

BUYING INTO BUYING GROUPS: IS IT GOOD FOR THE FAMILY FIRM?¹

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- Abstract -

Can small family-owned retailers improve their performance by joining a buying group? In this article I address this question. I begin by considering two issues: first, how buying groups help small firms, and second, how family firms may be particularly well suited to benefit from membership in such collectives. After deriving a set of hypotheses concerning the performance-related implications of buying group membership, I advance a second set of hypotheses focusing on their interactive effects for family firms. Next, I describe the research design used to test these hypotheses, followed by a presentation of findings from a survey of over 300 small retail hardware stores, the majority of which were both family firms and buying group members. Results show buying group membership as positively related to sales velocity, but negatively related to profit margin. However, compared to their non-family counterparts, family firms involved in buying groups report superior long-term profitability. After noting several interpretative limitations that temper the generalizability of these findings, I conclude by reflecting on what these results suggest for researchers involved in family firm research and practicing managers involved in family businesses.

Should small family retailers join trade-name franchises, also known as buying groups? While there has been an increase in research on both family firms (Dyer & Sánchez, 1998) and trade-name franchising (Litz & Stewart, 1998), this issue of intersection remains overlooked. However, for tens of thousands of small family-owned retail establishments this issue matters. Simply stated, should small family firms devote a portion of their limited resources to joining a collective alliance such as a buying group? In this paper I consider this question. I begin by reviewing the theoretical rationale for the form of collective alliance known as the buying group. After proposing a set of preliminary hypotheses relating buying group membership to superior firm performance, I explore the proposition that family firms are particularly predisposed to benefit from membership in buying groups, culminating in an accompanying set of moderating hypotheses. I then describe the research design used to test these hypotheses followed by a presentation of findings. After considering the methodological caveats that temper the interpretation of these findings, I reflect on their theoretical and practical implications, concluding with my answer to this study's question of whether small family-owned retailers should consider joining buying groups.

THEORETICAL CONTEXT

When small firms act collectively: The logic of the buying group

When it comes to accessing the weapons of scale and scope, small firms are fundamentally constrained. By virtue of their size they cannot achieve competitive parity, vis-à-vis their larger rivals, in any of several areas including procurement, advertising, or employee training. However, one compensating strategy is the *trade-name franchise*, or *buying group* (Hardy & Magrath, 1987; Zimmerer & Scarborough, 1994). The generic proposal of buying groups is simple: several small firms band together and accomplish collectively what none could achieve individually. Compared to business-format franchising (Hoy & Shane, 1998), involvement in buying group is comparatively simple; buying group members pay an enlistment fee to the buying group, and then draw on the group's resources. These resources include access to the franchisor's pooled purchasing effort, which

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provides the franchisee with significant cost savings. In addition, the franchisee realizes benefits from the franchisor's brand equity by identifying themselves under the buying group's banner. Also, the franchisee gains valuable assistance in the form of training and education, both on-site, and at periodic buying meetings. A specific example may help the reader better visualize this arrangement. Consider the value proposition put forward by the 75-year old buying group *Ace Hardware* of Oak Brook, Illinois to its trade-name franchisees. In terms of collective clout, the company purchases in bulk on behalf of over 5,200 member stores from over 4,000 suppliers, including such well-known brand names as *Stanley Tools*, *Toro* (lawnmowers), and *Weber* (grills), giving individual storeowners access to distribution channels rivaling those of do-it-yourself giants such as *Home Depot* (Besanko, Dranove & Shanley, 1996). By pooling their members' purchasing energies, the buying group may "employ its own buyers, who obtain quantity discounts that are then passed on to individual stores" (Besanko et al., 1996: 195). According to Bond (1999), the *Ace* network also provides several important supporting services to its members, including site selection and lease negotiation. On the administrative front, *Ace* also offers financial templates and cooperative advertising programs to its members and also helps them with data processing, purchasing, inventory control, field training and performance evaluation. New franchisees are also eligible to receive six weeks of training at the organization's headquarters followed by a periodic newsletter. In return for this bundle of benefits, *Ace* charges its members a one-time franchise fee of \$35,000 plus two percent of gross sales. According to Bond (1999), the term of buying group membership is typically 20 years, renewable on a revolving five-year term. Average franchisees typically employ three full-time and 10 to 12 part-time employees. Passive ownership by franchisees is not permitted, while existing owner-managed retail establishments are encouraged to convert their operations to *Ace's* formula. Taken together, it is easy to see why buying groups have been lauded as an important strategic tool for small firms (Hardy & Magrath, 1987; Besanko et al., 1996). Thus, I hypothesize that:

H1. Small firm performance is positively related to buying group membership, ceteris paribus.

