.3
Employees	-	3.1	6.2	1.0	-	-	43.3	46.4
Store Hours	-	58.2	17.3	4.1	3.1	-	11.2	6.1
Store Decor	3.1	18.6	16.5	8.2	1.0	5.2	30.9	16.5
Store Layout	2.1	4.2	10.4	4.2	-	2.1	36.5	40.6
Sales Events	5.1	11.2	26.5	2.0	6.1	2.0	22.4	24.5
Independent Ad Budget	1.0	10.3	5.2	4.1	4.1	1.0	38.1	36.1
Ad Quality	5.3	2.1	6.3	1.1	3.2	2.1	44.2	35.8
Media Selection	3.2	2.1	6.3	-	3.2	3.2	48.4	33.7
Housekeeping	-	16.5	14.4	3.1	-	5.2	36.1	24.7
Bookkeeping	-	5.2	6.3	2.1	1.0	4.2	31.3	50.0

of respondents were required to contribute to a central advertising pool. A more fundamental measure of franchisor control was indicated in response to the question concerning leasing. In 71.3 percent of cases, the franchisor held the lease on the location.

TABLE 4.10  
ADVERTISING PRACTICES AMONG FRANCHISEES (%)

Extent of Contribution	Required Contribution to Advertising Pool	Required Local Advertising
NOT REQUIRED	32.4	73.5
under 2% of Sales	12.7	9.8
2 - 2.99% of Sales	22.5	8.8
3 - 3.99% of Sales	10.8	2.9
4% or more of Sales	21.6	4.9

Table 4.11 presents summary measures of responses to 18 factors which influence success in a franchise operation. These items are grouped into three categories - promotion handled by the franchisor, local advertising by the franchisee, and other items. Mean scores are reported for each item relating to respondent perceptions of its importance, the conflict it generates with the franchisor, and satisfaction with that particular aspect of the business. As was the case with the independent sample, the overall mean for each column has been calculated for use as a benchmark. Using this approach, respondents can be seen as rating promotional activities as being relatively less important than many of the other items. All three items relating to franchisor promotion scored less than the overall average as did the three items concerning franchisee advertising. In contrast with the importance that

independents attributed to shopping centre managers, franchisees rated on-going franchisor support relatively high although field staff apparently did not merit the same high regard.

TABLE 4.11

FRANCHISEES: IMPORTANCE, CONFLICT, SATISFACTION SCORES  
(maximum scores = 10)

Item	Importance	Conflict	Satisfaction
FRANCHISOR CONTROLLED PROMOTION			
1. Amount of national advertising	6.94	4.60	5.58
2. Suitability of national advertising	6.74	4.42	5.92
3. Number of sales/year	7.15	3.41	6.97
FRANCHISEE ADVERTISING			
4. Amount spent	6.12	3.42	6.70
5. Ad quality	6.70	3.27	7.10
6. Media employed	6.91	3.04	6.82
OTHER ITEMS			
7. Pricing	8.24	3.16	7.48
8. Product assortment	7.12	4.06	7.37
9. Number of employees	7.26	2.04	8.17
10. Employee qualifications	7.97	2.52	7.17
11. Hours	8.03	2.31	7.88
12. Store decor	8.26	3.13	7.60
13. Store layout	8.08	2.72	7.31
14. Housekeeping standards	8.54	2.81	8.11
15. Community activities	5.16	2.64	6.70
16. Bookkeeping system	7.90	2.65	8.05
17. Support from field staff	5.91	4.96	5.24
18. On-going franchisor support	7.42	4.76	5.31
OVERALL MEAN SCORES	7.25	3.32	6.97

Examination of the conflict measures in Table 4.11 suggests a fairly harmonious relationship between franchisors and franchisees. On a relative basis, franchisor advertising, product assortment, support from field staff, and on-going franchisor support all generated greater

conflict than indicated by the overall mean. With the exception of product assortment, these same items scored relatively low in satisfaction. As was the case for the independent sample, centralized advertising appears to generate conflict and low satisfaction but is not seen as a particularly important determinant of business success. On-going franchisor support, on the other hand, registered a high level of conflict, low satisfaction, but high importance scores. The Pearsonian correlation coefficients between the overall importance, conflict, and satisfaction scores are presented in Table 4.12.

