Resisting the Giants: Small Retail Entrepreneurs against Mega-Retailers – An Empirical Study

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ABSTRACT

Mega-retailers are widely criticized as causing devastation among smaller retailers, particularly in mid-sized markets in the United States. Others argue that small retailers can survive "in the shadow of the retail giants", by offering levels of customer service that the mega-retailers can't provide due to their very size. This paper reports the findings of an empirical study of the perceived impact of the recent opening of box-retailers, such as Costco and Home Depot on locally owned/operated small retailers in the North-Eastern Ontario city of Greater Sudbury, Canada from 1999 to 2003. The sample included 78 smaller store owners, on average in operation for the last 21 years.

Aggregate results confirmed the hypotheses that small retailers suffered lower sales and clientele since the arrival of mega-retailers, and could clearly identify their and mega-retailers' respective competitive advantages and disadvantages as compared to each other. Respondents had a significant perception of having an advantage over their mega-competitors in the areas of Store Cleanliness, Value for the Customer, Products' Quality, and Store Layout. While a number of respondents suffered lower sales, about one-third of them (the Resisting Retailers) had average sales growth of over 21%. Differentiation and Niche Marketing were the main aspects of a successful competing strategy adopted by resisting retailers against mega-retailers. Some of the strategic moves adopted by resisting retailers amounted to a "Vacuum Strategy", which includes the refusal to carry brands available at mega-stores, and the refusal to service such brands or to have anything to do with mega-retailers, refusing any alliance with them and making it known to customers.

INTRODUCTION

This paper reports the findings of an empirical study of the perceived impact of the opening of mega-, or box-, retailers on locally owned/operated small- to medium-sized retailers in North-Eastern Ontario, Canada. The study focused on the City of Greater Sudbury (CGS). A Census Metropolitan Area (CMA), the CGS is located in Northern Ontario, the region is known for its spectacular lakes, forests, and fauna as well as for its frigid winter weather, the region used by most North American and Japanese motor vehicle manufacturers as a cold weather testing ground. The CGS has also been a Canadian market test city for several decades.

With a market of approximately 550,000 people, relatively isolated from large urban centers such as the Greater Toronto Area (GTA), Northern Ontario and the adjacent North Western Quebec area represent an ideal real-life size laboratory enabling the observation of the emerging battle between established local small retailers and the large mega-retailers such as Costco and Home Depot. The former opened in the CGS in 1999 and was quickly followed by Home Depot in an adjacent location. Subsequent openings of a number of similarly large stores continue in that location, resulting in the emergence of a significant North-Eastern Ontario power center involving around thirty stores. As the results below will show, some local smaller entrepreneurs have decided to fight, and a good number of them are resisting the giants with varying degrees of success.

The researchers also tried to identify what competitive advantages smaller retailers reported to be attempting to develop or maintain as they were confronted with the entry of mega-retailers into their immediate vicinity and within the regional market. The questions related to the impact of mega-retailers on specific categories of retailers and the issues related to the respective location of mega- and small retailers were also examined, as well as the positive, neutral, or negative financial impact of mega-retailers upon small retailers. The characteristics of those retailers who were successfully competing or resisting against mega-retailers as well as those of the unsuccessful ones so far were examined.

Definition

A number of terms are attached to retail “super” store operations including "hypermarkets" in Europe (Gonzalez-Benito, 2001), and in North America “box retailers”, “discount retailers” and “mega-retailers”. These terms generally apply to stores which are 2,500 m^2 in surface and over (or 26,900 sq. ft.), but many new stores are 7,500 m^2 and more (80,700 sq. ft.). In this study the term “mega-retailer” is used since this appears to be the more common generic title and includes four types of large retail operations: discount stores such as Wal-Mart, category killers such as Home Depot, warehouse clubs such as Costco, and outlet stores such as The Shoe Company.

LITERATURE REVIEW

Although there are numerous anecdotal press reports regarding the effects of mega-retailers, Wal-Mart in particular, empirical research reports are limited. Noteworthy U.S. and Canadian studies, including Beaumont (1994), Stone (1995 and 1997), Shils (1997), Jones & Doucet (1998), Doucet & Jones (1999), and Stone & Artz (1999) have concluded that the opening of mega-retailers in a community has the potential to impact on existing smaller merchants in two ways. Firstly, there will be an effect on the retail sector in terms of changes to sales levels; increasing in outlets in the immediate area carrying different product categories to the mega-retail outlets, a result of increased traffic. However, decline occurs in the overall market area in outlets carrying similar categories (Stone & Artz, 1995). Secondly, there will be changes in the way the merchants conduct their business in terms of competitive strategies: reduction in number of employees due either to lower sales levels or to increased efficiencies and changes in marketing practices in terms of pricing, product mix and store positioning, location of outlet and recognition of customer service as being central to survival. Others also point out that retail's success is entirely dependent on a local economy's ability to generate purchasing power for the customers, while large retailers drain wealth away from an area (Fruth, 2000).

