The Locations of Wal-Mart and Kmart Supercenters: Contrasting Corporate Strategies

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Wal-Mart and Kmart, the two largest American discount retailers, have begun to utilize a supercenter retailing format that combines a full-service grocery store with a discount department store. Supercenters are expected to be the major format for future expansion of each of these firms. The purpose of this paper is to analyze the spatial expansion strategies of each firm for the locations of its supercenters. Wal-Mart is quickly expanding its number of supercenters in modest-sized communities clustered around its grocery distribution centers, especially in Southern states. Conversely, most Super Kmart Centers are located in the suburbs of widely scattered major metropolitan markets, and Kmart has yet to develop a grocery distribution network. Kmart currently has major financial problems that severely restrict the expansion of the Super Kmart Center format. Key Words: Kmart, Wal-Mart, supercenter, diffusion.

Introduction

During the 1990s, major changes have occurred in the retailing structure of the United States. The longtime merchandising leader in sales volume, Sears Roebuck and Company, has been surpassed by Wal-Mart Stores, Incorporated. For a short time Kmart Corporation also surpassed Sears sales volume, but Sears has again assumed the position as the second largest retailer in the nation. Long-established retail chains such as Federated, Caldor, Otago, Ames, Bradlee’s, Jamesway, Montgomery Ward, and even Kmart and Sears have been forced to restructure and downsize. A few of these chains have even faced bankruptcy. In attempts to survive and expand in this environment of intense competition and rapid change, many retailers have started to experiment with new retailing formats.

The three leading discount chains, Wal-Mart, Kmart, and Target, emulated successful regional chains by adapting the supercenter format for the highly competitive American retailing environment of the 1990s. A supercenter is a combination discount department and full-service grocery store. The average supercenter of each of these discounters contains about 170,000 sq. ft. (a standard Kmart, Wal-Mart, or Target contains about 100,000 sq. ft.) with about a third of the space devoted to groceries. In addition to the standard discount and grocery merchandise, many supercenters include services such as banking, video rental, fast food restaurants, dry cleaning, optical services, portrait studios, hair salons, and income tax preparation (in season). Both Kmart and Wal-Mart have identified the supercenter as the prime format for future expansion. Target is still experimenting with the Super Target format and has yet to announce the role of this format in its expansion plans.

This paper analyzes the spatial expansion strategies of Wal-Mart and Kmart for the locations of supercenters. More specifically, this paper compares and contrasts the locations of supercenters by each firm, describes the grocery distribution system of each firm, and identifies the impact of acquisitions on the expansion of each firm into grocery retailing.

Review of Retailing Diffusion Studies

Meyer and Brown (1979, 242–43) examined the expansion of the Friendly Ice Cream chain to identify five factors that influence the spatial diffusion of a retail firm: (1) spatial pattern of acquisitions, (2) spatial variability of the market potential, (3) market elasticity, (4) logistical factors that create the organizational infrastructure, and (5) capital availability. They recognized that the availability of financial capital can influence the roles of the other factors. A firm with minimal capital resources might pursue a strategy of contagious diffusion in order to utilize existing logistical infrastructure. Conversely, a firm with substantial capital might utilize a hierarchical diffusion strategy as it pursues the goal of sales volume maximization.

In a text of case studies analyzing the diffusion strategies employed by individual retail chains,
Laulajainen (1987) shows that retailers have utilized a variety of diffusion strategies. In a further study, Laulajainen (1988) notes that discounters and grocers often utilize diffusion strategies that employ hierarchical elements. Both grocers and discounters market massive quantities of bulky, low-cost merchandise. For both types of merchants, the development of an efficient distribution system is a key element in successful expansion. A good warehouse and distribution system assures the retailer of the timely arrival of merchandise and permits the purchase and storage of large quantities of inventory obtained at particularly attractive prices. The close association between distribution centers and retail outlets often dictates a hierarchical diffusion strategy for grocers and discounters. By locating multiple outlets in a single metropolitan market, retailers can absorb much of the capacity of a single warehouse and spread advertising costs among many outlets. As the distribution system becomes more efficient, the number of retail outlets served by this warehouse can be expanded, and additional outlets can be opened in surrounding communities, further dividing advertising and distribution costs.

