

LET'S TALK BUSINESS

Ideas for Expanding Retail and Services in Your Community

Issue 61

September 2001

Competitive Strengths and Weaknesses of National Discounters

Summarized by Ann Hempfling and Bill Ryan*

Small independent retailers, especially those in downtown areas, continue to feel intense, if not increasing impact from national discounters. Now, the emerging "superstore" concept is becoming more prevalent, extending the impact to local grocery stores. Most agree that it is nearly impossible to compete with the big retailers head-to-head by trying to generate high sales volume through low prices. The fact that small retailers are fiercely independent and often not organized as a group makes it even harder to compete. Instead strategies for co-existence should recognize what the national retailers do best and what they are unable to do. Their disadvantages and weaknesses become the opportunities for local independent retailers.

The Wisconsin Main Street Program invited Kent Burnes, of Burnes Consulting in California to speak about how small downtown businesses should approach the ever-growing competitive retail environment. This article is based in large part on Mr. Burnes' presentation and summarizes the competitive strengths and weaknesses of national discounters. This is a necessary first-step in developing strategies for co-existence.

Size

National discounters have the advantage of being able to buy in volume and sell in quantity. Their purchasing power allows them at times to practically "own" their suppliers. They carry a wide selection, often brand name merchandise, at a perceived low price. Unlike many independents, they are able to assemble a "critical mass of merchandise." Their size allows them to conduct regional and national advertising, reaching an extensive market base.

Size can also be a disadvantage. These stores need to have high volume as costs are typically kept as low as possible. As a result, there is limited flexibility for local discounters to stray from the corporate template. Often the personal touch and product knowledge of staff are lost and stores are unable to respond to unique local demand. Big store personnel may be trained in friendliness, but few know customers by name or possess real product knowledge.

Technology

National discounters are often leaders in the use of technology. They enjoy efficiency through distribution systems, inventory and shrinkage control, communication among stores, shorter customer transactions (purchases, returns, out-of-stock rainchecks, etc.) and access to information. These systems can save the large chains money and offers them a new image (such as that provided by their on-line stores).

A disadvantage of retail technology is that it is less personal. It can be expensive, inaccurate if not used properly, and in need of ongoing management.

Newness

The large discount stores have the advantage of offering a novelty factor that reverses the "old and tired" image of many businesses in the community. This



"newness" has a wide appeal in the market. While not localized, the concepts are fresh and respond to today's consumer trends (such as the majority of retail sales occurring after 4:00 P.M.).

However, newness is only temporary and these stores have to be in constant transition to appeal to a changing market. As the corporate store template gets redesigned, so does the local store. In general, strip shopping centers and freestanding discount stores are relatively short-term real estate investments. If closed, they often remain unoccupied for an extended period of time.

Multi Departmental

National discounters, especially "supercenters," offer convenience through one-stop shopping and long business hours. Supercenters have found that grocery consumers will purchase other discount store items while shopping. They enjoy efficient use of space by offering the goods of 135-140 small business types under one roof. They can also piggyback on advertising efforts.

However, discount stores are so big and cluttered that the convenience factor may not really be there. There is also little depth in specialty products.

Location

Customers love convenient locations. The advantages of the locations chosen by national discounters include easy highway access, large parcel, high visibility, plentiful parking, easy for non-locals to find, and (in some cases) little congestion. They have proven location strategies, especially in communities where existing businesses have not changed much in years.

Disadvantages include a lack of ambiance and local character. The national discounters also have restrictive criteria on location (with few downtown locations) and only go where there is enough land. While the chains have a need to grow to stay competitive, available markets are dwindling and an increasing number of people are fighting such development in their towns.

Corporate Structure

Advantages include financial, management, advertising, credit, and purchasing systems, as well as a track record of proven success and name recognition. One of Wal-Mart's biggest advantages is its distribution system. The national discounters also have the ability to easily replicate their store format from one community to another.

Disadvantages include an extensive hierarchical organization that is relatively slow to make changes and react to grass roots feedback. Stores are all alike with little ability to vary local product lines. Their image and philosophy may not match the community, and their name recognition may carry a negative image.

Low Price Claims

National discounters often enjoy a low-price image that is very powerful with many consumers. Customers want value. This often cuts across all product lines including national brand. Their high sales volume makes up for the lost revenue incurred by discounting.

A disadvantage of their low-pricing claims is an image associated with poor quality. Deep discounting is only used on select merchandise or select sizes. Further, customers are finding "holes" in the pricing, and confidence in some discounters is eroding.

Conclusion - General Tips for Independent Retailers

Independent retailers can build their own strategies once they understand the competitive strengths and weakness of the national discounters. A prerequisite is a positive attitude and willingness to make periodic change. Independent retailers should take advantage of the fact that they can be flexible and unique. Some general tips include:

- **Know your customers and competition.** Use your trade association to the full extent possible. Know how to pick only those customers and products that make you money. Conduct a market analysis.
- **Offer a unique and responsive product line.** Localize and customize your product line and respond to changing consumer wants quickly. While you can't offer the selection of big stores, you can find out what local consumers really want.
- **Offer quality and value.** Offer a fresh package of values that compares favorably to the large stores. Make sure that less than 30% of your products are price-sensitive commodity items.
- **Create "destination density."** Work with neighboring downtown businesses to create and jointly promote the downtown area as a consumer-friendly place where people satisfy several shopping needs.
- **Be service and customer driven.** Provide excellent customer-oriented service such as custom order capability, acceptance of credit cards and convenient store hours. Customer relations are vital.
- **Renew your image.** A unified, consistent, clean and image is critical. Use visual merchandising through window displays and store organization. Consider fresh paint, sidewalk improvements and flowers or landscaping.
- **Pricing strategies.** Be creative through repackaging and relabeling items. Instead of sale prices, consider issuance of gift coupons for future purchases.

Hempfling is a marketing and real estate student at the University of Wisconsin-Madison. Ryan is a community business development specialist with the Center for Community Economic Development. Newsletter production by Alice Justice, program assistant with the UWEX, Center for

Center For Community Economic Development, University of Wisconsin-Extension
610 Langdon Street, Madison, WI 53703-1104

PH: (608)265-8136; FAX: (608)263-4999; TTY: (800)947-3529; HTTP://WWW.UWEX.EDU/CES/CCED

An EEO/Affirmative Action Employer, UW-Extension provides equal opportunities in employment and programming, including Title IX and ADA requirements.