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Store choice: How understanding consumer choice of 'where' to shop may assist the small retailer

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ABSTRACT

Recent decades has seen continued rationalization in the retail sector and the growth of 'big-box' or 'category-killer' store formats leaving the small business struggling to compete and at a loss to determine how it can 'win'. We propose that a segment of shopper exists that shop at small businesses for specific reasons. Using a choice experiment approach to investigate the reason consumers choose where to shop amongst small, independent and large scale retailers we see this different segment of consumers appear. Best:worse is a choice method that forces choice amongst a range of variables, designed to uncover 'actual' reasons for decisions made. This paper finds consumer choice for retail stores types identifies a segment that may assist in the sustainability of smaller stores if they cater to the attributes their target consumers seek. This is a contribution to small business researchers and small business strategy and practitioner effort in the marketing and design of small retailer offering.

1. Introduction

Stores compete as brands compete: by being physically and mentally available to consumers. The problem for small business, is that like small brands, they occupy a low percentage of the total brand communication. Small stores advertise much less and so are more likely to be 'not thought of', which leaves the question "do people shop at small stores for different reasons than those who shop at large stores?" Consumers need to think about where to shop as well as have it within 'reach'; if the small store has a small voice then it is less likely to be thought of, will customers have a reason to overcome the convenience of large store access? Physical availability in that the store is easily accessible to the consumer, whereas mental availability refers to the propensity for the store (brand) to be thought in a purchase situation (Romaniuk and Sharp, 2004). Both concepts are highly independent of each other. A store physically existing and being physically available in the market does not mean that consumer will necessarily visit the store unless it is part of the consumer's 'mind-set' of places to shop. For the store to exist it becomes evident that it must meet this challenge if it is to survive, that growth which occurs for small firms (as proposed by Penrose 1959) may not be the key to the firm's sustainability. Competing necessitates understanding what influences and shapes the consumers mind-set; what are the influencers on where they choose to shop. Is there a segment of consumers that can be empirically identified that seeks out the type of offering smaller firms in the marketplace present? This also entails examining how stores compete in order to see how consumers may view their positioning in the marketplace.

How do different types of stores co-exist in a market? The key assumption is that stores co-exist because they do not share similar positions in the consumer's mind, therefore they do not compete using the same points of difference. In that sense, stores are more likely to experience stronger intratype competition than intertype competition, as suggested by Solgaard and Hansen (2003). The question that remains in how to assess the way people make their choice on where to shop is to understand what are their expectations and what kind of value do they expect from a range of stores. We investigate this question using three types of wine stores available to the Australian consumers for the purpose of purchasing alcoholic beverages.

An environment of global rationalization followed by global slowdown leaves question marks about the sustainability of the business environment created by theories promoting growth and expansion. We have seen theories of the firm (Penrose, 1959) that position the duty of the firm is to grow; we have seen massive rationalization of retail outlets in the western and developing worlds with a somewhat diminished presence of small firms. We pose a theoretical question of whether the firm needs to grow? Is there a segment of consumers that value the small firm's offering, thus providing an environment for a small firm to coexist in a marketplace with big firms? The retail wine sector in Australia has

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undergone massive rationalization with two supermarket's combined national market share moving from 28% in 1998 (Burch and Goss, 1999) to 40% in 2003 (Anderson, 2004) up to 46% in 2007 (Waye, 2008). As a licensed product in Australia the market is heavily regulated and the sample well identified; consumers are ‘forced’ to travel outside a supermarket and make an ‘independent’ alcohol purchase.

2. Literature review

2.1. How do small stores exist?

The question of ‘how small stores exist’ refers us to the structure of an industry; in other words, why does an industry include different types of organizations, for instance micro-businesses (with one or no employee), small companies, medium sized and big businesses? In the late 50s, Penrose (1959) suggested that small companies could survive and grow mainly because the bigger ones do not ‘grab’ and further develop some business opportunities that are available in the market; that small firms would grow as they picked up consumer business the larger firms ‘missed’. Such a situation occurs because of economic growth, therefore the number of business opportunities increase more than the capacity for the big companies to absorb them all. Consequently, these market opportunities, or ‘interstices’ (Penrose, 1959) that remain ‘free’ or un-served are the key reason explaining the existence of ‘smaller’ businesses; as a small bird takes the crumbs of a piece of bread left behind by a big bird. A question arising for the small firm is to establish if they are ‘crumbers’ or do they create unique value for a segment of the market? One is arguably sustainable, the other may not be.