Laulajainen (1987) and Graff and Ashton (1994) examined the expansion of the Wal-Mart discount store chain. Both found that the firm did not adopt a hierarchical diffusion strategy, but utilized a reverse hierarchical strategy with major elements of contagious diffusion. Wal-Mart started in small towns in the mid-South and from a strong, small-town base eventually expanded to metropolitan markets. When the firm acquired sufficient financial resources, it quickly developed the corporate infrastructure (distribution centers) to supply its retail outlets.

This literature suggests several research questions toward which this study is directed: (1) Are Wal-Mart and Kmart utilizing similar expansion strategies in the selection of locations for supercenters? (2) To what degree have acquisitions influenced the locations of the supercenters? (3) Have these discounters established grocery distribution centers to supply their supercenters? and (4) Is Wal-Mart repeating its successful diffusion strategy for discount stores with supercenters?

Corporate Histories

Wal-Mart and Kmart have exhibited many similarities in becoming massive discount chains. Both firms initiated discount store operations in 1962. In the 1980s, both firms started to experiment with a combined grocery and discount store format modeled after the European hypermarket. Both firms introduced combination formats of approximately 230,000 sq. ft. in size. Wal-Mart labeled its combined format Hypermart USA while Kmart chose American Fare. Both firms found their first combination prototypes too large and developed the slightly smaller, supercenter format. Wal-Mart opened its first supercenter in 1988, and the first Super Kmart Center opened in 1991. By the mid-1990s, both firms had identified the supercenter as the prime format for future expansion. Despite the superficial similarities, however, major corporate differences exist between Kmart and Wal-Mart.

Wal-Mart

Wal-Mart Stores, Inc. has been a firm focused on discount merchandising and growth. The firm’s rate of growth has been phenomenal. In less than three decades of existence, Wal-Mart grew from a single small discount store in Rogers, Arkansas, to the largest retailer in the nation (Castro 1991). In 1994, Wal-Mart sales volume exceeded the combined sales volume of Kmart and Sears, the number two and three retailers in the nation, respectively (Schulz 1994). By 1996, Wal-Mart sales volume exceeded the combined sales volume of Sears, Kmart, and Target (Schulz 1996). Wal-Mart is projected to continue its rapid expansion for the foreseeable future (Sosnick 1997).

Wal-Mart has been remarkably successful in utilizing the discount department store format, but the extremely competitive retail environment of the 1990s has provided challenges to the continuing success of the firm. The area of the original discount stores, small towns in the mid-South, has the greatest concentration of Wal-Mart stores (Graff and Ashton 1994). These towns include the firm’s smallest, oldest, and most profitable stores (Poneman 1995). Detailed consumer surveys reveal significantly lower levels of consumer satisfaction with Wal-Mart in the Dallas metropolitan market than in the Atlanta or Indianapolis markets, metropolitan markets that have comparatively new Wal-Mart stores (Tigert et al. 1993). Although major discount chain competitors have yet to mount a challenge to Wal-Mart in the small towns of its
Several events occurred in the 1980s that foreshadowed Wal-Mart’s expansion into grocery retailing. David Glass succeeded Sam Walton, the discount giant’s founder, as CEO. Previous to his Wal-Mart employment, Glass was an executive with Consumers Market, a major Ozarks grocery chain. Then Wal-Mart made two acquisitions that provided the firm with grocery marketing expertise. Wal-Mart purchased Phillips Food Centers, a major Arkansas grocery chain headquartered in Bentonville, Arkansas, also the location of Wal-Mart corporate headquarters. Phillips operated almost two dozen retail grocery outlets scattered around Arkansas. Wal-Mart also purchased MacLane Company, Inc., a food distributor for convenience stores, headquartered in Waco, Texas, with distribution centers located in the South and West.