However, given the buying group's flexible capability, that permits variation in both the degree of dependence upon, and duration of affiliation with, the collective, two finer-grained caveats also warrant mention. The first caveat is suggested by the buying group's ability to accommodate individual member preferences in terms of how much of the group's collective strength as they opt to exploit. Following the logic of economies of scale (Bain, 1956; Porter, 1980), such differences in strength of coupling, or degree of dependence, suggest concomitant differences in member performance. Members procuring more of their inventory from the scale-oriented collective should derive greater benefit compared to those sourcing less of their stock through the network. Therefore:

H2. Small firm performance is positively related with degree of dependence on the buying group, ceteris paribus.

A second caveat concerns the possibility of economies of learning emanating from longer terms of membership. Unlike economies of scale, which concern "the ability to perform activities at a lower unit cost when those activities are performed on a larger scale", economies of learning arise from "reductions in unit costs due to accumulating experience" (Besanko et al., 1996: 199). Gains due to learning are typically expressed in *progress ratios* and are calculated by comparing how far average costs drop relative to cumulative product output increases. Besanko et al. succinctly encapsulate the rationale for economies of learning: "While practice may not always make perfect, it generally moves in the desired direction" (1996: 196). In the context of buying groups, we would expect to observe learning-related benefits as a function of duration of membership in the collective. For example, in terms of procurement activities, more senior members should possess greater insight into what, when, and how much to buy vis-à-vis more junior members. Hence:

H3. Small firm performance is positively related with duration of membership in a buying group, ceteris paribus.

Connecting buying groups to family firms: Distinctive benefits

The question driving this research concerns the performance-related implications of buying group membership for family firms. In general, I hypothesize a relationship of enhanced performance. My rationale is simple: not only do buying groups provide their members with access to otherwise inaccessible economies of scale, but they also provide both enhanced brand equity and a organizing set of operating routines. These two contributions, focusing on extra-organizational identity and intra-organizational routines, constitute important stabilizing influences that are of particular relevance to family firms. Looking externally, the buying group's brand identity (Wernerfelt, 1991) can help sustain a member firm beyond the loss of one or more key individuals, such as often occurs in the untimely death of a senior family member. Conversely, looking internally, the buying group's purchasing, inventory control and evaluation systems provide a supporting set of organizing templates helpful during the process of managerial succession, particularly because they are far less dependent on the person-specific capabilities of senior family members, and because they introduce some objective basis for performance assessment all too often absent in family firm finance (Levin & Travis, 1987). In addition, the start-up and ongoing training offered by non-family buying group-sponsored trainers helps reduce the relational stresses associated with preparing the next generation. Finally, the periodic buying sessions held by the group facilitate the meeting of similarly minded small family businesses, providing an important forum for inter-family firm encouragement. Taken together, this set of benefits suggests a positive moderating effect for family firm performance in each of the three dimensions of categorical membership, degree of dependence upon, and duration of affiliation with, the buying group. Therefore:

H4. Family firm performance is positively influenced by buying group membership, ceteris paribus.

H5. Family firm performance is positively influenced by duration of buying group membership, ceteris paribus.

H6. Family firm performance is positively influenced by greater coupling with the buying group, ceteris paribus.

