

7 Surviving through transplantation and cloning: the Swiss Migros hybrid, Migros-Türk

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Prelude

Labour Day celebrations were stormy at the headquarters of Migros in 1994.¹ The streets of Kadiköy, a middle-class mixed residential and office neighbourhood across the Bosphorus from the prestige business district of Istanbul, were blocked with heavy traffic as demonstrators indulged in the routine clashes with police. Reporters on the scene became more enraged at the anarchistic turn of demonstrators, who uprooted flowers in the small parks they passed. The pillage of stores and other capitalist symbols was unusual, and many commentators suggested that this was a reaction to liberalisation and conspicuous consumption. Bad news for retailers such as Migros-Türk. They had just begun to develop large-scale retailing and had to be sensitive to social tension, which, if combined with a downturn in the economic cycle, could have halted business growth altogether.

Despite his depressed mood and annoyance with the riot police, who had taken over the entire top floor and roof of his building in order to observe the demonstrators, the general manager, Bülent Özyaydinli, was still excited about the future of his company. Despite his worries about social, economic and political disruptions, he was optimistic, and one of his remarks was prescient about Turkey's relations with Europe: 'With this retail transformation, Turkey is already in Europe even without EU membership.'

Eleven years later the new Migros-Türk headquarters was strategically located in a wealthy satellite town of Istanbul with abundant green areas and parks. The new general manager, Aziz Bulgu, was a veteran of the aggressive move into the Russian market that had helped to build the company's brand as 'Ramstore' in many Commonwealth of Independent States (CIS) countries.²

Bulgu was more concerned about the intensified competition from foreign retailers than social unrest or political instability. Britain's Tesco had newly entered the Turkish market and, despite their earlier entry, Metro and Carrefour were just gaining confidence and beginning to expand their operations. Despite these global competitors, Migros-Türk was still the biggest and most widely spread retailer in the country, with a large stake in Russia and central Asia.

Introduction

In describing the development of the British department store Marks and Spencer, Gary Davies (1999) argues that the success of the company has been largely through organic growth and the managed evolution of a retail format that has changed slowly over the last 100 years. Such slow managed evolution, the author claims, can be explained by theories of the 'wheel of retailing' and the 'retail accordion'. In contrast, the case of Migros-Türk does not support these theories and the biological metaphors appropriate for it are not evolutionary. Even if we can trace cyclical patterns in other Turkish retail institutions, Migros's history is one of many temporal and spatial discontinuities from its origins in Switzerland to its domestication as part of the Koç conglomerate of Turkey. Studying the recent history of Migros can be better understood within the context of business transplants, technology and business transfers, which are inadequately understood and conceptualised in retail change theories. In this chapter I show that business change occurred through experiments of transplantation and cloning that ruptured the market with the introduction of alien retail institutions that had not evolved in the Turkish market. The move from Swiss Migros to Migros-Türk exemplifies a development from transplantation to an eventual successful hybrid existence through institutional and organisational changes in large-scale retailing.

In this chapter I show how the successful growth of Migros-Türk illustrates uneven organisational development interrupted by a fractured deployment of retail technologies. The case demonstrates the role of agency in shaping organisational destiny in relation to the big waves of changes taking place in Turkish society and the economy. Despite the availability of mostly US and European retail technologies and management techniques, the uneven institutional diffusion of retail business models supports the view common among sceptics of global standardisation. Varying economic

growth and the diversity of business practices indicate that homogenisation or global standardisation is not an inevitable result of the availability of technology. Instead, both the transfer process and the institutionalisation of technology and business models are highly unpredictable and discontinuous across sectors and economic spheres. This process is often affected deeply by the response of agents and institutions to changing environmental circumstances (i.e. market competition, regulation and social development). I demonstrate here that, due to these complexities, the organisational response is highly heterogeneous in the application of new business techniques and technology transfer.

Migros-Türk is analysed within this conceptual framework, showing how its success was engraved by its hybridisation, which eventually not only differed from its original Swiss company's business model but also set it apart from its domestic rivals. First, the Migros-Türk phenomenon is explored in terms of its business behaviour, organisational capacity and change agents. Second, the scene is set for the trajectory of the company within the societal and environmental changes in Turkey that have changed the business landscape dramatically from mostly state-controlled to a liberal market economy over the past three decades.

The search by the Istanbul municipal authorities for technical assistance in establishing a new food distribution agency resulted in the first internationally owned retail chain to enter the Turkish market. Thus, in 1954, the Swiss-owned cooperative Migros introduced its retail technology and know-how. First, mobile retailing began with trucks in order to provide an effective food service for Istanbul residents. Gradually, Migros introduced small stores for middle-class consumers. Stringent import substitution policies and the resultant scarcity of goods and services forced the Swiss co-operative to sell its business to one of the Turkish state-owned banks in 1974, a period of political turmoil in the country. This brought growth to a halt for the organisation, until it began to restructure itself some twenty years later. The change from a partly foreign-owned co-operative to Turkey's first national retailer accompanied deep changes in the market economy, society and retail technology. The survival of Migros-Türk is the result of its organisational capability as an institution, riding high on waves of retail change cycles in response to Europeanisation, deregulation and privatisation. As much as the institutional capabilities and opportunities created by environmental and technological changes, the role of key actors, such as the pioneering manager Bülent Özyaydinli, its synergies with real estate developers and contractors, the strength of the Koç family conglomerate and the determination of a young

and very ambitious group of middle managers behind the business have made Migros a far more successful retailer than its domestic rivals such as Gima and Tansaş.

This chapter is divided into five sections. The first section provides a general overview of retail change theories and offers a critical perspective on how a multiplicity of theories can be applied to business cases. It also highlights the peculiarities of this sort of single case study approach vis-à-vis aggregate sectoral studies. The second section introduces the early start of Migros within the context of cooperative establishments and their considerable importance in food distribution and retailing in the 1950s. An interim period of scarcity and turbulence is described in the third section, followed by an analysis of the cloning of Migros-Türk, based on European retailing, at a time of deregulation and liberalisation in the Turkish economy. The following section illustrates how the hybridisation of local know-how with retail technology characterised the successful internationalisation of the company. The conclusion argues that the company's success lies in its survival in a volatile environment. Its business change through the transplantation and cloning of foreign commercial technology has now produced a sustainable hybrid capable of developing its own retail technology and business structure.