Shils's (1999) comprehensive study identifies both social and economic effects, the social effects being the physical and social decline of neighborhoods and town centers as pre-existing retailers fail to survive. The more serious economic effects include, firstly, retail closures as traditional retailers fail to compete, with the consequent loss of jobs including the employment of the owners themselves. Secondly, reduced numbers of employees was noted; a result of Shils's "drain away" effect caused by the presence of mega-retailers shifting activities from various geographic traditional retail centers or clusters.

In seeking community approval to locate stores, mega-retailers have promised increased job numbers. In several cases it is reported that the number of jobs have not materialized to the extent promised, a situation exacerbated by the fact that, according to the Shils study, each new part-time job in a mega-store eliminates about one and a half full time job in smaller stores. Further, most jobs in the mega-retail stores are "minimum wage" with little opportunity for improvement or promotion. Most are non-union with all the ramifications implicit in such situations (i.e. absence of provision of health and fringe benefits to large numbers of employees). In some situations, they report, the mega-retailers have closed down operations after several years. Having forced the closure of much of the local retail trade, the closures leave a retail vacuum and an increased unemployment problem (Dalal, Al-Khatib, DaCosta, and Decker, 1994).

Shils pointed to the erosion of “free retail market” choice for consumers both in terms of choice of retailer, shopping location and brand and other choice issues. Citing a 1996 statement of Wal-Mart’s CEO, David D. Glass, at their annual stockholders meeting of that year, “We are going to dominate North America!” Shils points to the “decimation of communities’ “main street” retailers, unable to compete (p.6).

Conversely, Archer & Taylor (1994) argue that small retailers can survive “in the shadow of the retail giants”, the key being levels of customer service that the mega-retailers can’t provide, their very size limiting their abilities in this area. More specifically, Berry (1999, 2001) contends that by using five well-documented retailing best practices, the “Five Pillars of Retailing”, survival and success can be achieved. Berry’s “Five Pillars” of retailing, components of his “retail model”, are:

1. Solve Customers' Problems
2. Treat Customers with Respect
3. Connect with Customers’ Emotions
4. Set the Fairest (not lowest) Price
5. Save Customers’ Time

Berry argues that all five of these practices must be implemented in order for the concept to be effective. For the purpose of this study, the authors have developed the five scales described below in the “Methodology” section.

Studying the impact of mega-retail mainly in the Toronto area in Canada, researchers at the Ryerson University Centre for the Study of Retail Activity (Doucet and Jones 1999) found that employment and sales had increased among mega-retailers, and decreased among their smaller competitors located in storefront retail strips. They also found that stores located closer to mega-stores suffered the most.

SETTING OF THE STUDY AND MEGA-RETAIL BACKGROUND OF THE REGION

Expansion of Mega-retailers into Ontario:

While mega-retailing can be traced back to the creation of the first department store by Aristide Boucicaut in Paris in 1852 (Chirouze, 2003), and to the opening of a first Woolworth store in 1879 in Lancaster, Pennsylvania (Perry, 2001), the arrival of mega-retailing in Canada generally, and Ontario in particular, has been the result of the expansion of U.S. mega-retailers into the country since the late 1980's. Insofar as Ontario is concerned, until 1999 expansion was confined largely to the more populous southern part of the province. The greatest expansion of mega-retail outlets is occurring in the Greater Toronto Area (GTA). Jones and Doucet (1998) record 93 outlets of this form (a total of 418,000 m^2, or 4.5 million square feet) in the GTA area by 1990 increasing to 268 stores (1 million m^2, or 11.1 million sq. ft.) by 1998. Expansion has continued with 2002 data showing 614 outlets (2.7 million m^2, or 29 million sq. ft.), (Hernandez, Biasotto, and Jones, 2003; Hernandez, Jones, and Maze, 2003; Simmons, 2003).

Setting:

The setting of the study is the City of Greater Sudbury, occupying a key location on the Trans-Canada (East-West) main highway and a hub for access to much of North-Eastern and North-Western Ontario from either Toronto or Ottawa. Located 385 km (240 miles) north of the GTA, the city has a population of over 160,000 people.

