

CONFRONTING THE BIG BOXES: COMPETITIVE STRATEGIES FOR SMALL BUSINESSES

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ABSTRACT

The past quarter-century has witnessed the rise of the big box retail format and the subsequent decline of Main Street small businesses. Today's customers are demanding high-quality products at low prices, greater convenience, and a wide assortment of goods. Wal-Mart's competitive advantage lies in its ability to meet these demands. Specifically, Wal-Mart excels in providing low prices, wide assortment of goods, and the convenience of one-stop-shopping. This paper reviews the research on the competitive responses of small retailers to mass merchandisers and discounters. The paper examines the theories surrounding competitive advantage and the strategies available for small businesses to compete against big box retailers. Although prior research has recommended that small businesses can benefit from differentiation strategies,, this paper argues that a hybrid strategy of low cost and differentiation with an emphasis on providing superior customer service may be the most effective competitive weapon against mass merchandisers such as Wal-Mart. A discussion of the success of dollar stores in competing with discounters supports the argument that a hybrid strategy is effective.

INTRODUCTION

Over the last several decades, the explosive growth of large discount chain stores such as Wal-Mart, Target, Home Depot, and Best Buy is transforming the economic and social landscape of America's towns and cities. The so-called "Wal-Mart phenomenon" has had serious repercussions for small businesses that formerly made up a town's economic engine. In many small towns, chain stores continue to

threaten the very existence of locally-owned hardware stores, pharmacies, and grocery stores

The threat of competition from mass merchandisers coupled with changing demographics and shifting consumer purchasing patterns are forcing small businesses to reevaluate and alter their business strategies and models (Love & McGee, 1999). Today's consumers are flocking to chains stores because they want value, choices, convenient locations, extended business hours, the convenience of one-stop shopping, a hassle-free environment, and a friendly personal touch in a clean, fun place to shop (Taylor & Archer, 1994). These changes in retailing have increased the options available to the typical consumer at the expense of the small retailer. Although business may never return to "usual," as in the days before mass merchandisers, there are many opportunities for small businesses in today's economy.

This paper reviews the prior research on the strategic responses of small businesses to the "Wal-Mart phenomenon." Much of the research suggests that small businesses follow a differentiation strategy. There is some contrary support for attacking the mass merchandisers and discounters "head on." The paper addresses the research support for each strategy and how small businesses should respond. A discussion of how dollar stores are successfully competing against discount chains demonstrates the effectiveness of hybrid strategies of low cost/differentiation. Suggestions for future research are discussed.

REVIEW OF THE LITERATURE

The impact of Wal-Mart and other discounters has yet to be fully explored. The literature on the Wal-Mart phenomenon has focused on two aspects. First, the negative impact of the mass merchandisers and discounters on local retailers and the local economy (Welles, 1993; Mammarella, 1994; Steinhaurer, 1995; Stone, 1995, McGee, 1996) has and continues to receive considerable attention by researchers and the popular press. This line of research has indicated that the existence of large discounters disrupts the prevailing retailing patterns (Franz & Robb, 1989; Ozment & Martin, 1990; Daniels & Keller, 1991; Arnold, 1998). This research suggests that large format retailers not only increase the overall competitiveness of the local retail marketplace, but they may also exhibit a pull-factor by drawing in consumers from surrounding communities (Peterson & McGee, 2000). The second line of research explores the reactions of small businesses to the entry of mass merchandisers into their markets. This stream examined the strategies and distinctive competencies of

small businesses as they reacted to changes in their markets. The focus of this paper is on this latter stream of research.

Wal-Mart has pioneered the expansion of discounters into rural markets, and through a combination of aggressive pricing and innovative inventory-control systems, has become the world's largest retailer. Wal-Mart succeeds as a huge buyer; it negotiates the best wholesale prices while offering customers the lowest prices and making up the differences in volume (Tsao, 2002). Small businesses are faced with the difficulty of competing with Wal-Mart's economies of scale and scope. As a result, many independent shopkeepers when faced with the entry of a mass merchandiser or discounter are forced to adapt quickly or face bankruptcy (Peterson & McGee, 2000).

Taylor and Archer (1994) outlined eight success factors of successful discounters.

