A longitudinal study of incumbent retailers and the arrival of large–format competitors in the home improvement industry: A look at the effectiveness of incumbent product specialization, customer specialization, and adaptation on firm performance.

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A Longitudinal Study of Incumbent Retailers and the Arrival of Large-Format Competitors in the Home Improvement Industry:

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BY

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A Thesis/Practicum submitted to the Faculty of Graduate Studies of The University

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ABSTRACT

This research makes an important contribution to the study of interorganizational competition, particularly for incumbent storeowners facing the entry of large-format retailers. It draws from literature and research that looks at competition between incumbents and large-format retailers, as well as relevant research in other literatures on firm specialization. Three hypotheses are developed proposing that an incumbent retailer's product focus, customer focus, and narrowing of their focus are related to firm performance. The findings suggest that specializing based upon a product focus alone does not provide any significant difference in performance. Alternatively, this study suggests that retailers should concern themselves with a customer focus. The findings also suggest that while incumbents can make changes by narrowing their focus to improve performance, such changes are not very common.

This study not only supports the importance of selecting the proper niche to specialize in, it also provides theory and concepts for scholars and practitioners alike to assess the environment in order to identify the best niche to exploit. Central to the contributions made in this study is the argument that understanding the preferences of the largest cohort of consumers can lead to explanation as well as prediction of the success and failure of organizations in increased competition.

These findings were directly related to the fact that the study uses a longitudinal approach rather than cross-sectional, underscoring the need for such research to facilitate strong theory building. While pre-entry data provided a richer look into the role of product focus and permitted analysis of firm adaptability over time, it was particularly important for identifying the salience of a customer focus.

TABLE OF CONTENTS

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LIST OF TABLES

CHAPTER ONE

INTRODUCTION

Studies of interorganizational competition have always been of interest for organizational scholars. In recent years there has been a growing interest and literature around a particular kind of competition: namely, between large-format retail and smaller incumbent retailers. There is widespread agreement in literature on competing in the presence of large-format retail that the performance of incumbent retailers will be optimized if they find a *niche* within their market (McGee and Festervand, 1996); *specialize* in a particular area (Arnold and Luthra, 2000); or *focus* on a set of competencies (Davidow, King and Helleloid, 2001).

The language used by researchers may be varied, however the message is uniform; incumbent retailers should narrow their activities within a market. By exploiting a narrower market segment, retailers are able to both avoid direct price competition (Davidson and Rummel, 2000) and provide a greater level of service to consumers (McGee and Rubach, 1996). While there is general agreement in the literature that specializing is the right response for incumbent retailers, how a firm specializes gives rise to differing opinions. For example, Love and McGee (1999) found that having a customer focus in small retail is a key source of competitive advantage, while Darrow et al (2001) report that small business can be both innovative and viable by way of a unique product focus.

This dissertation is primarily nested in the literature and research that looks at competition between incumbents and large-format retailers, but it also draws from relevant research on firm specialization in other literatures. For example, the multi-disciplinary nature of the literature is evident in two recent special journal issues on large-format retail competition by the *International Journal of Retail & Distribution Management* (2000) and the *Journal of Retailing and Consumer Services* (2000). It is also evident in the distinction between generalists (e.g., large-format) and specialists (e.g., incumbents) in organizational ecology (Hannan and Freeman, 1977), in the shared interest with resource partitioning theory of a sustainable co-existence among specialists and generalists (Carroll and Hannan, 2000), and in the strategy literature which suggests that reducing competition by 'being different' generates benefits to the firm (Deephouse, 1999) and that avoiding competition by engaging in a product or customer focus (Porter, 1980) may help to explain and predict the effects of a market specialist approach to competing against the entry of large-format retail.

A distinctive feature of this study is that *both* a product focus as well as a customer focus approach to specializing in retail are examined and compares them against firm performance during a period of increased competition. There are few studies that have looked at more than one approach to specializing for competitive advantage. Most often, a product focus has been examined with widely varying results on firm performance. Based on their own research, Echols and Tsai (in press) argue that, "studying two niche types provides a more comprehensive understanding of competitive positioning" (no pagination). They also suggest that further research on the effect of change in market competition on niche firms and their outcomes is necessary.

Another distinct feature of this study is its longitudinal research design, and specifically the data collected on incumbents prior to the arrival of the large-format competitors. For research to study a change, such as the effect of an increase in market competition on the niche position of incumbent retailers, a method of enquiry that can offer causal explanation is most useful. However, testing for increased competition in retail demands a natural setting, which makes experimental design problematic. In the absence of experimentation, "only longitudinal research lends itself to the study of causation" (Pedhazur and Schmelkin, 1991, p. 316). To date, no longitudinal studies of incumbent retailers with pre-entry data have been found. Given the greater demands and complexities of collecting such data, a dearth of longitudinal research persists in most research streams. This is particularly true of research that requires rare occurrences such as the entry of increased competition in a natural setting. This study, however presents a longitudinal examination of just such a rare event.

In 1994, rumours began to spread that large-format retailers *Home Depot* and *Revy* were planning to enter the Winnipeg retail home improvement market. At the time the rumours surfaced, the retail home improvement market was rather stable, primarily consisting of locally owned home improvement stores and national retailers of moderate size. There were no large-format sellers of home improvement products to contend with. Fifty-eight incumbent retailers of home improvement products were followed over six years (1995-2001), comprising a period before, during, and after the entry of *Home Depot* and *Revy* to the Winnipeg market.

In 2001, the Canadian home improvement sector accounted for seven percent of total retail sales in Canada. Products offered in this area of retail include building materials, hardware, lumber, paints, plumbing, heating, electrical, garden supplies and equipment and are used in activities related to renovation, alteration, and accessorizing of the home and garden (Hernandez, 2003). The demand for home improvement products steadily increased over the duration of this study, as has renovation activity in almost all regions of Canada (Canada Mortgage and Housing Corporation, 2001). Increased home ownership, reduced interest rates, a relatively stable rate of inflation have all contributed to a home improvement sector that has experienced a growth in sales. Nonetheless, the competitive pressure experienced by retailers of home improvement products has become tremendous. It is estimated that 5625 home improvement stores were in operation in Canada in 2001, with about two percent comprised of large-format retailers. However, the large-format retailers garnered more than 23 percent of the 22 billion dollars generated in retail home improvement sales that year (Hernandez, 2003). While the market may be growing, smaller incumbent retailers in home improvement are left with a diminishing share of the market's returns.

The impact of large-format retail is not limited to the home improvement sector. Big box retail has had a "revolutionary impact" in which no retail sector has been immune (Kumar, 1997; Munroe, 2001). For example, Genest-LaPorte (1999) found that the market share of large-format retailers in the Canadian consumer electronics sector more than tripled in the period 1989-1997. Morganosky and Cude (2000) report that consumer spending in warehouse clubs in the US has resulted in more than a 50 percent increase in sales between 1991-1996. Jones and Doucet (2000) reveal that retailer *Toys R Us* possesses 25 percent of market share in the toys and hobbies category for the Greater Toronto Area. The presence of large-format retail is yet another development in the evolution of retail, where ultimately, the pursuit is to profit by satisfying the consumers' increasing desire for convenience (Peterson and Balasubramanian, 2002). However, if the presence of large-format retail is to remain, it is necessary to understand how their presence impacts upon smaller incumbent retailers.

Market analysts and strategists have offered incumbent retailers a myriad of strategies to position themselves for competition from entering large-format retailers. Yet, storeowners struggle to launch a meaningful response (Litz and Stewart, 1996; Peterson and McGee, 2000; Barber and Tietje, 2004) to the strategic 'ploy' (Mintzberg, 1987) of everyday low prices that large-formats place in the minds of consumers. With 36 percent of traditional retailers identifying large-format retailers as their main competitor (Morganosky and Cude, 2000), incumbent retailers toil with the need to select a particular position or niche within their market that will maintain their competitiveness. Should they focus upon product specialization, offering a narrow but deep variety of products in a particular area of retail home improvement or should they position themselves based upon a blend of products that are deemed complementary to the specific needs of their consumers? This study works towards answering this question.

1.1 Overview of Research Setting and Findings

Within two years of the arrival of the first *Home Depot* and *Revy* in Winnipeg, one-third of the 58 incumbents participating in this study were no longer in existence. Put differently, each of the 58 stores was exposed to competition from *Home Depot* and *Revy*, yet two-thirds possessed what was necessary to survive through the duration of the study. What characteristics did these surviving stores possess that the failing stores did not that enabled them to exist in the same market with the large-format retailers? Was there any difference in how incumbents appealed to consumers by way of a product focus or customer focus that may have led to their success or failure?

The data revealed that retailers whose customer focus best addressed the preferences of Canada's greatest spenders on home renovations enjoyed the greatest success. More specifically, it became apparent that retailers of home improvement products were more likely to survive if they focused upon activities that catered to the lifestyle preferences of the largest single segment of homeowners comprised of women and men aged in their late thirties to early fifties, often referred to as the *Baby Boomer* cohort. While they comprise one-third of Canadians (Foot and Stoffman, 1995), this particular age group owns 42 percent of the homes, which is nearly twice the size of the next largest group (Canada Mortgage and Housing Corporation, 1995) and are the single largest spenders on home improvement in Canada (Canada Mortgage and Housing Corporation, 1993). In addition, incumbent retailers that shifted their customer focus in a way that targeted this large cohort also experienced increased performance, although this action was not initiated often. The influence of the buying patterns of Baby Boomers had a significant effect upon incumbent retailers of home improvement products.

Yet, understanding the 'value chain' of households has not been given due consideration by retailers (Porter, 1985). Retailers in home improvement must understand the lifestyle of the greatest spenders on home renovations and then translate that knowledge into a set of activities that results in offering home improvement products that best support them. Although we might consider understanding the preferences of an industry's consumers as uncomplicated, some have noted the lack of attention given to this activity.

While success for retail home improvement traditionally meant focusing on the do-it-yourselfer for sales, the influence of the Baby Boomers' consumer preferences have necessitated a change in focus. The household activities of the largest group of homeowners, the Baby Boom cohort, suggest that storeowners should offer more decorative elements rather than traditional do-it-yourself products. The reason for this is because the lifestyle of the largest cohort does not adequately support personal time for undertaking renovation projects. This knowledge also suggests that retailers should orient themselves more towards appealing to trades people that are buying the 'nuts and bolts' to undertake the projects that boomers do not have time to undertake, rather than focusing on the dwindling number of do-it-yourselfers that had been the traditional segment of home improvement retail.

In contrast to the literature, the analysis of data found no significance in the relationship between firm performance and organizations that specialized in a line of products. This meant that, while a customer focused approach led to significant changes in performance, a similar result based upon product focus could not be found. While the mix in this finding is divergent from much of the literature in large-format retail competition, which suggests either focus strategy in order to compete, it does support a smaller contingent of researchers that have found the competitive strategy of specializing to be less straightforward than implied.

Chapter One introduces the dissertation with an overview of the findings as well as the areas of contribution generated from this research. Chapter Two reviews the literature, examining the relationship of incumbent retailers in a market that experiences increased competition from entering large-format retailers. Literature in the areas of large-format retail research, and supporting disciplines is presented and hypotheses are developed. Chapter Three describes the research methods used in this study as well as an operationalizing of the hypotheses that were created in the previous chapter. Chapter Four analyzes the data, reporting on whether hypotheses were supported or rejected. Chapter Five discusses the findings. Limitations of the study are presented, as well as implications for managers, and where future research should be directed.

1.2 Unique Contributions to Existing Literature

This dissertation makes several distinctive contributions to research on large-format retail. First and foremost, it provides the first real-time longitudinal study on the impact that large-format entrants have upon incumbent small retailers, involving four points of data collection over six years. As such, this dissertation responds to a long-standing need for longitudinal study (Miller, Reardon, and McCorkle, 1999), not only of entering large-format retail on small incumbents, but also on the niche–performance relationship of different competitive strategies: "We think longitudinal research on the dynamics of rivalry adds considerable value, going beyond traditional cross sectional studies that examine interfirm interaction at a given point in time" (Baum and Korn, 1996, p. 286). Studies that utilize cross-sectional data or quasi-longitudinal methods have attempted to replicate longitudinal studies that utilize multiple points of data collection (Litz and Stewart, 2000; Miller, Reardon and McCorkle, 1999; Peterson and McGee, 2000), however these approaches are considered "incapable of providing answers to questions concerning persistence, change, growth, or developmental processes" (Pedhazur and Schmelkin, 1991, p. 316).

Second, this is the first longitudinal effort at studying incumbent small retailers and the impact of entering large-format retailers that includes pre-entry data. It is also the first investigation of individual incumbent retailers that includes firm failure as an outcome variable. This offers a rare look into the pre-existing conditions of incumbent retailers, which may have led to firm failure. As such, the research provides a response to calls for the examination of the impact of differing strategic positions set by incumbent retailers and whether their actions (or inaction) has led them to firm failure (Miller et al, 1999; McGee and Rubach, 1996). Furthermore, including firms that experience firm failure eliminates implicit bias of studying only surviving firms, which has been a concern noted by authors in prior studies (Litz and Stewart, 1996; Peterson and McGee, 2000).

By using firm failure as an indicator of firm performance, two problems that plague prior research on large-format retail are addressed: The use of self-reported measures and relying upon questionable measures of performance. In previous studies no direct linkage between low performing incumbents and firm failure have been made. As it turns out, this study could find no relationship between subjective measures of performance and firm failure, which means poor reported performance may not lead to firm failure. Researchers have also relied upon performance variables such as sales per square foot in order to ascertain the impact of large-format entry. Litz and Stewart (2000) have recognized the limitation of using sales per square foot on overall performance. Genest-LaPlante (1999) concluded that the performance measure of sales per square foot "leaves something to be desired" (p. 30), since the direct calculation of performance does not incorporate operating costs.

Third, following the recommendation of Arnold and Luthra (2000), this dissertation examines the influence of the Baby-Boomer age cohort on large-format retail, which has not yet been done. They also state that there is a need to examine the do-it-yourselfer consumer segment before and after the entry of *Home Depot*. This dissertation provides both.

1.3 Summary

In summary, this study builds on and contributes to the growing scholarly literature on the effect of large-format retailers and examines the firm performance of incumbent retailers that experience first time entry of large-format retail. The study follows the incumbent retailers over a period of six years, and is the first to include pre-entry data with incumbent small retailers as the unit of analysis. The retail environment is assumed to have increased in competition and therefore requires smaller incumbent retailers to have a position that would minimize any direct competition. By examining the relationship of two different approaches to specialization (product focus and customer focus) with firm performance, this study reveals that a customer focus provides the better position.

CHAPTER TWO

LITERATURE REVIEW AND HYPOTHESES

This chapter builds upon Chapter One, by offering a review of prior research in the area of large-format retail. The review is presented based upon the three-fold competitive strategy of wide product assortment, excellent customer service, and low price that is associated with large-format retailers and specifically adopted by *Home Depot*. This overview of the literature will highlight two key findings on large-format competition research. First, almost all the research suggests that incumbent retailers should specialize in the presence of large-format retail competition by using a product or customer focus. Second, the literature shows there is a dearth of research using time-series data to study the impact of large-format retail on the incumbent retailers.

Following the review of research on large-format retail, a brief review is provided on how related literatures in organizational studies have looked at specializing in the face of competition. In particular, my review draws on relevant research in niche-width and resource partitioning theories, as well as within marketing and strategy. Niche-width theory and resource partitioning theory offer an explanation of the relationship between specialists and generalists competing in the same environment. Literature in marketing and strategy reveal two often-applied competitive approaches to specializing — product focus and customer focus. Further review of the empirical literature on specialization reveals a mix of findings regarding the effectiveness of competing based upon a specialization strategy. The competitive strategies of positioning via product focus and customer focus are then separately hypothesized to affect the performance of incumbent retailers in the presence of large-format retailers.

Finally, I review literature that suggests narrowing of focus may occur over time at the organizational level. A third hypothesis provides an opportunity to explore whether adaptation by incumbents along the two strategic approaches described here can offer an explanation for firm performance.

2.1 Research in Large-Format Retail

While the number of large-format retail stores in suburban markets grows (Ehrenfeld, 1995; Moore, 1999; Arnold and Luthra, 2000), the presence and influence of smaller stores can still be found (Miller, Reardon and McCorkle, 1999; Tutton, 1999). Smaller retailers may have less freedom with respect to product offering and price, given that direct competition with the large-formats has resulted in firm failure (McGee and Peterson, 2000; Tutton, 1999). However, the limitations have not fully encroached upon the incumbent's ability to position itself so that it maintains a competitive fit in markets where large-formats have entered (Miller, et al, 1999; Tutton, 1999). What has been particularly burdensome for incumbent small retailers however is to know the right niche in which to specialize (Achua and Lussier, 2001; Litz and Stewart, 2000; McGee and Festervand, 1996). Research in large-format retail has repeatedly found that large-formats increase competition. In particular, Darrow, Smith, and Fabricant (1994) have stated that *Home Depot* stores compete aggressively based upon their 'three legged stool' analogy of wide product assortment, excellent customer service, and low price. The following review presents research on large-format retail from the purview of the three-fold competitive strategy used by *Home Depot*. The overarching theme that is drawn from the review is that incumbent retailers must position themselves so that they minimize competition with large-format retail.