Mega-retail background in the CGS:

With the exception of Business Depot – Staples, who opened a modest-sized store in 1993, and Wal-Mart, who acquired a small Woolco store in 1994, mega-retailers' real expansion into northern retail market areas beyond Barrie, a sleeper town some 100 km (60 miles) north of the GTA, occurred in 1999 with the opening of the approximately 13,000 m^2 (140,000 sq. ft.) Price/Costco Warehouse Membership Club store in the City of Greater Sudbury (CGS) in Northern Ontario. This was quickly followed by the opening of the 14,000 m^2 (150,000 sq. ft.) Home Depot adjacent to the Costco location in Sudbury. With the subsequent opening of other mega-retailers, including Pier 1, Danier Leather, Homesense, ShoeSource, Mark's Work Wearhouse, Chapters-Starbucks, and a large Sears Home furniture and appliance outlet in the same location, a significant "power center" was being created in the north-east of the city.

Winners and Wal-Mart have also opened stores in other locations, both in the north-end of Sudbury, in recent years. Wal-Mart are building a 10,000 m^2 (105,000 sq. ft.) plus second store in the south-end of the City with capacity expansion potential for a further 3,250 m^2 (35,000 sq.ft.) A further 14,000 m^2 (150,000 sq. ft.) of added retail space in the South End was occurring with the expansion of a mall anchored through an existing but much expanded Zellers discount department store (a Canadian-based chain, formerly a subsidiary of the U.S.-based chain, K-Mart, purchased by the Hudson's Bay Company retail chain in 1996) targeted against Wal-Mart. It is expected that Greater Sudbury would host about 50 mega-retail stores by the end of 2005.

Mega-retailers' Market Area:

The designated market area (Malone, Given, Parsons, 1996) from which the mega-stores in the CGS attract customers comprises much of North-Eastern Ontario and parts of the Western Abitibi-Temiscamingue region located on the Western part of the Province of Quebec. Greater Sudbury forms the pivotal center of an area containing a total population of over half a million people all within 350 km (220 miles) of Sudbury. The market area embraces a number of small- to medium-sized rural communities and cities including Parry Sound to the south-east, French River to the south, Elliot Lake and Sault St. Marie to the west; Hearst, Kapuskasing, Rouyn-Noranda (Québec), Kirkland Lake and Timmins to the North and New Liskeard, Temagami, and North Bay to the East-North-East. More detailed discussions of the economic structure of the region have been published elsewhere (Cachon *et al.*, 2001; Mulholland, R. *et al.*1998).

Two aspects of the issue of the impact of mega-retailers on the economy in the CGS and area are important to note. Firstly, the region is vast and is considered to be relatively remote from the major population centers of the GTA and Barrie, where the nearest mega-retail outlets are located. This aspect is discussed further in the "Methodology" section below. Secondly, in many cases, particularly in the United States where individual rural regions are in constant competition to save local jobs, mega-retailers, have been attracted into regions by low-cost land and promises of property tax exemptions offered by local authorities in the belief that permitting such developments would increase opportunities and improve general economic conditions. This did not occur in Sudbury where the local authorities have made the companies responsible not only for property taxes, but also for infrastructure modifications including roadways, drainage and other municipal or utility-provided services.

RESEARCH METHODOLOGY

Hypotheses:

Drawing on the results of the earlier research cited in the literature review, the following hypotheses were formulated:

1. Small retailers have seen a drop in gross sales since mega-retailers came to the city;
2. Small retailers have seen less out-of-city clientele since mega-retailers came to the city;
3. Small retailers can identify clearly their competitive advantages and disadvantages as compared to mega-retailers;
4. Small retailers can clearly identify the competitive advantages and disadvantages of the mega-retailers;
5. Small retailers are involved in planning innovative competitive strategies to enable them to better compete against mega-retailers;
6. Small retailers located within eight km (five miles) of the mega-retailers have seen a significantly stronger decrease in gross sales, as compared to retailers located further away;
7. Small retailers located within eight km (five miles) of the mega-retailers have seen a significantly stronger decrease in profits, as compared to retailers located further away;

Secondary Data Sources:

In addition to the reports noted in the literature review, secondary data included municipal retailer and product/service category data on a local basis. Copies of market review and impact studies conducted on behalf of Costco and others were obtained; such studies are required by the local municipality's planning authority and provide a useful perspective.

Primary Data Sources:

Primary data were collected using a cluster sampling approach involving 180 retailers within a 30 km (20 miles) radius of the center of the CGS and in the primary retail clusters described above; 78, or 43.3% of the retailers contacted participated in the survey, a proportion similar to that obtained in earlier studies involving personal interviews with retail store owners (Cachon and Cotton, 1997). Retailers trading in product categories directly affected by the box stores were identified on the basis of the Statistics Canada 1980 Standard Industrial Classification system. They included food, liquor, and prescription drug stores, shoe, apparel and fabric stores, household furnishing, electronics, and appliance stores, automotive parts stores, general merchandise stores and other retail stores such as book and stationery stores, florist shops, lawn and garden centers, hardware, paint and wallpaper stores, sporting goods stores, musical instrument and record stores, jewelry stores, camera and photographic supply stores, toy, gift, hobby and novelty stores, opticians, art galleries, artists' supplies stores, luggage stores, pet shops, and discount retailers.