Retail change and technology transfer

The essential elements of retail change theories focus on the dynamic interaction between retail forms (institutions) and their competition (markets). Businesses react to market forces to survive, while competition pushes retailers to devise an unending stream of new retail forms. In these approaches, institutions are very loosely defined, and range from individual firms or groups of firms to looser forms of organisation (chain stores, cooperatives, etc.) and national retail systems. For the most part, however, they refer to distinctive structures or techniques, such as a convenience stores, department stores, supermarkets, variety stores, shopping centres, discount stores, hypermarkets, etc.

Stephen Brown (1987) offers the most comprehensive account of retail change theories (see, for example, Roth and Klein, 1993, for ecological theories and Evans, Barnes and Schlacter, 1993, and Appel, 1972, for institutional evolution). First, environmental theory argues that changes in retailing are a function of developments in the socio-economic environment; such studies include cases and ecological and natural selection approaches.

Second, the cyclical theory suggests that change takes place in a rhythmic fashion and is characterised by the recurrence of earlier trends, such as the 'wheel of retailing' and retail life cycles. Third, conflict theory focuses on inter-institutional conflict, which occurs when new forms of retailing emerge, develop and disrupt traditional trade practices.

In studying Migros-Türk we make two important distinctions. First, theoretical generalisations on the evolution of retail forms offer limited scope for the research of an individual company. Second, we are studying a retailer in a developing economy in which mature Western retail forms have been transplanted and did not evolve in the dynamic context of markets and institutions. Thus, although the merits of environmentalist and ecological theoretical perspectives are apparent, their explanatory power is weak when it comes to the study of organisational survival as well as discontinuity. While most modern retail technologies and institutions enter emerging economies through foreign direct investment or technology transfer, there is little informed research on how domestic organisations use and reproduce these technologies.

Marketing scientists long ago suggested a direct relationship between economic development and retail institutions. The sophistication of retailing and distribution channels from production to consumption is regarded as a function of economic development. More levels of distribution and retail outlets are associated with higher economic development (Samiee, 1993; Hollander, 1986; Savitt, 1982). In many developing economies, the problem of scarcity and the mismatch between high urban demand and poor food supply and distribution have been commonly observed phenomena (Currie, 1968). On account of the low incomes, cultural differences in consumption habits and state-imposed price caps and other market distortions, many researchers questioned the merits of retail technology transfer to developing countries. Research in the 1980s concluded that Western retail techniques were not easily transferable or exportable (Yavaş, Kaynak and Borak, 1981; Goldman, 1982; Savitt, 1990). For example, Ronald Savitt (1990) has questioned whether economic development can be triggered by simply importing retail technology. Erdener Kaynak (1982, 1986) has emphasised the role of efficient marketing and distribution channels in food distribution and economic development. Ronan Paddison, Allan Findlay and John Dawson (1990) have linked the slow modernisation of retailing to peculiar supply and demand conditions in developing countries.

The success of technology transfer in this sector is highly dependent upon the customer profile and receptivity. Market penetration by supermarkets and hypermarkets is conditional on external factors such as customer

mobility, household income and consumption habits. Similarly, supporting businesses in production, service and distribution are crucial for the success of large-scale retailing. Retailers in developing countries are often characterised by a large number of small, independent, family-run shops and wholesalers (Kaynak, 1982). Capital accumulation is modest and businesses lack knowledge of modern marketing techniques. Food distribution channels are described as long and household production widespread among the rural households and poor urban residents (Samiee, 1993). Paddison, Findlay and Dawson (1990) argue that the urban retailing system in developing countries appears to be chaotic by comparison with the spatial segregation and hierarchical ordering of developed economies. Periodic marketing, street selling, hawking and the informal sector not only constitute an important segment of the retail trade in these countries but also offer employment opportunities. Just as Developing countries themselves display marked diversity and complexity, however, so does retailing in these countries. Their level of industrialisation, economic growth and size of population vary greatly, too. The emergence of mass markets across the world's big cities is changing retail landscapes, as well as consumption and shopping habits.

In the late 1980s some marketing scientist began to argue that urban people in developed and developing countries were converging on similar consumption patterns (Kaynak, 1986). Nonetheless, most Third World literature remained suspicious about the effects of the transfer of new retail outlets and technologies, focusing rightly on economic development and government control as indicating an underdeveloped retail and wholesale market in many developing economies. What has changed the retail sector of developing economies dramatically since the 1980s, however, has been global trade liberalisation and the internationalisation of large US and European retailers. Some have argued that government policies have been more influential in shaping the retail business in developing countries than market competition (Hollander and Boddewyn, 1974). Nevertheless, it remains the case that the diffusion of many Western products into domestic wholesale chains throughout the 1970s and 1980s altered distribution networks and tastes in developing countries long before supermarkets entered (Tokatli and Eldener, 2002). The impact of media and internet technologies has also been substantial in opening up a new consumer age. Today many modern retail forms such as supermarkets and shopping malls are available in cities in the developing world, and these have profound effects on consumer behaviour, retail and distribution channels, and food production and marketing. The degree of market penetration by retail technology is still low, but for many

middle-income developing countries supermarkets, hypermarkets and shopping malls are common features of the urban landscape.