2.1.1 Competing on Product

There are a variety of reasons why customers will pick one store over another in search of a product. It is to the incumbent retailers' advantage if they can reduce the reasons for customers selecting a large-format store over their own. Part of the three-fold strategy that *Home Depot* applies in their stores is product variety, with up to three times the assortment of products than found in the traditional store (Darrow et al, 1994). One method of avoiding competition with large-formats is by minimizing the overlap of products offered: "Businesses selling the same merchandise as the discounter usually lose sales" (Stone, 1995, p. 69). Instead, offering products that complement those offered at large-format stores reduces any need to engage in head-to-head competition.

Miller Reardon and McCorkle (1999) studied the effects of different types of competition in retail. Applying U.S. census data, Miller et al examined the competition in the sporting goods trade line. They found that entry of large-format stores may initially disrupt the market but over time their presence generates benefits, allowing the surviving smaller retailers to thrive in their presence. Their findings suggested a 'symbiotic' effect between differing store types and suggest that product specialists should "tailor their product offerings to complement, rather than compete with, the merchandise lines of larger stores" (p. 117). Successful organizations that specialize are relying upon resources less in conflict with the generalist organizations, which are drawing from many different resources in order to survive. From their review of the literature, Arnold and Luthra (2000) suggest the same, that incumbent retailers will enjoy greater success if they avoid competition on price and product, instead focusing upon complementary merchandise. Ozment and Martin (1990) also found merit in incumbent retailers offering products that are complementary to the products sold by large-format retail.

In terms of product depth and breadth, McGee and Rubach (1996) compared the effectiveness of different strategies when 238 small independent retailers perceived the environment as 'hostile' or 'benign' following the recent arrival of Wal-Mart in their trade area. They found that when viewing overall performance, the strategy of 'target marketer' (providing products that address a specific market segment or niche) was the best among four strategies to apply in a hostile environment (an environment where the presence of a Wal-Mart is deemed to have made an impact on their business). The strategy of 'variety' (emphasis placed upon breadth of product variety) was rated lowest in performance. When retailers perceived their environment as 'benign' (the presence of a Wal-Mart is deemed to not have made an impact on their business) the strategy of 'target marketer' (carrying relatively deep lines of unique and highly recognizable products) generated the greatest performance of the strategic approaches studied. These findings suggest that, in both hostile *and* benign environments, retailers that focus upon product depth and specialization will generate greater performance than incumbents that engage in product breadth and variety. In a later study, Litz and Stewart (1998) paralleled McGee and Rubach's findings that under high competition situations independents tend to become more niche-oriented in their products, opting for depth over breadth.

With respect to changes in product variety over time, Carusone (1974) found that about one-quarter of all changes enacted by incumbent retailers in light of entering large-scale retail (Carusone was studying the effects of large-scale shopping centres in the 1960s in the mid-western United States) were changes in merchandise and expansion of floor space. He also noted that most merchandise changes were expansion of product lines, not contraction. A study of 62 small independent merchant businesses (Achua and Lussier 2001) revealed that in light of competition from large-formats, over half (52%) engaged in no product line changes, one-third (34%) expanded product lines, while only ten percent eliminated some of their product lines. Litz and Stewart (1996) found that 38.4 percent of their 302 incumbent home improvement stores either added (19.6%) or dropped (18.8%) products in response to the entry of *Home Depot*, making it the most frequent form of action taken. Furthermore, high performing firms were the most likely to have engaged in adjusting product mix in response to *Home Depot's* entry, which led to greater levels of satisfaction in firm performance than with other responses taken. McGee and Festervand (1996) found that retailers that perceived a negative impact from the presence of Wal-Mart were more likely than other retailers to change their product focus by carrying a wider variety of product lines, a greater depth of product selection, or by stocking private label or highly recognizable brands. Stores that identified the presence of Wal-Mart as having a positive impact on their operations reported very little change.

To summarize, competing on product is suggested by much of the theoretical and empirical large-format retail research. The importance in product selection however is to offer a variety that does not engage in 'head-to-head' competition with the large retailers. The research suggests that retailers should offer products that complement the products available by larger retailers. For example, if a large-format retailer offers light fixtures at guaranteed lowest prices, then a smaller retailer of light fixtures should focus their product variety on higher quality fixtures, and ensure they do not offer the same products available at the large-format. It may also be possible for the smaller store to recommend the large-format to customers that are looking for cheaper fixtures, as well as the large-format recommending the smaller retailer for more specialized or high-end lighting solutions. Furthermore, it is apparent in the literature that adjustments in product variety are a common reaction by incumbent retailers upon the entry of large-format retail. However, the adjustment retailers often make is an expansion of product lines, which is contrary to what theory suggests.

2.1.2 Competing on Service

In a study of the past, present and future of retailing, Peterson and Balasubramanian (2002) identified the consumer's endless pursuit of convenience as one enduring trend in retail. Consumers are endlessly searching for easier ways to carry out their shopping duties, and the more successful retailers are able to facilitate ease. The literature suggests that as long as a retailer maintains a physical presence, they should be staffing for excellent customer service, locating for ease of physical access, designing layouts to reduce time searching in-store, and extending hours of operation for enhanced convenience.

Home Depot employs former trades people within each store department in order to provide a high level of service by informing and educating consumers on any of the products they offer (Darrow, Smith and Fabricant, 1994). Yet, patrons of large-format retail still find the stores lacking in personal interaction, with unfamiliar store employees and — a key source of aggravation — unattended checkout lanes (Morganosky and Cude, 2000). McGee and Festervand (1996) discovered that one of the least likely preemptive responses that incumbent retailers will engage in upon learning that a Wal-Mart is entering their market is altering their labour force. Only 17 percent of respondents changed the number of employees in their organization.

The research findings on the service expectations of consumers suggest that niche stores that employ staff possessing the technical knowledge and skills to inform consumers on products perform better than stores that staff in order to provide a shopping convenience. Barber and Tietje's (2004) empirical examination of retail strategies most successful against large-format retailers found that incumbents have the advantage when it comes to human resources related distribution services, including information services and product delivery. McGee and Rubach (1996) found that superior service was a factor in successful competitive behaviours by incumbent retailers. Miller, Reardon and McCorkle (1999) found the anticipated level of customer service that consumers expect to find might be based upon the type of retail environment they are shopping in. They tested the impact that customer service has on performance and found that customer service quality *and* quantity are more critical for limited-line specialists (stores that offer the highest level of product consistency to fulfill end-use needs) than stores that carry a more broad selection of products, where only personal service quantity is demanded.

Seiders and Tigert (2000) found in a consumer preference survey of 777 respondents that convenient location ranked as the most important reason for choosing the store where they shop most often (38 percent of respondents). Marjanen supports these findings with her own study of several towns in Finland, where good location ranked highest (51.1 percent of 857 respondents) in importance as criteria for store choice. In contrast to close proximity, retailers that are not close to the heavy traffic associated with large-format retail locations may be negatively affected because of the extra time-expense in getting to their stores. For example, if incumbents are physically located in close proximity to a new large-format retailer, they may benefit from the increase in traffic because of the convenience to visit both stores in the same location.

This effect was found when studies compared communities that had a large-format retailer with communities that did not. Ozment and Martin (1990) found that state counties with large-format retailers in their area had greater consumer traffic and a healthier retail environment than counties without large-format retail. Stone (1995) made a similar finding in his study of 34 Iowa towns but also found that gains peaked and then declined two or three years later.

By locating in very close proximity to each other, stores offering similar products and services can benefit from 'symbiosis.' This, Miller, Reardon and McCorkle (1999) argue, provides more opportunities than threats to the individual firm. The clear benefit for consumers is savings in time by providing a location convenience to patrons searching for a particular product in multiple stores (Brown, 1989). This idea cannot be considered new, since it is a primary basis for the introduction of downtown shopping, regional shopping malls, as well as nightclub and eating districts. It has experienced a surge in popularity in retail however, with the onset of 'power centers' — the co-location of a series of several big-box retail stores (Hahn, 2000). The developer's attraction to power centers over shopping malls is the dramatic reduction in time and expense invested in order to create a power center, compared to the more complex shopping malls. The added benefit to consumers is time saved, by the ability to see the storefronts of all retail outlets, rather than having to venture inside a mall, or the need to drive to multiple locations in order to find a list of items.

However, while proximity may appear beneficial in the findings of some research, there has also been research that counters the above. Jones and Doucet (2000) studied the effects of entering large-format retailers from several categories to the Greater Toronto Area between 1994-1997 by analyzing aggregated census and tax data. They found that, in several categories, incumbent retailers that were in closest proximity and direct competition to entering large-format retailers experienced the greatest rate of store closure. Further, the categories with the greatest distance sensitivity were electronics, office products, and hardware. However, Jones and Doucet also found that the creation of 'power nodes' where multiple large-format retailers co-locate has generated a 'spillover effect' where major retail synergies emerge, attracting other retailers to the immediate vicinity, creating what they identify as 'baby-box format' retail districts. Also, they conclude that some retailers, such as book stores may best adopt a strategy where they locate in close proximity to large-format retailers to take advantage of the increased traffic.

Physical appearance and layout of a store can also provide convenience and appeal to consumers, which increases the frequency and duration of customer visits. The physical setting influences customer satisfaction and can enrich, or undermine, the shopping experience (Bitner, 1992; Hoffman and Turley, 2002). Wider, cleaner aisles, brighter colours and lighting all contribute to the shopping experience. Eight percent of respondents in Seiders and Tigert's (2000) consumer preference survey identified 'nice store' and 'cleanliness' as the most important reasons to shop at a store. Wal-Mart was rated by the same respondents as having the cleanest stores (73 percent of respondents) with only product assortment, perceived value and price receiving a greater percentage of respondents choosing Wal-Mart. Arnold and Luthra (2000) attribute this preference to Wal-Mart in part due to the consistency of layout and design from one store to the next, suggesting minimal time expense in searching for products.

In a study of how 255 independent drugstores compete against large-format stores, Love and McGee (1999) found a significant and positive relationship between 'service image' and performance, where service image included, among other items, store layout and appearance. Barber and Tietje (2004) discovered that maintaining consumer perceptions of a better ambiance (layout, visual aesthetics, decor, and store friendliness) enables the small retailer to maintain profitability. Morganosky and Cude (2000) found that the movement of store merchandise by retailers from one place to another was an activity deemed 'especially aggravating' by the consumers interviewed in their study. It would appear that the need to search for relocated items, particularly in large stores, only added to the emotional cost of shopping. While Carusome (1974) found little changes enacted by incumbents when faced with large-scale competition (16 percent of sample), one of the most common changes that were made involved remodeling of the physical facilities (23 percent of all reported incidents of change). Only changes in advertising were reported more often (25%).

Finally, another approach to improving upon the convenience to consumers is by improving upon the time that a retailer is open. In the analysis of a multi-city study, Litz and Stewart (2000) examined extraordinary after-hours accessibility as an increase in firm performance and found that small incumbents can compete against large-format retail in specialized niches, such as remaining open after regular retail hours. Extending hours into the evening, or being open on Sundays was found to contribute to overall store performance. McGee and Festervand (1996) found in their study of incumbent retailers that few (14%) adjusted store hours prior to the entry of Wal-Mart to their trade area. However, of the stores that altered their hours, they could find no significant differences between storeowners that believe Wal-Mart had a negative impact and those that believed otherwise. Carusome (1974) also found that the percentage of incumbents that will adjust their hours to compete against the entry of high-capacity retail is small.

In sum, research has shown that if smaller retailers specialize, consumers will expect a higher level of service than at larger retailers. This suggests that, in the eyes of the consumer, providing extra service will only maintain a level playing field with large-format retail rather than suggesting added value. However, the research has also shown that customer service extends beyond staffing and includes all efforts to maximize the convenience to consumers. Convenience can be as straightforward as ease of access from the major thoroughfares to ease of finding products in the store. Therefore, retailers that are able to understand what conveniences appeal most to the consumer and focus upon them are able to generate greater firm performance.

2.1.3 Competing on Price

Competing on price has been considered one of the most difficult methods to successfully maintain. As such, incumbent retailers will often specialize around it in order to avoid direct price competition. *Home Depot* is committed to competitive pricing as one of its three strategic activities (Darrow et al, 1994). Porter (1985) has stated that countering on a competitor's low price will cut against the responding firm's margins and reduce their profitability. Furthermore, defensive price-cutting actions by responding firms may be countered by the initiating firm, which then leads to spiraling prices downward and non-existent margins (Khandwalla, 1977). Ultimately, the firm with deeper pockets will be able to withstand the losses longer and win the price battle. Given the size of large-format retailers such as *Home Depot*, head-to-head competition on price against them by smaller retailers is ill advised (Ehrenfeld, 1995; McCune, 1994; Stone, 1995; Taylor and Archer, 1994). The tremendous purchasing power of large-formats allows them to enjoy lower cost of goods sold making it difficult for traditional retailers to sustain any price-competitive stance (Kumar, 1997). In a study by Litz and Stewart (1996) nearly half of the incumbent retailers believed that the presence of a large-format retailer generated competitive pressures that resulted in a decrease in sales and profits. Consumers also believe that large-format retailers are the reason for a decline in small retail, even though the consumers shop at the very stores that they blame (Morganosky and Cude, 2000).

McGee and Festervand (1996) have examined the arrival of Wal-Mart in five mid-western communities using recall data gathered by survey responses from local merchants three years after the arrival of Wal-Mart. They found that the arrival of Wal-Mart resulted in decreased revenues for incumbents that could possibly stretch over an extended period of time. They found that any attempt at competing on price with the large-formats was perceived to be 'futile'. Davidson and Rummel (2000) studied the impact that Wal-Mart had entering Maine and found the same, namely, that head-to-head competition by incumbent stores leads to firm failure. Barber and Tietje (2004) were able to study the arrival of a *Home Depot* store and the impact upon two incumbents before and after market entry. They examined the consumer perceptions and preferences for distribution services — retailer outputs valued by patrons of the store — for the two incumbents as well as the entering *Home Depot* store. In support of McGee and Festervand's findings, they found that consumer's perceived that *Home Depot* has low-price superiority over incumbents. However, Morganosky and Cude (2000) found that, while the large-format retailers may have perceived price superiority, the consumers they interviewed mentioned their "perceived need to police the [large-format] retailer or stand guard at the checkout so they would not be charged incorrect prices on their purchases" (p. 219). The impersonal character of large-format stores and unfamiliar staff does little to build confidence in reliable pricing at the cashier, particularly when consumers view pricing mistakes as 'intentional' (Morganosky and Cude, 2000).

In contradiction to the findings on perceived price however, McGee and Rubach (1996) found to their surprise that effective pricing tactics was the best approach by small incumbents when faced with the introduction of large-format retail. Their study found that distinct patterns of competitive behaviour that involved low pricing schemes were linked to increased performance. However, a caveat here is that the low price approach was bundled with several other activities as a single competitive behaviour. McGee and Rubach recognize that their findings do not "necessarily refute the notion that pure price competition is detrimental to small retailer performance" (p. 92). However, it does suggest that incumbents can engage in some price competition without the threat of certain failure.

Independent retailers may also increase their purchasing power and thus perceived pricing advantage by being part of a buying group. In an effort to compare the success of trade-name franchises to independent retailers, Litz and Stewart (1998) examined the impact of *Home Depot* on incumbent retailers by utilizing data gathered from 307 storeowners in seven major U.S. cities. Although the data are limited to a single point in time, a cross-section of cities in the study included four that had multiple *Home Depots* present for at least five years and three that had never or just recently been exposed to the presence of *Home Depot* in their communities. Their findings suggest that a trade-name franchise adds value for small incumbents with a positive impact on firm performance. Yet the benefits are not due to reduced costs through a shared economy of scale. Rather, they are from the positive image and consumer confidence that is associated with popular branding. No significant differences were found between independents and trade-name franchises when it came to products and services. However, Litz and Stewart suggest that trade-name franchises will need to further augment their competitive advantage with initiatives that include increased enrichment of product and service information for customers if they intend to compete with large-format retail.

In sum, research suggests that price competition is not expected to be effective against large-format retail. The depth of resources that the larger retailers possess allows them to embark upon protracted price competition with other retailers if necessary. The alternative to competing on price for incumbents is to avoid stocking the same items, or to offer value in another aspect of their operations. In either approach, product or customer specialization is often suggested by prior studies as the appropriate response. Firms may specialize by way of a product not carried by the larger retailers, or specialize in a particular customer group, or services.