By the mid-1990s, the supercenter had supplanted the discount department store as the prime format for Wal-Mart expansion (Sosnick 1997). Through its supercenter format, Wal-Mart was implementing plans to become the largest grocery retailer in the nation by the end of the century (Gilliam and Zwickel 1994). Within a decade, one analyst predicts that the supercenter will replace the discount store format as the dominant retail format of Wal-Mart (Sosnick 1997).

Kmart

In contrast to the Wal-Mart evolution from a single, isolated store to a discount chain of massive size, Kmart began as a new retailing format of S.S. Kresge. This well-known and well-financed retailer quickly expanded its discount operations from the Detroit suburbs to other metropolitan markets. In the 1980s, after being firmly entrenched as the largest discount merchandiser in the nation for more than a decade, Kmart attempted to expand its retail identity beyond that of a discount merchandiser. Kmart Corporation acquired, among others, Waldenbooks, Home Centers of America (renamed Builder’s Square), PACE Membership Warehouse, Sports Authority, Furr’s Cafeterias, Office Max, and Payless Drug Stores Northwest (Markowitz 1992).

In 1990, Kmart lost its position as the top American discount merchandiser to Wal-Mart. The Kmart corporate focus on new acquisitions left the firm with many older, rundown, and poorly located discount stores (Poneman et al. 1995). In addition, the multiple Kmart acquisitions had not been as profitable as projected, so the firm decided to reposition itself as a top discount merchandiser. Kmart identified the Super Kmart Center as its prime format for future expansion (Liebeck 1996, 35). Kmart sold many of its acquisitions, closed several hundred of its less profitable discount stores, and initiated a program to refurbish its older discount stores. The Kmart effort to refurbish its discount stores was less than completely successful. Many of the refurbished stores were still small, unattractively located, and unprofitable (Poneman et al. 1995). In 1995, Kmart faced the possibility of bankruptcy (Vlasic and Naughton 1995, 108).

At the end of 1996, both Kmart and Wal-Mart were trying to expand their number of supercenters. Wal-Mart was planning to open approximately 100 supercenters annually and was rapidly expanding its grocery distribution system to serve its growing number of supercenters (Sosnick 1997). Although Kmart averted bankruptcy in 1995, the precarious financial condition of the firm precluded rapid expansion of the number of Super Kmart Centers (Sellers 1996). In 1997, only three additional Super Kmarts are scheduled to open. In addition to the expansion of the number of Super Kmart Centers, Kmart has been trying to increase sales volumes at its approximately 2,000 discount stores and to finalize the sale of its Builder’s Square chain.

Data and Methods

Data on store locations were collected for the supercenters of Kmart and Wal-Mart. For Wal-Mart, the data set starts in 1988 with the Washington, Missouri, supercenter. The first Super Kmart Center opened in 1991 in Medina, Ohio. Both data sets include store openings through 1996. Maps were prepared to display the supercenter locations for each of the firms. The 1990 populations of the counties where the supercenters were located were also recorded. County rather than city populations were used to reflect more accurately the total market for each supercenter. These population data indicate the size of the markets for the supercenters of each firm.
Findings

Wal-Mart

By the end of 1996, Wal-Mart had opened 332 supercenters. The Wal-Mart Supercenters are clustered around the firm’s grocery distribution centers located in Arkansas, Texas, Mississippi, Florida, and Kentucky (Fig. 1). The greatest concentrations of supercenters are in Arkansas, Texas, and Missouri, the sites of the first supercenters. Several new supercenters have been opened in advance of new grocery distribution centers announced for Olney, Illinois, Bedford, Pennsylvania, and Pageland, South Carolina.

Wal-Mart Supercenters are located in a variety of different size communities (Fig. 2). However, a majority of the supercenters (177 of the 332) are located in lightly settled, nonmetropolitan counties. Considering the size of a supercenter (about 170,000 sq. ft. on average) such a large store in a sparsely settled rural environment seems incongruous. Yet almost half of the supercenters are in counties of fewer than 50,000 people, and 30 are in counties of fewer than 25,000 people. In fact, several supercenters are in isolated counties with no towns classified as urban. The average county with a supercenter has a population of fewer than 105,000 people.