Retail technology includes not just equipment and software but also the organisational moulding of these technologies through their use in design, store formats and marketing tools. It also involves knowledgeable participation on the part of shoppers. The use of computer technology in the retail industry began in the 1970s and 1980s for non-administrative tasks. The introduction of bar code readers and scanners provided major cost saving and efficiency gains to retailers (Walsh, 1993). Information technologies (IT) began to shape all aspects of retailing, from supply chain management to customer relationship management, in the 1980s. Electronic point of sale (EPOS)³ and electronic data interchange (EDI) technologies are now widely used by retailers around the world (Lynch, 1990; Al-Sudairy and Tang, 2000). These technologies speed up the exchange of data and payment, and they enhance the spread of massive retail operations into different geographical locations. They also optimise delivery and logistics among suppliers, warehouses and retail outlets. Recent developments in information technologies have rationalised distribution channels, and extend the power of large-scale retailing vis-à-vis manufacturers and suppliers globally (Ducatel and Biomley, 1990). New IT tools, such as internet shopping, wireless scanning, new inventory management techniques, hand-held computers and automatic computer reordering, are being experimented with by global retailers.

These enabling technologies, although developed mostly in the United States, have been widely available to retailers worldwide. As Chandler (2005) has argued, however, importing a tool is not a transfer of technology in itself; rather, how that tool is used in an organisation and how it is subject to innovation mark an integrated learning base for an organisation. Indeed, as we illustrate in this case study, technology diffusion in modern retailing has been uneven and often shaped by institutional players and societal changes. The trajectory of Migros-Türk, Turkey's leading domestic and international retailer, can best be understood as part of the complex interplay between an engineered existence through the periodic upgrading of retail technology and broader institutional and environmental changes. In the following section we examine how Migros-Türk evolved as an organisation and how it responded to its changing environment.

The rise of cooperatives and the first transplantation of Migros

Migros-Türk originated in cooperative movements in Europe. Although consumer cooperatives never played a significant role in US retailing and

distribution, they have played an important role in many western European countries. They were among the leaders in introducing self-service retailing to the European food trades, and by 1960 cooperatives accounted for one-tenth of all retail sales in Norway, Sweden, the United Kingdom, Switzerland, and Denmark (Jefferys and Knee, 1962). In the 1950s cooperative organisations expressed a sense of responsibility for the promotion of counterpart institutions in developing nations. Many of the advocates considered cooperatives an avenue for the social, as well as economic, advancement of people whose material resources were limited. Moreover, some proponents believed that cooperative activity closely resembled the ties of tribal or village life, and thus was particularly suitable to conditions in many poor countries (Hollander, 1970). As pointed out by Reed Moyer and Stanley Hollander (1968), developing country policy-makers who associated commercial trade with colonial powers or with unpopular ethnic minority groups felt a strong preference for cooperative enterprise.

Food distribution cooperatives were first introduced in Turkey in 1913, during the Balkan Wars, in order to cope with price increases and shortages. After the collapse of the Ottoman Empire the republican government aimed to fill market gaps in food processing and established state-run enterprises in meat, sugar and flour production. Although Turkey did not take part in the Second World War, its economy was severely affected. During the war the government introduced the National Protection Law, which aimed to control food prices and regulated the rationing of sugar, flour and bread. The state had an almost complete monopoly in modern foodstuffs processing and distribution, including staples such as fish, meat, milk, sugar, and tea. All the same, there were severe food shortages and distribution problems (Şamli, 1964). Istanbul was a rapidly growing city and suffered the most. The newspapers at that time were reporting shortages of sugar and coffee every day, along with unpredictable price increases. Middle-class urbanites sought their food supplies from bazaars and small shops. The food handling standards were poor, with no labelling, no proper packaging and no reliable measurements. Food was commonly wrapped in newspapers, and customers used their own shopping bags. In order to regulate food distribution and prevent black markets from growing, the first generation of supermarkets were initiated by municipalities, state companies and cooperatives in order to provide affordable and secure food delivery.

In the post-war period the municipality of Istanbul was determined to regulate foodstuffs retailing in the city and sent an expert, Ferruh Ilter, to the United States to learn about new retail practices. During this period Ilter

learnt about Swiss Migros, and later he visited Switzerland. Upon his return he was appointed head of the economy division of the municipality, with responsibility for food pricing and distribution in the city. He quickly recognised the need for know-how in modern retailing in the city, and persuaded the mayor, the governor and the finance minister to support his idea of inviting the founder of Swiss Migros, Gottlieb Duttweiler, to bring that company's retail technology to Istanbul. He sent a formal invitation letter to Duttweiler in October 1953 (Oluç, 1956).

Gottlieb Duttweiler had begun food retailing in 1925, at the age of sixteen, and he emigrated to Brazil during World War I. Upon his return to Switzerland he acquired five old Ford trucks and began mobile retailing. His low prices quickly made him unpopular among established retailers. Although there were many difficulties, particularly during the early years, when Duttweiler was threatened with imprisonment because of his deviations from the price control laws, the organisation flourished throughout Switzerland. Migros expanded its business into food production, printing and even the film industry. By 1954 Migros had 289 retail stores (including ten supermarkets) and seventy trucks, nine butcher's shops and three clothing stores (Oluç, 1956).

The invitation to Istanbul and the municipality's commitments were serious. A group of experts from Swiss Migros accompanied the deputy manager, H. Hochstrasser, to Istanbul in January 1954. With the aim of providing 'cheap foodstuffs', the introduction of the Migros model was strongly supported by the municipality and the government. Following negotiations, the limited liability company Migros-Türk was established with the participation of nineteen shareholders, including Duttweiler and Hochstrasser, with TL500,000 total capital – equivalent to only a few thousand US dollars. As this was too small an amount to introduce the Migros way of retailing, the government supported the deal with a generous TL5 million credit scheme from the state-controlled Ziraat and Yapi Kredi Banks. Thus, the transplantation began. Swiss Migros sent the first general manager, Karl Ketterer, to Istanbul and eight Turkish civil servants went to Switzerland to be trained in accounting, packaging technologies, management and sales. Turkey had no automobile industry, so sixty trucks had to be imported from the United Kingdom. A warehouse was opened in Eminönü food market, where food was classified, weighed and packaged. A customised packaging machine was imported for this purpose. The arrival of the first twenty trucks, which paraded through the city, was greeted by excited crowds and accompanied by motorcycle policemen. The opening ceremony turned

into a state celebration, with the participation of many Member of Parliaments and ministers, along with the mayor and governor of Istanbul, on 30 September 1955. Trucks began operation on fixed neighbourhood routes and leaflets were delivered to residents about the time of truck delivery stops. This was a new concept of shopping time, and some contemporaries pointed out that observing clock time was not a common phenomenon for housewives; many households did not pay attention to, or even have, clocks at all!