2.1.4 Summary

The vast amount of literature emphasizes that the most effective incumbent retailers are unique (Kumar, 1997); niche in a particular area within their market (McGee and Festervand, 1996); or specialize (Arnold and Luthra, 2000). Kumar (1997) suggests that incumbents deliver a unique experience, such as the *Body Shop*, and *Starbucks* have successfully used. McGee and Festervand (1996) echo this finding and also suggest that incumbent retailers are more successful if they are niche marketers, positing that the success of small retailers over the next decade is contingent upon their ability to compete around large-format retailers rather than against them. Ozment and Martin (1996) provide additional support with their findings, suggesting that incumbents will compete more effectively if they attempt to complement the activities of large-format retailers. Much of the discussion revolved around incumbents including specializing in a product focus (Stone, 1995; McGee and Rubach, 1996; Davidson and Rummel, 2000; Jones and Doucet, 2000; Achua and Lussier, 2001; Darrow, King and Helleloid, 2001; Hernandez,

2003) or customer focus (Carusone, 1974; McCune, 1994; Love and McGee, 1999; Arnold and Luthra, 2000; Brennan and Lundsten, 2000; Peterson and McGee, 2000).

Similarly, there's also considerable agreement that perceived price is one competitive advantage that large-format retailers enjoy that regular format retailers shouldn't attempt to counter directly. However being price competitive, if undertaken with a set of other activities, may bring rewards. And while large-formats may possess the consumer's choice in perceived price superiority, they also have the distinction of having the consumer's perceived need to be vigilant at the cashier.

When competing for service, a wide variety of approaches have been offered in the literature, from simply offering superior service, both in quality and quantity, to optimizing convenience via co-location with other retailers, to improved layouts and appearance, to extending store hours of operation. The review presented here highlights the extent that the literature is varied in its areas of investigation. Yet, many offer a common conclusion. That is, incumbents that find themselves in competition with large-formats will have a difficult time being viable unless they possess competencies that have them focus in a particular aspect of their market. Put differently, service strategies are generally thought to be most effective if they complement or support a product or customer focus.

Another theme, notable by its absence is the lack of longitudinal studies that include data prior to the entry of large-format retail and that focus upon the individual incumbent retailer as the unit of analysis. Presently, research on the impact of large-format retail on incumbent retailers is compromised if it does not present the competencies of incumbents before and after the entry of large-format competition. Without this we are unable to provide a complete empirical account of the competencies that enabled incumbent retailers to operate alongside large-format retail, or contributed to their failure. While the literature revealed several related studies that used a longitudinal approach, the studies either used aggregated census and tax data, which does not provide insight at the level of individual retailers (Ozment and Martin, 1990; Stone, 1995;

Genest-LaPorte, 1999; Davidson and Rummel, 2000; Jones and Doucet, 2000), or studied the consumer as the unit of analysis (Barber and Tietje, 2004), or the data has a limited relevance in the context of entering large-format retailers (Carusone, 1974).

There has been research on incumbent retailers that replicates longitudinal study by utilizing cross-sectional data or quasi-longitudinal methods (Litz and Stewart, 1996, 1998, 2000; McGee and Rubach, 1996; McGee and Festervand, 1998; Love and McGee, 1999; Peterson and McGee, 2000; Achua and Lussier, 2001). However this approach is limited (Love and McGee, 1999; Peterson and McGee, 2000), because as Cutler (1969) had found, findings from a cross-sectional study can reveal the opposite of what may be found when using longitudinal methods. Furthermore, there has been a call for research that uses time-series data (Arnold and Luthra, 2000; Jones and Doucet, 2000). As Miller et al (1999) have stressed; "further examination [longitudinally] is needed" (p. 119) in research on competition. While incumbent retailers have been encouraged to look at a variety of approaches to specialize, there has not been a study that looks at this from a longitudinal perspective.

2.2 Related Literature on Specialization

Large-format research has drawn from relevant literature in organizational research in the past to discuss firm specialization. For example Litz and Stewart (2000) have referred to organization ecology in order to study retailer niching via extraordinary hours of operation, Miller et al (1999) have looked at marketing literature to study the performance of retailers that niche in a limited line of products, and Darrow et al (2001) used niche strategies to study the performance of retailers that offer a variety of ways to focus their operations. As with other studies in the large-format literature, this study draws from concepts developed in related literature. In particular, the ideas of product focus and customer focus draw from relevant literature on firm specialization in organizational research.

Organizations will often vie for areas of specialization that allow them to minimize any market overlap, often exploiting a narrower market segment not sought out by other organizations. Operating in a narrow segment has been identified as a 'niche' or 'focus' by organization ecology's *niche-width theory* (Hannan and Freeman, 1977; Aldrich, 1979) and its complement *resource partitioning theory* (Carroll, 1985; Dobrev, Kim and Hannan, 2001), *marketing* (Weinstein, 1984; Sheth and Sisodia, 2002), and *strategy* (Porter, 1980; Hamel and Prahalad, 1996). These areas of organizational research share an interest in how organizations compete and rely on developing areas for specialization that allows them to minimize the competition.

In niche-width theory, two similar organizations with the same environmental requirements cannot exist in the same time and space without competition. Competition between existing organizations in the same environment ensues when they compete for the same limited set of resources (Hawley, 1950; Hannan and Freeman, 1989; Baum and Korn, 1996). While some firms will pursue specialization via niche, others will look towards a generalization approach (Aldrich, 1979). The distinction between the two are often based upon the "width of the niche" — the range of environmental dimensions across which a population exists (Carroll, 1985); or "market domain" — the set of markets in which a firm operates (Baum and Korn, 1996).

Specialists will maximize their focus in a particularly narrow niche. Incumbent retailers in home improvement that focus upon products such as paint or plumbing supplies may be deemed 'specialists' in the context of home improvement. By specializing, they reduce "niche overlap" (Baum and Singh, 1994) or "domain overlap" (Baum and Korn, 1996), thereby reducing exposure to competitive forces, but they assume greater risk of becoming irrelevant if the environment's resources were to shift completely beyond their niche (Hannan and Freeman, 1977).

Generalists accept a lower level of risk from shifting resources by distributing their focus over a wider niche, thereby providing a wider spectrum of goods and services within a given environment (Hannan and Freeman, 1977). In return, generalists average their outcomes over a wide range of conditions. Incumbent retailers deemed generalists offer a wide variety of products that cater to an area such as home improvement. "Generalist organizations compete in a variety of domains simultaneously, whereas specialists focus on only one or a limited few" (Carroll, 1985, p. 1266).

Niche-width theory presents the helpful distinction of specialists and generalists among firms in the same market, which has proven helpful in building theory and operationalizing measures in large-format retail literature in the past. However, there is the assumption in niche theory that specialists and generalists are unable to co-exist, which does not accurately reflect markets with large-format retailers (Carroll et al, 2002). The majority of the large-format retail literature suggests that it is possible for the smaller, specialized retailers to co-exist with the larger generalists.

While niche-width theory accounts for the survival of specialists or generalists, resource partitioning theory accounts for the increasing occurrence of co-existing specialists and generalists (Carroll and Hannan, 2000), which is more in keeping with research on large-format retail. Resource partitioning theory is a relatively recent introduction to the theoretical domain of organizational ecology, providing a different perspective on market competition. Resource partitioning theory relies upon the use of niche-width and scale economies to explain the dual trend of increasing market concentration and the proliferation of specialists (Carroll 1985) and attempts to explain why the smaller specialized firms are able to survive in the same market as large-scale organizations.

The theory asserts that market concentration occurs as large-scale generalists converge on a market 'center' – a figurative place where an industry's resource base is most abundant – leaving the peripheral or outlying market areas to be inhabited by specialist firms (Dobrev, Kim and Hannan, 2001). Resource partitioning theory is viewed by researchers of organizational ecology as "an alternative model of niche-width dynamics designed to explain the differential survival capabilities of specialists and generalists in environments characterized by economies of scale" (Baum, 1996, p. 78).

Resource partitioning theory is a useful point of departure from the original theory of organizational niche, but some of its key concepts such as market centre are not workable here. This issue is further discussed later in Chapter Five. Both of the above approaches to organizational ecology take a largely reactive, deterministic perspective of the environment and specialization, and as such garners mixed support as an approach to strategic management (Mintzberg and Lampel, 1999) and therefore the positioning of firms.

Research in marketing has looked at specialization in markets with a voluntarism perspective. Through the process of segmentation, organizations formulate strategy based upon their analysis of the market. Segmentation involves analyzing markets in order to find a particular niche in which to develop an organization's competitive position (Weinstein, 1984). Firms will look at dimensions such as the purchasing habits of consumers, demographic or socioeconomic information in order to partition a market into segments of potential customers with similar characteristics. For example, Weinstein describes the influence of demographics on a store that specializes in dancewear. For the storeowner, prime importance will be the number of females aged from 14 to 39 years. This particular group is the most likely to buy dance-related products.

Sheth and Sisodia (2002) explain that because of the great difficulty present in competing with full line generalists, smaller firms will carve out areas where they can specialize. Sheth and Sisodia reveal two paths of specialization that are the most common approaches for organizations. The first is to become a product specialist, where the store offers a specific line of products to consumers. The second is the market specialist approach, where the firm targets a specific demographic group or geographical area. Here in the marketing literature we find discussion regarding alternative methods of specializing in order to be competitive in a particular market. This perspective is in keeping with much of the literature on competing with large-format retail presented here.

The literature on strategy also leans towards a voluntarist perspective. Much of the literature suggests that successful firms possess a unique capability that is not ubiquitous across a particular industry (eg. Hamel and Prahalad, 1996). Through a rational approach to controlling the environment, Porter (1980) provides a set of prescriptive tools that can be used to determine the optimal competencies for organizations to focus upon within their environment. Porter describes firm specialization as "the degree to which it focuses its efforts in terms of width of its line, the target customer segments, and the geographic markets served" (p. 127). A benefit of these forms of specialization is of special relevance for incumbent retailers because it reduces pressure to compete on price, because the firm is distinguished from others, thereby reducing the amount of competition the firm faces (Porter, 1980, 1996).

Porter goes on further to explain that specialization by *product type* or *customer type* are two strategic alternatives for achieving above-average results in a fragmented industry — industries populated with a large number of small and medium-sized competing firms, as well as many small privately held firms, both common attributes in retailing. Specializing by product type involves focusing on a tightly constrained product grouping, while specializing by customer type would mean the firm addresses the concerns and purchasing decisions of a particular category of customer in the industry. Previous research has tended to focus on the effect of only one niche type on firm performance, rather than comparing multiple niche types (Echols and Tsai, in press).

In contrast to niche-width and resource partitioning theory, the approach to specialization as viewed by marketing and strategy implies much opportunity for organizational adaptation and change. This voluntarism perspective of managerial choice suggests that retailers are able to decide the niche that they will compete in, as well as adjust in order to avoid poor firm performance. The deliberate approach to niche positioning in a given market, as framed in marketing and strategy research, invokes an ability to learn from the market and to adjust for greater competitive advantage. While there may be debate on the extent that managers can learn and adapt to their market, Mintzberg and Waters (1985) surmise that organizations are neither unlimited in choice, nor are they void of any choice. They conclude "strategy formation walks on two feet, one deliberate, the other emergent" (p. 271). Echols and Tsai (in press) state that while the integration of organization ecology and strategic management has "highlighted the importance of the niche concept in understanding different aspects of competitive dynamics, it has not clarified the performance effect of a firm's niche" (no pagination).

While the suggestion by many researchers is that incumbents should compete with large-formats by developing strategies that focus on niche markets, there are still researchers that advise against it, or have not found definitive results in support of it. For example, Miller (1993) cautions that organizations focused on a single strength or function such as product or customer type may only enjoy short-term benefits. Dess and Picken (1999) concur, adding that an organization's strengths may not necessarily offer extended competitive advantages to the firm, particularly in light of a changing market: "A narrowly focused competitive strategy that succeeds under one set of market conditions may not fare well in a different competitive environment" (p. 110).

In the context of retail, Davidson and Rummel (2000) found that specialty stores that had similar products to Wal-Mart fared poorly. Stone (1995) also found that specialty stores were severely impacted in Wal-Mart towns as well as neighbouring non-Wal-Mart towns. Yet, he also found that specialty stores fared well in larger cities. Echols and Tsai (in press) found in their study of the niche-performance relationship of different niche types (product focus and process focus) that niche positioning leads to both positive and negative performance outcomes. In sum, the mixed signals on the effectiveness of firm specialization coming out of the relevant research suggest that a closer examination of multiple approaches to specialization is warranted.

2.3 Hypotheses

2.3.1 Hypothesis 1: Product Focus

This first hypothesis on product type looks at competitive positioning by firms that maintain a narrow focus on a particular product. It is the first of two hypotheses to be presented on specialization types. Both hypotheses are built upon the above discussion on firm specialization in retail, the lack of research on multiple niche types, and the differing opinion on research on the relationship between specializing and firm performance.

Measures of specializing have been developed for a variety of industries, with the bases for a firm's degree of specialization being reliant upon relevant contextual knowledge of their industry (Carroll et al, 2002). This has resulted in a myriad of ways to categorize niches across industries. Litz (1997) reported that firms could niche along five distinct bases, one of which includes product/service characteristics (p. 15). Porter (1980) stated that specializing on "a tightly constrained group of products" (p. 208) is one of the most effective methods in which firms could focus. The narrower the line of products offered, the greater the degree of specialization.

In the context of home improvement, if a firm sells paint and paint supplies, they would be deemed a specialist by product, in comparison to a retailer that sold paint, lumber, and tools. Achua and Lussier (2001) found a lack of any conscious attempt by independent retailers to pursue a product niche strategy. Hernandez (2003) revealed that even *Home Depot* is looking into specializing on products, given the present saturation of the home improvement market. McGee and Rubach (1996) explain that small businesses should focus their competitive stance on a specialized line of products that large-format retailers will largely ignore. Darrow et al (2001) suggest a specialization approach in hardware could be unique hardware requirements of older homes, or upscale housewares and garden furniture being offered. If an incumbent retailer finds themselves in close proximity to a large-format retailer Jones and Doucet (2000) suggest that the incumbents should offer an alternative shopping opportunity that includes highly specialized products.

Hypothesis 1

In the presence of increased competition from entering large-format retailers, the extent to which a firm specializes in product type will be positively associated with firm performance.

2.3.2 Hypothesis 2: Customer Focus

The second hypothesis on customer focus contributes to a better understanding of competitive positioning by hypothesizing the influence of a second type of specializing on firm performance. Specializing based upon a customer focus looks at a firm's positioning of product variety and activities in order to best appeal to a particular customer group. Carusone (1974) found that one of the most 'logical opportunities' for an incumbent retailer in light of entering large-scale retail would be to strategically position the firm toward a single market segment by way of specializing in a customer group. Love and McGee (1999) state that a customer-focus strategy is still a means to competitive advantage for incumbents. Brennan and Lundsten (2000) suggest that incumbents should focus upon a customer group that is interested in an array of specialty goods and service. Arnold and Luthra (2000) state the same. McCune (1994) advised retailers to focus on a particular niche that caters to a particular set of customers, such as large-sized clothing for women.

Darrow et al (2001) suggest that retailers should emphasize the current culture of time-saving consumers and assemble activities and products that a particular customer group would find appealing, but it is critical that the retailer knows their trading area and the preferences of the consumers they intend to focus upon. Ingene and Brown (1987) conclude from their study of retail gas stations that the demographic and environmental character of the market heavily influences the marketing mix of organizations. Changing demographics will produce shifts in consumer preferences and buying habits, with the shift occurring over extended time periods, allowing for adjustment by organizations (Dess and Picken, 1999). Jones and Doucet (2000) agree, stating that successful retailers will be catering to particular customer needs, and the aging population will become a factor of increasing importance in determining those needs. Sheth and Sisodia (2002) believe that the aging of society holds great opportunities in strategic positioning for organizations. Specifically, they state home improvement retailers must realize that the do-it-yourself crowd is now in decline and that customers are now more interested in buying the product and having someone else do it for them. Given the above discussion the following hypothesis on specialization by customer type is presented.

Hypothesis 2

In the presence of increased competition from entering large-format retailers, incumbent retailers that specialize in customer type will have superior performance.

2.3.3 Hypothesis 3: Narrowing of Focus

The two hypotheses offered above have an underlying assumption that organizations will not adjust to a change in their environment. This assumption leads to firms that will either be fit, enjoying sustainable performance outcomes, or not, leading to poor performance and failure. However, what if firms are able to adjust in order to better fit with the changed environment via change in niche width — such as a move to a narrower segment within a market? If organizations in fact survive through a period of environmental shifts, could it be the result of their successful adjustments? Echols and Tsai (in press) state that further research on niche change and its effect upon performance outcomes is required.

In the realm of organization ecology, Hannan and Freeman (1977) argue that adaptation is minimal, if possible at all. In support of Stinchcombe (1965), they contend that pressures from internal structure (i.e. sunk costs, internal politics, policies and procedures) and external constraints (i.e. legal and fiscal barriers, limited information, legitimacy) create a 'structural inertia' that makes adaptation cumbersome and unable to keep step with environmental change. However, Aldrich (1979) believes that there also exists “less complete forms of selection” where “activities may be eliminated, added, or modified without the destruction of the existing form” (p. 44).