Sample:

Four geographic cluster samples were used and included the four primary retail activity areas in the CGS area: the City Center, the area in the south end of the CGS known as The Four Corners, the North-end of Sudbury (New Sudbury), and the suburban areas of Nickel Center, Rayside-Balfour and Valley East, all within a 30 km (20 miles) radius from the center of the city. The sample included 78 smaller store owners, on average in operation for the last 21 years, with an average business surface of 300 m^2 (3,230 sq. ft.) - as compared to 4,650 to 14,000 m^2 - 50,000 to 140,000 sq. ft. - for mega-retailers.

Instrument:

A semi-structured, 22-question instrument was developed and pre-tested by the authors. It was reviewed and approved by Laurentian University's Ethics Review Board. The questionnaire included a scale comprising 18 items covering the 5 sets of retail practices proposed by Berry, based upon store image variables previously developed and used by the authors (Cachon, 1990; Marks, 1976). The questionnaire was administered during the summer and fall of 2003.

The scales used to measure the five components of Berry's model included the following variables:

1. Solve Customers Problems:
   - Competence of salespeople
   - Availability of salespeople
   - Service quality to clients

2. Treat Customers with Respect
   - Treating customers with respect
   - Courteous salespeople

3. Connect with Customers' Emotions through the retail experience
   - Cleanliness of the store
   - Choice/variety of products
   - Suppliers/supply chain
   - Value/value chain (any advantages given to clients as compared to competitors)
   - Quality of products

4. Set the Fairest (not lowest) Price
   - Fair pricing
   - Avoiding hidden charges for customers

5. Save Customers' Time

Store location
Short cash waiting lines
Convenient shopping hours
Easy to figure, non-confusing store layout
Easy access by road
Easy parking

Data analysis:

The data were analysed with versions 11.5 and 12 of SPSS for Windows. Descriptive as well as other statistical analyses were performed.

RESULTS

Descriptive statistics:

The GCS small retail shops are typically family-owned businesses often involving more than one generation of entrepreneurs. In terms of location, 17 small stores were located within three km (two miles) of the mega-retailers in New Sudbury, 18 were located in the City Center area, less than five km (three miles) from the mega-stores, 22 were located in the Four Corners, approximately eight km (five miles) from the mega-stores, and the remaining 21 respondents were located in suburban areas between 15 and 30 km (ten and twenty miles) away from the mega-stores.

On average, the 78 entrepreneurs surveyed employed 4.75 full-time employees in 2003, as compared to 4.92 in 1997, two years before the opening of the first mega-store. They also had 3.39 part-timers working with them in 2003, as compared to 3.27 in 1997. Between 1999, year of the opening of the first mega-store, and 2003, smaller store owners reported an average decline in sales of 7.51% for the period, an average decline in profits of 2.94%, and an average decline of customer traffic of 7.51% from Greater Sudbury and of 0.71% from outside the Greater Sudbury area. These results confirm hypotheses 1 and 2.

In terms of competition, 53 respondents (67.9%) identified large discount retail chains as their competitors, and 25 of them named Home Depot and Costco as being these competitors. The remainder of the respondents saw themselves more in competition with other smaller retailers, or considered that a niche marketing strategy prevented them from having real competition to speak of within their perceived target market area.

Unsuccessful Retailers:

37 of the 78 respondents (47.4%) reported that their sales volume had decreased since the arrival of the mega-stores, in a range from 6% to 50%, with an average decrease of 21.3%. As a consequence, they had to reduce their average number of full time employees from 7 to 5.75, and their average number of part-time employees from 4.33 to 3.78, even if their stores were, on average, slightly larger than the overall average, 325 m^2 (3,477 sq. ft.) vs. 300 m^2 (3,230 sq. ft.). In terms of profitability, the average decline among this group was 12.35%, almost half the decline in sales, suggesting that adjustment measures had already been taken in order to stem the damage caused by the new competition. 36 of the 37 respondents identified discount retail chains as their competitors, with Costco and Home Depot cited by 20 of them; also cited as discount chain competitors were Wal-Mart, and the furniture, appliances and electronics chains Future Shop, The Brick, and Leon's.