TABLE 4.12

CORRELATIONS BETWEEN IMPORTANCE, CONFLICT,  
AND SATISFACTION SCORES: FRANCHISEES

	Conflict	Satisfaction
Importance	-.36 p < .10	.57 p < .01
Conflict		-.86 p < .01

Approximately half the respondents identified and described problems between themselves and the franchisor. As indicated in Table 4.13, the major complaint related to an apparent lack of system-wide direction. Classified into this category were comments such as, "Franchisor is greedy for up-front fees - doesn't care what happens after," "Franchisor will not control sloppy operators - it ruins the image of the entire system," "Franchisor hasn't kept up with the retail market,"

"seat-of-the-pants operator," and so on. Another group of franchisees complained about a lack of day-to-day franchisor support, especially in times of difficulty. The final type of complaint related to system controlled advertising. Many respondents complained that in spite of paying into an advertising pool, they received little advertising support; alternatively, the support that was received was ill-suited to local market conditions.

TABLE 4.13

## CLASSIFICATION OF FRANCHISE COMPLAINTS

Type of Problem	% of Complaints
1. Lack of Overall System Direction	46.5%
2. Lack of Day-to-day Support	16.3%
3. Insufficient or Inappropriate National Advertising	<u>37.2%</u>
	100.0%

Franchisees were asked to indicate their agreement with 11 statements designed to capture overall perception of conflict, power, dependence, and satisfaction associated with being a part of their franchise operation. Table 4.14 presents an inter-item analysis of the statements. Inspection of the figure suggests sufficient validity for subsequent analysis.

In Table 4.15, mean conflict and satisfaction scores on the 18 items presented in Table 4-11 are correlated with the overall scores of conflict, dependence, power, and satisfaction. This table attempts to

TABLE 4.14

## OVERALL MEASURES: INTER-ITEM CORRELATIONS: FRANCHISE

CONFLICT	DEPENDENCE			POWER		SATISFACTION					Item Number
4 <sub>r</sub>	1	6 <sub>r</sub>	9	2	5	3	7	8	10	11	
	-.53***	-.46***	-.30***	.45***	.00	-.71***	0.59***	0.67***	0.73***	0.64***	4
		.46***	.38***	-.33***	0.19**	.61***	.47***	.53***	.48***	.66***	1
			.41***	-.79***	-.24**	.58***	.52***	.51***	.36***	.54***	6
				-.15*	-.23**	.28***	.22**	.25***	.26***	.38***	9
					.27***	-.33***	-.27***	-.38***	-.34***	-.42***	2
						-.24**	-.19**	-.46***	-.22**	-.26**	5
							.64***	.76***	.65***	.67***	3
								.64***	.55***	.48***	7
									.66***	.68***	8
										.56***	10
											11

**ITEMS**

1. I could not do as well if I tried to operate this business as an "independent" under a different name.
2. The franchise agreement gives the franchisor too much control over the direction of my business.
3. The benefits I receive from the franchisor are well worth the money it costs me.
4. Overall, I have had few disagreements with the franchisor.
5. I would be better off if I could spend locally the funds I pay into the advertising pool.
6. Now that I know the system, the franchisor is of little real help to me.
7. The franchisor is a good source of merchandising expertise.
8. I am generally satisfied with my relationship with the franchisor.
9. The success of my operation depends a great deal on the performance of the franchisor.
10. The franchisor is very interested in helping me make my operation profitable.
11. If I had it to do again, I would probably still choose to go with this franchise system.

$r$  = reverse scored  
 \* =  $p < .10$   
 \*\* =  $p < .05$   
 \*\*\* =  $p < .01$

answer the question, "How does conflict with a franchisor affect the franchisee's opinion of the overall operation?" As was the case with the sample of independents, conflict over centralized advertising would appear to provide a relatively sensitive indicator of respondent perception of conflict and satisfaction.

TABLE 4.15

FRANCHISE CONFLICT AND SATISFACTION: MERCHANDISING  
VS. OVERALL MEASURES  
Pearsonian correlation coefficients

	Overall Scores			
	Conflict	Satisfaction	Dependence	Power
Conflict on franchisor controlled advertising	.36 p < .01	-.42 p < .01	-.25 p < .05	.14 N.S.
Conflict on 18 merchandising variables	.00 N.S.	-.17 N.S.	-.33 p < .01	.30 p < .05
Satisfaction on 18 merchandising variables	-.28 p < .01	.44 p < .01	.53 p < .01	-.17 N.S.