METHODOLOGY

Industry context and research sample: Retail hardware stores in seven cities

I tested these hypotheses in the context of the retail hardware industry. Retail hardware is particularly well-suited for several reasons: first, this industry includes thousands of small firms; second, many of these small firms are family-intensive concerns; and third, this industry is served by several buying groups (Hardy & Magrath, 1987). The sample consisted of all firms listed under the *Yellow Pages* category of 'Retail Hardware' in the seven different U.S. cities of Atlanta (GA), Miami (FL), Kansas City (MO), Minneapolis-St. Paul (MN), Chicago (IL), San Diego (CA) and Long Island (NY). During 1995 and early 1996 I called all 1,169 hardware stores in these cities by telephone. In 340 cases (29.1 percent of the total sample) I could not get through to the owner/manager; in 62 cases (5.3 percent) the store was misclassified as a hardware store; in 110 cases (9.4 percent) I succeeded in contacting the store's owner or manager but they refused to participate in the study; in 370 cases (31.7 percent) the store's owner/managers agreed to participate in the study but failed to return a completed survey; in 307 cases (26.3 percent) the owner/manager did honor their commitment by returning a completed survey instrument. Compared to the total of 1,169 stores, the 307 respondents represent an effective response rate of 26.2 percent; compared to the total sample of 677 stores that agreed to participate in the study, the 307 represent a response rate of 45.3 percent. The survey was developed after a set of in-depth, semi-structured interviews with several representative small hardware store owners in Pittsburgh (PA). The survey was pre-tested with the help of an industry expert from the Canadian headquarters of the *True Value* trade-name franchise group who provided entrée to a group of

franchisees in Manitoba, Canada. After collecting the completed surveys from the pre-test group I presented the industry expert with aggregated sales volume and margin data which, with the exception of one data point, he validated, thus suggesting a high degree of respondent validity.

Operationalization of Variables

Performance. In respect of the multi-faced nature of firm performance, I utilized two different operationalizations of performance. In consideration of the nature of retailing I used the velocity-oriented retail standard of sales per square foot (Mason, Meyer & Ezell, 1988). Also, given every firm's need for profitability, I also included a second operationalization, of net profit margin. Sales-per square foot was calculated by dividing sales by firm size; in order to more closely approximate a normal distribution the resulting product was logarithmically transformed. Profit margin was measured using a seven-point scale. Sales, square footage and profit margin were all measured using scales developed with the assistance of the industry expert (Appendix).

Buying groups: Categorical and continuous dimensions. I operationalized buying group membership using both categorical and continuous measures. The categorical measure simply asked *'Is your store a member of a buying group?'* Those answering 'Yes' were asked two additional questions to measure degree of dependence and duration of membership. Degree of dependence was measured by asking *'What percentage of your store's merchandise comes from this buying group?'* Duration of membership was measured by asking *'How many years has your store been a member of this buying group?'*

Family business. Given the exploratory nature of this study, I utilized a summative measure that simply asked *'Is your firm a family business?'* While, as Dubin (1978) notes, such summative measures are admittedly coarse-grained, they nonetheless serve as an appropriate starting point for understanding whatever relationship might exist between the phenomena of interest. In the case of this sample, a significant majority (86%) defined themselves as family concerns, suggesting high face validity for this coarse-grained operationalization.

Organizational and environmental control variables. I also controlled for organizational size and age in the regression models. Size was operationalized as number of square feet, while age was operationalized as the number of years the store had been open. In addition, I controlled for environmental variance in several dimensions including competitor density, average resident income, and, given the nature of the industry studied, house age and percentage of home ownership. During the qualifying telephone interview I asked each store manager to identify the zip codes that defined their respective store's trading area. For those unable to identify their store's trading area by zip codes, I simply used the zip code area in which their store was located. I then collected data from the most recent U.S. Census data (the 1990 census for resident income, house age and home ownership, and the 1992 census for competitor density) and weighted them across multiple zip codes by each zip code's population.

RESULTS

In this research I seek to shed light on how two institutions, the family firm and the buying group, relate to one another in their respective quests for superior performance. Before sharing results from the regression analysis, I first report statistical and correlational summaries of the key variable set (Table 1 – interested readers may contact me for a full set of summary statistics). In terms of the study's two key variables of interest, 86 percent of respondents identified themselves as family businesses and just over 80 percent were members of a buying group, thus suggesting a high degree of face validity for the sample. On average, buying group members sourced just over 74 percent of their inventory from their respective buying group and had been members for 19.3 years.

Preliminary observations: The logic of location revisited

The regression models testing this study’s hypotheses are grouped by performance operationalization, beginning with sales per square foot (Models 1 to 7), and profit margin (Models 8 to 14) (found in Tables 2 and 3, respectively). Before focusing on the study’s central hypotheses, I first highlight some significant patterns emanating from the environmental control variables. The first concerns the relationship between affluence and performance. As the models report, per capita income was positively related to sales per square foot (Models 1 through 7), but negatively related to profitability (Models 8, 9, 10, 12 and 14). A similar, but less intense, pattern was also apparent with competitor density. More competitively dense environs were positively related with velocity-oriented performance (Models 1, 2 and 3), but negatively related with profit margin (Models 8 through 12). A final pattern deserving mention concerns the negative relationship between home ownership and both sales per square foot (Models 6 and 7) and profit margin (Models 11, 12, 13 and 14). Taken together, these patterns confirm a simple but significant proposition: location is an important predictor of retail performance.