At the other extreme, a few supercenters are located within major metropolitan markets. Several are located at the periphery of major metropolitan markets such as St. Louis, Dallas, Atlanta, Kansas City, Memphis, and Houston. Also, supercenters are located inside the Kansas City and Topeka city limits, as well as within Dallas and Tarrant (Ft. Worth) Counties, Texas. These four supercenters were originally opened as Hypermarts USA and have been redesignated Supercenters.

Although Wal-Mart has entered many metropolitan markets with supercenters, the firm has tended to locate the stores in modest-sized metropolitan markets. Lee County, Florida, the location of Fort Myers, has four supercenters, the greatest concentration of any county in the nation. Of the four Lee County Supercenters, two are located in strip developments in the Fort Myers area, and the other two are located in large retirement communities on opposite sides of the county. Additional cities with two Wal-Mart Supercenters are Lubbock, Amarillo, Corpus Christi, Tulsa, Paducah, and Springfield, Missouri. Wal-Mart plans to continue to locate multiple supercenters in modest-sized communities. In Arkansas, the firm has announced plans to open second supercenters in Fayetteville, Jonesboro, and Conway. Larger cities such as Little Rock, North Little Rock, and Pine Bluff have yet to acquire a single supercenter.

By locating its first supercenters in modest-sized communities in the mid-South, Wal-Mart replaces some of its smallest, oldest, and most profitable stores (Poneman 1995). Since Wal-Mart already dominates the discount store business in most of these small towns, a new or upgraded discount store would be unlikely to greatly increase the firm’s sales volume or profits. But a new supercenter permits Wal-Mart to increase its sales by selling groceries to attract more customers and increase its discount merchandise sales (Sosnick 1997). In addition, a new supercenter makes it more difficult for competitors to successfully enter the Wal-Mart base area and thus may also be viewed as a profit protection measure (Poneman 1995).

Wal-Mart seems to be replicating its original diffusion strategy for discount stores with the locations of its first supercenters. Most of the first discount stores were in locations similar to the new supercenters (Graff and Ashton 1994). In fact, most of the new supercenters are relocations of existing discount stores (Sosnick 1997). By replacing older discount stores with supercenters, Wal-Mart is entering grocery retailing in markets where it already has tremendous customer identification and loyalty. Wal-Mart seems to be attempting to transfer its discount merchandising success to groceries.

The acquisition of Phillips Food Centers provided Wal-Mart with about two dozen grocery outlets, but no grocery distribution centers. For a time Wal-Mart operated the Phillips grocery stores, but all have been replaced by Wal-Mart Supercenters. None of the Phillips grocery stores are now operated by Wal-Mart, and many of the old Phillips buildings have been sold to other grocery chains. The Phillips acquisition appears to have provided Wal-Mart with management expertise in grocery retailing and has not provided locations for the Wal-Mart expansion into grocery retailing.

As it did with discount stores, Wal-Mart is quickly establishing the infrastructure to supply its supercenters. The firm plans to supply about 100 supercenters within a radius of 300 miles from each of its grocery distribution centers.
Figure 1: Location of Wal-Mart Supercenters
Figure 2: Number of Wal-Mart Supercenters vs. County Population. Average County Population is 104,718.
At present, Wal-Mart operates five grocery distribution centers and is developing others in Bedford, Pennsylvania, Pageland, South Carolina, and Olney, Illinois. These additional distribution centers define the regions of future supercenter expansion. Wal-Mart will have the grocery distribution capacity to service a greatly increased number of supercenters by the end of this century.

Stock analysts project that Wal-Mart will quickly become a giant in grocery retailing with at least 600 supercenters by the end of the century (Feiner et al. 1994). Another analyst predicts that Wal-Mart will soon become the largest grocery retailer in the country (Gilliam and Zwickel 1994). By examining the location of the present supercenters, the Wal-Mart grocery distribution network, projections of rapid expansion are believable.