At first, the trucks sold just twenty-nine categories of foodstuffs, totalling fifty items, and truck drivers used telephones to communicate their supply needs. The business was a great success, however. During the first few days the trucks were emptied by their fourth or fifth stop. In December 1957 the first store (with a total floor space of 114 sq. m.) was opened in Balıkpazarı, Istanbul; reports indicate that finding building material and store furniture was a real problem at the time. Migros-Türk's sales increased and the number of stores reached eight by 1959, despite rising inflation, high national debt and generally poor economic management by the ruling Democrat Party. Food shortages, high prices and the black market continued to be a problem for many in Istanbul. The company introduced roadside stands in the late 1950s, and by 1959 it had sixty trucks, eleven roadside stands and 327 employees. During this period the economy struggled, with a severe shortage of currency (inflation had risen to 90 per cent in 1958) and heavy foreign borrowing fuelled by clumsy populist politics, leading to a deep financial crisis. This, combined with the fears of traditionalist revivalism, triggered a military coup in 1960.

Despite the outward appearance of a successful transplantation, there were severe problems for the new company. First, Migros-Türk was encountering heavy financial losses. The government's price control of food products was the main concern of the Swiss partners and they deeply resented having to work in such an environment. Second, the company encountered considerable difficulty in securing spare parts and replacement units for trucks, because of import and foreign exchange controls. Truck maintenance costs tended to be high relative to sales volume. In addition, importing spare parts for trucks and other equipment took a long time and involved cumbersome bureaucratic procedures. A shipment of used trucks donated by the Swiss partners to replace badly deteriorated and obsolete units in the Turkish fleet was delayed for months over negotiations with the authorities about the appropriate custom duties. These difficulties all hindered the business. Third, the shortage of skilled people and a high turnover of sales assistants

also became a problem as the business grew. Finally, the bad roads, harsh winters and hot summers made truck operations and food delivery difficult. Swiss Migros expressed its intention to leave and tried to negotiate a cooperative deal to sell shares to individuals, but neither the government nor the municipality had schemes in place that could implement this. Indeed, Swiss Migros began to think that it was expected to play a purely technical, advisory and marginal role. The venture reached the point of collapse by the end of the 1950s.

The government was determined to save Migros-Türk from collapse and bankruptcy, however. Negotiations continued and repeated assurances were given to the Swiss partners to persuade them to stay. Eventually they accepted a new deal. The company was recapitalised with TL9 million following the coup and Swiss Migros took a controlling share of 51 per cent in partnership with municipal and state organisations, including Istanbul municipality, the State Enterprise for Meat and Fishery Products and Ziraat Bank. With this new structure, Migros-Türk became a quasi-state-owned enterprise. According to plans in the late 1960s, the eventual aim was to turn Migros-Türk into a quasi-cooperative on the Swiss model (Hollander, 1970). This never happened, however. Retail stores began to operate in 1958 and they soon became more profitable than truck sales, accounting for over 60 per cent of total sales by 1967. The shift away from mobile retailing and small 'barrack-type' stands took Migros-Türk into more prosperous middle-class neighbourhoods. A buying office was set up in Mersin, in Turkey's southern agricultural heartland, and the company also entered into food processing in a minor way. Gradually direct purchases increased, from 18 per cent in 1961 to 59 per cent in 1967. Earnings increased in the late 1960s, closing the deficit gap.

Migros-Türk was initially opposed by small retailers and convenience stores, but most of these small retailers managed to retain their business, as supermarket penetration was slow with sales directed mainly to middle-class urbanites. In any event, the urban middle classes continued to patronise the periodic bazaars and other small retailers. This behaviour fits well with generalisations of customers in developing countries, described by Saeed Samiee (1993) as being characterised by: people buying smaller quantities, with frequent visits to small shops in their neighbourhood; customer requiring a large variety of products with minimal packaging; small retailers offering credit to their regular customers; and shopping functioning as an important form of social interaction. Ugur Yavaş, Erdener Kaynak and Eser Borak (1981) point out that shopkeepers would extend credit only to the

customers whom they know; non-supermarket shoppers therefore see this as an important factor in their relations with the retailer.

By the end of the 1960s Swiss Migros was operating seventeen stores and thirty-five sales trucks. When Hollander studied Migros-Türk, he saw a positive picture:

Approximately thirteen or fourteen years of arduous efforts are really just beginning to bear fruit, and Migros-Türk is just beginning to be viable, a more self-reliant economic force. In the process it has become considerably more of a middle-class institution than was envisaged at the start of the venture. Its experience accords with the general rule that so-called Western or modern retailing techniques are most easily introduced in the middle- and upper income sectors of the developing economies. (1970: 87–8)

The Turkish urban middle classes were growing, but only slowly. Import substitution policies were bearing fruit in terms of industrialisation and the domestic production of foodstuffs. The first Turkish-made automobile, the Anadol, came out in 1967. The economy was heating up again, however, with inflation on the rise once more. Anti-American student demonstrations in 1968 were a landmark event in the intensifying political crisis, which eventually led to a military coup in March 1971. Migros-Türk's sales declined again during this period, in line with the deepening economic crisis.

The search for modern retailing and marketing in scarcity and turbulence

The 1970s were bloody and turbulent. Turkey might have been defending NATO's borders against the Soviet Union but the American dream never materialised. Despite heavy foreign borrowing industrialisation was slow, and the economy suffered periodic setbacks. Ideological divisions sharpened. Many intellectuals and students who supported leftist ideologies were against the exploitation of capitalist enterprises, while the ultra-nationalists and traditionalists were united in defiance of the subversive values of communism. From 1974 onwards there were street clashes between left- and right-wing youth groups across the country. Businesses did not escape the effects of the conflict, as industrial disputes and attacks exacerbated the crisis. Ever since the mid-1960s domestic production and investments had been dependent upon imports, for which there were limited financial resources. Coupled with the first and second oil shocks of the 1970s, inflation soared

and remained high, and the economy went into a deep recession marked by severe shortages of goods, high unemployment and business closures. Turkey had to rely on workers' remittances from Europe for its foreign currency.