TABLE 1: SUMMARY STATISTICS AND CORRELATION COEFFICIENTS

Variable	Mean (s.d.)	[1]	[2]	[3]	[4]	[5]	[6]	[7]
[1] Sales volume	3.789 (1.313)	1.000						
[2] Sales velocity	0.205 (0.162)	0.530**	1.000					
[3] Profit margin	3.776 (1.838)	.082	0.159*	1.000				
[4] Buying Group	81%	-0.060	-0.007	0.021	1.000			
[5] Duration	19.264 (14.896)	0.132	-0.016	-0.036	-0.023	1.000		
[6] Dependence	74.331 (23.061)	-0.228**	-0.109	0.067	-0.001	0.076	1.000	
[7] Family Firm	86%	-0.100	-0.103	-0.040	-0.027	0.186**	0.060	1.000

Buying groups and small firm performance: Effects of joining, buying more and belonging longer. Before considering whether, and how, buying group membership moderates the performance of family firms specifically, I first report on buying group’s relationship to small firm performance in general. As Models 2 and 9 report, buying group membership is positively related with higher sales velocity, but negatively related with profit margin. This suggests a potentially disturbing possibility – namely, that all else being equal, buying group membership involves an implicit tradeoff between higher sales and lower profits. In terms of degree of dependence upon the buying group, the results are contrary to those hypothesized. As Model 4 shows, increasing dependence on the buying group was negatively related to both sales volume and velocity. This pattern stands in stark contrast to the rhetoric of buying groups that links the collective’s enhanced scale and scope to superior member performance. However, no parallel relationship was apparent between degree of dependence and sales margin. No significant relationship was observed between duration of membership and either sales volume or profit (Models 6 and 13). This suggests that whatever value is added by the buying group is largely of a static nature. This assertion also suggests three possibilities concerning the realization of economies of learning in buying groups. A first possibility is that buying group members are not continuing to learn; a converse possibility is that trade-name franchisors are not continuing to teach. A third possibility is that this industry context is characterized by a high degree of schematic maturity leaving room for only incremental learning.

Do buying groups help family firms? Prior to reporting results on the core questions of this study, I first offer a summary of descriptive statistics concerning family firm participation in buying groups.

First, family firms appear no more, or less, likely to join buying groups than non-family firms ($p = 0.526$). Family firms involved in buying groups sourced just over 75 percent of their stock through the buying group, while non-family firms secured 70 percent ($p = 0.283$). A significant difference in duration of affiliation was apparent, however, with family firms averaging 20.5 years, compared to only 11.7 years for non-family firms ($p = 0.000$). In terms of procurement strategies, family firms involved in buying groups demonstrated no statistically significant different buying behaviors in any of 18 different product categories than their non-family counterparts. However, several significant differences in product mix were apparent between affiliated and unaffiliated family firms, the most notable being the independent family firm's significantly greater focus on the core product category of hardware. Finally, no significant differences in member satisfaction were observed between family and non-family buying group members across any of four different satisfaction measures in the four areas of procurement savings, advertising support, computer support, and retailer product education. In short, excepting duration of membership, family firms enact patterns of involvement in, and derive benefits from, buying groups that are not significantly different from that of non-family firms.

TABLE 2: SUMMARY OF REGRESSION ANALYSIS

Dependent variable: Sales per square foot (Standardized Betas reported with t-ratio below)