In contrast to the aggressive and geographically focused expansion of Wal-Mart, Kmart’s expansion into grocery retailing has been slower and less concentrated geographically. Although Kmart made many acquisitions in the 1980s, it did not make any grocery acquisitions. In addition, the severe financial problems of the mid-1990s have constrained Kmart’s ability to quickly expand the number of Super Kmart Centers (Sellers 1996, 103).

The first Super Kmart Center was opened in 1991 in Medina, Ohio, and through 1996 a total of 96 Super Kmarts had been opened. In contrast to Wal-Mart Supercenters, Super Kmarts are scattered in 19 states from Connecticut to California and from the Mexican to the Canadian border (Fig. 3). The major concentration of Super Kmart Centers is in the Southern Great Lakes states, the location of Kmart corporate headquarters (Troy, Michigan). Secondary concentrations of Super Kmart Centers are located in Texas and North Carolina.

As with Wal-Mart, Kmart appears to be experimenting with stores in a variety of market sizes (Fig. 4). Most Super Kmart Centers have been located in the suburbs of some of the largest U.S. cities. Among the major metropolitan markets to receive multiple Super Kmarts are Chicago, Cleveland, Detroit, Los Angeles, Houston, and the Tidewater, Virginia area. The Chicago metropolitan area has the greatest concentration, with seven Super Kmart Centers. At the other extreme is nonmetropolitan Highland County, Ohio (the location of the Chillicothe Super Kmart), with a 1990 population of about 35,000. The average population of a county with a Super Kmart Center is over 700,000, and 81 of the 96 Super Kmarts are located in counties classed as metropolitan. Clearly, Kmart shows a much greater propensity than Wal-Mart to locate supercenters in heavily populated metropolitan counties.

Kmart has not focused its Super Kmarts around grocery distribution centers. With their small number and the scattered distribution, it would be difficult to envision a distribution system that could efficiently serve the Super Kmarts. Kmart foresees a potential market of several hundred Super Kmarts, but until a critical mass of grocery outlets is established, the company plans to continue to use existing grocery wholesalers to supply its grocery outlets (Robins 1992). The firm does not plan to open any grocery distribution centers in this century (Robins 1992).

Super Kmart Centers and Wal-Mart Supercenters compete directly in 19 counties. Since Kmart has pursued a strategy of locating Super Kmarts in major metropolitan areas and most Wal-Mart Supercenters are located in nonmetropolitan counties, the large number of locations with competing supercenters is surprising. Several cities in Texas, Greeley, Colorado, Terre Haute, Indiana, Hattiesburg, Mississippi, and Rome and Gainesville, Georgia have supercenters of both firms. Other counties have supercenters of both firms even though the stores are not within the same corporate boundaries.

A major consumer study of Gainesville, Georgia and Victoria, Texas has been completed to evaluate competitive positions of Kmart and Wal-Mart supercenters and to identify impacts of these supercenters on existing grocery retailing patterns (Tigert et al. 1995). The supercenters were found to have had a major negative impact on the market shares of existing grocery retailers. Each supercenter was found to have a significant price advantage in groceries over most existing grocery stores. In the direct competition between Wal-Mart and Kmart, the Wal-Mart Supercenter was preferred over the Super Kmart Center by a large proportion of consumers. The Wal-Mart preference was not the result of perceived superiority of grocery
Figure 3: Location of Super Kmart Centers
Figure 4: Number of Super Kmart Centers vs. County Population. Average County Population is 740,113.
merchandise, but the perception that the Wal-Mart discount merchandise was superior to that of Kmart. The perceived superiority of the Wal-Mart discount merchandise was such that consumers also selected Wal-Mart for grocery purchases. The preference for the Wal-Mart Supercenters was so great that the authors of the study questioned the profitability and eventual survival of the Super Kmart Centers. The authors also observed that the success of the Wal-Mart Supercenters was likely to force some existing grocery chains to abandon these markets. The authors project that the Wal-Mart success is likely to be repeated in other markets.