Table 4.16 presents franchisee perceptions of the use of power in various decision areas. In contrast to the apparent power bases employed by shopping centre managers, franchisors are perceived to possess a good deal of expert and reward power in addition to legitimate and referent power bases. Also notable is the apparent lack of coercive power, a somewhat unexpected finding in view of some of the literature. In total, the franchisee group seem satisfied with their existing

business arrangements; indeed, 73.3% of respondents either agreed or strongly agreed with the statement, "If I had it to do again, I would probably still choose to go with this franchise system."

TABLE 4.16

FRANCHISEE PERCEPTIONS OF THE USE OF POWER BY THE FRANCHISOR  
(% of respondents)

Decision Area	Power Base					Rejected Influence Attempts	No Influence Attempts	Other Not Relevant
	Reward	Legitimate	Referent	Coercive	Expertise			
Pricing	9.1	10.1	39.4	-	8.1	6.1	19.2	8.1
Assortment	10.1	17.2	30.3	-	19.2	3.0	17.2	3.0
Quality Standards	11.2	16.3	26.5	4.1	13.3	-	19.4	9.1
Employees	3.0	4.0	9.1	-	3.0	1.0	68.7	11.2
Store Hours	1.0	16.2	9.1	-	2.0	1.0	53.5	17.2
Store Decor	14.0	30.0	21.0	-	20.0	4.0	9.0	2.0
Store Layout	14.0	21.0	18.0	-	24.0	6.0	11.0	6.0
Sales Events	11.0	15.0	29.0	-	12.0	5.0	24.0	4.0
Local Ad Budget	10.0	14.0	9.0	-	9.0	5.0	42.0	11.0
Local Ad Quality	9.4	8.3	9.4	-	11.5	5.2	44.8	11.5
Local Media Used	4.1	9.2	12.2	-	9.2	2.0	52.0	11.2
Housekeeping	6.1	12.1	23.2	4.0	6.1	2.0	39.4	7.1
Bookkeeping	8.0	16.0	8.0	-	7.0	6.0	49.0	2.0

### Endnotes

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## Chapter Five

### CONCLUSIONS AND OBSERVATIONS

In recent years the small business sector has been forced to adapt to numerous fundamental changes in the economic environment, especially in the area of distribution systems. This report examined some of these changes with respect to their impact on the advertising decision process in small business. In order to provide systematic coverage of the topic area, the paper modified a conceptual model first proposed by H. J. Leavitt. Employing this framework, the study examined, in turn, the technological, structural, and behavioral variables which impinge on the task of advertising in a small business.

Historically, technological innovations such as the telegraph, the passenger elevator, and the automobile can be seen as having had an immense impact on the very nature of business and how it operates. While the long term perspective afforded by an historical view demonstrates this interrelationship rather dramatically, it is a good deal more difficult to assess the implications of more recent developments. It would appear, however, that many contemporary innovations require a capital investment of sufficient size to represent a major barrier to many small businesses. To this extent, the competitive viability of many smaller firms may well erode in the future.

Although beyond the limits of their individual resources, many small firms have access to certain technologies by virtue of their membership in larger marketing systems; franchises, buying groups,

and/or shopping centre locations. Ironically, while many recent innovations have had little effect on the fundamental factors affecting advertising in small business, such memberships themselves have dramatically changed promotional practices.

This report examined a number of organizational influences on small business and the advertising practices of such firms. Two structural developments were identified for particular examination: franchising and shopping centres. As a method of organizing retail or service firms of the same type, franchising boasts a long, somewhat checkered, tradition. After a period of relative calm in the early 1970s, these vertical marketing systems appear to be enjoying a renewal of popularity. The shopping centre, a more contemporary phenomenon, might be termed a horizontal marketing system in that it provides a structural arrangement by which to focus the marketing efforts of dissimilar types of retail and service firms. In either case, the published data demonstrated very conclusively that franchised outlets, and shopping centre locations, often occurring simultaneously, have captured a significant and growing portion of the consumer dollar.

The marketing systems examined share certain commonalities. Both, for example, tend to centralize decision making authority over certain merchandising and other business variables, especially advertising. Further, where required, both franchise and shopping centre management maintain strong legal sanctions by which to enforce member behavior, namely the franchise agreement or the lease. It also appears that franchisors avail themselves of additional power. The majority of franchisees contacted for this study reported that the primary lease on their location was held by the franchisor.