Research on incumbent retailers has suggested that adaptation is possible following the entry of large-format retail, yet alterations in activities are often reported as minimal. Research has shown that threat rigidity behaviour and maintaining the status quo can occur due to environmental shocks such as sudden increases in competition (Staw, Sandelands, and Dutton, 1981). McGee (1996) attributed the inactivity by incumbents to a 'passive acceptance' of market erosion from the presence of large-format, where merchants have taken a "what else can I do?" stance. Market observers Taylor and Archer (1994) identify this as a 'deer in headlights' response where storeowners freeze, fearing that any significant strategic reaction on their part can be outplayed by the large-formats. In essence, the non-response reported by the above researchers suggests that owners are experiencing what may be likened to a retailer check-mate, where incumbents fear any possible strategic move taken by them may be countered with a crippling blow by the large-format.

As well, it may simply be that, as Porter (1996) stated, “making no choice is sometimes preferred to risking blame for a bad choice” (p. 75). In any case, an early study on the adaptive behaviour of incumbent retailers in response to large-scale competition, Carusome (1974) found a limited response by 316 small merchants to the entry of large-scale (suburban shopping malls) retail in several Ohio cities between 1958 and 1967. About one sixth of all respondents made some form of major or minor change in their business. The most frequent change reported was increased advertising, followed by remodeling of store, product line/depth changes and extension of store hours. About one-quarter of all changes enacted by incumbent retailers in light of entering large-scale retail were changes in merchandise and expansion of floor space. He also noted that most merchandise changes were expansion of product lines, not contraction. The least reported was a change in store location. Carusome further noted that incumbents failed to take advantage of 'promising opportunities' such as a change towards specialization in single markets or entering into cooperative ventures to gain economies of scale.

Some thirty years later, in their studies on the impact of big-box retailers on local merchants, Litz and Stewart (1996) as well as McGee (1996) found retailers still engaging in minimal adjustments to their way of doing business. Litz and Stewart found less than half of their 302 responding small retailers engaged in any action to counteract the entry of large-format retail. They found changes in product and service to be most common, followed by change in hours of operation and store layout. Least reported was a change in the store size and location. Litz and Stewart speculated that retailers were unwilling or unable to generate action that would counter any threat seen in the presence of the big-box retailer. Furthermore, they suggest that storeowner malaise may be resulting from a lack of confidence in the effectiveness of any competitive response. McGee found that of the 222 incumbent merchants in his study, most reported minimal pre-emptive behaviour upon entry of large-format retail. The most used response by incumbents was change in product lines with the least likely changes occurring in staffing, store hours, community involvement and credit practices.

Given the above discussion, we should expect to see minimum adjustment by retailers in their product or customer specialization in order to increase performance. However, there may very well be some incumbent retailers that have made such adjustments over the period of data collection. Litz and Stewart (1996) found that respondents were consistently more likely to respond to these giant entrants that had been in operation for less than two years. This pattern was sustained across all six response behaviours (changes in product mix, service mix, store layout, store size, store hours, store location). If incumbents did adjust, did a move toward specialization in product or customer type result in greater performance? The following hypotheses are offered to account for this potential shift in response to the increased market competition.

Hypothesis 3A

In the presence of increased competition from entering large-format retailers, incumbent retailers that increase their specialization in product type will increase firm performance.

Hypothesis 3B

In the presence of increased competition from entering large-format retailers, incumbent retailers that increase their fit with customer type will increase firm performance.

2.4 Conclusion

This chapter presented literature relevant to generating the hypotheses related to firm specializing by product, by customer, and narowing in a firm's focus. It built upon the broad areas discussed in Chapter One, in particular focusing the research on large-format retail and presenting it based upon the three competitive strategies used by *Home Depot*. The review illustrated the need for longitudinal research as well as the consensus in the literature that incumbents who specialize are more likely to survive in the presence of large-format retail. By looking at the literature on firm specialization, a product focus and customer focus was revealed as two approaches often used by firms. By specializing in a line of products, or addressing the preferences of a particular customer group, incumbent retailers are posited to experience greater performance during a period of increased competition due to the entry of large-format retailers. The third hypothesis provides an opportunity to explore whether adaptation by incumbents offers an explanation for survival or improved performance. The hypotheses presented here are operationalized in the next chapter.

CHAPTER THREE

METHODS

The previous chapter presented the hypotheses on product focus, customer focus, and narrowing of focus. It reviewed literature in large-format retail, as well as drawing from other disciplines in management research in order to generate the hypotheses that will lead to understanding the niche-performance relationship of two often-applied competitive positions. This chapter now presents how the three hypotheses are operationalized. Site selection, sample and data collection are presented as well as how the measures were created. The degree of product focus of incumbents is determined by examining the breadth of products that they offer. The customer focus of incumbent retailers is determined by first assessing the preferences of retail home improvement consumers and then comparing it to the products offered by each incumbent. The activities of the largest identifiable consumer group of home improvement products, the Baby Boomer cohort, are assessed to understand their preferences in home renovations and products. Subjective performance measures as well as firm failure are also operationalized in this chapter.

3.1 Introduction

A significant contributing element offered by this study is the rare look at incumbent retailers at the pre-entry, entry, and post-entry stages of a large-format retailer. Based upon my review of the literature, no other study has looked at the impact of entering large-format retailers in a longitudinal analysis that includes pre-entry data with incumbent retailers as the unit of analysis. The data for this study was collected over six years in Winnipeg, Manitoba; a city rated as Canada's most economically diverse and closest in matching the overall economic diversity of Canada (Moody's Investors Services, 2000). The first wave of data collection, 1995, was prior to the physical presence of *Home Depot* or *Revy* in Winnipeg. However, rumours had already started that two large-format home improvement retailers would soon become part of the local retail market. The second wave occurred in 1997, a point at which *Revy* and *Home Depot* had entered the market. The third period of data collection occurred in 1999, which would reflect a point where both *Revy* and *Home Depot* had settled into the local retail market. A fourth and final collection of data occurred in 2001. This last wave completed three full periods of study and was limited to confirming whether or not the remaining incumbent home improvement stores in 1999 were still in existence, thereby determining the effect that their stated strategies in the 1999 data collection had on their operations two years hence.

3.1.1 Research Site

There are several important considerations to make regarding selection of a research site, given that this study examines the impact of entering large-formats on incumbent firms over time. It must be apparent that the effect upon incumbent retailers of home improvement products and services is as a result of entering large-format home improvement stores. Carusome (1974) identified four criteria in order to select specific cities for his longitudinal study on the adaptive behaviour of incumbent retailers in the presence of large suburban retail developments. First, the city should represent the dominant trade center for the region. Second, the city should be large enough so that emergence of suburban shopping facilities is a distinct possibility. The third criterion set out by Carusome is that the city should be small enough so that it retains substantial homogeneity in terms of overall retail structure. Fourth and finally, the city should be somewhat socially and economically separate from any neighbouring cities.

While Carusome does not offer any further explanation for the rationale for his first two criteria, it would be fair to suggest that, because he was looking for the impact of large-scale retail development without knowing where such development would occur, it was necessary to select sites that would be strong candidates for receiving retail development during the course of his nine-year study. Dominant retail centers with a population base large enough to support large-scale development would be the most fruitful to observe over time. Given that this study already had the knowledge that large-format retail would be entering a city within two years, the first two criteria, although both satisfied by the chosen research site, become irrelevant. Regarding the third criterion, I take this as referring to the lack of large-format retail in the research site, whereby the incumbent retailers follow a largely similar and traditional approach to retail with little variation. In terms of overall retail structure in the retail home improvement sector, there was still substantial homogeneity. In 1995, the research market had yet to experience the presence of large-format home improvement retail, with only limited experience in this retail format in other sectors (office supplies, home entertainment, sports equipment).

The last criterion is necessary in order to minimize the possible influence of other regions. Incumbent retailers that are able to shift their focus to attracting customers from nearby regional markets will dilute the effect of the large-formats upon incumbents, generating spurious results. This concern has been echoed by other researchers of large scale retail (McGee and Festervand, 1996; Stone, 1995) The city of Winnipeg is geographically located in the center of North America with a population of 618,000, making it the eighth largest city in Canada (see *Table 3.1*, source Statistics Canada, 1996 and 2001).

Table 3.1: Winnipeg census data.

Winnipeg	
Population (1996)	618,477
Population (2001)	619,544
Growth Rate (1996 to 2001)	0.2%
Metropolitan Area (square km)	465.16
Population Density (persons/square km)	1329.6
Average Household Size (persons/household)	2.36

Winnipeg's relatively remote location places any other metropolis of equal or greater size a full day's drive away. Minneapolis, Minnesota is the closest large centre (population in excess of 500,000) and is about 725 kilometres from Winnipeg, while Calgary, Alberta is the closest Canadian large centre and is about 1325 kilometres. Smaller communities are nearer, such as Brandon, Manitoba (200 kilometres) and Grand Forks, North Dakota (240 kilometres), however these cities are still far enough in proximity to discourage any regular travel from one community to the next on the basis of convenience. Therefore, Winnipeg is quite socially and economically independent from any neighbouring cities, with incumbent retailers relying largely upon the residents of Winnipeg for their customer base; creating an ideal natural laboratory experiment. Baum (1996) has stated that more organizational research of this kind is needed.

Stone (1995) extends the considerations necessary for site selection in this type of research by noting the influence of population growth, which may dilute the impact of entering large-formats. This was a key premise in Stone's selection of the state of Iowa as the region for his longitudinal study on the impact of entering *Wal-Mart* stores on incumbent retailers. He argued that a static population growth maintains a relatively fixed 'retail pie' thereby offering a more explicit effect upon incumbent retailers by entering large-format retailers. With minimal dilution from increased population density or urban sprawl — direct attributes of population growth — incumbents will therefore have to make do with a smaller part of the retail pie by adjusting their operations accordingly to maintain pre-entry performance, or by exiting the market altogether. Winnipeg's population has remained largely the same over recent years with only 0.2 percent growth from 1996 to 2001. The relatively static growth in population means that the scale of the Winnipeg retail market has also remained relatively fixed for the period of the study.

Finally, while Carusome's (1974) consideration for growth in retail as a result of penetrating other markets or Stone's (1995) concern for increases in consumer populations must be kept in check during the study, I add here, from the domain of organization ecology, that the research site must also be environmentally munificent; able to carry a strong home improvement retail market (Aldrich, 1979; Dess and Beard, 1984).

If there is any indication of a diminishing home improvement retail market, then the failure of incumbent retailers may be attributed to a flailing local home improvement market rather than to increased competition as a result of entering large-formats. The Canada Mortgage and Housing Corporation (CMHC) found that the renovation market entering into the 1990s was growing and outpacing spending on new residential construction (1993).

Since 1996, an upward trend has been maintained. Over the period of the study, the Canadian home improvement market nearly doubled in total dollars spent. In 1995, at the time of the launch of the study, $11.8 billion was spent on home repairs and renovations in Canada. In 2001 that amount had increased to $20.4 billion. In constant dollars (base year 2001), the change from 1995 to 2001 is an increase of 60.63 percent, or an average increase of 10.10 percent annually. In Manitoba, the amount spent on home repairs and renovations went from $409 million in 1995 to $635 million in 2001, reflecting an increase in constant dollars of 44.32 percent or 7.39 percent annually. While the increase in Manitoba does not reflect the same growth as in the rest of the country, the resulting figures reflect an aggregate for the entire province, which do not necessarily provide an accurate reflection of the city of Winnipeg specifically.

There are several indicators that suggest Winnipeg should have a home improvement industry that equals or exceeds those of other Canadian cities (see *Table 3.2*, based upon Statistics Canada, 1996 census data). Winnipeg has an inventory of homes that is older, and an economic composition that makes home ownership more attainable as well as home improvement more economically feasible.

Table 3.2: A comparison of housing markets in four Canadian cities.

Comparison of Communities	Vancouver	Calgary	Toronto	Winnipeg
Average House Value	$ 318,127	$ 154,203	$ 238,511	$ 97,824
Average Earnings	$ 29,122	$ 28,991	$ 31,264	$ 24,809
House Value / Earnings Ratio	10.92	5.32	7.63	3.94
Pre-1981 Homes	63.2%	66.9%	72.2%	79.8%
Living in Owner-Occupied Homes	71.2%	76.1%	68.2%	76.3%
Payments below 20% of Income	55.2%	59.6%	53.3%	66.4%
Population Density (persons/km)	4758.7	1252.3	3939.4	1329.6

A particularly telling city statistic with respect to a market supporting a healthy home improvement industry is the age of the houses in a community. Older homes require more repair and maintenance than new (Carter and Douchant, 1999). The useful life of building materials will vary, but when a house approaches twenty years in age, building materials and elements such as shingles and windows require replacing or significant repair. This type of large-expense work will also be the catalyst for other work being undertaken at the same time. Room additions, skylights, window treatments, or fireplaces may end up being included in the same project with the replacement or repair of aging building components (Joint Center for Housing Studies for Harvard University, 1999). Winnipeg has a greater proportion of its house inventory (79.8%) built prior to 1981 than any of the comparison cities (Vancouver, 63.2%; Calgary, 66.9%; Toronto, 72.2%).

Furthermore, while the average earnings in Winnipeg ($24,809) is lower than in the comparison cities of Vancouver ($29,122), Calgary ($28,991) and Toronto ($31,264), the ratio of average house value to average earnings illustrates the affordability of homes for Winnipeg residents. During the study, Winnipeg homes were on average lower in price than elsewhere in Canada: It would have taken nearly eleven times the average salary in Vancouver to buy the average-priced home (10.92), while it requires less than four times the average salary of an individual in Winnipeg to do the same (3.94). As a result, more people are able to own a house in Winnipeg (76.3%) than in any of the comparison cities.

While Calgary holds nearly the same statistic with respect to owner occupied homes (76.1%), residents of Calgary are burdened with a larger portion of their income allocated to covering the cost of housing. In Winnipeg, nearly a full two-thirds (66.4%) of homeowners have their housing costs consuming less than 20 percent of their income, while only 59.6 percent of Calgary residents enjoy the same, which suggests less discretionary income to allocate to expenses such as home improvements. Only 53.3 percent of the homeowners in Toronto are putting less than 20 percent of their income towards the cost of housing. Given this information, Winnipeg is a region that has experienced a healthy, growing home improvement market that would rival other Canadian cities, at a time when the amount spent on home renovations in Canada has increased by more than 60 percent over the period of the study.

In summary, the Winnipeg retail home improvement market satisfies the considerations put forward by Carusome (1974) and Stone (1995) as well as the additional consideration for environmental munificence. Therefore, Winnipeg is an ideal site for examining the impact of entering large-formats on incumbent firms over time.

3.1.2 Sample

The sampling frame used for the first wave of collection (1995) was the local yellow pages, in which firms that met the sampling criteria were randomly selected for the study. The selection criteria had three requirements. First, businesses had to have a product line that would overlap with the products offered by *Home Depot* or *Revy*. Several key product sectors are identified in order to meet this first requirement: lumber/building supplies, paint/wallpaper/blinds, flooring/carpet/vinyl, hardware, electrical/heating, lighting/fans, plumbing, kitchen/bathroom cabinets, and lawn/garden. Second, the business had to operate within the business trading area that *Home Depot* and *Revy* would be entering, which covers about 465 square kilometers, comprising the geographical area of the city of Winnipeg. Third, retail sales had to account for more than half of the business generated by the store.

Of the 262 firms listed in the local yellow pages, 72 retailers were contacted in T1 (1995) to participate in the study. Of the 72, data were received from 58 stores, for a response rate slightly over 80 percent. Sampling in subsequent waves of data collection (1997, 1999 and 2001) was limited to participants in the initial wave of data collection. Therefore, periods of data collection after the first wave (T1) were limited to the initial 58 participants. However, initial criteria still had to be maintained for a participant to remain in the study. If, for example, a study participant relocated to an area beyond the region in the study they would be deemed to have exited the competing market area and that would have been noted as a failure to compete with the large-format stores through the course of the study.

Over the span of the study, 20 of the 58 stores experienced firm failure, terminating their competition with the big box stores. At T2 (1997) twelve of the 58 incumbent stores had failed. By T3 (1999), eight more failed. A fourth survey in 2001 found that the incumbent population had stabilized, with total firm failure remaining at twenty. The total failure rate for the duration of the study was slightly under 35 percent (34.48%). See Appendix 12 for a list of participants in the study.

3.1.3 Data Collection

Data collection involved survey, interview, and observational methods. The application of the three methods allowed for triangulation of data (McGrath, 1982), generating support for findings collected in each of the three methods, as well as offering a richness of detail not necessarily found when limited to fewer methods. The results should increase the ability to draw conclusions from the study (Scandura and Williams, 2000). For example, statements made by storeowners could be compared against corresponding data found in the survey or by observations made onsite.