<i>Variable</i>	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>
Size of store	-0.405 (-7.259***)	-0.446 (-7.653***)	-0.449 (-7.747***)	-0.435 (-7.089)	-0.443 (-7.158***)	-0.428 (-6.605***)	-0.433 (-6.670***)
Age of store	0.067 (1.171)	0.052 (0.939)	0.050 (0.893)	0.056 (0.933)	0.065 (1.049)	0.046 (0.691)	0.059 (0.882)
Median Income	0.136 (2.428*)	0.143 (2.607*)	0.115 (2.054*)	0.148 (2.499*)	0.137 (2.260*)	0.144 (2.364*)	0.127 (2.041*)
House age	-0.068 (-1.070)	-0.065 (-1.031)	-0.064 (-1.032)	-0.045 (-0.633)	-0.044 (-0.621)	-0.025 (-0.350)	-0.029 (-0.395)
% home ownership	-0.063 (-1.058)	-0.072 (-1.231)	-0.085 (-1.435)	-0.092 (-1.430)	-0.093 (-1.435)	-0.117 (1.774†)	-0.113 (-1.714†)
Competitor density	0.119 (2.183*)	0.114 (2.109*)	0.101 (1.872†)	0.095 (1.598)	0.099 (1.645)	0.090 (1.447)	0.090 (1.447)
Family business	-0.042 (-0.760)		0.759 (2.300*)		0.079 (0.425)		-0.113 (-1.031)
Buying group membership		0.134 (2.360*)	0.572 (3.016**)				
FB * BG			-0.888 (-2.435*)				
BG Coupling				-0.115 (-1.966†)	-0.007 (-0.047)		
FB * Coupling					-0.181 (-0.748)		
BG Duration						-0.002 (-0.027)	-0.054 (-0.168)
FB * Duration							0.074 (0.215)
Constant	0.488***	0.312***	-0.009	0.477***	0.453***	0.419***	0.468***
R ²	0.189	0.202	0.221	0.233	0.239	0.223	0.232
Adjusted R ²	0.169	0.182	0.195	0.210	0.209	0.198	0.200
df	279	281	277	229	225	220	216
F	9.284***	10.171***	8.717***	9.953***	7.864***	9.021***	7.260***

† $p < .10$ * $p < .05$ ** $p < .01$ *** $p < .001$

Buying group membership and family firms. Significant negative interactions between buying group membership and family firms were observed for sales per square foot (Model 3); however, no interaction was observed for profit margin. The second dimension of interest concerned the moderating effects between intra-organizational family involvement and degree of dependence upon the buying group. As Models 5 and 12 report, no significant interactions between family and degree of dependence were evident for either of the performance operationalizations. No interaction effect was apparent between duration of membership and family involvement with sales velocity (Model 7); however, a significant interaction was discernible for these variables and profit margin (Model 14). In post-hoc exploration I stratified the sample by duration of membership to better understand the nature

of the interaction. Firms that had been members for 10 years or less were labeled ‘*Young Firms*’, stores that had been members for between 11 and 20 years were labeled ‘*Middle-aged Firms*’. Likewise, firms that had been members for more than 20 years were labeled ‘*Old Firms*’. As Table 4 reports, when stratified by family versus non-family, a noteworthy pattern emerged, with family firms reporting almost identical performance across all three groups while non-family firms showed a definite downward trend over time.

TABLE 3: SUMMARY OF REGRESSION ANALYSIS
Dependent variable: Profit margin (Standardized Betas reported with t-ratio below)

<i>Variable</i>	<i>Model 8</i>	<i>Model 9</i>	<i>Model 10</i>	<i>Model 11</i>	<i>Model 12</i>	<i>Model 13</i>	<i>Model 14</i>
Size of store	-0.078 (-1.278)	-0.030 (-0.469)	-0.036 (-0.568)	-0.038 (-0.540)	-0.044 (-0.630)	-0.064 (-0.869)	-0.070 (-0.962)
Age of store	-0.058 (-0.920)	-0.063 (-1.027)	-0.047 (-0.743)	-0.041 (-0.596)	-0.027 (-0.388)	-0.049 (-0.659)	-0.020 (-0.263)
Median Income	-0.114 (-1.842 [†])	-0.107 (-1.756 [†])	-0.105 (-1.681 [†])	-0.110 (-1.634)	-0.121 (-1.748 [†])	-0.112 (-1.628)	-0.129 (-1.863 [†])
House age	-0.029 (-0.416)	-0.023 (-0.330)	-0.031 (-0.440)	-0.083 (-1.033)	-0.095 (-1.176)	-0.112 (-1.373)	-0.115 (-1.415)
% Home ownership	-0.082 (-1.249)	-0.079 (-1.215)	-0.070 (-1.065)	-0.138 (-1.891*)	-0.135 (-1.846 [†])	-0.125 (-1.695 [†])	-0.138 (-1.878 [†])
Competitor density	-0.118 (-1.967*)	-0.122 (-2.059)	-0.110 (-1.833 [†])	-0.120 (-1.768 [†])	-0.113 (-1.669 [†])	-0.104 (-1.494)	-0.104 (-1.506)
Family business	-0.057 (-0.932)		-0.375 (-1.033)		-0.187 (-0.892)		-0.321 (-2.588*)
Buying group membership		-0.124 (-1.992 [†])	-0.303 (-1.466)				
FB * BG			0.347 (0.864)				
BG Coupling				0.043 (0.645)	-0.042 (-0.245)		
FB * Coupling					0.155 (0.568)		
BG Duration						0.012 (0.160)	-0.912 (-2.543*)
FB * Duration							1.023 (2.657**)
Constant	6.004***	6.474***	8.343***	5.670***	6.532***	6.132***	7.756***
R ²	0.049	0.060	0.067	0.050	0.056	0.045	0.078
Adjusted R ²	0.024	0.035	0.035	0.020	0.017	0.013	0.039
df	270	271	268	220	217	211	208
F	1.985 [†]	2.457*	2.123*	1.665	1.442	1.413	1.967*