If it attempts to expand the number of Super Kmart Centers in areas where it has Super Kmart concentrations, Kmart will face strong competition. In general, large metropolitan markets, the locations of most Super Kmart Centers, have extremely competitive retailing environments. Kmart has developed concentrations of Super Kmart Centers in the Southern Great Lakes states, Texas, and North Carolina. Texas is also the location of Wal-Mart's second grocery distribution center and many Wal-Mart Supercenters. Eight counties in Texas have supercenters from both firms. At present only one county in North Carolina (Moore County, the location of Southern Pines and Aberdeen) has supercenters from both firms, but the planned opening of the Wal-Mart grocery distribution center in Pageland, South Carolina, foreshadows a rapid Wal-Mart Supercenter expansion into the Carolinas.

The Great Lakes states are the location of the greatest concentration of Super Kmart Centers. Although Wal-Mart has just started to locate supercenters in the region and is still developing a grocery distribution center in Olney, Illinois, Super Kmart and Wal-Mart Supercenters directly compete in Terre Haute and Lake County, Indiana (Portage and Valparaiso). Meijer, Inc., an extremely successful regional supercenter chain with 106 supercenters in Michigan, Ohio, Indiana, Illinois, and Kentucky, is also aggressively expanding in the region. Meijer has been identified as the top practitioner of the supercenter format in the nation in an analysis of the quality of grocery operations of supercenters (Weinstein 1995). Meijer averages greater sales volume per supercenter than either Kmart or Wal-Mart (Liebeck 1996, 37). Meijer has been aggressively expanding out of its Michigan base and has just opened multiple stores in the Cincinnati area (the headquarters of Kroger). At present, both Meijer and Kmart have supercenters in Champaign, Mansfield, and multiple locations in the Detroit area. Meijer has been rumored to be considering expansion in the Chicago area, the location of the greatest number of Super Kmart Centers.

Summary and Conclusions

This study provides answers to the research questions originally posed in this paper: (1) Wal-Mart and Kmart are pursuing contrasting strategies in location of supercenters; (2) acquisitions have had little impact on the locations of the supercenters of either firm; (3) Wal-Mart is developing a grocery distribution network and Kmart is not; and (4) Wal-Mart appears to be repeating its successful expansion strategy for discount stores with supercenters.

In becoming a discount merchandising giant, Wal-Mart has been identified as a firm that did not conform to traditional expansion strategies. Both Laulajainen (1988) and Meyer and Brown (1979) suggest that the development of a distribution system (infrastructure) is a key element in the development of a chain of stores. Wal-Mart Supercenters are clustered in modest-sized communities near its new grocery distribution centers. Most Wal-Mart Supercenters are located in areas where Wal-Mart is already well established. Wal-Mart may be employing a contagious expansion strategy, one that Meyer and Brown suggest may be typical of a firm with limited financial resources, but not the largest retailer in the nation. However, Wal-Mart has not avoided direct competition with Kmart with the supercenter format.

Kmart is experimenting with the supercenter format in a variety of location types, but most Super Kmart Centers are located in the suburbs of large American cities. Meyer and Brown (1979) suggest that a retailer with great financial resources might utilize a hierarchical diffusion strategy as it pursues the goal of sales maximization. But Kmart has just avoided bankruptcy and is not in a strong financial position. Although most Super Kmart Centers are in large metropolitan markets, the number of Super Kmart is so small that Kmart is not the largest grocery retailer in any metropolitan market. In addition to establishing Super Kmart, the firm is struggling...
to increase sales at its approximately 2,000 discount stores. Although Kmart has located Super Kmart Centers in the largest metropolitan areas, the firm does not seem to have the financial resources to implement a successful hierarchical diffusion strategy or to establish a grocery distribution network.