The decision of where to locate the advertising function within a marketing system can be very complex. As discussed in the report, there are sound economic reasons for centralizing the decisions relating to promotional programs; equally, there are good arguments for decentralized, local control. In the systems examined in this report, it was noted that while the tendency for centralization was strong, the majority of individual store units maintained control over a sizable proportion of their total advertising expenditures - an apparent attempt to capture the advantages of both types of organization. Further, there is evidence, albeit oblique, that the small business owner recognizes the value of giving up control over some portion of the advertising budget. In the case of voluntary groups, there has been a strong trend toward increased centralization. Since these organizations rely on member input for policy decisions of this nature, such a trend clearly has the blessing of at least a majority of individual members.

It is important that the small business owner operating as part of a larger marketing system recognizes that merely turning funds over to some centralized body does not simplify the need to plan, execute, and manage a promotional program. Indeed the franchisee, for example, must monitor the effectiveness of both national and local campaigns. To illustrate, if a national campaign is generating insufficient impact at the local level, the franchisee may opt for a strategy of reinforcement - perhaps simply running a network T.V. commercial in local spots. Alternatively, it may be necessary to complement the national campaign with a message better suited to local conditions. The same type of argument can be presented for shopping centre advertising. Again, the tenant is not excused from the responsibility to at least monitor the

centre's promotional programs.

In assessing the advertising programs initiated by the marketing system in question it is quite likely that the small business owner will, on occasion, experience some dissatisfaction with an apparent lack of promotional impact. As an extreme example, a franchisee may contribute to a central pool but never receive any advertising effort by the franchisor. In this, and other circumstances, dissatisfaction with advertising efforts may extend to the very question of membership in the system. This report tested the argument that the advertising function might serve as a useful vehicle by which to examine the behavioral dynamics of a marketing system.

In order to better understand some of the behavioral aspects associated with marketing systems, two surveys were conducted. The first instrument was mailed to franchise operators with the second version directed to independent business owners located in shopping centres. In each case, respondents were asked to describe their relationship with the management of the marketing system in question regarding their satisfaction with certain key decision areas, especially advertising. They were also requested to report the amount of conflict and cooperation they had experienced in these areas and to note the apparent leadership style utilized within the system. Certain classification information was also collected. The data were subsequently analyzed and presented in the body of the report.

#### Summary of Conclusions

As a group, the respondents in this study exhibited a wide variation in age, education, and business experience. Further, they

were drawn from a variety of business activities from one end of Canada through to the other. With such diversity, it was not unreasonable to expect that a wide range of answers would be received for virtually every question. For the most part, no attempt was made to examine such variances for possible patterns - for example, to compare tenants in British Columbia shopping malls with those in Ontario or to examine the answers regarding a particular franchise operation. The reader is cautioned that the conclusions presented below are based primarily on mean scores to particular questions; such scores mask a rich diversity.

#### Independents in Shopping Centres

For the purposes of this study, an independent business was defined as one which was not a chain and not affiliated with a franchise. Of particular interest were those businesses operating from a shopping centre location. Approximately two-thirds of such merchants reported that their lease agreements required a contribution to a central advertising pool. In most cases, the independent made additional voluntary contributions to mall promotions. Based on the results of the study, it appears that approximately 40 percent of total advertising dollars are allocated to mall promotions regardless of whether or not such contributions are required by the terms of the lease. This means, of course, that some 60 percent of promotional funds are devoted to efforts independent of the shopping centre.

The data presented indicate that conflict on matters relating to those promotional activities under the control of the shopping centre managers does affect the business owner's level of satisfaction with the overall operation. The scores accorded this aspect of shopping centre

activity suggest a relatively high level of conflict and a low level of satisfaction in comparison to other areas of business operation. On the other hand, only about 16 percent of the complaints directed to mall managers involved promotion.

A review of the reported use of power bases by the shopping centre manager indicates widespread use of legitimate power - as accorded by the lease agreement - and referent power, the feeling that tenants and the shopping centre manager should cooperate. In contrast, managers appear to possess relatively little reward, coercive, or expertise power. The apparent lack of expertise was supported by the complaints leveled at mall managers. Approximately half of all such complaints related to a lack of skills and experience, especially with respect to merchandising. These findings suggest that shopping centre owners might substantially improve the behavioral climate among their independent tenants simply by upgrading the entry qualifications or training programs directed to their managers.