1. *Customers want value.* Consumers have created a greater demand for low-cost, high quality products.
2. *Customers love choices.* Today's consumers expect greater choices in their shopping experiences.
3. *Customers love anything new.* Customers appreciate new stores, renovations, and historical renewal projects.
4. *Customers love convenient locations.* As more and more Americans are adopting a busy, fast-paced lifestyle, convenient shopping locations with accessible parking are in high demand.
5. *Customers love long open-for-business hours.* Extended business hours often translate into the customer's mind as customer service. It is common for mass merchandisers to remain open for 11-12 hours every day, and the practice of 24-hour operations are becoming increasingly common.
6. *Customers want the convenience of one-stop shopping.* The fast-paced lifestyles of many Americans place a high importance on time.
7. *Customers don't want hassles.* Most customers do not like to argue, and will walk away before they complain. The most aggravating hassle factors that are common in small businesses, and that the big boxes have succeeded in alleviating include:
 - Waiting.* Customers dislike long lines, slow service, too few checkout lines, and poorly trained personnel.
 - Poor return policies.* Many discounters follow a "no-questions-asked" return policy, while many small

businesses have inadequate and uncompromising policies that frustrate customers.

Stockouts on sale items. Customers do not appreciate driving all the way to a store only to find that the sale item is sold out.

8. *Customers want a friendly personal touch in a clean, fun place to shop.* Customers appreciate a personal touch. Here, small businesses have a definite advantage. It is much more common for employees of smaller businesses to remember customers and to possess extensive product knowledge.

Small businesses that focus on improving any of these factors will increase their competitiveness and have a greater chance of survival.

According to Michael Porter (1980, 1985), organizations should pursue one of two generic business level strategies: either low cost leadership or differentiation. A strategy of low cost leadership translates into a firm's attempt to become the low cost producer/provider in a market or industry. For example, all of Wal-Mart's operations are centered on one thing: providing the customer with low prices. Although Wal-Mart shoppers are getting low prices, they give up other factors that are present in many small businesses, such as a high degree of personal attention and store ambience. Cost leaders use economies of scale and cost controls to achieve low prices. This strategy also typically requires a high relative market share and aggressive pricing. A low cost strategy can be usually be achieved with the adoption of competitive behaviors such as inventory control methods, efficient transportation systems, purchasing practices, such as quantity discounts, efficient staffing, use of new technologies, which include point-of-sales technologies and computers, and efficient use of floor space (Cappel, Wright, Wyld, & Miller, 1994; Rubach & McGee, 2002). The strategy of low-cost leadership is followed by mass merchandisers, as well as small discount stores such as Dollar General and Family Dollar which have succeeded in implementing a low cost strategy (Rubach & McGee, 2002).

A strategy of differentiation, on the other hand, is characterized by firms striving to develop a product or service that is unique (Porter, 1980, 1985). Differentiation can be based on a perception of image or exclusivity due to high quality or unique products or superior customer service (Brennan & Lundsten, 2000). The ultimate aim of differentiation is to create brand loyalty and price inelasticity. In many cases, firms that embrace a differentiation strategy tailor their business models toward a specific market segment. These firms often take the form

of specialty shops. Ultimately, a firm that embraces a strategy of differentiation seeks to increase value in the minds of its customers through a variety of methods such as the availability of exclusive brands, a high degree of customer service, or the creation of a unique shopping “experience.”

If a firm does not have a clearly defined strategy of competing in its external environment, there is nothing to separate it from the competition— Porter calls this being “stuck in the middle” (Porter, 1980). A lack of strategic clarity can be detrimental to an organization’s performance (Porter, 1980; Rubach & McGee, 2002). It is essential that an organization (big or small) focus on a strategy and pursue that strategy in a designated target market.

When faced with the threat of competition from a big box retailer, small businesses do have available options. The popular press and many researchers have recommended that small businesses should focus on a strategy of differentiation that is centered on providing superior customer service, carrying merchandise that is hard to find, and ensuring that employees have extensive product knowledge and customer service training. A common argument among some researchers is that small businesses should not even attempt to compete with discounters solely on the basis of low prices. Discounters and mass merchandisers enjoy seemingly impenetrable purchasing economies of scale that impede smaller retailers from adopting a competitive strategy of low cost leadership (Billesbach & Walker, 2003).