Dillman's Total Design method (1978) was utilized in order to develop and administer the survey instrument. With the help of a trained research assistant familiar with the home improvement industry, pilot testing of the 1995 survey was performed on a few Winnipeg businesses and refined the questionnaire, dropping or adjusting questions as necessary. The survey instrument adopts the format designed by Litz and Stewart (1996) as a template, with the intent of gaining understanding of each retailer's products offered, customers served, and prior year's performance.

The survey included several question response types including 5-point Likert scale (e.g. How often do you or your employees provide advice to customers? 1 = yearly...5 = hourly), ranking and rating (e.g., Which of the following is more important to your store's strategy?) and written response questions (see Appendix 1, 2, and 3).

Data collection initially began with a brief introductory telephone call to store owners inviting participation in the study. Subsequent to an indication of interest they were mailed a survey with a cover letter. Participants were contacted several weeks following the mailing to see if they had completed the survey. If completed, a meeting was arranged at the store in order to conduct interviews and pick up the survey. If the survey had not yet been filled out a second follow-up phone c all was scheduled. This process would continue through the summer months.

During the onsite visit observational assessments were made. This included noting the physical characteristics of the building and site and the pricing of several products. The onsite visit also included a brief interview with the manager. The interview was semi-structured, asking the manager, among other items, to identify their competitors and customers as well as offer their impression of the big box competitors. All data that were collected were then coded and entered into a statistical software program (SPSS) for further analysis.

3.1.4 Summary

This section provided an introduction to the methods that were used in pursuit of collecting data for subsequent testing of the hypotheses generated in Chapter Two. Justification for using the Winnipeg home improvement market as the research site was offered, as well as an overview of the sampling procedures undertaken to assemble the 58 participants. The methods for collecting the data from each of the study participants were also presented. The next section presents the operationalizing of measures in four sections. The first three sections describe the independent variables that are associated with each of the three hypotheses (product focus, customer focus, and narrowing of focus). The fourth section presents two dependent, performance-related variables (firm failure, and reported performance).

3.2 Independent Variables: Hypothesis 1 — Product Focus

In the presence of increased competition from entering large-format retailers, the extent to which a firm specializes in product type will be positively associated with firm performance.

Porter (1985) instructed that to identify particular product types or 'segments' an individual should isolate all products based upon physical distinction. For the purpose of this study, home improvement products were distinguished along fourteen different categories based upon the products offered by *Home Depot* or *Revy*, including segments such as: building hardware, tools, plumbing and lumber. The more focused a firm is on a particular segment, the narrower their niche and greater their specialization. Based upon this distinction, four different measures to operationalize a firm's niche were developed. This section presents one method used in operationalizing an incumbent retailer's product focus for the analysis of Hypothesis 1. Three additional variations for measuring niche width are presented in the Appendix (see Appendix 4 for 'generalists and specialists,' Appendix 5 for 'retail store typology,' and Appendix 6 for 'niche width score'). The three methods in the Appendix offer slight variations from the method presented here. However, they produced no difference in outcome.

3.2.1 Product Focus

The method of categorizing product focus offered here, recognizes the possibility that subtle variation in the width of a band of resources may exist among organizations within a particular market. Given this variation, organizations are given a fine-grained continuous measure based upon their product specialization or niche (Dobrev et al, 2001); the greater an organization focuses upon a particular line of products, the narrower their niche. This measure relied upon the responses of retailers regarding the percentage of each product category they reportedly sold in their store.

The degree that a retailer focused upon a single product line was determined and labeled as the 'product focus.' Store participants were asked to allocate the percentage of products sold in their store. At T1, the categories included building hardware, tools, electrical supplies, plumbing, lumber plywood, gardening supplies and tools, kitchen cabinetry, flooring, paint and wallpaper, lighting fixtures, yard and garden furnishings, housewares, appliances, and other. For T2 and T3, some categories were grouped together (lumber and plywood, lighting and electrical, gardening tools and yard furnishings). Participants could choose percentage blocks for each product type, ranging from zero percent, increasing in blocks of ten percent (1-9%, 10-19%, 20-29% and so on).

Retailers were assessed based upon their reported allocation of the most products sold in a given category as compared to the sum of all products sold. For T1, several products were grouped together (lumber and plywood; lighting and electrical; gardening tools and yard furnishings) to remain consistent with product categorization in subsequent periods of data collection. The product focus was determined based upon the maximum value reported over the sum of all the products sold in the same time period:

[Largest Product Category / Sum of all Product Categories = Product Focus]

The possible range of product focus ran between '0' and '1.0'. The higher the value resulting from this equation, suggested a greater product focus by the retailer. A low value would mean that the retailer sells products in many different categories, suggesting a wide niche or generalist approach. Change in the mean over time was minimal as compared to changes in the mean customer and product focus measures. T1 product focus (N=57) had a mean ratio of .7568 (see *Table 3.3*). The mean generated for T2 (N=38) was .7401. The T3 (N=37) ratio was .7518.

Table 3.3: Product focus descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
T1 Product Focus	57	0.7568	0.2416	0.0320
T2 Product Focus	38	0.7401	0.2568	0.0417
T3 Product Focus	37	0.7518	0.2863	0.0471

Product focus reduced in mean from T1 to T3 in a paired samples t-test (using only the 38 stores that survived through the study). The difference was not significant.

3.3 Independent Variables: Hypothesis 2 — Customer Focus

In the presence of increased competition from entering large-format retailers, incumbent retailers that specialize in customer type will have superior performance.

This section operationalizes the above hypothesis in order to assess the customer focus that an incumbent retailer has with the preferences of a particular customer group within home improvement retail. The customer group that will be used is the large 35 – 55 year-old customer group, more commonly referred to as the 'Baby-Boom' generation. This group has been chosen because Baby Boomers are the single largest spenders on home renovations in Canada (Canada Mortgage and Housing Corporation, 1993) and, as Sheth and Sisodia (2002) were noted as stating in Chapter Two, the aging of society holds potentially great strategic opportunities (and threats) for organizations. Arnold and Luthra (2000) provide the only study on large-format retail that explicitly states the influence that Baby Boomers have had upon large-format retail, and they suggest that further study is required that specifically addresses this cohort.

As was also stated in Chapter 2, retailers can emphasize a product grouping and assemble activities to create a customer focus that appeals to a particular consumer group. In order to determine a customer focus it is first necessary to describe both the consumer group and what may comprise their preferences in home improvement products. A unique characteristic of the retail home improvement industry is that many of the products that consumers will purchase at a home improvement store must subsequently be installed, which usually entails more skill and effort than simply 'plugging it in.' Retail clothing, sports equipment, and even much of the home electronics industry do not share this same characteristic. Shoppers of home improvement products must decide if they will be installing the products themselves or have someone else to carry out the work. If it is the former, then they might require tools and building materials to do the job. If it is the latter, they only need to focus on the finished products and acquire trades to carry out the work.

The Baby Boomers are not only the largest cohort (more than two-fifths) of all Canadian homeowners they are also the least likely to carry out the work themselves. This consumer group is most interested in home improvement products that are decorative rather than the 'nuts and bolts' of home improvement, because this particular group neither has the time (nor, in some cases, the inclination) to undertake renovations and home improvement projects on their own. As such, skilled trades are now carrying out many of the activities that were previously undertaken by the traditional 'do-it-yourselfer.' Allen's (1999) interpretation of the home improvement industry is that the majority of homeowners are "shifting from 'do-it-yourself' to 'buy-it-yourself' projects, meaning that a lot of the people picking out floor tiles and toilets at *Home Depot* are there to save a buck on the materials so they can pay someone else for the labour" (p. 23).

For retail home improvement, this creates two unlikely areas for stores to focus on, counter to what may be deemed a traditional focus. Incumbent retailers should offer a greater array of decorative, aesthetic products for the homeowner to view and purchase rather than focusing on hardcore hardware products. Incumbents should also reduce their traditional focus on the do-it-yourselfer, and start to attract more attention from the trades customer group. While these two measures may seem different, they are the result of the same effect, that the largest consumer cohort, the Baby Boomers are having renovations done and not doing the work themselves. The attempt here is to quantify a single effect based upon two dimensions. Product choice and installation choice are related when it comes to the effect upon the retail home improvement industry. Incumbent retailers that position themselves to focus on these trends are hypothesized to experience superior firm performance because it caters to supporting the activities of a particular customer group.

The two trends were brought together to create a measure of customer focus used for Hypothesis 2, which will be compared against measures of performance in Chapter Four.

3.3.1 Determining the Preferences of Consumers

In Canada, the home improvement market has nearly doubled in total dollars spent from 1995 ($11.8 B) to 2001 ($20.4 B) (Canada Mortgage and Housing Corporation, 1993). The Baby Boomer cohort has been a significant driver behind the growth in home improvement (Canada Mortgage and Housing Corporation, 1993, 1995; Foot and Stoffman, 1995; Meredith, Schewe and Karlovich, 2002; Smith and Clurman, 1997). Darrow, Smith and Fabricant (1994) found that *Home Depot* had positioned itself to enjoy the swell of home improvement activity expected from Baby Boomers in the late 1980s and 1990s. Bob Nardelli, the current CEO of *Home Depot*, stated that the reason

Home Depot entered into a super-sized store format in 1986 was to tap into the growing spending occurring in the home renovation market, where spending on home improvement was not a fad but a growing trend (CEO Exchange, 2002).

Many reasons are given for Baby Boomers being a significant impact upon the home renovation market. First and foremost is the significant size of the cohort. At the last point of data collection for this study (2001) the Baby Boomers (ages 35 to 54 years) comprised 31.4 percent of the Canadian population. While Boomers comprise roughly one-third of the population, they consist of 42 percent of consumers in the housing industry; nearly twice the size of the next largest group, and were expected to grow by 1.3 million Canadian households through the 1990s (Canada Mortgage and Housing Corporation, 1995). As such, any minor shift in renovation preferences by the Boomer cohort would have a significant impact upon the retail home improvement industry.

Secondly, the Baby Boomers are at an age when people spend more time at home, either to be with family or to engage in the growing trend of working from home (Canada Mortgage and Housing Corporation, 1995). This increase in home time spurs the need for larger or improved home spaces (recreation rooms, family rooms), entertainment spaces (dining rooms, media rooms), and workspaces (office or den), which prompts homeowners to move or renovate (Joint Center for Housing Studies for Harvard University, 1999). While CMHC (1995) was unable to find a relationship between spending time at home and renovation plans, they did find that 60 percent of Canadians that are spending more time at home want to move up to residences of a higher value, and the vast majority of people who expect to buy a new home (78%) will renovate upon moving, which is considered a large contributing factor to annual renovation activity (Canada Mortgage and Housing Corporation 1995; 1999; 2001). In the United States, growth in home sales were estimated to have generated $2.2 billion in added spending on home renovation in 1998 over 1997 (Joint Center for Housing Studies for Harvard University, 1999).

Third, Baby Boomers (particularly the front end Boomers) have the highest average income, coupled with a high home equity, allowing them to spend more on their existing residence than younger cohorts that have low equity and low income, and older cohorts, that have high equity but lower, fixed incomes (Canada Mortgage and Housing Corporation, 1995). CMHC (1999) found that well over half of the homeowners intending to renovate within a year were in the $60,000 to $100,000 household income bracket, which, as a sample comprise less than one-third of homeowners. Furthermore, higher incomes correlate with greater expenditures on renovations.

From the above, we can surmise that the Baby Boomer cohort has not only occupied a large segment of the home improvement market, but (more importantly) also participates in home renovation in a significant manner, on average undertaking more projects that are of greater expense than any other cohort. Therefore, it should follow that retail stores catering to home improvements and a growing home renovation market should be particularly sensitive to the preferences of the Baby Boomer cohort. However, research on large-format home improvement retail has yet to look at this closely.

While the Boomers command a significant presence in the renovation industry, they are also at an age when they are less likely to do projects themselves and more likely to acquire the services of trades and contractors to undertake their renovation projects (Joint Center for Housing Studies for Harvard University, 2000). This has fuelled dramatic growth in areas such as house keeping, home maintenance professionals, and contractors in order to manage their residences (Sheth and Sisodia, 2002). For example, the number of home service related jobs increased in the United States by eight percent in 1998: more than five times the overall rate of growth (Meredith et al, 2002; 202). By and large, Boomers are acquiring services to undertake and manage household activities and projects that, in a previous generation were usually carried out by homeowners of the same socio-economic stratum. "So what's changed since our parents were younger? For one thing, new houses have gotten bigger and old houses have gotten older — both are therefore harder to care for. And, while we loath to admit that we're clumsier or lazier than our parents, it is true that we're a lot busier" (Allen, 1999, p. 23).

Table 3.4: Use of trades in renovations.

Project Completed by:	CMHC 1994	CMHC 2001	% Change
Do-it-yourselfer	43	28	-34.88
Mix	35	29	-17.14
Trades	18	42	133.33

We can observe the shift from projects undertaken by homeowners or traditional 'do-it-yourselfers' to being assigned to services or 'trades' by comparing two studies carried out by CMHC (see *Table 3.4*). In spring 1994, a survey of home owners found that, of those that were planning to renovate, 43 percent were going to undertake the work themselves, 35 percent were going to have some of the work undertaken by trades, and only 18 percent were going to have the work entirely carried out by trades (Canada Mortgage and Housing Corporation, 1995). Seven years later, the same questions revealed a different response: Only 28 percent of respondents were going to undertake the work themselves, 29 percent were going to have a mix, and 42 percent were going to have all the work undertaken by trades (Canada Mortgage and Housing Corporation, 2001). While the shift in preference was not directly attributed to Boomers, we can infer the presence of a relationship. The 1995 study showed 52 percent of all intended renovation projects were by individuals aged 30 to 48 years (born 1946 - 1964). The 2001 study showed nearly half of all renovation intenders to be of about the same age cohort as the 1995 study, aged 35 to 54 years (born 1947 - 1966). Therefore we know that the significant cohort represented in both studies is largely the same.

The shift from do-it-yourselfers to trades means that more of the building products and tools that are purchased for home renovation projects will be by the trades. Compared to do-it-yourselfers, trades are more likely to purchase those products from wholesalers and suppliers, which means fewer building products and tools sales for retail home improvement stores. If market forecasters expected a growing do-it-yourselfer market based upon the activities of previous cohorts, the commanding size of Baby

Boomers, and the increase in home renovation activity, they will find that the opposite has occurred. Although the home improvement industry is strong, it does not translate into a proportional increase in do-it-yourself activity. Stores that maintain a focus upon do-it-yourselfers over the burgeoning use of trades will find a loss of market share. The shift also suggests that homeowners acquiring trades for renovations will focus upon buying home improvement products that are more aesthetic, leaving the building products or 'nuts and bolts' to the trades. The shift in products being sought by homeowners means that home improvement stores that do not offer finishing products (such as paint, light fixtures and window treatments) for renovations will have fewer sales than stores that do. What this means in practice is that 'décor' trumps 'hardcore' hardware when it comes to establishing a customer focus with the largest consumer group in the home improvement sector. Incumbent retailers that provide décor products and offer a focus on trades over do-it-yourselfers are maintaining a better fit with the 35 to 55 year-old market, which is presently the dominant consumer group.

The remainder of this section creates the measure of customer focus for incumbent retailers based upon the preferences of the largest consumer group. A 'trades focus' measure is created, as well as a 'décor focus' measure in order to reflect the two trends in retail home improvement influenced by the Boomers. These two measures are then brought together to assess the customer focus of incumbent retailers.

3.3.2 Trades Focus (Trades vs Do-it-Yourselfer Customers)

Study participants in each period of collection identified the percentage of customer traffic that their stores received from 'trades,' 'do-it-yourselfers,' 'occasional shoppers,' 'institutions,' and 'others.' The customer traffic of each group was indicated as a percentage of all people that visited the store, based upon the participant's observations and recall. Participants could choose percentage blocks for each customer type, ranging from zero percent, increasing in blocks of ten percent (1-9%, 10-19%, 20-29% and so on) up to 100 percent. For the purpose of this study, the relationship between do-it-yourselfers and trades was explored by creating a continuous variable where the two customer types were placed on either end of a customer focus continuum. This was done so that incumbent retailers could be compared based upon the extent that they positioned themselves with trades customers in comparison to do-it-yourselfer customers. Customer traffic from trades and do-it-yourselfers for each case were placed into a ratio, where the equation would express the extent that trades were a focus over do-it-yourselfers:

[% of trades / (% of trades + % of do-it-yourselfers) = Trades Focus]

Possible values can range between '0' and '1.0' with the higher values indicating a greater trades focus by the retailer. A one-sample t-test was run on the ratios generated in each time period. The trend over the course of the study was an increase in the trades focus mean (see *Table 3.5*). The mean trades focus ratio generated for T1 (N=58) was .4344. The mean generated for T2 (N=39) was .4601. The T3 ratio was .5178 (N=36). While the study's number of firms at the various stages was 58 (T1), 45 (T2), and 38 (T3), the table shows only participants that had no missing data in the construction of their trades focus score.