† p < .10 * p < .05 ** p < .01 *** p < .001

TABLE 4: ANALYSIS OF VARIANCE OF PROFIT MARGIN YOUNG VERSUS OLD AND FAMILY VERSUS NON-FAMILY FIRMS BUYING GROUP MEMBERS

<i>Performance Measure</i>	<i>Young Family Firms</i>	<i>Middle-aged Family Firms</i>	<i>Old Family Firms</i>	<i>Young Non-family Firms</i>	<i>Middle-aged Non-family Firms</i>	<i>Old Non-family Firms</i>	<i>F-statistic (Prob.)</i>
Profit Margin	3.508 (n = 59)	3.651 (n = 63)	3.500 (n = 70)	4.750 (n = 16)	3.077 (n = 13)	2.333 (n = 3)	1.976 (0.083)

†p < .10 *p < .05 **p < .01 ***p < .001

DISCUSSION

This research seeks to shed light on how two institutions, the family firm and the buying group, relate to one another. Following the order of the hypotheses advanced, key findings include:

- (1) more affluent and competitively dense trading areas are positively related with higher sales velocity, but negatively related with profitability,
- (2) membership in a buying group is related with an increase in sales per square foot, but negatively related with profit margin,
- (3) increased dependence on buying groups is negatively related with sales per square foot, with no apparent effects related to duration of buying group membership,
- (4) family firms belonging to buying groups achieve higher gross sales than independent family firms, and
- (5) family firms involved in buying groups for longer periods report higher levels of sustained profitability than non-family firms.

Caveats and limitations. Before commenting on these findings, I first offer several interpretational caveats concerning their validity and generalizability. A first caveat concerns the industry studied. Might the hardware industry be sufficiently different from other industry contexts also serviced by buying groups to limit the generalizability of the results reported here? For instance, do family firms experience similar interaction effects with buying groups in industry domains such as hospitality, retail jewelry, or pharmacy (as exemplified by buying groups such as hospitality-buying-group.com, digemjewelers.com and fpn.org, respectively)? A second issue concerns this study's implicit assumption of inter-buying group homogeneity. However, are all buying groups perfectly substitutable entities, particularly as it concerns their sensitivity to the unique challenges faced by their family-intensive members? A third caveat concerns the coarse-grained operationalization of the family firm employed in this study. While a summative measure such as "*Is your firm a family business?*" is appropriate for beginning such an investigation (Dubin, 1980), finer-grained investigations utilizing alternative operationalizations of the family firm construct (Chua, Chrisman & Sharma, 1999) could test whether different types and sizes of family firms realize different types and degrees of benefit from inter-firm alliances. Such finer-grained approaches could also explore how intra-organizational variation in number, age and gender of family members moderate the core effects reported here.