The early research of the Wal-Mart phenomenon (1990-2000) generally supported the recommendation that small businesses had to differentiate themselves from the discounters and mass merchandisers. (Taylor & Archer, 1994; Morris & Gerlich, 1995). Of all the strategies available to small businesses, the one identified as most crucial was a commitment to providing superior customer service (Cox & Gresham, 1997). In a nationwide study of over 500 small businesses (firms with less than \$20 million in annual sales), Dwyer (1993) found that the most successful businesses had strategies that emphasized the importance of the customer. Morris and Gerlich (1995) in a study of the effect of the openings on Wal-Mart supercenters on grocery store sales in Texas, set forth some recommended differentiation strategies. While the study did not expressly measure the tactics of the small grocers, the authors recommended that small grocers should not be tempted to compete with Wal-Mart on price, but should differentiate their businesses on the basis of service.

TABLE 1				
	STRATEGY	SAMPLE	DISCOUNTER	TACTICS
Taylor & Archer (1994)	Differentiation	Small Businesses	Wal-Mart	Satisfy Customers Value added; choice; novelty; convenience; accessibility; one-stop shopping; no hassles (no waiting, favorable return policies, no stockouts); friendliness
Morris & Gerlich (1995)	Differentiation	Groceries	Wal-Mart	Service, innovation in product offerings
McGee (1996)	Differentiation/ Change	Independent Retailers	Wal-Mart	Pricing and promotions
McGee & Finney (1997)	Differentiation/ Distinctive Competencies	Independent Retailers	Wal-Mart	Product line management focusing on merchandising programs, especially pricing and advertising .
Litz & Stewart (1997)	Differentiate	Small Hardware Stores	Home Depot	Cost reductions; diversification
Peterson & McGee (2000)	Differentiation/ Change	Independent Retailers	Wal-Mart	Customer value, Quality, image, service
Brennan & Lundsten (2000)	Differentiation			Image; exclusivity; uniqueness; quality; superior service; brand loyalty
Rubach & McGee (2002)	Low Cost Leadership Hybrid	Retailers	Wal-Mart	Lower prices; greater convenience; cost controls
Billesbach & Walker (2003)	Differentiation	Small Businesses	Major Discount Chains (Wal-Mart, K-Mart, Target)	Employee selection and training; competitive pricing; selective merchandising; customer focus; store design and image

Small businesses have a unique advantage in the service area due to the fact that many local merchants have the ability to build personal relationships with customers. Moreover, the small size of many businesses allows more attention to be given to each individual customer. As was typical with this stream of research, the authors often provided laundry lists of best practices. For example, Taylor and Archer (1994), based upon their experience with over 1000 small businesses, recommended fifteen ways for small businesses to provide superior customer service:

- 1) *Find good employees, train them well, and treat them like superstars.* Employees will be more motivated to perform well if they are treated well. Recently Wal-Mart has been accused by some of its own workers for failing to provide adequate health insurance and other benefits. Small businesses will be able to boast superior customer service only if its workers are fairly provided for.
- 2) *Constantly monitor how you're doing.* One method of ensuring quality of customer service is to hire "mystery shoppers" to visit the business and conduct a customer service audit.
- 3) *Keep employees informed.* Employees should be well-aware of any sales or promotions.
- 4) *Find something to do every day that surprises, excites, or delights a customer.* Employees that go out of their way to help a customer will build customer loyalty.
- 5) *Make customer service everyone's job.*
- 6) *Be reliable, keep your promises—and keep your word.* "Don't promise what you can't deliver, and deliver more than you promised. In other words: "Underpromise, over deliver."
- 7) *Apologize when you make a mistake and explain how you'll make it right.*
- 8) *Don't hesitate to say "I don't know" but always follow it with the words "but I'll find out."*
- 9) *Learn your customer's name and use it.*
- 10) *Say thanks to your employees.*
- 11) *Say thanks to your customers.*
- 12) *Be courteous, friendly, and welcoming.* "Make each person feel as if he or she is the most important person on the premises at the time."
- 13) *Be efficient and value your customer's time.*
- 14) *Give your employees the authority to solve problems, and teach them how to do it.*

- 15) *Be accessible.* The business should be equipped to allow the easy entrance of people in wheelchairs. (Taylor & Archer, 1994: 84-88).