The decline in clientele traffic was also more pronounced among unsuccessful retailers, as compared to the general respondent population: a decrease of 18.24% for clients from Greater Sudbury, and 9.2% for out-of-region customers. The categories of businesses who saw declining sales mostly include hardware, paint, and wallpaper stores, food stores, discount stores, stationery and book stores and general merchandise stores. These categories of stores were affected regardless of their location, as t-tests comparing means across locations showed no significant difference for the variables above. The average number of 23 years of existence of unsuccessful retailers was not significantly higher than that of resisting retailers.

Resisting Retailers:

While 8 respondents declined to answer the question about their sales volumes, another 33 respondents, or 42.3% of the total, reported stable sales in 17 cases, and average increases of 21.6% in 16 cases, for an overall increase in sales average of 10.5% over the years following the arrival of the major box-retailers. These figures are consistent, even if substantially higher, with those reported by Stone (1995) for specialty stores' sales in cities with a Wal-Mart store in rural Iowa after five years, of +5.5%. The higher figure observed in Sudbury is likely related to the size and population of the market area described above, as compared to rural Iowa.

Profitability was reported as being up by 7.3% by these 33 retailers, and up by 20% on average by the 16 respondents who had net sales increases. In contrast with their unsuccessful counterparts, resisting retailers both increased their full and part-time personnel since the mega-stores arrival, respectively from 3.67 to 4.33 on average for full-time employees, and from 2.82 to 3.42 for part-time employees. The absolute numbers of full and part-time employees were not significantly different between resisting retailers and the overall respondent population. Similarly, store sizes were not significantly different from the overall average of 300 m^2 (3,230 sq. ft.). In the case of resisting retailers, customer traffic from outside Greater Sudbury had increased by 11% since the mega-retailers arrival, while local traffic had increased by 6.4%. These retailers cited most often (60.6%) local stores as their competitors, and were of the opinion that mega-retailers offered “low-end, inexpensive products” they were not interested in competing against. Only 18% of them cited Home Depot, Wal-Mart, Leon’s, Rona Cashway, Sears, and Home Sense, as their primary competition. Meanwhile, Costco was only cited by five respondents, as a second main competitor (one case), or as a third main competitor (four cases).

The categories of businesses represented among the 33 resisting retailers include specialty shops such as opticians, prescription drug stores, shoe, apparel and fabric stores - including higher end men’s and women’s clothing stores and specialty shops -, household furnishing, electronics, and appliance stores, book and stationery stores - with an established institutional and corporate clientele -, florist shops, lawn and garden centers, sporting goods stores, musical instrument and record stores, jewelry stores, camera and photographic supply stores, toy, gift, hobby and novelty stores, artists’ supplies stores, luggage stores, and pet shops, and discount retailers. Only two hardware, paint and wallpaper stores appeared in the group of resisting retailers. Four small general merchandise retailers, or corner stores, appeared in this group, and one discount store. Again, location in one area of the city or another had no incidence on being part of this group, which invalidates hypotheses 6 and 7, and, with an average of 21.6 years in operation, these retailers were not significantly different in terms of business longevity from their unsuccessful peers.

Strategic Variables:

The scale results comparing the smaller store owners' perceptions of their retail strategy as compared to the mega-box retailers' strategic variables are summarized in Table 1. T-tests comparing the perceptions of resisting entrepreneurs as compared to unsuccessful ones showed no significant differences between the two groups on mean strategic variables scores, except for Convenient Shopping Hours. There was a significant difference at $p<0.005$ level between unsuccessful and resisting retailers' mean scores (77.1 vs. 58.6) for this variable, perceived as less important by the resisting group. While the scores are self-reported by the respondents, they show a strong awareness from their part of their respective position of strength or weakness as compared to mega-retailers on the 18 variables, thus confirming Hypotheses 3 and 4.

Table 1 about here

In terms of the respondents' perceptions of using Berry's best retailing practices, the Solving Customers' Problems (P1), Respect for Customers (P2), and Fair Pricing (P4) subscales were the areas where they felt having a strategic marketing advantage against mega-store competitors. On the Connecting with Customer Emotions Through Retail Experience (P3), and Saving Customers' Time (P5) subscales, respondents had a significant perception of having an advantage over their mega-competitors in the areas of Store Cleanliness, smaller stores being cleaner than the larger ones, Value for the Customer, Products' Quality, and Store Layout, smaller stores being non confusing in their layout relatively to mega-stores.