The scarcity of food and a rise in black market trade created shortages of basic foodstuffs in all major cities. State control brought inflexibility and further fuelled the black market. Retailers and wholesalers were accused of making unlawful profits. Swiss Migros was determined this time that it would pull out of the Turkish market. Rudolf Suter, a board member of Migros-Türk for the period of 1962–76, expressed the parent company's frustrations with the political and economic instability in the country, identifying the price controls imposed by the state as the most important difficulty Migros-Türk faced, and arguing that the business could not be maintained with this imposed price regime while inflation and costs were rising. Swiss Migros considered selling its shares to a cooperative, but there was no buyer. The government was worried about market disruptions and urged Swiss Migros not to harm the consumers in such hard times. Suter approached several of Turkey's largest businessmen, among them Vehbi Koç, the founder of the Koç family conglomerate, which was then beginning to invest in food processing and had just opened TAT, a canned food factory. Koç had risen in business from trade and once owned a small convenience store himself. This background is believed to have played a role in his decision to buy Migros-Türk despite the turbulent economic and political environment.

A new beginning was engineered when Migros-Türk Limited was finally established, on 13 January 1975, the name being retained after an agreement had been reached with Swiss Migros. At that date the company was still only an Istanbul-based retailer, with sixteen stores, thirty-two trucks and 707 employees. Most of the equipment and merchandise was old and the facilities were in a dire condition. First the Koç family raised the capital from TL9 million to TL50 million. Then they brought several young and successful managers, who ended up staying with the company for decades. The most influential of those were Oktay Irsidar and Hulki Halisbah, who gave long service as board members and helped to establish business networks and a solid supply chain. The new Migros-Türk endured more than a decade of slow growth while it upgraded its facilities. Indeed, no significant technology upgrading took place until 1990, and its first store outside Istanbul, in Izmir, Turkey's third largest city, was opened only in 1988, thirteen years after Koç had acquired the major stake in the company. By this time Migros-Türk was no longer a pacesetter in modern retailing, and the Koç family preferred to see the company 'hibernate', maintaining only the existing routines.

In the light of the economic crisis of the 1970s, both the government and marketing experts argued that large supermarkets and cooperatives could resolve price increases and food shortages. The main debate concentrated on whether Turkey was ready for large modern stores (Oksay, 1979; Koparal, 1988). Scholars were also debating these issues in connection with developing countries (Goldman, 1981, 1982). The growing private sector was not interested in large-scale retailing, however. Consequently, the second generation of supermarkets were developed as consumer cooperatives and in conjunction with local governments in order to cope with price increases and to provide a regular supply of foodstuffs. Local governments played a particularly significant role in establishing supermarkets and special stores known as *Tanzim Satış*, which emerged with municipal management in the major cities. Local governments also intervened in food distribution channels and tried to crowd out middlemen in the distribution channel. Not many of these stores thrived, however. *Tansaş*, an enterprise of the municipality of Izmir, set up in 1973, did succeed adapting supermarket technology in the 1980s and further expanding its business during the 1990s. *Gima* also prospered, as did the *Ordu Pazarlari*, a supermarket chain, which was established for members of the Turkish armed forces.

The cloning of Migros-Türk with market liberalisation

The 1980 military coup stopped the bloodshed of the 1970s and initiated economic liberalisation, but it narrowed the scope for democracy. The first elected government did not take power till 1983, led by Turgut Özal, an admirer and friend of the United Kingdom's prime minister, Margaret Thatcher, and the United States president, Ronald Reagan. He quickly began deregulating the closed economy, following IMF and World Bank prescriptions. Starting from the mid-1980s government policies aimed to reduce the direct role of the state in the economy through deregulation, and the privatisation of state-owned food-processing enterprises came into effect in 1987. The minor share held by state banks in Migros-Türk was sold to the Koç family. Koç opened four new stores in Izmir in 1988 and began assessing the future of the business in light of the more competitive environment. Urban incomes were rising, along with car ownership, which increased twentyfold between 1970 and 1990 (see <http://ekutup.dpt.gov.tr/ekonomi/gosterge/tr/1950-04/esg.htm>). The same year the first modern shopping mall, Galleria, opened in Istanbul, with the French store Printemps as its anchor.

Metro, the German cash and carry store, entered the Turkish market in 1990, followed by France's Carrefour in 1991. The French Prusinic and Istanbul municipality opened Turkey's biggest supermarket, Belpa, in Merter, a working-class district of Istanbul, in 1991 (Aydin, 1992). These were followed by other European retailers (Özcan, 2001). The liberalisation policies aimed at changing the outlook for the Turkish economy, thereby influencing society as a whole. Copying Western-style retailing and shopping malls was seen as a visible symbol of this change. Thus, the government actively encouraged modernisation through incentives to large domestic and international retailers (Tokatli and Özcan, 1998).

Although official moves to effect a policy change from import substitution to liberal economic development took place in the early 1980s, the real impact of the liberal trade regime began to make itself felt only in the 1990s. The customs union agreements with the European Union in 1995 marked the single most important development in reducing trade barriers and eliminating the state protection that had previously been extended to domestic businesses, with high tariffs and exemptions. The flow of foreign direct investment into Turkey was persistently small compared with that into eastern Europe, but remaining within the range of \$1 to 2 billion until 2003 (see <http://ekutup.dpt.gov.tr/ekonomi/gosterge/tr/1950-04/esg.htm>), the large retailing sector proved to be the most attractive one for European investors. At a time when their home markets were becoming saturated and planning restrictions for new urban location were tightening, many large retailers were looking for international expansion. Successful applications of IT made large-scale retailing more efficient and profitable. Early comers were French and German investors, followed by Dutch, Belgian and American firms. The 1990s witnessed many activities and consolidation efforts. Despite their early entry, French retailers – with the exception of Carrefour – have not been successful in Turkey.