Jeffrey McGee's stream of research in the mid-90s began to draw into question the advice of using a purely differentiation strategy. McGee (1996) surveyed 222 small retailers in five Nebraska communities in which a Wal-Mart store had recently opened. He found that 72% of the responding firms were affected by Wal-Mart's arrival, with 53% suffering negative consequences, and 19% actually enjoyed positive results. With regard to those retailers that were negatively affected, 22% experienced a decline of 10% or less in revenue twelve months after the arrival of Wal-Mart in the area. McGee (1996) found that retailers under the threat of a new discounter responded with lower prices and increased promotions. McGee and Rubach noted (1996) that this response may be conditioned on the relative hostility of the competitive environment. In less hostile environments, retailers are more likely to focus on selective markets than by responding with a price-related tactic. Although there were some differences between those who were negatively affected by Wal-Mart's arrival and those who were not, McGee (1996) found that neither group made dramatic adjustments to their competitive strategy, and that many small retailers appeared to be either unwilling or unable to enact a competitive response.

McGee and Finney (1997) using 189 surveys of retailers in communities where Wal-Mart had recently opened stores found that firms that had effective merchandising programs were associated with better performance. The regression analysis of merchandising programs, especially those identified with pricing and advertising, were associated with better firm performance. McGee and Finney (1997) cautioned that their findings should not suggest that firms compete with discounters (here, Wal-Mart) on the basis of price. They did suggest that independent retailers know their product lines and that the retailers can use price and promotion selectively to effectively compete against the discounters and mass merchandisers.

Wal-Mart is not the only retailer that is disrupting rural economies. Litz and Stewart, conducted a similar study to determine the impact Home Depot has had on local hardware stores. They collected data from over 300 hardware stores that were competing in markets in which Home Depot had recently entered. The researchers found that nearly 50% of the respondents experienced a decline in both sales and profits due to the existence of Home Depot.

Peterson and McGee (2000) began to focus on distinctive competencies possessed by independent retailers, rather than generic strategies. In their analyses,

they found that the performance of small, independent retailers was positively correlated with a high quality service image, an ability to take action, and the ability to control retailing programs related to price. The better performing local retailers were likely emphasize customer value and a quality image through customer service

In studying the business level strategies of independent retailers, Rubach and McGee (2002) found that small merchants following a hybrid strategy of low cost/differentiation were more successful than most other retailers. Those businesses that were the most successful were those that had identified and pursued a distinct market niche. Moreover, successful local merchants offered unique, but fairly priced, merchandise or value-added services that appealed to their target market. Rubach and McGee (2002) assert that the potential for cost savings exists in a rural market.

Using a sample of 58 small businesses located in area where major discount chains conducted operations, Billesbach and Walker (2003) identified the best practices / success factors of those retailers. Employee training (a service orientation) and the right selection of merchandise were identified as success factors. No single tactic was identified as best, but head to head competition on price and merchandise selection was not recommended.

Brennan and Lundsten (2000) studied the appeal of mass merchandisers and discounters in five small towns in Minnesota. While the study did not expressly measure the tactics of the small grocers, the authors recommended differentiation strategies which emphasize assortment and value. The authors noted that small retailers will find it difficult to compete on price, but should differentiate their businesses on the bases of image, quality and service.

Changes in consumer buying patterns have prompted some researchers to argue that a firm's decision to follow one strategy (either cost leadership or differentiation) is no longer enough to remain competitive. Today's consumer is becoming increasingly sensitive to price, but is also demanding more value and higher quality products (Rubach & McGee, 2002). Those firms that can provide both high quality and affordable products are capturing the most market share in many industries. For many companies, a hybrid strategy of low cost/differentiation has become increasingly profitable.