Table 3.5: Trades focus descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
T1 Trades Focus	58	0.4344	0.3073	0.0403
T2 Trades Focus	39	0.4601	0.3233	0.0518
T3 Trades Focus	36	0.5178	0.2898	0.0483

In a paired samples t-test between the mean of trade focus of stores at T1 and T3 (stores that survived through the study) no significance was found in the difference. Correlation of mean trades focus from T1 to T3 was positive and significant (r = .680, and $p \leq .000$).

3.3.3 Decor Focus (Decor vs Hard-Core Products)

Utilizing the same part of the questionnaire as the product focus measures, store participants were asked to allocate the percentage of products sold in their store. At T1, the categories included building hardware, tools, electrical supplies, plumbing, lumber plywood, gardening supplies and tools, kitchen cabinetry, flooring, paint and wallpaper, lighting fixtures, yard and garden furnishings, housewares, appliances, and other. For T2 and T3, some categories were grouped together (lumber and plywood, lighting and electrical, gardening tools and yard furnishings). Participants could choose percentage blocks for each product type, ranging from zero percent, increasing in blocks of ten percent (1-9%, 10-19%, 20-29% and so on). These categories were subsequently grouped into two larger categories, one being a 'hard-core' genre of products (products that contribute to the 'nuts and bolts' side of home improvement projects), the other being a 'décor' genre of products (products that contribute to the aesthetic side of a home improvement project).

The value for each genre was determined by the sum of the sales percentages that store participants assigned to each product within the genre. The hard-core product genre at T1 included hardware, tools, electrical, lumber, plywood, and gardening while the decor genre at T1 included cabinets, flooring, paint, lighting, yard & garden, housewares and appliances. Product categories for 'plumbing' and 'other' were dropped from the hard core and decor genre measures since it later became apparent that it was not definite whether participants were regarding their products in these two categories as being 'hard core' or 'decor.' For example, plumbing could infer copper pipe (hard core product) to one retailer and sink basins (décor product) to another. This has had no effect on the findings in this study, since the items were never analyzed.

For the purpose of this study, the relationship between hardcore hardware and decor products were explored further by creating a continuous variable where the two product genres were placed on either end of a product focus continuum. Product sales from the decor and hard-core genre for each case were placed into a ratio, where the equation would express the extent that decor products were a focus over hard-core:

[% of decor / (% of decor + % of hard-core) = Décor Focus]

Values can range between '0' and '1.0' with the higher values indicating a greater décor focus by the retailer. A one-sample t-test was run on the ratios in order to generate a mean for each time period. The trend over the course of the study was similar to that found in the trades focus: An increase in the décor focus mean occurred from T1 to T3 (see *Table 3.6*). The mean décor focus ratio generated for T1 (N=47) was .4320. The mean generated for T2 (N=26) was .5413. The T3 (N=28) ratio was .5897 (N=28). The table shows only participants that had no missing data in the construction of their décor focus score.

Table 3.6: Decor focus descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
T1 Decor Focus	47	0.4320	0.4109	0.0599
T2 Decor Focus	26	0.5413	0.4124	0.0809
T3 Decor Focus	28	0.5897	0.3900	0.0737

A paired samples t-test between the mean of décor focus of stores at T1 and T3 (the 38 stores that survived through the study) showed no significance in the difference. A correlation of mean décor focus from T1 to T3 was also found to be positive and significant ($r = .846$, and $p \leq .000$).

3.3.4 Customer Focus

The customer focus score will be the measure used in analysis to determine the extent that specializing with a customer focus yields greater performance among incumbent retailers. Customer focus is determined by creating a new value by combining the measure for décor focus and trades focus. The first measure (decor focus) reflects the buying preferences of the Baby Boomer customer group for home improvement projects, and the second measure (trades focus) reflects their preferences for how those projects are going to be carried out. Both variables reflect the differentiated value chain of the Baby Boomer customer group. Porter (1980) has stated that, "segmentation variables can be reduced by collapsing segmentation variables together that are correlated" (p. 250). The correlation between the measures of trades focus and décor focus was significant and positive ($r = .423$ and $p \leq .005$), suggesting that product choice and installation choice are related when it comes to the effect upon retail home improvement. The interaction of the two measures are checked against firm performance in Chapter 4

[Trades Focus * Decor Focus = Customer Focus]

The combining of the two measures creates a new measure where values can be distributed anywhere on a scale from '0' to '1.0.' The higher the retailer focuses on trades customers and decor products, the greater the customer focus, suggesting a better position in the market to handle the effects of the preferences of the industry's largest consumer group. In turn, a high customer focus should result in better firm performance. The mean customer focus at T1 (N=49) was .3400 and gradually increased over the course of the study. At T2 (N=27) the mean was .3841, and at T3 (N=28) the mean was .4902 (see *Table 3.7*). The table shows only participants that had no missing data in the construction of their customer focus.

Table 3.7: Customer focus descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
T1 Customer Focus	49	0.3400	0.3200	0.0456
T2 Customer Focus	27	0.3841	0.2956	0.0569
T3 Customer Focus	28	0.4902	0.2845	0.0538

In a paired samples t-test of the mean customer focus at T1 and at T3 (of incumbents that survived through the study), no significant difference was found. The correlation between T1 and T3 was significant and positive ($r = .674$ and $p \leq .001$).

3.4 Independent Variables: Hypothesis 3 — Narrowing of Focus

In the presence of increased competition from entering large-format retailers, incumbent retailers that:

A) increase their specialization in product type will increase firm performance.

B) increase their specialization in customer type will increase firm performance

This section examines the possibility that incumbents can change their activities along the two previously hypothesized specialization strategies. As such, the measure from each strategy (product focus and customer focus) are presented here and extended over time to reflect any change that may have occurred during the course of the study.

3.4.1 Change in Product Focus

A change in the product focus over the period of the study would occur if there were any changes in the products offered by the incumbent retailer. The product focus from T1 to T3 was measured by taking the difference resulting when a retailer's product focus value at the T1 period is subtracted from the value at the later point in data collection (T3). A value was then generated for change in the product focus from T1 to T3 (T1–>T3). For example, if a retailer's product focus 'score' was .7500 (suggesting a high product focus) at T1 and then at T3 the score was .6500, then a change in product focus of -.1000 would be recorded between T1 and T3. This would suggest that the product focus value would have diminished over time (and would therefore reflect a <u>widening</u> of the incumbent retailer's focus).

[Product Focus at T3 – Product Focus at T1 = Product Focus Change T1 –> T3]

The mean change in the incumbent retailers' Product Focus from T1 to T3 was –0.0104 (see *Table 3.8*). This suggests that the amount of change occurring by surviving incumbents is relatively low, and moving towards a slightly wider focus.

Table 3.8: Change in product focus descriptive data.

	N	Mean	Std. Deviation	Std. Error Mean
T1-T3 Product Focus Change	36	-0.0104	0.1356	0.0226

3.4.2 Change in Customer Focus

I noted earlier that the customer focus is derived from both the trades focus and décor focus measures. As well, the data gathered on products sold by incumbents had changed slightly from the T1 survey instrument to T2's. In order to accurately measure a change from one time period to the next the measures need to represent the same items over time. Since the subsequent periods of data collection utilized a somewhat different categorization of products due to an altered grouping of categories, a new T1 categorization that was consistent with the later period measures in order to compare a decor focus score over time was developed. This new measure did not include the lighting/electrical or the gardening tools/yard furnishings categories in distinguishing hard core from decor because, like the plumbing category mentioned earlier, it was not possible to discern if the respondent referred to a hard core or decor product. While this second set of data provided T1 values that were comparable over time with T2 and T3, the full set of measures are less rich than the original T1 set because there are fewer product lines represented. As such, its use is limited to constructing the measure of change in customer focus over time.

Change in customer focus from T1 to T3 was measured by taking the difference resulting when a retailer's customer focus value at T1 is subtracted from the value at the later point in data collection (T3). A value was then generated for change in customer focus from T1 to T3 (T1–>T3). For example, if a retailer's customer focus 'score' was .7500 (suggesting a high degree of customer focus) at T1 and then at T3 the score was .6500, then a change in customer focus of -.1000 would be recorded between T1 and T3. This would suggest that the customer focus has diminished over time.

[Customer Focus at T3 – Customer Focus at T1 = Change in Cust. Focus T1 –> T3]

The mean change in customer focus for retailers over time was .0168 (see *Table 3.9*). Similar to the mean change reported for product focus, the extent of change occurring in the incumbents' customer focus is minimal and in a negative direction. This suggests that surviving incumbents on average are reducing their fit over the course of the study. The low number of firms reported in *Table 3.9* (27 of a possible 38) is due to missing data in cases.

Table 3.9: Change in customer focus descriptive data.

	N	Mean	Std. Deviation	Std. Error Mean
T1-T3 Customer Fit Change	27	0.0168	0.2404	0.0463

3.5 Dependent Variables

The following measures presented are dependent variables utilized in this study. All of the dependent variables are performance-related outcome measures. The first measure presented looks at firm failure while the remaining are subjective performance measures. Two of the subjective performance measures are reported performance and reported optimism. The final two measures of performance relate to change of reported performance and optimism over the course of the study. These two subjective measures are used as outcome measures for the hypotheses related to niche adaptation. Reported optimism generated limited results, and for the sake of parsimony was dropped from the study. A description of the measure can also be found in the appendix (see Appendix 10).

3.5.1 Firm Failure

Firm failure offers an important measure that is based upon the firm's ability to maintain operations in its market in light of the entry of large-format competition. There are several ways that a firm can be marked as failing to maintain its presence in the given market. The store could experience organizational 'death' (Hannan and Carroll, 1992), terminating their competition with the big box stores by closing their doors. Also, the incumbent could 'escape' (Delacroix, Swaminathan and Solt, 1989) by 1) altering their products so as not to have a competitive overlap with the big box stores, 2) relocating their business outside the study or market area, or 3) being acquired by another incumbent. In either method of firm exit (death or escape), they provide a valuable proxy for measuring the intensity of competitive rivalry (Baum and Korn, 1996). Failure includes "exit by [a] losing firm or exit by a firm that chooses to yield to the dominant rival in that market without ever engaging in competition" (Baum and Korn, 1996, p. 258). Therefore, exit as avoidance of heightened competition (in this study, incumbent retailers that exit prior to the entry of large-formats at T2) has also been considered an example of firm failure. For the purpose of this study, any of the above methods of terminating competition are denoted as firm failure.

Over the span of the study, 17 of the 58 stores experienced organizational 'death,' terminating their competition with the big box stores by closing their doors. Only three 'escaped' either by being acquired by another incumbent (N=1), relocating their business outside the study area (N=1), or altering their products/services to avoid a competitive overlap with the big box stores (N=1). Of the above-mentioned failures, twelve occurred by T2, the point at which the large-format retailers entered the market. This fact highlights the importance of pre-entry data, particularly at the organizational level, in research on the effect of entering large-format retail.

Incumbent retailers that were noted as 'failed' at T2, were assigned a T2 Fail value of '1'. Incumbent retailers that were noted as 'failed' at T3, were then assigned a T3 Fail value of '1'. If a firm survived through all periods of data collection, then their T2 Fail and T3 Fail values would both be '0' (there were no failures recorded at T4) Adding the T2 Fail and T3 Fail values together also developed a continuous value for firm failure, 'failure velocity':

[T2 Fail + T3 Fail = Failure Velocity]

The higher the value, the more quickly firm failure was experienced. Values can range from '0' to '2' where a value of '0' denotes survival and '2' denotes 'quick' failure. For example, if a firm survived, it would receive a value of '0.' If a firm failed by data collection at T3, then it would have been 'slow to failure' and received a value of '1.' If a firm in the study had failed by data collection at T2, then it would have been deemed to have experienced 'quick failure' and received a value of '2.' (see *Table 3.10*). At T2 (1997), twelve of the 58 incumbent stores had failed (see *Table 3.11*). By T3 (1999), eight more failed for a total of 20 (see *Table 3.12*). A fourth survey in 2001 found that the incumbent population had stabilized, with total firm failure remaining at 20. The total failure rate for the duration of the study was slightly under 35 percent (34.48%).

Table 3.10: Failure velocity of incumbent retailers.

	N	Percent	Cumulative Percent
Survived	38	65.5	65.5
Slow to Failure	8	13.8	79.3
Quick to Failure	12	20.7	100.0
Total	58	100.0	

Table 3.11: Firm Failure at T2.

	N	Percent	Cumulative Percent
Survived	46	79.3	79.3
Failed	12	20.7	100.0
Total	58	100.0	

Table 3.12: Firm Failure at T3.

	N	Percent	Cumulative Percent
Survived	38	65.5	65.5
Failed	20	34.5	100.0
Total	58	100.0	

3.5.2 Subjective Performance Measure

While failure provides the ultimate measure in an incumbent's ability to navigate a turbulent period, Dess and Robinson (1984) have argued research that uses survival or failure to measure performance does not offer managers any advanced warning to indicate they may be headed towards firm failure. Yet the practice of using failure has largely been due to the difficulty in retrieving financial information from often privately held firms in order to generate objective performance measures. In lieu of objective measures of performance from all participants, the alternative is to rely upon subjective reports to generate performance results of firms. However there is concern that managers may inflate their profits, or downplay their losses.

Kets de Vries and Miller (1984) have found that organizations, which display overconfidence and a feeling of invulnerability, can goad themselves into staying the course during a period of turbulence, ultimately entering into a death spiral. Clarke and Perrow (1999) suggest that organizations may have a plan to deal with events that precipitate failure, however these plans merely amount to 'fantasy documents,' particularly if generated by managers that have never experienced what they are planning for (such as competing against large-format retailers). In both cases, management would have disclosed positive performance reports, yet still result in firm failure. Still, in lieu of acquiring objective measures, subjective measures are a suitable alternative and have been reported as highly consistent with objective internal and external measures (Dess and Robinson, 1984; Venkatraman and Ramanujam, 1987).

The following describes the survey items used for constructing the subjective performance measure as well as the exploratory factor analysis that was carried out. A description of how the items loaded in the factor analysis is presented within the presentation of the subjective performance measure immediately following the factor analysis. Two components were extracted from the factor analysis, however only the first component 'reported performance' was used in tests of the hypotheses in this study. The second component, 'reported optimism' generated limited findings and is presented as Appendix 10. Subjective outcome measures were collected in the survey, comprising a series of questions that aims at understanding the firm's past, present and future sales levels, profit and growth rate:

1. How satisfied are you with your store's current performance in each of the following areas (1 = "very unsatisfied"...5 = "very satisfied")?
    a. sales levels
    b. net profit
    c. sales growth rate
2. How have each of the following changed for your store over the past five years (1 = "significant decrease"...5 = "significant increase")?
    a. sales levels
    b. net profit
    c. sales growth rate
3. What changes do you expect for your store over the next five years (1 = "significant decrease"...5 = "significant increase")?
    a. sales levels
    b. net profit
    c. sales growth rate

Exploratory factor analysis was conducted on the above items, extracting principle components with an Eigenvalue over 1.0 (see *Tables 3.13* and *3.14*). Direct oblimin rotation was used in the analysis since the items are related. Three components were generated, accounting for 70.315 percent of the variance.

Table 3.13: Explanation of variance in subjective performance measures.

	Initial Eigenvalues			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.649	51.654	51.654	4.649	51.654	51.654
2	2.252	25.018	76.673	2.252	25.018	76.673
3	.841	9.346	86.019			
4	.432	4.802	90.821			
5	.320	3.551	94.372			
6	.184	2.040	96.412			
7	.155	1.720	98.132			
8	.111	1.234	99.366			
9	5.708E-02	.634	100.000			

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Table 3.14: Factor loading of subjective performance measures.

	Component	
	1	2
Past five year sales growth rate change?	.890	
Past five year net profit change?	.884	
Satisfied with current sales growth rate?	.881	
Past five year sales levels changed?	.864	
Satisfied with current net profit?	.800	
Satisfied with current sales?	.795	
Next five year sales growth rate will change?		.929
Next five years sales levels change?		.917
Next five year net profit will change?		.840

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

3.5.3 Reported Performance

The first factor, identified as 'reported performance' had six of the items (#1a, 1b, 1c, #2a, 2b, 2c) load together with an Eigenvalue of 4.649, accounting for 51.654 percent of the variance. The mean of three or more of the six reported performance items are used to form the total score for reported performance in each time period with a range between a low of '0' and high of '5.0'. By taking the mean of only three of the six items it is possible to maximize the number of cases represented in the analysis. Reliability analysis conducted on the measures for reported performance provided acceptable Cronbach's alpha scores to use in the study: T1 (alpha = .88), T2 (alpha = .92), and T3 (alpha = .89).

