CORPORATE CHAINS VERSUS CONTRACTUAL CHAINS: EXAMINING COMPETITION AND STORE DEVELOPMENT IN A LONGITUNAL ANALYSIS OF THE AUTOMOTIVE PARTS RETAILING INDUSTRY

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ABSTRACT

Achieving coverage where there are an optimal number of retail outlets in a market area is important to understanding the effectiveness of franchised systems and corporate systems. In traditional franchise systems, where the franchisor has shared incentives to increase sales with a franchised-retailer, overstoring a market is avoided in that the wholesaler-franchisor shares in the cost of goods to the retailer franchisee, keeping the number of stores near optimal to maximize gross margins of both parties. Coverage would be thought to be indistinguishable from that in a company-owned chain. In contrast, in business-format franchising, where the franchisor's sales to the franchisee are not a significant proportion of franchisor revenues, the franchisor may have greater coverage to maximize sales revenues and royalties from higher franchisee volume (Stassen and Mittelstaedt 1995). Today, coverage in an important segment of U.S. retailing shows important differences between a contractual, independently-owned chain, versus that found in competing corporate retail chains.

There is a significant difference in the two systems stemming from the financing of inventory costs, specifically the initial inventory investment of the independent franchisee and the corporate chain's s days payable, due to its suppliers. Evidence is presented showing that the suppliers to corporate systems are providing increasingly favorable financing of inventory, suggesting that corporate chains with less inventory investment can be more responsive to competitive market conditions. Counter to that hypothesized, corporate systems are more responsive to competitive market changes and traditional, independently-owned, chains are more engaged with changes of their wholesalers.

KEYWORDS: coverage, automotive parts, inventory, corporate chains