For the first time large conglomerates and banks took an interest in retailing, attracted by the advantages of daily cash generation and customer data. Bank-owning conglomerates, such as Fiba Holding and the Doguş group, acquired Gima and Tansaş, respectively (Özcan, 2000). Credit buying allowed suppliers to be used as surrogate banks by retailers, with credit purchases consisting of a significant share of the stock. (This is a general phenomenon as large retailers gain a powerful position in the market vis-à-vis manufacturers and suppliers, (see Plender, Simons and Tricks, 2005.) More importantly, with this credit advantage, the daily cash generated in retailing was dumped into 'hot money' markets with high interest rates. With

inflation running at around 60 to 80 per cent, short-term interest rates reached 100 per cent and higher. Anecdotal evidence reveals that many large retailers invested their cash in this money market. Land development and speculation generated further benefits to those, such as Carrefour, that were able to purchase large areas and develop new shopping space to rent or sell. These alternative capital-generating techniques became widespread among domestic retailers as well.

After more than a decade of hesitation the Koç family decided to enter large-scale retailing and update its retail technology. From 1990 onwards Migros-Türk began imitating European retailers in using state-of-the-art-technology. The technology and marketing aspects of supermarket and hypermarket retailing were carefully studied and American consultants were hired. The Koç family was ready to pour in resources in order to make this cloning work but, more importantly, they retained the valued 'old guards' while making room for new ideas and managers. This organisational transformation facilitated the use and absorption of new retail technologies.

The newly appointed chairman of Migros-Türk, Bülent Özyaydinli, came up with a ten-year plan. The old guard managers were suspicious of the big expansion and, later, even became opposed to internationalisation efforts. Nevertheless, the new chairman and new managers were able to persuade the board members and the Koç directors. A group of young and well-educated university graduates was hired and many stayed on and grew in stature with the business. The top universities were the main source of new ideas and management techniques in the country, and these young managers were ready to absorb the new retail technology. The transforming retailing business fitted well with their expectations for modernisation in Turkey as well. The ideological confrontations of the 1960s and 1970s had been marginalised by the 1990s. Migros-Türk was able to recruit from the growing pool of young graduates in the fields of marketing, economics and IT studies. Özyaydinli secured the success of the business by cultivating the loyalty and ability of middle managers and professionals. Their response was positive, and many devoted their work to the domestic and international success of the company. Throughout our interviews these managers stressed their pride in the speed of the expansion. As one said, 'We were growing so quickly, for a while opening one store per week, it became extremely exciting and challenging' (interview with Kerim Tatlici, manager, July 2005).

In 1991 the store format was updated on similar lines to those of Swiss Migros, although there were no formal business links. Around the same time the first Gulf War began and Turkey agreed to join the coalition forces led by

the United States and the United Kingdom. The war ruined the economy of south-eastern Turkey, as trade and oil pipeline revenues were lost. Kurdish separatists' guerrilla training camps operated from northern Iraq and further destabilised the situation. The increased political insecurity also slowed down the aggressive pursuit of European retailers. Migros-Türk was accustomed to the bumpy nature of the Turkish economy and politics, however, and usually enjoyed good relations with political parties as an affiliate of Koç, then the biggest Turkish conglomerate. With this confidence and market understanding, it was able to make a major leap forward at a time when other large international retailers were busy consolidating their entry gains in Istanbul. The technology acquisition and in-house software development were successful; the new store format was working; and customers were enthusiastic. Secure in this knowledge, the company developed a goal of opening two stores per week in 1996.

The survival of a hybrid through technology absorption and internationalisation

Other momentous political events were taking place during this period as well. In 1989 the eastern bloc began to crumble, and in 1991 the Soviet Union was dismantled. This was both a big ideological shock and an unexpected economic opportunity for Turkey. The motto of the 1970s – 'Communists to Moscow!' – was quickly buried in the public psyche. Trade, tourism and business links grew rapidly between Russia and Turkey. Economic and cultural ties with the formerly little-known central Asian Turkic-speaking states also grew. Turkish construction companies, which were successful in the Middle East and north Africa, were among the first to enter the Russian market. They gained a good reputation and developed an understanding of and links with the political elite and bureaucracy there. Thousands of shuttle traders from CIS countries flocked to the northern Black Sea towns of Trabzon and Rize, and Istanbul's Laleli district became a major hub for shuttle traders from eastern Europe, Russia and central Asia in the 1990s (Yükseker, 2003). Turkish entrepreneurs began seeking business fortunes in central Asia and Russia, leading to the establishment of many Turkish-owned companies. Economic and political reforms linked to the European Union accession talks and political consolidation led to further positive developments. The rate of inflation finally came down to a single-digit figure in 2003, after twenty years when rates had averaged some 60 per cent. Business

confidence increased, with exports, mainly industrial, and tourism revenues soaring from 2000 onwards.

The Turkish retail market continues to offer enormous room for the entry of large retailers: the top three retailers' market share is only 12 per cent, compared to 57 per cent in Germany and 64 per cent in France. Despite the fact that the growth of GDP had taken the per capita figure past the \$5,000 level, however, intraregional and urban inequalities remained major problems, with a widening skill gap and poor public services in many cities and rural areas. Nonetheless, the affluence of the urban middle classes continued to increase. Credit sales soared as the number of bank credit cards jumped from 766,000 in 1991 to 14 million in 2001. The resistance of small retailers and their associations to the spread of big retail chains and shopping malls has recently led to the drafting of new laws on opening hours and planning restrictions, similar to the comparable attempts by small retailers in western Europe. There has been further consolation in the sector with the sale of Tansaş, Gima and Kipa, Migros-Türk's response being the acquisition of 78.1 per cent of the shares of Tansaş⁴. This acquisition brought another 206 stores, in several regions of Turkey, and some 5,000 more employees to the company.