### Franchisees

In many respects, the findings relating to franchisees paralleled those of the independent sample. Approximately two-thirds of both respondent groups identified a requirement to contribute to an advertising pool with both samples reporting higher than average conflict and lower than average satisfaction with the resulting system-wide promotion. Further, conflict with certain aspects of such promotion has the effect of lowering satisfaction with the overall marketing system.

In other respects, franchisees appear to be relatively more positive than independents - 73 percent of franchisees reported satis-

faction with their existing business arrangements as compared with 67 percent of independents. Further, the mean conflict scores on individual items appear slightly lower for franchisees and the mean satisfaction scores somewhat higher. Rather dramatic differences are apparent with respect to the use of the various bases of power. While legitimate and referent power bases were the most popular reported, a comparison with independent perceptions indicated a much higher incidence of reward and expertise power bases and a much lower use of coercive power.

Operators of either franchise or shopping centre systems might benefit from the apparent sensitivity of small business operators toward centralized advertising programs. A mechanism which provided feedback from all members (as opposed, for example, to a dealer advisory group or executive members of a merchants' association) to the central authority regarding the value and appropriateness of system-wide advertising would appear to have some advantages. First, since such programs are funded by the individual members, it would seem appropriate and logical that such input be sought on a routine basis. Second, this impact is likely to prove useful in the design of future promotional programs. Given the difficulties in measuring advertising effectiveness, such a "built-in" assessment system could prove particularly useful. Finally, the results of such a data-gathering process may be used to identify certain situations of latent conflict developing within the marketing system. While a low rating on a particular advertising program from a particular franchisee may not be the signal to a broader problem, continued low ratings over some longer time period would almost certainly suggest the need for corrective action which may extend well beyond the advertising

function.

### Overall Conclusions

Perhaps the most fundamental finding in this report relates not to advertising but to the remarkable success of the two marketing systems identified for particular investigation - shopping centres and franchises. The pervasiveness of these two structural forms raises several public policy issues concerning the future, if not the very survival, of small business.

For many types of retailing, a shopping centre location has become a sine qua non for business success. Given the propensity of developers to favor corporate tenants, it can be very difficult for an independent, especially one with an untested merchandising concept, to acquire a prime location. The alternatives - strips, downtown, or freestanding - often measure the adequacy of the site rather than the desirability of the concept. Even if a prime location becomes available, the leasing costs for a small operator may be substantially higher than for a corporate store. In other words, it would appear increasingly difficult for an independent to get the opportunity to demonstrate the superiority of a new, innovative approach. The monotony of existing Canadian shopping centres suggests that developers have been very "formula" oriented in the past. It is to be hoped that future malls will offer greater diversity, especially as it relates to tenant mix.

The public policy issues relating to franchising are somewhat more complex. It has been argued, for example, that franchises offer the greatest opportunity for the survival of small business. While the figures relating to the industry provide evidence to this effect, the

implied societal benefits of franchising do not necessarily follow. Does a franchised outlet provide the same benefits as an independent operation? On some measures, for example responsiveness to local market conditions, the independent may come out well on top.

A second concern regarding franchising relates to the fact that the vast majority of franchises are based in the United States. If present trends continue, Canada's merchandising sector may well become monopolized by large corporations and U.S. franchise systems. There are, of course, some successful Canadian franchises; however, they would appear to be the exceptions. It is very important that this sector of the economy not become so rigid in a structural sense that it would prove difficult for a Canadian to establish a track record. Unfortunately, under current conditions it would seem easier and less risky for a potential Canadian franchisee to look to U.S.-based systems.

As a final observation, it must be noted that research in the area of small business is severely hampered by a lack of published statistics. The Small Business Secretariat, Department of Industry, Trade and Commerce, is to be commended for their past efforts to rectify this situation and encouraged to continue this work into the future.