Avenues for further research. The aforementioned caveats notwithstanding, the findings reported here point to several other possible avenues for future research initiatives. Following the earlier clustering of results, I highlight four avenues for the reader's consideration. The first set of findings concerned the positive relationships between sales volume and sales per square foot, and trading area affluence and competitor density, respectively. Could this pattern help explain the comparatively weaker sales-related performance of family firms in buying groups? In response to this possibility I carried out a post-hoc analysis of variance on family versus non-family, and buying group member versus non-member firms, across each of the study's four environmental control variables. While no or at best marginally significant differences were observed across house age, ownership or competitor density, a different story was apparent in resident income, with family firms involved in buying groups operating in less affluent environments than non-family buying group members ($p < 0.01$). This pattern suggests that to the extent sales volume and velocity are predicated on having a strategic location, family-owned retailers in less affluent areas are well advised to rethink the appropriability of the buying group's scale-oriented value proposition for their firm. To the extent there is a fundamental misfit between the geographically mis-positioned family firm and the buying group's dominant logic (Prahalad & Bettis, 1986), the scale-related benefits of buying groups may go largely for naught. The second set of results concerns the relationship between buying groups and small firm performance. While membership was related to a general improvement in sales and sales per square foot, one of the most perplexing findings concerned the negative relationship between degree of dependence upon the buying group and member performance. This pattern suggests that the highest performing buying group members are those that deliberately supplement what they source from their buying group with other lines of supply. Subtle signals of such buying behavior were detected during the preliminary interviews when several store managers voluntarily mentioned their use of a somewhat

unconventional sourcing tactic – specifically, going to the local big-box retailer and buying whatever loss leaders were featured that week, rather than procure them through a buying group. Further research could seek to uncover the underlying conditions, and motivations for such micro-level tapered integration strategies. Are all product price points and categories equally vulnerable to such tactics, or is this an outlier strategy practiced by a select few? This question represents a particularly ripe avenue for small business researchers as extant work on tapered integration, that is, strategies involving “a mixture of vertical integration and market exchange” (Besanko et al., 1996: 156), has focused on tapered integration from a forward- and franchisor-oriented perspective. While the decisions of firms such as *Wendy’s* and *Blockbuster* to balance the mix between corporate- and franchisee-owned outlets (Besanko et al., 1996) is nonetheless important, the backward- and franchisee-oriented integration tactics observed here point to another set of strategic decisions also deserving researcher attention. From a practitioner perspective, insight into such sourcing strategies is also of critical importance insofar as it suggests that the big box’s loss leader strategy could potentially erode the one of the core advantages offered by the buying group. The third set of findings showed that while family firms participate in buying groups no differently than non-family firms, they nonetheless achieve superior long-term profitability. This finding suggests an interesting possibility concerning the portfolio of supporting services offered by buying groups to their membership. Might these non-procurement-related services help members with their succession-related challenges in ways that are uniquely valuable for family-intensive operations?

CONCLUSION

This study begins to explore a question of importance to thousands of small family firms – specifically, should they devote a significant portion of their finite resources to join a buying group? After deriving a set of hypotheses that suggested the possibility of benefits unique to family firms, I reported findings that showed a complex set of interactions at work. In the overall spirit of these findings, I assert that my answer to this question, of family firms joining buying groups, is a qualified yes. While those family firms operating in less affluent trading areas will be constrained in leveraging the scale-related strengths of the inter-firm collective, buying group membership shows signs of playing an important role in helping all family firms with the challenges of intergenerational succession. For those family firms, and by extension family members, intent of seeing their enterprise prosper for the long haul, buying groups therefore appear to offer a significant and multi-faceted contribution.

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APPENDIX: SCALES USED IN OPERATIONALIZING SALES VOLUME AND MARGIN

What were this store's **1994 total sales**? Check the appropriate box.

- less than \$100,000
- between \$100,000 and \$249,999
- between \$250,000 and \$499,999
- between \$500,000 and \$999,999
- between \$1,000,000 and \$4,99,999
- between \$5,000,000 and \$10,000,999
- over \$10,000,000

About how big is the **selling space inside** your store? Please circle appropriate number. (To help you in estimating it, just remember that a 10 foot by 10 foot area is 100 square feet.)

- less than 2,000 square feet
- between 2,000 and 5,000 square feet
- over 5,000 square feet

What was this store's **1994 sales margin after subtracting for cost of goods sold, all operating costs, and taxes**? Check the appropriate box.

- no profits resulted from 1994 sales
- less than 2%
- between 2% and 3.9%
- between 4% and 5.9%
- between 6% and 7.9%
- between 8% and 9.9%
- over 10% or more