THE CASE OF DOLLAR STORES

Contrary to much existing research, Rubach and McGee (2002) found that local retailers following a low cost/differentiation strategy were more successful

than those firms following solely a strategy of differentiation or no clearly defined strategy. Their findings are buttressed by the recent success of the so-called “dollar stores” such as Dollar General and Family Dollar. Pitted squarely against the discount behemoth, Wal-Mart, these small dollar stores have succeeded in becoming the fastest-growing retailers in America. Through a strategy of cutthroat pricing, Dollar General and Family General have led the dollar store sector, which earned \$16 billion in 2003. The sector added more than 4,000 new stores in the period 2001-2004, an increase of 34% (Berner & Grow, 2004). Moreover, some 36% of customers polled by market research firm Retail Forward frequent these stores monthly, up from 26% in 1997 (Tsao, 2003).

Dollar stores have been successful in undercutting Wal-Mart on two counts: their ability to offer lower prices and offering greater convenience. These are two of Wal-Mart’s core competencies that have made up the bedrock upon which the discounter has based its competitive advantage. The sheer size of a typical Wal-Mart Supercenter has actually created inconveniences for customers who must make special trips to the outskirts of town, where most Wal-Mart Supercenters are located. Parking becomes the next inconvenience, as customers must find a parking space and then make the trek across the mammoth parking lot. Dollar stores, on the other hand, are much smaller than a typical Wal-Mart store, and are located in downtown neighborhoods, which are closer to where people live. Parking is usually no problem, and shoppers can make the shopping experience quick and painless. According to David A. Perdue, Dollar General’s chief executive: “Wal-Mart competes on price and assortment; we compete on price and convenience” (Berner & Grow, 2004).

The dollar store chains have succeeded in beating Wal-Mart on price not by matching the discounter’s famed technology and bargaining power with suppliers, but by offering its customers even less in the way of frills. Dollar stores have ultra-low overheads through an aggressive strategy of cost-cutting. Most dollar stores are located in second-tier strip malls, which save significantly on real estate costs. In addition, dollar stores, which began as liquidators, are adept at scavenging bargain leases from other retailers that go out of business (Berner & Grow, 2004).

Another source of cost savings comes from dollar stores’ lack of marketing expenses. Little or no advertising is the norm in the industry—Family Dollar, for example, prints one advertising circular a year. Labor costs are also minimal. Family Dollar and Dollar General only employ about four people per store. Finally, all of the chains are reliant on stock over-runs and closeout merchandise for a portion of sales. This type of merchandising allows dollar stores to charge below-

average prices on many branded items that have significantly higher price at Wal-Mart or other mass merchandisers (Berner & Grow, 2004).

Wal-Mart is vulnerable on price. The dollar stores' have succeeded in undercutting Wal-Mart's prices by operating on ultra-low overheads and relying on product overruns for a portion of sales. In so doing, dollar stores offer a tangible model for locally-owned small businesses seeking to thrive in the midst of Wal-Mart's shadow. However, small businesses must not stop here. Some degree of differentiation is needed for small businesses to distinguish themselves from simply becoming dollar stores. In addition to low prices, customers are demanding value. One way small businesses can differentiate themselves and increase value in the minds of customers is becoming specialty stores that offer premium, name-brand goods at competitive prices. For example, take the experience of Robert and John Reny, owners of a 14-store outdoor apparel chain in Maine.

"We were scared," admits Robert Reny, 50, referring to the time Wal-Mart first ventured into Maine. Along with his brother, John, 52, Robert runs Reny's, a 450-employee chain of 14 department stores founded by their father, Robert Sr., 78, in 1949. From their headquarters in Newcastle, the siblings together studied Wal-Mart's positioning and tactics and shopped its stores, looking for ways to differentiate themselves from the retailing giant.... At the time—about ten years ago—the Renys concluded that Wal-Mart had a lock on "hard" goods, but that it was vulnerable in "soft" goods (clothing and shoes), which now account for roughly half of the Reny's chain's \$45 million in annual sales. "In clothing Wal-Mart sells whatever is inexpensive," notes John Reny. By upgrading Reny's clothing mix, the brothers aimed to maneuver around the giant retailer.... Their two-pronged strategy relied heavily on their company's nimbleness. First, they emphasized higher-quality brands, such as Columbia, Timberland, and Woolrich, at still-reasonable prices. While once a top seller of Dickies clothing, Reny's has now become one of Maine's largest carriers of Carhartt workwear, a higher-end brand—and one not carried by Wal-Mart. Still, they remained sensitive to price. "We try to be a little bit below the market and accept a little less margin," John notes.