Opening up the domestic market to international competition made conglomerates such as Koç realise the need for technology and business upgrading. Many large and medium-sized family conglomerates that had grown behind the protective walls of the import substitution policies began seeking new opportunities through internationalisation. The Koç business group succeeded in building its home appliance brands, such as Beko, in the UK market. Özyaydinli and his managers also recognised the potential of the CIS and Russian markets and needed to build friendly relations based on mutual interest, but Russia was unknown to them. The solution was found with a business synergy with the large construction company Enka, which had a good business record in Russia.⁵ Thus, while large TNCs such as Tesco were securing their position in the eastern European market, Migros-Türk made the strategic decision to expand principally in Russia and central Asia.

In many ways this was a wise decision, as it was almost impossible for an emerging Turkish retailer to enter the European market. In Russia and central Asia, however, Migros-Türk's stores have become the symbol of modern retailing: and shopping malls in 2006 the company had three stores in Azerbaijan, ten shopping malls and forty-nine stores in Russia and two shopping malls and five stores in Kazakhstan; it also had stores in Bulgaria and one store and a hypermarket in Macedonia. The first test case of international expansion came in Baku, as Azerbaijan was culturally and physically

closest to Turkey, and this was followed by investments in Russia and Kazakhstan, and, in the Balkans, Bulgaria and Macedonia, making Migros-Türk an international retailer in less than ten years. With the Ramstore brand, Migros entered the Russian market during the economic crisis in 1998. The managers' belief in the future of the Russian economy and its ability to bounce back made them friends in Kremlin. Ramstores were welcomed by Russian politicians and consumers at a time when Russia was not an attractive market for large Western retailers and there were still food shortages.

While aggressively pursuing international market opportunities, Migros-Türk has moved to occupy the whole extent of the retail accordion in the market with a range of small and large outlets, small discount stores for low-income families, cooperation with small shop keepers, internet shopping and a wholesaler business. With its range of retail formats the company captures the lower and upper ends of urban sprawl, competing directly with small convenience stores and wholesalers as well as large European retailers. Internationalisation has changed the financial structure of Migros-Türk as well: 51 per cent of shares are now owned by Koç and the rest is traded on the Istanbul Stock Exchange, 80 per cent of which is owned by foreign investors. Formerly the company was self-reliant and used mainly the financial resources of the holding group, but this also changed as it began using external funding, including an International Finance Corporation loan for \$60 million to further its expansion in Moscow in 2002 (see www.ifc.org).

Over the last ten years or so the company has expanded its technological capabilities in retaining, restoring and using data. While European retailers were slow in bringing their state-of-the-art IT applications to the Turkish market, Migros-Türk became the pacesetter in the use of retail technologies such as bar codes, electronic labelling, virtual marketing, electronic self-service and business-to-business applications, although the financial crisis in 2001 did slow some of the technology applications. Standard NCR (the National Cash Register Company)⁶ technologies were used, but almost all the company software represents in-house production adapted to the needs and priorities of the company. Along with business growth, information technologies were employed more aggressively and imaginatively to rationalise and standardise the business processes and transactions; an IT master plan was prepared in the late 1990s. Due to supply chain problems and production faults the company was encountering large losses every day, and this is still a common problem for retailers in Turkey. The business-to-business applications aimed to rationalise the supply chain, they succeeded in moving the supplier receipt and ordering process to internet speed.

All the stores are now electronically linked to each other, and also to more than 70 per cent of the 635 supplier companies, and this increases efficiency of shelf and stock control. The 2.5 million receipts that are, on average, processed each year are now dealt with electronically, offering enormous time and cost advantages. The introduction of IT has aided efficient delivery and stock control, and the improved distribution network for suppliers has enhanced organisational capabilities – and profits. By setting up a wholesale business and internet site, Migros-Türk is attempting to shape its business relations with suppliers, producers and customers. This combined with the penetration of IT-aided business practices in transactions, is changing the business culture and attitudes in retailing and wholesaling. Kangurum.com, initiated in 1998, provides internet shopping facilities, with 75,000 goods from over sixty stores, and marked another first in Turkish retailing. The loyalty card scheme, Migros Club Card, began in 1998 and reached 4.5 million customers by 2005, and the targeted marketing has become more sophisticated and speedy.

The success of technology use was achieved through enhanced organisational capabilities. A new human resources and employment policy was put in place in 1990 with the appointment of young and dynamic managers to responsible positions. The number of female managers and employees also increased. This long-term dedication and ability to integrate young and ambitious professionals and managers seem to be the key to the success of the retail technology adaptation by Migros-Türk. With long-term mutual commitment by staff and firm, the organisational knowledge and capabilities generated in the lower and higher echelons of the management team has remained within the company. The company claims a continuing interest in the training and skills development of its workforce. A retail management institute was opened in 2000 at Koç University to give executive training and courses to managers and professionals about new retail technologies and trends. Members of staff were regularly sent abroad to make observations and attend conferences and trade fairs, further instilling loyalty. The speed of the business, its range of activities and the complexity of its market analysis techniques excite many of those involved.

Analysis and conclusions

The success of Migros-Türk cannot simply be explained by its first-mover advantages. Nor is it a story of continuous institutional evolution. Migros's

growth trajectory saw it evolve into a hybrid form that became neither a Swiss business nor simply a mirror of a typical Turkish conglomerate. What this shows is that these hybrid organisations can emerge through business and technology transplantations, and if they can take advantage of internationalisation they can even be pacesetters in other markets for business development and technology transfer. Nevertheless, the case of Migros also shows that the process of hybridisation requires decades of organisational deployment, periodic hibernation and a determined and reliable source of capital if it is to succeed against a backdrop of market competition, state intervention and political and social volatility.