On the latter two subscales, the respondents did not see themselves significantly different from the mega-retailers on the six following strategic variables:

1. Choice and Variety of Products
2. Suppliers/supply chain
3. Store location
4. Convenient shopping hours
5. Easy access by road
6. Easy parking

Planning Innovative Competitive Strategies against Mega-retailers:

The fifth hypothesis was more qualitative in proposing that smaller retailers were involved in planning marketing strategies that would allow them to compete effectively against the mega-retail competition. Three qualitative questions were used to verify this hypothesis: What strategies, if any, have you taken to compete against other retailers? How can you compete with the large discount retail chains? Have you considered: a) Associating with other retailers in your area in order to compete against box retailers? b) Starting a joint venture with other retailers in your area in order to compete against box retailers? c) Associating with a box retailer who is not in direct competition, but rather complementary to your business?

Most of the resisting retailers, as well as a few unsuccessful ones, did not respond directly to the questions above, but described specific strategies they were using to compete as successfully as possible. Below are a number of them, but first, these two statements made by resisting respondents provide some background on their state of mind towards mega-retailers.

Statement #1

Many of the box retailers that have come to Sudbury have not affected our business in a typical sense. We are a small mid-to-high end furniture store and therefore the product in many box stores does not compete with our business. However, I do feel they have had a very negative effect on business because of the mentality of the consumer as a result of box stores. The small business has been forced to advertise on a constant basis with the word “Sale”. It means we are forced to spend more money on advertising and in truth the product is probably on sale every day of the week. I have seen box and mattresses advertised at chain stores at $ 2,200 for half price ($ 1,100), when the exact same product is in our store every day at $ 995. This is a result of the consumer just needing to see the word “Sale”, what I refer to as the box store mentality. I only hope that the consumer becomes smarter when reading advertising of box stores.

Statement #2

Sudbury’s non-growth and the loss of small competitors have helped the strong survive. Sudbury is the Toronto of the North, which brings in people for the weekend from out of town, for the theatre, hospitals, schools, Science North and box stores. In return, hopefully the money spent at restaurants, gas stations, accommodations will gradually sift through the system and get to the small retailer. The small retailer has to find their niche to survive. Toronto is our biggest competitor.

Brand and product/service strategies

To improve their financial situation, resisting retailers had dropped lines of products and/or brands sold by big box stores to replace them with others, sometimes more exclusive and expensive, or likely to deliver higher margins and sell faster. Others reduced costs and increased prices on more exclusive products or decided to stop discounting major products, limiting sales and quantity deals to accessories such as belts and jewelry, thus securing a more exclusive store image and a better emotional connection with high income customers' self-image.

Solving customers' problems meant emphasizing a specific service, important to one or more significant segments of clientele, such as enhanced delivery services. For example, a building supply store offers on-roof shingle delivery, a service not offered by the competing mega-retailer and worth more in time and wages to roofing contractors than the extra cost to them. It also meant offering better repair services, faster, done on a local basis and for longer periods. A local computer store offers three-year warranties on several products, thus securing a loyal clientele.

Other retailers reported giving customers more discretion in their choice of a specific product. Smaller lumber retailers allowed their customers (building contractors) to choose each individual plank, while mega-retail stores oblige their clients to take delivery of whatever planks handled by their sales personnel, regardless of knots or imperfections. Hardware store owners reported having a competent and better paid sales force to retain customers and secure repeat business as well as word-of-mouth publicity from loyal customers: competent and well-experienced personnel will provide clients with invaluable advice on how to replace obsolete plumbing with proper-fitting supplies, saving clients the frustration of having to submit to multiple visits to the store in order to find the proper replacement product.

In terms of products offered, some retailers increased their store size in order to expand product lines which are not fully available at mega-stores: in given product categories, mega-stores often carry only one or two items: for example musical instruments, compressors, seasonal clothing, vacuum cleaners, ladders, office and home furniture. Other retailers said they advised customers they would refuse to service or repair brands sold exclusively by mega-retailers.

Promotional and communication strategies

One store owner said it would be important to educate customers and make them realize what Big Box stores foster: a low wage, low cost economy with no job security, which is the opposite to what local consumers keep asking for from their large local employers: higher wages and job security. These employers are branches of large national banks, mining and paper companies, other local branches of large multinational and global corporations, governments, hospitals, schools and public sector institutions.

Some of the food stores, which are affiliated with larger national wholesale chains, had developed promotional material attacking Costco directly, with point-of-purchase slogans suggesting to customers they could pay similar prices and get a better deal: "No Membership Required"; "Buy Large Packs and SAVE"; "Count on us for More". At the same time, these same stores paid attention to limit waiting at cash outlets and to customer satisfaction by asking, for example, whether customers found all the products they were looking for that day and providing them with some form of meaningful answer in case they did not. Such practices are consistent with recent research findings on improving customers' retail experience (Berry, Carbone, and Haeckel, 2002; Walash, 2003; Rosenblum, 2004), particularly with respect to the fact that many consumers are ready to sacrifice money for time saved up to a certain limit.