If the supercenter becomes a dominant retailing format in the near future, Wal-Mart has massive advantages over its competitors. Wal-Mart already has more than 300 supercenters in operation and is opening more than 100 new supercenters annually. The firm has opened five grocery distribution centers and has announced locations of three additional such centers. Three other firms (Kmart, Meijer, and Fred Meyer) have opened about 100 supercenters each. Meijer and Fred Meyer (located in the Pacific Northwest) are regional chains of supercenters that have grocery distribution centers. Kmart has attempted to utilize the format nationally, but in its weakened financial condition the firm is unlikely to be able to increase the number of Super Kmart Centers quickly. Target, the third-largest discount store chain in the country, is still experimenting with the Super Target format and has yet to determine the future of that format for the firm.

The location of Wal-Mart Supercenters in modest-sized towns in the mid-South permits the firm to confront several corporate problems simultaneously. By locating its supercenters in its base area of the mid-South, Wal-Mart is able to upgrade its oldest and most profitable discount stores, preempt potential competitors from mounting a challenge in the firm’s base area, increase sales volume and profitability by entering a new merchandising format, and develop and refine its grocery marketing expertise in smaller, less competitive, nonmetropolitan markets. Wal-Mart has identified the supercenter as a successful, emerging retail format, and the firm is aggressively utilizing the format for its future growth.

Since both Kmart and Wal-Mart are just entering the retail grocery business, several future research topics are apparent. Probably the most basic question to be answered is, “How successful will the combined discount-grocery store format be?” Some financial analysts (Gilliam and Zwickel 1994) and a detailed consumer study (Tigert et al. 1995) suggest that it will be extremely successful, but both discounters discarded larger formats as too big, and some consumers may view these new supercenters as too large. Will the impact and degree of success of the supercenter format vary with the size of the market? How will the supercenter format be modified in the future? Other topics to be investigated include the future patterns of Super Kmart and Wal-Mart Supercenters and the associated grocery distribution systems developed to serve the supercenters. Will Target adopt the Super Target as a major format for future expansion? Will established grocery chains such as Kroger or Safeway enter the supercenter competition? Will Meijer or Fred Meyer develop national chains of supercenters? Will the expansion of Wal-Mart Supercenters into the Great Lakes states produce major direct competition with the Meijer outlets? The United States retailing environment is very dynamic, and large numbers of huge new supercenters operated by the country’s largest retailers are certain to have a major impact on the retailing structure of the nation.

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**Geopolitical Legacies and Central European Export Linkages: A Historical and Gravity Model Analysis of Hungary***

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This paper analyzes Hungary’s export linkages of the interwar and Cold War periods using gravity model and historical analyses. Hungary is a useful example of former Soviet satellites because it combines relative political stability (since 1956) and experimentation with the New Economic Mechanism (NEM) during the 1970s and 1980s. Historical analysis reveals seven events since World War I that changed Hungary’s trade patterns. Gravity model analysis for 1955, 1965, 1975, and 1985 shows the dramatic cleavage of the “Iron Curtain,” the effect of the NEM, and particularly strong and weak linkages for Hungarian trade that may result from historical legacies, complementarity, or specific political contacts. **Key Words: Central Europe, Cold War, geopolitics, international trade, transition economies.**

**Introduction**

Export linkages present a challenge for former Soviet satellite countries of Central Europe.1 Political stability requires an acceptable standard of living, and this requires exports of sufficient quantity to allow ample imports of consumer goods with a reasonable degree of macro-economic balance. These countries were, until 1991, members of the Council of Mutual Economic Assistance (CMEA)—an economic organization established and influenced by the Soviet Union. Linkages within CMEA dominated the trade volume and controlled the trade composition of Soviet satellites during the Cold War. The collapse of CMEA in the early 1990s accompanied production declines and unemployment to a degree that surprised political leaders within the region and some Western economic analysts (Csaba 1993).

Improved export access to advanced market economies would help current restructuring efforts of former Soviet satellites. Such efforts can benefit from analysis of linkages with Western Europe prior to World War II and during the Cold War. Economic severance along the "Iron

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