## FRANCHISE/BUYING GROUP VERSION

***Please provide the following information on your operation at THIS location.***

1. Is your operation: a franchise ☐ a member of a buying group ☐
2. a) If a member of a **buying group**, do the following apply?
- a) group is retailer owned? ☐ yes ☐ no
- b) I operate under the group name? ☐ yes ☐ no
- c) purchases from the group account for over 50% of sales? ☐ yes ☐ no
- b) If a **franchise**, which of the following applies:
- a) ☐ primary lease held by franchisor ☐ premises owned by franchisor
- ☐ primary lease held by franchisee ☐ premises owned by franchisee
3. Do you contribute to a centrally administered advertising/promotion pool?
- \_\_\_\_\_ no
- \_\_\_\_\_ ☐ 0-.99% ☐ 1-1.99% ☐ 2-2.99% ☐ 3% or more of **purchases**
- \_\_\_\_\_ ☐ 0-1.99% ☐ 2-2.99% ☐ 3-3.99% ☐ 4% or more of **sales**
4. Does your franchise/membership agreement require you to spend a certain amount each year on **local** advertising/promotion (in addition to pool expenditure)?
- \_\_\_\_\_ no
- \_\_\_\_\_ yes, a fixed amount \$ \_\_\_\_\_
- \_\_\_\_\_ ☐ 0-1.99% ☐ 2-2.99% ☐ 3-3.99% ☐ 4% or more of **sales**
5. a) Are you the ☐ owner b) Are you ☐ male c) Years with this organization? \_\_\_\_\_
- ☐ manager ☐ female
- d) Your age ☐ 20 - 29 years e) Your education ☐ public school
- ☐ 30 - 39 years ☐ some high school
- ☐ 40 - 49 years ☐ high school
- ☐ 50 - 59 years ☐ some post secondary
- ☐ 60 or over ☐ college degree
6. (Optional) Annual sales at this location?
- ☐ less than \$100,000 ☐ between \$500,000 and \$1,000,000
- ☐ between \$100,000 and \$250,000 ☐ between \$1,000,000 and \$2,000,000
- ☐ between \$250,000 and \$500,000 ☐ over \$2,000,000
7. (Optional) Name of franchise/buying group? \_\_\_\_\_ City \_\_\_\_\_

**You have undoubtedly heard people say, "On a scale from one to ten, how would you rate (a politician, a restaurant, Bo Derek, etc.)?" Using exactly the same idea, please rate the items indicated. (Use "n/a" if item does not apply)**

	The relative importance of this activity to the success of my operation	On this particular issue, my franchisor and I have experienced-	How satisfied are you with this aspect of your business operation
	1 = very unimportant 10 = very important	1 = complete harmony 10 = intense conflict	1 = very dissatisfied 10 = very satisfied
a) The prices I charge	_____	_____	_____
b) Adding new lines (or dropping old ones)	_____	_____	_____
c) Number of employees	_____	_____	_____
d) Employee qualifications (i.e. hiring, training)	_____	_____	_____
e) Hours of operation	_____	_____	_____
f) Store decor and displays	_____	_____	_____
g) The number of sales events/year	_____	_____	_____
h) The amount I spend on local advertising	_____	_____	_____
i) Content of local advertising	_____	_____	_____
j) The layout of the store	_____	_____	_____
k) My community activities	_____	_____	_____
l) The amount of national advertising provided by franchisor/group	_____	_____	_____
m) The suitability of national advertising to my particular market	_____	_____	_____
n) My bookkeeping system	_____	_____	_____
o) The advice provided by the franchisor's field people	_____	_____	_____
p) "Housekeeping" standards	_____	_____	_____
q) The media I use for local advertising	_____	_____	_____
r) The on-going support provided by the franchisor/group	_____	_____	_____

**Please select the answer that BEST describes the relationship you have with your franchisor/buying group with respect to each particular decision area.**

### ANSWERS

- 1-5. I generally go along with the franchisor's suggestions because:
1. ... the franchisor can give special help to those who cooperate.
  2. ... it's in the franchise agreement.
  3. ... it's important that the franchisor and I agree since we must work together to be successful.
  4. ... the franchisor can apply pressure and penalize those who do not cooperate.
  5. ... they have more expertise in this area than I do.
  6. The franchisor has little involvement in this area and makes few suggestions.
  7. The franchisor makes suggestions but I usually do not impliment them because they do not apply very well to my particular operation.
  8. Other (please specify in the area provided).
  9. Not relevant to my operation.