Table 3.15: Reported performance descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
Reported Performance at T1	55	3.1455	0.8190	0.1104
Reported Performance at T2	38	3.1667	0.9428	0.1529
Reported Performance at T3	36	3.2704	0.6982	0.1164

The mean score for reported performance increased over the period of the study, at T1 (N=55) the mean performance reported was 3.1455 (see *Table 3.15*). At T2 (N=38) that score rose slightly to 3.1667, and at T3 (N=36) the value was at 3.2704, although this was not found to be statistically significant.

3.5.4 Change in Reported Performance

Change in reported performance is derived from the reported performance measure presented above. This measure is used in concert with the change in product focus and change in customer focus measures in order to test the hypotheses generated regarding narrowing of focus. The change in reported performance from one point of collection to another was measured in the same manner as the change in product focus and change in customer focus measures. The difference in a retailer's reported performance score at T1 is subtracted from the value at T3. The value generated is recorded as the change in reported performance between T1 and T3 (T1->T3). For example, if a retailer's performance score was 4.25 (suggesting a high level of performance) at T1 and then at T3 the score was 3.50, a change in performance of –0.75 would be recorded between T1 and T3. This would suggest that the level of performance has diminished over time.

[Reported Perf. at T3 – Reported Perf. at T1 = Reported Perf. Change T1 –> T3]

The mean change in reported performance from surviving incumbents over the study was -.0586 (see *Table 3.17*), suggesting a diminished level of performance over time. The low number of firms reported in the table below (33 of a possible 38) is due to missing data in cases.

Table 3.16: Change in reported performance descriptive data.

	N	Mean	Std. Deviation	Std. Error Mean
T1-T3 Reported Performance	33	-0.0586	0.8235	0.1434

3.6 Summary

In this chapter I presented the bases for selecting the Winnipeg retail home improvement market and the methods for drawing the sample of 58 incumbent retailers as well as collecting data. I also operationalized the measures for testing the three hypotheses on product focus, customer focus, and narrowing of focus. Product focus was determined by examining the breadth of products that incumbents offer. Hypothesis 1 will be tested by using a measure of product focus. I test customer focus in Hypothesis 2 by using an operationalized description of customer focus that was constructed in this chapter. The customer focus is based upon the extent that an incumbent retailer has a trades focus and a décor focus in their retail activities. These activities reflect two trends in retail home improvement due to the influence of the activities of the largest identifiable consumer group of home improvement products. Narrowing of focus applies the measures developed for Hypothesis 1 and Hypothesis 2 and extends them over the study period, looking at change in product focus and change in customer focus.

In this chapter I also presented the dependent variables that will be used in the testing of the hypotheses. Firm failure, which is a measure of incumbent retailers exiting the market either by 'death' or 'escape' will be used in testing all three hypotheses as well as two subjective performance measures, one being used in Hypothesis 1 and Hypothesis 2 (reported performance) and the other being used in Hypothesis 3 (change in reported performance). One other subjective performance measure was generated in the factor analysis (reported optimism). It is presented as Appendix 10 and is not used in any tests of the hypotheses. In the next chapter the hypotheses generated in Chapter Two will be tested using the measures created in this chapter.

CHAPTER FOUR

ANALYSIS

In this chapter, I present the results generated from the analysis of measures that were developed in Chapter Three in order to test the hypotheses generated in Chapter Two. First presented is the validity of data, ensuring that statistical analysis can be undertaken on the data, as well as the method of analysis possible. Although there was face validity in the data, tests of normal distribution found that all measures were not normally distributed. In particular, the measure created to indicate the product focus of incumbent retailers was not normally distributed. As a result, non-parametric methods of analysis were required to carry out tests for Hypothesis 1. The measures that were used in testing Hypothesis 2 and Hypothesis 3 were found to possess a normal distribution and therefore I was able to conduct parametric methods of analysis.

Next, I present the testing of each hypothesis, product focus (Hypothesis 1), customer focus (Hypothesis 2), and narrowing of focus (Hypothesis 3) against the dependent outcome measures. A mix of results was generated in the analysis. *Table 4.1* presents a summary of the findings for each hypothesis. No significance was found with product focus against the performance measures, resulting in Hypothesis 1 being rejected. On the other hand, positioning via customer focus generated significant results, resulting in Hypothesis 2 being accepted. Tests involving Hypothesis 3 generated mixed results. Although a narrowing of product focus by incumbent retailers was not significant in corresponding changes in performance, a narrowing of customer focus was. This led to Hypothesis 3 receiving partial support, rejecting Hypothesis 3-A and accepting Hypothesis 3-B.

Table 4.1: Summary of findings for all hypotheses.

Hypothesis 1: Product Focus	
Product Focus	Not Significant
Hypothesis 2: Customer Focus	
Customer Focus	Significant
Hypothesis 3: Adjustment in Specialization	
Change in Product Focus	Not Significant
Change in Customer Focus	Significant

4.1 Validity Assessment

4.1.1 Face Validity: Niche Overlap

Because the study focuses upon an incumbent retailer's reaction to increased competition from entering large-formats, it was imperative to ensure that study participants were actually in a position to be in competition with the large-format stores upon their arrival. Utilizing the initial sampling criteria, the incumbents in the study were evaluated to see if in fact there was niche overlap in 1) product lines that are similar to product lines offered by *Home Depot* or *Revy* stores and 2) operating in the same business trading area. *Table 4.2* illustrates product lines that were referred to in Chapter Three as areas of potential product overlap. The values for each represent the percentage of products sold in participant stores. The lowest percentage of total sales in overlapping products (e.g.: sales in tools, paint, patio, and flooring) that were reported by any single incumbent was 45 percent. All stores reported their trading area as including all or part of the Winnipeg region. These combined results mean that study participants had a considerable stake in the resulting competition that *Home Depot* or *Revy* may generate upon arrival.

Table 4.2: Product lines in study.

	N	Minimum	Maximum	Mean	Std. Deviation
Hardware	57	.00	65	9.74	13.11
Tools	57	.00	10	2.02	2.65
Electric	57	.00	75	5.79	12.02
Lightfan	57	.00	95	7.19	21.19
Plumbing	57	.00	95	9.47	20.52
Lumber	57	.00	95	14.65	26.12
Plypanel	57	.00	35	5.61	10.65
Paint	57	.00	95	20.00	37.21
Flooring	57	.00	95	4.65	16.77
Kitchen	57	.00	35	1.58	5.19
Patio	57	.00	15	1.14	2.68
Garden	57	.00	95	15.61	34.27
Housewares	57	.00	20	2.11	5.00
Appliances	57	.00	55	1.40	7.54

4.1.2 Face Validity: Perception of Competition

As part of the interview process, each participating incumbent retailer was asked an open-ended question regarding whom they felt was their competition. *Table 4.3* indicates the number of incumbent retailers that identified *Home Depot* or *Revy* as a competitor at each data collection period. As illustrated, there is a dramatic increase over time in the number of incumbent stores that identify one of the large-formats as one of their competitors. Given that the first point of collection is pre-entry, there is no store identifying either of the large-formats. However, in the year that *Home Depot* and *Revy* enter the Winnipeg market, nearly one quarter of all participants identify them as competition. At the third point of data collection, when *Home Depot* and *Revy* had been in Winnipeg for only two years, over half (54%) of all remaining participants report *Home Depot* or *Revy* as one of their competitors. Given that entry was still fairly recent, saturation would not be expected, but with a few more years, the number of incumbents reporting *Home Depot* or *Revy* as a competitor would likely approach the 100 percent mark. The trend here reinforces what Litz (1997) found when comparing incumbent small retailers in cities of varying length of exposure to *Home Depot*. Retailers in cities that were experiencing the entry of *Home Depot* in their area (much like T2 in this study) had a reporting rate of 32.5 percent. Retailers in cities that had experienced the presence of *Home Depot* for about five years reported *Home Depot* as a competitor in about 84 percent of the cases.

Table 4.3: Retailers that identified Home Depot and/or Revy as competition.

	N	Sum	Percentage
Is Big Box a Competitor at T1?	58	0	0
Is Big Box a Competitor at T2?	43	10	23%
Is Big Box a Competitor at T3?	37	20	54%

4.1.3 Statistical Validity: Tests for Normal Distribution

In order to assess the method in which the data was to be analyzed, tests to determine the distribution of the sample was undertaken. If a normal distribution was not found, attempts to normalize were carried out. The results of these tests would dictate whether parametric or non-parametric methods of analysis were undertaken to test the hypotheses generated in this study. Tests of normality are presented according to the hypothesis in which they are used. None of the measures used in Hypothesis 1 were found to have a normal distribution, while tests involving measures for Hypothesis 2 and Hypothesis 3 revealed a normal distribution for items being tested against outcome measures.

4.1.3.1 Hypothesis 1 — Product Focus

The independent variables that are used in Hypothesis 1 involve testing whether the product focus of an incumbent retailer are associated with greater performance. A One-Sample Kolmogorov-Smirnov Test (K-S Test) was conducted to test the distribution of each of the independent variable in Hypothesis 1. The test resulted in a significant finding ($p < .100$), indicating that, for Hypothesis 1, the independent measure of product focus is not normally distributed (see *Table 4.4*). Attempts to normalize the data, utilizing a variable's natural log or square root generated the same significance when the K-S Test was used. Testing of Hypothesis 1 will therefore entail non-parametric methods.

Table 4.4: Tests of normal distribution for Hypothesis 1 variable.

One-Sample Kolmogorov-Smirnov Test

		Product Focus
N		57
Normal Parameters[a,b]	Mean	.7568
	Std. Deviation	.24161
Most Extreme Differences	Absolute	.168
	Positive	.157
	Negative	-.168
Kolmogorov-Smirnov Z		1.269
Asymp. Sig. (2-tailed)		.080

a. Test distribution is Normal.

b. Calculated from data.

4.1.3.2 Hypothesis 2 — Customer Focus

The independent variables that are used in Hypothesis 2 involve testing whether an incumbent retailer's focus on the preferences of the largest consumer group are associated with greater performance. Two measures that are used in Hypothesis 2: décor focus (ratio of décor products over hardcore) and trades focus (ratio of trade customers over do-it-yourselfers) are combined to form the customer focus value.

A One-Sample Kolmogorov-Smirnov Test was also conducted to test the distribution of the customer focus measure. The test resulted in a significant finding ($p < .100$) indicating that it is not normally distributed (see *Table 4.5*).

Table 4.5: Tests of normal distribution for Hypothesis 2 variable.

One-Sample Kolmogorov-Smirnov Test

		Customer Focus
N		56
Normal Parameters[a,b]	Mean	.2201
	Std. Deviation	.26464
Most Extreme Differences	Absolute	.234
	Positive	.234
	Negative	-.203
Kolmogorov-Smirnov Z		1.752
Asymp. Sig. (2-tailed)		.004

a. Test distribution is Normal.

b. Calculated from data.

Attempts to normalize the measure of customer focus, utilizing the measure's square root were successful in generating a K-S Test with non-significant results ($p > .100$), thus permitting analysis of Hypothesis 2 to entail parametric methods with the new measure.

In order to check the interaction between the two measures of customer focus, the measure of trades focus and décor focus were stratified into groups of low and high (low trades/high trades and low décor/high décor), based upon their median. The groups were then placed into a two-by-two matrix as illustrated in *Table 4.5* and an analysis of variance was conducted using firm performance measures.

Table 4.6: Interaction check between measures of décor and trades focus.

Decor Focus		Trades Focus: Low	Trades Focus: High
	High	Performance of *Low Trades* & *High Dˇcor* Focused Stores 2	Performance of *High Trades* & *High Dˇcor* Focused Stores 4
	Low	Performance of *Low Trades* & *Low Dˇcor* Focused Stores 1	Performance of *High Trades* & *Low Dˇcor* Focused Stores 3

When failure velocity was inserted into the analysis of variance, the resulting F-statistic was 8.222 ($p < .010$). The highest mean failure rate (1.000) was in Cell 1 where the low trades and décor focused retailers are located. The high trade and décor focused retailers in Cell 4 generated a very low mean rate of failure (0.1875). However, Cell 2, where the low trades and high décor focused retailers are located, generated a value that was slightly lower (0.1818). The remaining cell, a low décor and high trades focus, generated a mean that fell somewhat midway between the two extremes (0.5556).

When reported performance at T2 was inserted into the analysis of variance, the resulting F-statistic was 4.454 ($p < .050$). The lowest mean performance (2.6970) was in Cell 1, where the low trades and décor focused retailers are located, and the highest mean performance (3.6667) was in Cell 4, where the high trades and décor focused retailers are located. The remaining two cells generated means that fell between the two extremes, Cell 2 generating a mean reported performance of 2.9286 and Cell 3 generating 3.2292.

Reported performance at T3 did not generate any significant results when inserted into the analysis of variance.

4.1.3.3 Hypothesis 3 — Narrowing of Focus

The independent measures that are used in Hypothesis 3 involve testing whether a change in product focus or change in customer focus over time results in improved performance. A K-S Test was conducted to test the distribution of the two independent measures (see *Table 4.7*). Both were found to have a normal distribution ($p > .100$).

Table 4.7: Tests of normal distribution for Hypothesis 3 variables.

One-Sample Kolmogorov-Smirnov Test

		T1-T3 Product Focus Change	T1-T3 Customer Focus Change
N		36	27
Normal Parameters[a,b]	Mean	-.0104	.0168
	Std. Deviation	.13560	.24044
Most Extreme Differences	Absolute	.128	.185
	Positive	.128	.126
	Negative	-.098	-.185
Kolmogorov-Smirnov Z		.770	.964
Asymp. Sig. (2-tailed)		.593	.311

a. Test distribution is Normal.

b. Calculated from data.

4.1.4 Summary

Examination of the sample data reveals that the criteria used for sample selection has provided a valid dataset to work from in order to test each of the hypotheses. However, while the distribution of responses in measures used for Hypothesis 2 and Hypothesis 3 are sufficiently varied to undergo parametric statistical analysis, the measure in Hypothesis 1 is not and will have to rely upon non-parametric methods of analysis.

4.2 Testing Hypothesis 1 — Product Focus

> ***In the presence of increased competition from entering large-format retailers, the extent to which a firm specializes in product type will be positively associated with firm performance.***

The first hypothesis suggests that niching, or specializing in a particular product area should offer greater returns than if retailers were to offer a broader line of products. The following analysis tests this view utilizing a method of defining product focus within the sample of incumbent retail stores. The series of tests examine the continuous measure of product focus as defined in Chapter Three. The tests generated no significant relationship with the outcome measures.

4.2.1 Hypothesis 1: Product Focus

Testing of the continuous measure product focus was conducted by utilizing the Mann-Whitney Rank Sum tests to determine if significant findings may exist. The Mann-Whitney Rank Sum tests produced no findings that would suggest any difference in product focus would produce greater performance. The distinction by way of product focus has produced no significant difference in either firm failure or reported performance (see *Table 4.8*).

Table 4.8: Summary of findings for Hypothesis 1: Product Focus.

Cross-tabulation of Product Focus with:

Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant

4.2.2 Summary of Hypothesis 1: Product Focus

The first hypothesis suggests that firm performance can be explained in part by the product focus of incumbent retailers. This was supported by literature on increased competition as a result of entering large-format retailers as well as literature in marketing and strategy. Analysis of the data has provided evidence that categorization or distinction of incumbent retailers of home improvement by virtue of the breadth of products offered does not lead to any significant difference in outcome measures associated with performance (firm failure or reported performance). The data does not provide any statistical support for Hypothesis 1. Specialists in product were expected to outperform firms that took a generalist stance. However here, not only was I unable to attain statistical significance, the direction of the relationship between product focus and firm performance was not consistent from one test to the next.

4.3 Testing Hypothesis 2: Customer Focus

In the presence of increased competition from entering large-format retailers, incumbent retailers that specialize in customer type will have superior performance.

Hypothesis 2 suggests that the degree of fit that an incumbent retailer has with consumers' preferences will determine firm performance. This position is tested with a measure that assesses the customer focus of the incumbent retailer. The following analysis tests Hypothesis 2 by utilizing the customer focus value, derived from two trends in the home improvement industry: décor focus over hardcore hardware in products and trades focus over do-it-yourselfers in customers. The series of tests conducted here generated results that are significant and different from the results of Hypothesis 1. There is statistical support for a high customer focus creating superior performance (see *Table 4.9*).

Table 4.9: Summary of findings for Hypothesis 2: Customer Focus.

Independent Samples T-Test of Change of Customer Focus with	
Firm Failure at T2	**Significant**
Firm Failure at T3	**Significant**
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant
Correlation Analysis of Customer Focus with	
Firm Failure	**Significant**
Reported Performance at T2	**Significant**
Reported Performance at T3	Not Significant
Simple Regressions of Customer Focus with	
Firm Failure	**Significant**
Reported Performance at T2	**Significant**
Reported Performance at T3	Not Significant

4.3.1 Hypothesis 2: Customer Focus

The customer focus is based upon the extent that an incumbent retailer has a trades focus and a décor focus in their retail activities. These activities reflect two trends in retail home improvement due to the influence of the activities of the largest identifiable consumer group of home improvement products, the Baby Boomer cohort.