Supply chain strategies

Regarding supply channels, some retailers developed or joined contractual channels such as purchasing retail groups, wholesale chains and national franchises. Others were seeking the engagement from as many manufacturers as possible to guarantee that products supplied to mega-retail stores would be different from those sold to smaller retailers in terms of quality and product attributes.

By their mere presence, mega-retailers significantly disrupted the supply chain of several categories of retailers. This appeared particularly important in the hardware and food products categories. Consider cordless power tools such as saws, routers, drills, and other small hand tools: in the pre-mega-retail era, hardware store owners would buy them from a contractual national supplier at a price of, let us assume, $ 59.99, and sell them at retail for $ 79.99. The same tools are available now at a local mega-store for $ 39.99 each, thus undercutting both the retail and wholesale former prices. Smaller retailers were left with limited choices, including dropping the whole product line (not a viable choice for a hardware store on such a staple product line), dropping the brand in cause and seeking another competitive one, or convincing the national supplier to create a new product line under an existing national private brand or under a new brand name altogether, with all the development and promotion costs associated to such a move.

General strategies: the Vacuum Strategy

In general, differentiation and niche marketing were the main aspects of a successful competing strategy adopted by smaller retailers against mega-retailers. Some of the strategic moves adopted by resisting retailers amount to what can be called a “Vacuum Strategy”, the components of which include:

1) The refusal to carry as many brands as possible that are carried by mega-stores;

2) The refusal to service such brands, and

3) The refusal to have anything to do with mega-retailers, any kind of alliance or cooperation with them.

These moves were clearly not concerted from the part of the smaller retail entrepreneurs, but those who defended and advocated these moves made it clear that it was also important for them and part of their strategy to inform their customers of these actions. These retailers were deliberately turning their backs from mega-retailers in an attempt to isolate them from the local customer base on as many product lines as possible. Better sales and profits would be secured through appropriate branding, pricing, customer experience, and product/service differentiation among their specialty product categories.

While it is too early to say whether such strategies will keep a significant core of successful smaller retailers in the Greater Sudbury area, it is important to understand that retail wars do not occur in a vacuum, but within a larger economic and social-political context in constant evolution. That context is not only influenced by private industry competition, but also by decisions taken by the various levels of government. Meanwhile, the overall economy of the region has been affected by international demand, particularly for metals, which are the main exportable by-product of the local economy besides agricultural products such as beef, deer, buffalo, meat, and cereals. These issues are the subject of the following discussion on mediating factors.

MEDIATING FACTORS

The economy of the CGS and Northern Ontario has been described as involving two groups of major employers, large corporations on one side, and local, provincial, and federal governments on the other (Cachon et al., 2001), both groups providing average incomes more than twice those obtained within firms of less than twenty employees (Mulholland et al., 1998, p. 26). The relative importance of small business and entrepreneurship in the economy of the region has yet to be determined, but it is almost certain that both large corporations and governments, who provide a strong employment base to the area, play a major role in sustaining local small businesses, particularly within the retail sector. Retail sales involve store sales to the general public as well as procurement contracts for institutions and corporations.

The local economy of the CGS suffered setbacks between 1996 and 2001: Statistics Canada data issued following the 2001 Census showed a decline in the population of the Greater Sudbury area of about 10,000 people over those five years. It is likely that a large proportion of the population decline resulted from the loss of employment in three key levels of government which all implemented personnel reduction programs during the period 1996-2001. Meanwhile, there are indications that, in the private sector, areas such as the mining services industry gained jobs and were still expanding through 2004 and 2005 due to the high level of metal prices. A total of twelve metals are mined in the Sudbury, which is still considered the largest nickel-cobalt ore basin in the world: nickel, cobalt, copper, gold, silver, the six platinum group metals, and iron.

It is certainly likely that these two phenomena had an impact on retail sales in the region, in addition to the arrival of mega-retailers. It is also possible that the long-term effects of the mega-retailers presence in the Greater Sudbury area will take more than a few years to show themselves clearly, at least on some sectors: Stone (1995) has shown that mega-retailers continued to have a negative impact on Iowa rural communities' restaurants after five years of presence.

CONCLUSION AND OTHER CONSIDERATIONS

The overall results showing declining sales, particularly among general merchandise and hardware stores are consistent with findings from other empirical research in Canada (Doucet and Jones, 1999) and in the U.S. (Stone, 1995 and 1997). Secondary data showing an increase in sales per capita in Sudbury are also consistent with the literature.