### DECISION AREA

	Answer Number	Comments
a) The prices I charge	_____	_____
b) Adding/dropping product lines	_____	_____
c) Product quality standards	_____	_____
d) Employee qualifications (i.e. hiring, training)	_____	_____
e) Hours of operation	_____	_____
f) Store decor, signs, displays	_____	_____
g) The number of sales events/year	_____	_____
h) The amount I spend on local advertising	_____	_____
i) "Housekeeping" standards	_____	_____
j) The quality of my local advertising	_____	_____
k) The media I use for local advertising	_____	_____
l) My bookkeeping system	_____	_____
m) Community activity	_____	_____
n) The layout of the store	_____	_____

**What are the major sources of problems between you and your franchisor/group? Please give a brief description of the major problems you have experienced.**

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**How well do the following statements describe your situation? (check one answer per statement where applicable)**

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	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I could not do as well if I tried to operate this business as an "independent" under a different name.	_____	_____	_____	_____
2. The franchise agreement gives the franchisor too much control over the direction of my business.	_____	_____	_____	_____
3. The benefits I receive from the franchisor are well worth the money it costs me.	_____	_____	_____	_____
4. Overall, I have had few disagreements with the franchisor.	_____	_____	_____	_____
5. I would be better off if I could spend locally the funds I pay into the advertising pool.	_____	_____	_____	_____
6. Now that I know the system, the franchisor is of little real help to me.	_____	_____	_____	_____
7. The franchisor is a good source of merchandising expertise.	_____	_____	_____	_____
8. I am generally satisfied with my relationship with the franchisor.	_____	_____	_____	_____
9. The success of my operation depends a great deal on the performance of the franchisor.	_____	_____	_____	_____
10. The franchisor is very interested in helping me make my operation profitable.	_____	_____	_____	_____
11. My shopping centre manager influences my operation more than my franchisor.	_____	_____	_____	_____
12. If I had it to do again, I would probably still choose to go with this franchise system.	_____	_____	_____	_____

**THANK YOU FOR YOUR HELP. IT IS APPRECIATED!**

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# SHOPPING CENTRE VERSION

*Please provide the following information on your operation at THIS location.*

1. Total store area \_\_\_\_\_ ft<sup>2</sup> or \_\_\_\_\_ m<sup>2</sup>
2. Number of employees at present \_\_\_\_\_ full time \_\_\_\_\_ part time
3. **Total** annual rental costs including leasing, occupancy, Merchants' Association levy, promotional levy, real estate taxes, etc.  
approximately \$ \_\_\_\_\_ /ft<sup>2</sup> or \$ \_\_\_\_\_ /m<sup>2</sup>
4. Does your rent include a promotional levy?  
no ☐ yes ☐ \$ \_\_\_\_\_ /ft<sup>2</sup> or \$ \_\_\_\_\_ /m<sup>2</sup>
5. This is the toughest question on the whole form! For the purposes of this study, we wish to consider the four types of advertising defined below. **Approximately** what **percentage** of your **total** advertising spending is allocated to:
  - a) a **required** fee for national advertising (e.g., franchise, buying group, etc.) \_\_\_\_\_%
  - b) a **required** promotional levy included in your rent (see 4 above) \_\_\_\_\_%
  - c) a **voluntary** buy in promotions organized by your mall manager or Merchants' Association (e.g., radio tags, space in flyers, etc.) \_\_\_\_\_%
  - d) other local advertising separate from mall promotions (e.g., yellow pages, newspaper, radio, posters, etc.) \_\_\_\_\_%

make sure total equals 100%
6. Including all four types of advertising, what amount would you typically spend on advertising/promotion per year?
 

<input type="checkbox"/> nothing	<input type="checkbox"/> 5 - 6.99% of sales
<input type="checkbox"/> less than 3% of sales	<input type="checkbox"/> 7 - 10% of sales
<input type="checkbox"/> 3 - 4.99% of sales	<input type="checkbox"/> more than 10% of sales
7. a) Are you the ☐ owner ☐ manager      b) Are you ☐ male ☐ female      c) Years with this organization? \_\_\_\_\_
- d) Your age ☐ 20 - 29 years ☐ 30 - 39 years ☐ 40 - 49 years ☐ 50 - 59 years ☐ 60 or over
- e) Your education ☐ public school ☐ some high school ☐ high school ☐ some post secondary ☐ college degree
8. (Optional) Annual sales at this location? City \_\_\_\_\_
 

<input type="checkbox"/> less than \$100,000	<input type="checkbox"/> between \$500,000 and \$1,000,000
<input type="checkbox"/> between \$100,000 and \$250,000	<input type="checkbox"/> between \$1,000,000 and \$2,000,000
<input type="checkbox"/> between \$250,000 and \$500,000	<input type="checkbox"/> over \$2,000,000