Migros-Türk had a rocky existence until the 1990s. Its organisational development stalled in the 1970s and the 1980s, when it was caught up by local chains, such as Gima and Tansaş. It was not Migros-Türk that took the first IT-monitored supermarket technology to Turkey. Turkey's first and biggest supermarket emerged from a partnership between the municipality of Istanbul and its French partner in 1991, but this enterprise failed within a few years. As in the 1950s and the 1970s, municipalities and government intervention changed the market circumstances and competitive pressures.

After more than a decade of passive survival, Migros began to import cutting-edge technology as part of its new vision in the 1990s. While retail technology has been available to other domestic firms and was also successfully disseminated through the regional chains, only a few players were able to generate their own organisational capability to grow and compete internationally. There are several reasons for this. First, the Koç Group was committed to its push for growth. Compared to large conglomerates such as the Doguş Group, which acquired retail chains but failed to manage and expand them, Koç was able to retain the business ware, expertise and organisational capability of Migros-Türk. It valued its old guard while bringing in new blood. Second, unlike other provincial rivals such as Begendik and Yimpas, it enjoyed a much bigger pool of managerial and financial assets and traded on its established reputation. Koç's name helped Migros-Türk to recruit top professionals and exploit synergies with businesses such as Enka, a major construction group, and other suppliers. Third, the vision the general manager, Bülent Özyaydinli, was supported by the managers of the Koç group throughout the 1990s. Finally, the technology adaptation was managed successfully by an able, young and highly motivated workforce, and achieved through an ability to build a new organisation while growing very rapidly.

The growth of Turkish Migros since 1990 has been remarkable. The company now operates in 853 stores (including seventy-three Ramstores abroad), reaches 218 million people in five countries and employs more than 10,000 people. A comparison of Migros-Türk with several global retailers puts its achievements in perspective, however. The total turnover of all large retailers in Turkey was estimated to be around €3 billion in 2005, whereas large European retailers active in Turkey, such as Carrefour and Metro, each had over €60 billion turnover from their global operations. In 2005 the annual sales of Migros-Türk were just €1.2 billion. Europe's big retailers have been growing aggressively and penetrating world markets over the past two decades through mergers and acquisitions, not by organic growth. In 2004 the leading European retailer, Carrefour, achieved more than €90 billion in sales in more than thirty countries, with most sales in its home market, France. The second largest, Metro, made €64.1 billion sales through its 2,400 stores in twenty-nine countries, with somewhat less reliance on its home market, Germany (see www.foodanddrinkeurope.com/news/).

Another comparison with Swiss Migros also reveals interesting results. After years of hesitation and the unsuccessful acquisition of a local chain in Austria, Swiss Migros chose to remain a mainly Swiss cooperative business. Internationally insignificant and fully entrenched in its home market, in 1991 the Swiss Migros assembly of delegates voted for international expansion, first into France. French people who worked in Switzerland and lived near the Swiss border were considered natural potential customers. A similar expansion strategy was applied to Germany. Interestingly, while Migros-Türk was discovering totally different markets, such as Russia, Swiss Migros was concerned with retaining its product range and principles in bordering countries⁷. International expansion has not been the main objective of the cooperative and it continued to consolidate its conservative home market. As a result of its successful operations in the small but wealthy Swiss market, unhindered by foreign competition, Swiss Migros has been able to develop stable market relations over the years. More than a half of Swiss households, some 1.9 million people, held Migros shares in 2004. By that year Swiss Migros was one of the country's top twenty enterprises, employing around 81,000 people (Ulrich, 2005). The turnover of Swiss Migros was €13 billion, with 1,292 stores in just three countries.

The trajectory and size of Swiss Migros clearly illustrates the modesty of Turkish Migros's achievements, and the main difference appears to be not in the organisational capabilities or strategic vision but in other respects. The first is the nature of and the difference between the home markets.

Migros-Türk has been operating in a low per capita income environment in a large country in which spending power has been at least five to six times lower than in Switzerland. Political and regional volatility generated further business uncertainty and hindered long-term business growth. Second, capital accumulation in the hands of domestic family conglomerates such as Koç, despite their close ties with the ruling political parties, has been slow in Turkey. This is partly due to the fact that, until the 1980s, many were operating in a closed economy with almost no potential for international expansion. This is why Turkish conglomerates were latecomers to internationalise, had low levels of capital accumulation and limited local market growth. Finally, the modern management practices and skilled manpower needed to steer large operations emerged only after the 1980s.

Notes

This chapter is dedicated to the memory of a good colleague and friend, Colin Simmons, formerly Professor of Economics at Salford University. I am very grateful to Messrs Kerim Tatlici and Atilla Övündür of Migros-Türk and Ms Yasemin Kuytak for their help.

1. Although the registered name of the company is Migros-Türk, 'Migros' is also commonly used. In this chapter, unless stated as 'Swiss Migros', 'Migros' is used interchangeably for 'Migros-Türk'.
2. The Commonwealth of Independent States emerged after the dismantling of the Soviet Union. The CIS countries are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
3. EPOS is defined as the collection in real time at the point of sale, and the storing in a computer file, of sales and other related data by means of a number of electronic devices (Lynch, 1990). Electronic fund transfer (EFT) units attached to EPOS allow the automatic debiting of funds from customers' bank accounts for their purchase (Al-Sudairy and Tang, 2000).
4. Tansas was established in 1973 by the Izmir municipality to provide affordable meat and coal to urban residents. In 1993 32.98 per cent of the shares were sold to the public. Subsequently the majority stake passed to the Dogus Holding Group, and it merged with Macrocenter of Dogus in 2002.
5. Ramstores are operated by Ramenka, incorporated in the Russian Federation in 1997. Migros, Enka and Entrade currently own 50 per cent, 38 per cent and 12 per cent of Ramenka, respectively (see www.ifc.org).
6. John H. Patterson founded the National Cash Register Company, maker of the first mechanical cash registers in 1884, and since the 1950s the company has evolved to become a leading technology provider for retailers (see www.ncr.com/en/history/history.htm).
7. The conservatism I refer to here is in a business strategy sense, and is not linked to Swiss Migros's principle of not selling alcohol, tobacco, war toys or pornographic material.

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