Smaller retailers were well aware of their competitive position and, at least some of them, believed they were adopting adequate strategic marketing responses to their new competition. Two facts observed among resisting retailers might represent a risk for them: 1) Taking the attitude that convenient shopping hours may not be as important can have severe consequences on customer traffic in the long run and 2) Informing customers that brands sold by mega-retailers shall not be serviced could be interpreted as trying to force customers' hand, resulting in backlash behavior on their part, i.e. choosing the cheaper mega-retailed brand instead.

Many of the respondents were not properly informed of the role played by local and other levels of government in relation to the mega-retail entry into the CGS market. A number of them were convinced that mega-retailers had been receiving tax incentives and various types of “tax breaks” for which local small owners were not being compensated; they were also questioning the local support provided by mega-retailers in terms of charities, sponsorships, giveaways and other demonstrations of good corporate citizenship. There seemed to be a deficit of information between some of the small retailers and the various levels of government about what is being done to sustain and promote local business while keeping a healthy level of competition within the retail sector in the region and the country. It can certainly be assumed that similar ignorance is present among a majority of customers and the general public.

Resisting, or successful retailers were concentrated mostly in the specialty shopping categories, including corner stores with vast assortments of products available at hours where the mega-stores are closed and located in residential neighborhoods. Unsuccessful retailers were more likely to be confronted by mega-retailers on identical product lines and brands, or on products perceived by customers as being homogeneous in nature rather than differentiated.

With regards to locating the retail business, the relatively small size of the city, coupled with the ease customers can drive from one shopping zone to another, rendered the fact of being located nearer or farther apart from the mega-retailers not significant in being successful as a Resisting retailer. It is more likely that successful advertising in the local media would ensure customer visits from both local and out-of-town people, as long as the proper market strategies are also put into practice.

It is likely that mega-retailers also affect the supply chain for many smaller retailers in the North-Eastern Ontario and North-Western Quebec areas, including those located in smaller towns and in rural areas. As in one of the aforementioned examples, some respondents indicated that some prices obtained at Costco and Home Depot were lower than their wholesaler's prices: this prompted some of them to switch from a former wholesaler to mega-retailers as their primary supplier. Shils (1997) reported similar moves in the U.S. However, these strategic moves are not necessarily available to all retailers, many of them being members of exclusive distribution channels such as franchises, which prevent them from seeking alternate supply sources.

Other issues

There are other issues related to the development of mega-retail power centers which were not within the scope of this research but are nonetheless important. They are particularly revolving around community planning, social, and environmental issues. Studies and reports such as Beaumont (1994), Duerksen and Goebel (1999), and Perry (2001) provide examples and guidelines on how community leaders and planners should establish relevant legislation and control mechanisms in order to limit the potentially negative effects of mega-retail. Perry reports a series of regulatory strategies adopted across the United States, including Mequon (Wisconsin), St. Petersburg (Florida), Fort Collins (Colorado), and the states of Vermont and New Jersey; the report provides specific recommendations for public authorities at the local and regional (state) level: coordinate the planning of retail development and review its impacts at the aforementioned levels.

The mega-retail phenomenon has reached all continents, particularly as the result of expanding multinational retail firms such as Wal-Mart, Carrefour, Ahold, and Metro. The impact of mega-retailing on smaller independent retailers is likely to be similar across continents and cultures, unless governments develop mechanisms supporting smaller retailers in their resistance. Further research would be required to examine the international "battlefield" between mega- and smaller retailers.

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Table 1

COMPETITIVENESS SCALES DATA:
Small retail store owners self ratings as compared to their ratings of mega-retailers

Berry's Pillars	Variable	Mean small Retailers self ratings	Mean ratings of mega retailers	t-test significance
P1	Competence of salespeople	81.47	34.93	.000
P1	Availability of salespeople	76.19	36.59	.000
P1	Service quality	88.41	34.64	.000
P2	Respect for customers	91.76	41.32	.000
P2	Courteous salespeople	89.85	40.75	.000
P3	Store cleanliness	80.90	50.15	.000
P3	Choice/variety of products	73.38	66.76	.257 n.s.
P3	Suppliers/supply chain	69.77	59.22	.072 n.s.
P3	Value for customer	73.79	53.1	.000
P3	Products' quality	82.00	55.46	.000
P4	Fair prices	78.28	59.92	.000
P4	Avoidance of hidden charges	79.84	50.16	.000
P5	Store location	61.94	67.42	.339 n.s.
P5	Easy access	71.31	69.67	.738 n.s.
P5	Easy parking	70.97	67.74	.573 n.s.
P5	Shopping hours	70.00	70.97	.823 n.s.
P5	Store layout	81.31	62.46	.000

NOTE : Each scale was from 0 to 100. The t-tests were paired-samples tests.

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