At the same time, the brothers gobbled up small lots of closeouts, irregulars, seconds, and production overruns from those same better-quality, name-brand apparel makers and aggressively marked down the prices. They knew that Wal-Mart, dealing with much larger volumes and uniform merchandise, simply could not engage in such guerrilla retailing.... Last year Reny's scooped up and sold 30,000 pairs of fleeced-lined jeans and 5,000 children's winter jackets, selling each item at \$20.

Bought directly from the factory, the items came via production overruns from a competing retailer that was selling the jeans at \$40 and the jackets at \$60.

The strategy has paid off. The first year after Wal-Mart's arrival, Reny's annual growth dropped from 8% to zero. But it edged up to 3% the next year, and since then it has doubled to 6%. Despite Wal-Mart, Reny's has remained profitable. It recently completed a 90,000-square-foot office, warehouse, and distribution complex to better compete with—who else?—Wal-Mart. (Welles, 2004)

The Reny's strategy provides an exceptional example of a small business engaging in direct competition with Wal-Mart on the basis of low prices and differentiation. In adopting a competitive strategy, the first step for a small business is to analyze its strengths and weaknesses to identify any niche market left untouched by the big boxes. Once this niche has been identified, the small businesses should determine a competitive strategy among low cost leadership, differentiation, or a hybrid strategy of low cost/differentiation. For many small businesses, a strategy of differentiation is appealing and the most feasible. Following a strategy of differentiation allows small merchants to avoid competing on the basis of price, but rather focus on increasing value for the customer through exceptional customer service, providing merchandise that is hard to find elsewhere, and creating a memorable shopping experience. Although differentiation does provide a means of competing with Wal-Mart and other discounters, a more effective competitive strategy may be a hybrid form of low cost/differentiation (Rubach & McGee, 2002).

In order to implement a strategy of low cost/differentiation, small businesses should focus on the following: pricing, cost controls, merchandise mix, creating a unique shopping experience, and providing superior customer service. Small businesses can typically achieve cost advantages through the adoption of a number of activities including inventory controls, efficient transportation systems, efficient purchasing practices, efficient store staffing, and the use of new technologies including point-of-sales technologies and computers (Rubach & McGee, 2002). By implementing cost-controls, the savings can be passed on to customers in the form of lower prices.

Small businesses can follow the example of the dollar stores in order to reduce costs. Family-run businesses can save money on labor costs by hiring within the family. Moreover, like the dollar stores, property costs are also favorable to smaller businesses. Another source of cost savings can arise from the practice of

salvaging merchandise from closeouts. Small businesses can follow the dollar stores' lead in aggressively scanning the area for liquidations and other sources of inexpensive, high-quality merchandise. Another source of cost savings for small retailers can be found in the creation of a network (or alliance) of stores. For example, a network of small stores located near each other can consolidate orders in order to reap the cost savings associated with full-truckload deliveries rather than incur the higher cost of partial-truckload deliveries (Metters, Ketzenberg & Gillen, 2000).

Although most small businesses cannot compete with Wal-Mart on the basis of assortment of goods, many can compete with Wal-Mart by becoming specialty stores that carry unique items that are hard to find elsewhere. Retailers are finding that customers value broad choices of product categories rather than an endless line of products within a category. Metters, Ketzenberg & Gillen (2000) found that more than half of the dry-goods items in grocery stores sell less than one unit per week, and that most grocers have too much variety. Once a threshold of variety is reached, total category sales barely budge by including more (Metters, Ketzenberg & Gillen, 2000). This explains why dollar stores such as Dollar General can offer many categories but just one or two brands within each in order to offset the advantages of size enjoyed by Wal-Mart and others (Metters, Ketzenberg & Gillen, 2000).

The increasing "Wal-Martization" of our culture has left many shoppers longing for the days when shopping meant strolling in and out of boutiques and specialty stores on a tree-lined Main Street. A huge part of Wal-Mart's low cost strategy entails a no-frills approach in which little attention is paid to store ambience and customer service is virtually non-existent. The arrival of a Wal-Mart to a community is an opportunity to provide a unique shopping experience that is lacking in the business models of many mass merchandisers.