**You have undoubtedly heard people say, "On a scale from one to ten, how would you rate (a politician, a restaurant, Bo Derek, etc.)?" Using exactly the same idea, please rate the items indicated. (Use "n/a" if item does not apply)**

	The relative importance of this activity to the success of your firm	On this particular issue, my shopping centre manager and I have experienced	How satisfied are you with this aspect of your business operation
	1 = very unimportant 10 = very important	1 = complete harmony 10 = intense conflict	1 = very dissatisfied 10 = very satisfied
a) The amount of media advertising conducted by the centre	_____	_____	_____
b) The prices I charge	_____	_____	_____
c) Adding/dropping product lines	_____	_____	_____
d) The suitability of the centre's advertising to my particular market	_____	_____	_____
e) Product quality standards	_____	_____	_____
f) Employee qualifications (i.e., hiring, training)	_____	_____	_____
g) Hours of operation	_____	_____	_____
h) The on-going support provided by the shopping centre manager	_____	_____	_____
i) Store decor, signs, displays	_____	_____	_____
j) The number of sales events/year	_____	_____	_____
k) The amount I spend on local advertising	_____	_____	_____
l) Quality of local advertising	_____	_____	_____
m) The number and quality of in-mall promotions	_____	_____	_____
n) The layout of the store	_____	_____	_____
o) My community activities	_____	_____	_____
p) My bookkeeping system	_____	_____	_____
q) "Housekeeping" standards	_____	_____	_____
r) The media I use for local advertising	_____	_____	_____

**Please select the answer that BEST describes the relationship you have with your shopping centre manager with respect to each particular decision area.**

### ANSWERS

1-5 I generally go along with the suggestions of the shopping centre manager because:

1. ... the mall manager can give special help to those who cooperate.
2. ... it's in the lease agreement.
3. ... it's important that the mall manager and I agree since we must work together to be successful.
4. ... the mall manager can apply pressure and penalize those who do not cooperate.
5. ... the mall manager has more expertise in this area than I do.
6. The mall manager has little involvement in this area and makes few suggestions.
7. The mall manager makes suggestions but I usually do not impliment them because they do not apply very well to my particular situation.
8. Other (please specify in the area provided).
9. Not relevant to my operation.

### DECISION AREA

	Answer Number	Comments
a) The prices I charge	_____	_____
b) Adding/dropping product lines	_____	_____
c) Product quality standards	_____	_____
d) Employee qualifications (i.e. hiring, training)	_____	_____
e) Hours of operation	_____	_____
f) Store decor, signs, displays	_____	_____
g) The number of sales events/year	_____	_____
h) The amount I spend on local advertising	_____	_____
i) "Housekeeping" standards	_____	_____
j) The quality of my local advertising	_____	_____
k) The media I use for local advertising	_____	_____
l) My bookkeeping system	_____	_____
m) Community activity	_____	_____
n) The layout of the store	_____	_____

**What are the major sources of problems between you and your shopping centre manager? Please give a brief description of the major problems you have experienced.**

***How well do the following statements describe your situation? (check one answer per statement where applicable)***

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. I could not do as well if I tried to operate this business at a different location.	_____	_____	_____	_____
2. The lease agreement gives the landlord too much control over the direction of my business.	_____	_____	_____	_____
3. The money I pay in leasing costs is well worth the value I receive.	_____	_____	_____	_____
4. Overall, I have had few disagreements with the shopping centre manager.	_____	_____	_____	_____
5. I would be better off if I could spend on my own behalf the money I am required to contribute to mall promotions.	_____	_____	_____	_____
6. I am generally satisfied with my relationship with the shopping centre's management.	_____	_____	_____	_____
7. The shopping centre management is a good source of merchandising expertise.	_____	_____	_____	_____
8. The success of my operation depends a good deal on the performance of the shopping centre management.	_____	_____	_____	_____
9. The shopping centre management is very interested in helping me make my operation profitable.	_____	_____	_____	_____
10. My shopping centre manager (& lease) influence my operation more than my franchisor (& franchise).	_____	_____	_____	_____
11. If I had it to do again, I would probably still wish to locate in this particular mall.	_____	_____	_____	_____

***THANK YOU FOR YOUR HELP. IT IS APPRECIATED!***

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