Generally speaking, small companies are successful if they create and deliver value to particular customers/consumers, value that would have been difficult for bigger companies to generate. One aspect of the market that Penrose did not include in her analysis is the fact that the market is segmented and demand may be differentiated. A small company benefits from market interstices because of their small size (as explained before) and because of a differentiated demand for products or services that bigger companies cannot deliver to the consumers and create value.

2.2. The retailer's offering in the marketplace

The last few decades have seen a decline in the number of small businesses in most westernized countries (Solgaard and Hansen, 2003). Andersen (1997) notes that ‘*retailers must listen to customers to know how to please them*’ in a way that determines what customers want and how to satisfy them. In other words, creating value for a retailer presupposes having a good understanding of the clients' expectations. This value creation and delivery process refers closely to the market-orientation concept. In a survey conducted with 305 independent retail businesses in the UK, Megicks and Warnaby (2008) suggested that greater orientation towards superior customer satisfaction was a key factor for small retailers to succeed. Megicks and Warnaby's (2008) contribution confirms Kara et al. (2005) findings for small-sized service retailers using MARKOR scale items. By definition, such findings suggest that consumer expectations are varied, which requires small retailers to build and develop distinctive competencies to sustain their competitive advantage against bigger retailers. McGee and Peterson (2000) note that because these distinctive competencies are difficult to generate and sustain (therefore to imitate), that situation gives the opportunity to small retailers to battle and conserve a market position over time. Consequently, competition between retailers would be stronger between those serving and satisfying consumers with similar expectations than between retailers with a differentiated offering (and customer base). Using Solgaard and Hansen's (2003) terminology, *intratype* competition between outlets might be stronger than *intertype* competition (e.g. a specialty store competing with a ‘category killer’). Key to establishing this is to empirically identify the choice reasons for consumers of choices for intertype retailers.

This reasoning does assume that consumers do not switch from one store category to the other, or that consumers are loyal to one store. Depending of the purpose of their buying trip, one store more than another may come to their mind. Solgaard and Hansen (2003) found that consumers are more likely to choose a specialty food store than a supermarket if the purpose of their shopping related to a special occasion. Interestingly, the critical factors supporting this are perceived similarity by the consumers and the managers of the specialty store: high product quality and freshness of products are the first and second ranked scores by both groups, although consumers rated the assortment factor as important while managers perceived it as not so important. Consumers also rated the service offered by small food retailers and the presence of qualified and service-minded salespersons as important (Solgaard and Hansen, 2003). Based on a survey conducted with 255 traditional independent retail pharmacies, McGee and Peterson (2000) found service image, including quality of the service, handling of customer complaints, and store image, was the strongest correlated construct with the performance construct: ‘*more highly performing local retailers are likely to be keenly aware of the ingredients of customer value and are likely to emphasize a quality image for their store through customer service*’. Focusing on such a service image can implies the retailers understands the linkage between its own value chain and the value-seeking behaviour of the consumer (Watkin, 1986).

All the factors mentioned above contribute to a competitive advantage for the retailer. In a more global perspective, and referring to Porter (1980) competitive advantage concept, a retailer's competitive advantage can be cost-based, differentiation-based or focus-based (Runyan and Droge, 2008). Ellis and Kelley (1992) found that chain stores clearly compete better on cost with the ability to generate greater economies of scale through the purchase of larger quantities, greater sales volume and the share of advertising expenditure in the market. Ellis and Kelley suggest that the independent store's competitive advantage is based more on differentiation, supported by personalized services. The focus or niche strategy was investigated by Litz and Stewart (2000) as well as by Paige and Littrell (2002) with the former suggesting that hours of operation and being a little awake store, i.e. being opened late, would allow small retailers to occupy a niche that is not served by big box stores. Paige and Littrell (2002) found that craft retailers concentrate on a focus strategy, serving narrow market segments with more specialized products, but it is unclear how they differentiate this strategy with the differentiation-based strategy of Porter (1980).

Morschett et al. (2005) challenged Porter's competitive advantage model for two primary reasons, (i) agreeing with others that competitive advantage combinations are not considered by Porter and (ii) suggesting that Porter's view is too simplistic. To challenge Porter's competitive advantage model, they conducted interviews with food retailers in German speaking countries, as well as with consumers in one major German city; their findings did not support Porter's model from either perspective. In short, ‘*quality and cost/price leadership do not contradict each other, but are independent dimensions of competitive advantage*’ (Morschett et al., 2005). From a consumer perspective, three central dimensions of retail stores strategic strengths were identified: ‘price level’; ‘quality of performance’, including the quality of assortment, service, processes, store design; and ‘scope of offers/convenience’,