It is important to note that the quality of customer service a small business can deliver is directly related to the quality of its employees. Employees with extensive product knowledge are better-equipped to completely satisfy customers and provide a value-added shopping experience. It is essential that small businesses spend adequate time and resources training employees to provide superior customer service.

FUTURE RESEARCH

The impact of Wal-Mart and other discounters has yet to be fully examined. Present research that suggests that the existence of large discounters disrupts the

prevailing retailing patterns (Franz & Robb, 1989; Ozment & Martin, 1990; Daniels & Keller, 1991). This research suggests that large format retailers not only increase the overall competitiveness of the local retail marketplace, but they may also exhibit a pull-factor by drawing in consumers from surrounding communities (Peterson & McGee, 2000).

Future research should continue to examine the strategic responses of small businesses to the presence of discounters and mass merchandisers. The evidence as to which strategic responses are most effective is conflicting. In what industries would a low cost or hybrid strategy be most appropriate? Where are differentiation strategies most appropriate? Where are the Wal-Marts and other discounters most vulnerable?. Wal-Mart has always been weak in its soft goods, but will this continue? Where else should small retailers have an advantage? There are still numerous opportunities to fine tune the contexts of strategies and tactics that small retailers should employ to succeed against the large discounters.

CONCLUSION

It is essential that small businesses do not shirk from the threat of competition from mass merchandisers and continue with the status quo. Small retailers must assess their strengths and weaknesses and commit to a competitive strategy that focuses on firm-specific competencies (McGee, 1996; McGee & Love, 1999). So far, Wal-Mart and others have pursued a strategy based on low cost leadership. Many in the popular press argue that the only recourse left to small businesses is to differentiate themselves by focusing on strengths such as customer service and superior product knowledge. However, the phenomenal success of dollar stores offers evidence that smaller retailers can compete with Wal-Mart on price. Pitted squarely against Wal-Mart, these small dollar stores have succeeded in becoming the fastest-growing retailers in America. Dollar stores have been successful in undercutting Wal-Mart on two counts: their ability to offer lower prices and offering greater convenience. These are two of Wal-Mart's core competencies that have made up the bedrock upon which the discounter has based its competitive advantage.

Although differentiation does provide a means of competing with Wal-Mart and other discounters, the most effective competitive strategy (if possible) may be a hybrid form of low cost/differentiation (Rubach & McGee, 2002). If small businesses pursue cost-saving measures such as buying seconds, product overruns, and closeouts of name-brand products, they may be able to compete with the likes

of Wal-Mart. In this scenario, small businesses can provide value-added differentiation to customers in the form of higher-quality goods at competitive prices.

The past quarter-century has witnessed the rise of the big box retail format and the subsequent decline of Main Street small businesses. As Wal-Mart, Target, Home Depot, and other mass merchandisers continue to grow exponentially, small businesses must adapt to a fast-changing retail environment. Today's customers are demanding high-quality products at low prices, greater convenience, and a wide assortment of goods. Wal-Mart's competitive advantage lies in its ability to meet these demands. Specifically, Wal-Mart excels in providing low prices, wide assortment of goods, and the convenience of one-stop-shopping.

As small businesses are coming to grips with the demands of their external environment, many opportunities exist for local merchants to excel amidst the big boxes. It is very difficult for a big box retailer to compete with a local business with regard to the relationships small businesses have their customers. This is the hidden strength that is available to many small businesses, yet many continue to neglect and even ignore. Wally Bock, a retail consultant based in Wilmington, N.C. commented for Fortune magazine: "In most of the communities where you get weeping and wailing about the coming of a Home Depot, you'll find stores that were habitually giving crappy customer service" (Hyatt, 2004). This is a poignant observation that warrants further reflection. Perhaps the arrival of the big boxes has unleashed the competitive forces that have created new opportunities for small businesses to excel, yet punished those local businesses that have refused to adapt to changing consumer buying patterns. In any event, small businesses have the potential to capitalize on the current demand for fulfilling shopping experiences. As more and more customers tire of the "Supercenter experience," perhaps Wal-Mart will inadvertently find itself as being the impetus for reinvigorating small businesses on Main Street.

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