The series of t-tests conducted on customer focus suggests that there is a relationship between an incumbent retailer's measure of customer focus and firm failure; in this case, an incumbent retailer with a high customer focus is less likely to experience firm failure than incumbent retailers with a low degree of customer focus. Tests presented below of firm failure at T2 and T3, are significant. While tests with firm failure generated significant findings, no significance was found in the difference in the mean level of customer focus between stores that reported a low and high level of performance at either T2 or T3.

4.3.1.1 Independent Samples T-Test of Customer Focus with Firm Failure

The following tests check for any significant differences in the mean value of customer focus between stores that survived and failed at T2 and T3. A category (survived or failed) having a higher mean indicates a greater contingent of stores with a higher customer focus. *Table 4.10* presents the results for T2 while *Table 4.11* presents the results for T3. Both tests found a significant relationship between low customer focus and firm failure.

Table 4.10: Independent samples t-test of customer focus with firm failure at T2.

Group Statistics

	Firm Failure at T2	N	Mean	Std. Deviation	Std. Error Mean
Customer Focus	Survived	45	.4030	.30799	.04591
	Failed	11	.1797	.22055	.06650

$p < .050$

Two-tailed significance ($p < .050$) was found in the mean level of customer focus between stores that survived and failed. A surviving incumbent retailer's mean of .4030 more than doubles the mean value found in retailers that failed (.1797). Incumbent retailers that survived at T2 were found to possess a high customer focus, which supports Hypothesis 2.

Table 4.11: Independent samples t-test of customer focus with firm failure at T3.

Group Statistics

	Firm Failure at T3	N	Mean	Std. Deviation	Std. Error Mean
Customer Focus	Survived	37	.4259	.31268	.05141
	Failed	19	.2292	.24671	.05660

$p < .050$

Two-tailed significance ($p < .050$) was also found in the mean level of customer focus between incumbent retailers that survived and failed at T3. A surviving retailer's mean of .4259 close to doubles the mean value found in retailers that failed (.2292). Incumbent retailers that survived had a high customer focus. Having found significance in firm failure at both T2 and T3, suggests that a high customer focus offers a greater chance of survival for incumbent home improvement retailers than retailers with a low customer focus.

4.3.1.2 Correlation Analysis of Customer Focus with Firm Failure

The following test in *Table 4.12* checks for significant relationships via correlation analysis between the customer focus of incumbent home improvement retailers and 'failure velocity,' which determines if there is a relationship between a store's customer focus and the pace at which firm failure occurs. Positive significant relationships would indicate that higher customer focus correlates with firm failure, while a negative significant relationship indicates a lower customer focus correlates with firm failure.

Table 4.12: Correlation analysis of customer focus with firm failure.

Correlations

		Customer Focus	Failure Velocity
Customer Focus	Pearson Correlation	1	-.328*
	Sig. (2-tailed)	.	.014
	N	56	56
Failure Velocity	Pearson Correlation	-.328*	1
	Sig. (2-tailed)	.014	.
	N	56	58

*. Correlation is significant at the 0.05 level (2-tailed).

Failure velocity correlates negatively and significantly with the customer focus ($r = .328$ and $p \leq .050$). These findings provide support for Hypothesis 2, suggesting that a low customer focus retailer is more likely to experience firm failure than an incumbent with a higher customer focus. Moreover, the lower the customer focus the greater the likelihood of failing sooner.

4.3.1.3 Correlation Analysis of Customer Focus with Reported Performance

The following test in *Table 4.13* checks for significant relationships via correlation analysis between the customer focus of incumbent home improvement retailers and reported performance at T2, and T3. Positive significant relationships would indicate that a higher customer focus correlates with reported performance, while a negative significant relationship indicates a lower customer focus correlates with reported performance.

Table 4.13: Correlation analysis of customer focus with reported performance.

Correlations

		Customer Focus	Reported performance at T2	Reported performance at T3
Customer Focus	Pearson Correlation	1	.300	-.036
	Sig. (2-tailed)	.	.071	.837
	N	56	37	35
Reported performance at T2	Pearson Correlation	.300	1	.349
	Sig. (2-tailed)	.071	.	.068
	N	37	38	28
Reported performance at T3	Pearson Correlation	-.036	.349	1
	Sig. (2-tailed)	.837	.068	.
	N	35	28	36

One of the measures of reported performance correlates positively and significantly with customer focus (T2 reported performance, $r = .300$ and $p < .100$). The findings regarding T2 reported performance lends support to Hypothesis 2: The higher the customer focus, the greater the reported performance of incumbent retailers.

In summary, the series of correlation tests conducted on the measure of customer focus suggests the presence of a relationship between an incumbent retailer's customer focus, as defined by its décor focus and trades focus, and reported performance. In this study, customer focus correlates positively and significantly with reported performance at T2. At the same time, a lower customer focus correlates significantly with firm failure. The correlation of a lower customer focus and failure velocity suggests that the lower the customer focus, the quicker the incumbent retailer experienced failure. These results suggest that customer focus may influence firm performance.

4.3.1.4 Simple Regressions of Customer Focus with Firm Failure

Hypothesis 2 asserts that customer focus is a determinant of firm performance. Simple regressions will confirm whether customer focus explains with statistical significance the variance present in the outcome measures used in this study. The outcome measure of failure velocity is used to test firm failure in *Table 4.14* below. A significant positive relationship would mean that a higher customer focus would precede firm failure while a negative relationship would infer that a lower customer focus precedes firm failure.

Table 4.14: Simple regressions of customer focus with firm failure.

Independent Variable	**df**	**Standardized Beta**	**R^2**	**Adjusted R^2**
Customer Focus				
Dependent Variables				
Failure Velocity	55	-.328	.108	.091**

** $p < .050$

The customer focus was found to be significant in explaining variance in firm failure. A negative relationship of $r = -.328$ indicates that a lower customer focus leads to firm failure, and that the lower the customer focus the quicker that firm failure was experienced. The adjusted R square value indicates that 9.1 percent of the variance in firm failure is accounted for by the customer focus of an incumbent retailer. These findings support Hypothesis 2.

4.3.1.5 Simple Regressions of Customer Focus with Reported Performance

Simple regressions were conducted on customer focus to check for significant relationships between customer focus and reported performance at T2 and T3. The simple regression utilizes the reported performance measure (range from 1 to 5). Positive significant relationships would indicate that a higher customer focus correlates with high reported performance, while a negative significant relationship indicates a lower customer focus correlates with reported performance. A significant relationship was found between customer focus and reported performance at T2 (see *Table 4.15*).

Table 4.15: Simple regressions of customer focus with reported performance.

Independent Variable Customer Focus Score	**df**	**Standardized Beta**	**R^2**	**Adjusted R^2**
Dependent Variables				
T2 Reported Performance	36	.300	.090	.064*

* $p < .100$

Customer focus was found to be significant in explaining the variance in reported performance at T2. A positive relationship of r = .300 at T2 indicates that a higher customer focus leads to high performance. The adjusted R square value indicates that customer focus accounts for 6.4 percent of the variance in reported performance at T2. These findings lend support for Hypothesis 2.

4.3.2 Summary of Hypothesis 2: Customer Focus

In contrast to the analyses undertaken for Hypothesis 1, analysis of the data has provided some support of Hypothesis 2. Significant results found in the series of t-tests, correlations and regressions suggest that a high customer focus can create a competitive advantage and leads to greater performance.

Furthermore, the independent measures of décor focus and trades focus used in creating the customer focus also generated significant results when tested individually. Both a high décor focus and high trades focus correlated negatively with firm failure, generating adjusted R squares of 5.1% and 6.8% respectively ($p < .050$).

While significant findings were present at T2 for reported performance, the same was not found in reported performance at T3, which may suggest that customer focus, while a good determinant for failure, loses its salience as a predictor in reported performance over time. It may also be that the market was entering a stabilized period, where the 'shake-out' from the entering large-format retailers created a new equilibrium where the demand for customer focus diminished. The data provides statistical support in accepting Hypothesis 2.

4.4 Testing Hypothesis 3: Narrowing of Focus

In the presence of increased competition from entering large-format retailers, incumbent retailers that:

A) ***increase their specialization in product type will increase firm performance***

B) ***increase their fit with customer type will increase firm performance.***

This section examines whether narrowing of customer focus and product focus is related to performance. The hypothesis found mixed support from the tests conducted (see *Table 4.16*). On the one hand, no significance was found in the t-tests of change in product focus and reported performance, nor were there any significant correlations. This suggests that narrowing a store's product focus will not create any positive impact in reported performance. On the other hand, significant findings were found in t-tests of change in customer focus and reported performance.

Table 4.16: Summary of findings for Hypothesis 3: Narrowing of Focus.

Independent Samples T-Test of Change in Product Focus with:	
Change in Reported Performance	Not Significant
Correlation Analysis of Change in Product Focus with:	
Change in Reported Performance	Not Significant
Independent Samples T-Test of Change in Customer Focus with:	
Change in Reported Performance	**Significant**
Correlation Analysis of Change in Customer Focus with:	
Change in Reported Performance	Not Significant

4.4.1 Independent Samples T-Test of Change in Product Focus and Change in Reported Performance

Independent samples t-tests checked for any significant differences in the mean value of change in reported performance between stores that experienced a high change in product focus and low change in product focus from T1 to T3. A higher mean indicates a greater contingent of stores that experienced a greater increase in performance over time. No significant difference was found in the mean level of change in performance between stores that experienced a high change in product focus and those that experienced a low change from T1 to T3. Lack of significance in this finding suggests that narrowing the width of products offered, will not generate increases in performance.

4.4.2 Correlation Analysis of Change in Product Focus with Change in Reported Performance

Tests were conducted to check for significant relationships between a change in product focus by incumbent home improvement retailers from T1 to T3 and reported performance. Positive significant relationships would indicate that a high change in product focus correlates with reported performance. No significant correlations were found between change in product focus and reported performance.

In summary, no support for Hypothesis 3A was found in the t-tests and correlations. From this, we can surmise that narrowing one's product niche does not translate into better performance or sustained competitive advantage.

4.4.3 Independent Samples T-Test of Change in Customer Focus and Change in Reported Performance

Table 4.17 reports any significant differences in the mean value of change in reported performance between stores that experienced a high change in customer focus and low change in customer focus from T1 to T3. A higher mean would indicate that a greater number of stores experienced an increase in firm performance over time.

Table 4.17: Independent samples t-test of change in customer focus and change in reported performance.

Group Statistics

	T1-T3 Customer Focus Change	N	Mean	Std. Deviation	Std. Error Mean
T1-T3 Change in Performance	High Focus Change	13	.2615	.80414	.22303
	Low Focus Change	11	-.5152	.68498	.20653

$p < .050$

Two-tailed significance ($p < .050$) was found in the mean level of change in reported performance between stores that experienced a high change in customer focus and stores that experience a low change in customer focus. Stores that had a high degree of change in their customer focus had a mean increase in performance of .2615, while stores that experienced a low degree of change in customer focus reported a negative trend in performance (-.5152). These findings suggest stores that adjusted their niche positioning to better reflect a fit with the preferences of customers experienced an increase in performance as reported by store owners. Also, stores that undertook minimal adjustments in their customer focus experienced a reduction in performance.

4.4.4 Correlation Analysis of Change in Customer Focus with Change in Reported Performance

Tests were conducted to check for significant relationships between a change in customer focus by incumbent home improvement retailers from T1 to T3 and reported performance. Positive significant relationships would indicate that a high change in product focus correlates with reported performance. Although very close, no significant correlations were found between change in product focus and reported performance.

A significant finding in the t-test offers some support for Hypothesis 3B: a high increase in customer focus is present with an increase in reported performance. However, no significant correlation could be generated. Taken together, the analysis suggests that enhancing the extent of a firm's customer focus might translate into a competitive advantage however, the increase of one does not necessarily correlate with an increase in the other. Further, the results suggest no effect is present with a change in product focus. While a structural inertia appears to be present for changes in product focus, narrowing of customer focus appears to result in strategic advantages. Adaptation, it would appear, is an effective approach to customer focus.

4.4.5 Summary of Hypothesis 3: Narrowing of Focus

The third hypothesis appears to reflect the differences found between the two types of niche focus in Hypothesis 1 and Hypothesis 2. Lack of significance in the change in product focus, as compared to some significance found in customer focus, partially reinforces the observation that a customer focus has greater importance over product focus. Adjusting the product focus narrower appears to produce no effect while narrowing of customer focus may be present with an increased firm performance. Given the results, an adaptation perspective of incumbent home improvement retail is not yet theoretically sound for positioning products to fit with the preferences of the largest consumer group. However, the door is still open to the possibility that narrowing a customer focus may increase performance.

4.5 Summary

This chapter presented the results generated from analysis of measures developed in Chapter Three. Tests for normal distribution showed that the measures used in Hypothesis 1 would require non-parametric methods of analysis. The measures used in Hypothesis 2 and Hypothesis 3 were normally distributed thus enabling the use of parametric methods. The first hypothesis suggests that firm performance can be explained in part by the product focus of incumbent retailers. This hypothesis was, in effect, seeking confirmation of the majority of research in this area. As it turns out, tests of Hypothesis 1 generated no significant differences in product focus on firm failure and reported performance. The data do not provide any statistical support for the product focus positioning proposed in Hypothesis 1. Moreover, the direction of the relationship between product focus and firm performance was inconsistent from one test to the next, making it difficult to discern any possible trend in the data.

In contrast to the tests undertaken for Hypothesis 1, analysis of the data has provided support for Hypothesis 2. Significant results found in the series of t-tests, correlations and regressions suggest that positioning based upon a customer focus can create a competitive advantage leading to superior performance. T1 is a pre-entry period, which is a point in data collection that has not been used as a datum in research on incumbent retailers before. The performance of incumbent retailers at T2 is explained in part by customer focus. However, significant findings were not found in reported measures at T3, which may suggest that customer focus, while a good determinant for firm failure, loses its salience as a predictor in reported performance measures over time.

It may be that the retailers remaining at T3 are those with a higher fit and therefore the characterization of each firm in this manner no longer provides a significant difference in reported performance levels. It may also be that by T3 the market had stabilized, creating a new equilibrium where a high customer focus is no longer a critical element in performance. The analysis of the data provides statistical support for accepting Hypothesis 2.

The results generated in the analysis of the third hypothesis reflect the differences found between the two approaches to specialization in Hypothesis 1 and Hypothesis 2. A change in product focus did not correlate with improved performance, however an increase in customer focus was present with higher performance. Therefore, some support for Hypothesis 3 was found in the data. The next chapter discusses and draws implications of the findings generated here and provides answers to the initial questions put forward in Chapter One. The contributions of this study are presented, as well as study limitations, concluding with suggestions for future research possibilities.

CHAPTER FIVE

DISCUSSION AND CONCLUSIONS

This research contributes to large-format retail literature. It examines the performance differences among incumbent retailers following the entry of large-format retailers. The extant literature presented in Chapter Two suggests that specializing by product or customer type is the best way to compete in the presence of large-format competition. This provides the basis for Hypotheses 1 and 2. Some of the literature also suggests that it is possible to adjust an organization's focus in order to increase performance. This became the basis for Hypothesis 3. Chapter Three put forward the methods used in gathering the data and operationalizing variables, while Chapter Four presented the analysis of data collected and the testing of each hypothesis. This chapter reviews the findings generated from testing each hypothesis. The contributions of this study are also presented, as are the limitations. The chapter concludes with implications for future research.

5.1 Discussion of Hypotheses

5.1.1 Hypothesis 1: Specializing on Product Type

The results of the analysis in this study generated some unanticipated findings. In particular, results on the effectiveness of product focus call us to reconsider well-accepted theory in the big-box literature. Distinguishing incumbent retailers by virtue of their product focus (Hypothesis 1), as operationalized in this study, generated no significant differences in the success or failure of retailers. Specializing based upon a product focus was unrelated to firm performance when faced with increased competition due to entering large-format retailers. The data provided no statistical support for the hypothesis. These results were unexpected particularly when most of the literature on large-format retail has suggested that specializing by product is an effective means of competing with big-box retail.

A possible explanation for the difference between the prior studies and this one is the presence of pre-entry data at the level of the organization in this study. If exit by incumbent retailers prior to entry of large-formats is deemed avoidance of competition (Baum and Korn, 1996), then the least fit organizations for the new environment may have actually exited the study market area prior to *Home Depot* and *Revy* entering. In other words, the retailers that exited might have envisioned the future with large-formats as one that would be too hostile for them to survive. Therefore the incumbents elected to close their doors rather than engage in competition. This suggests that the information collected on retailers prior to the entry of large-format retailers may possess a richness that helps explain the impact of large-format competition and firm failure.

In an attempt to replicate previous studies of entering large-formats, I conducted Chi-square tests on Hypothesis 1 using only data that could have been gathered from incumbent retailers existing at T2 and T3, leaving out all data from T1, including the twelve firms that had failed by the time *Home Depot* and *Revy* had entered the market. The tests involved both firm failure and reported performance outcome measures. The result of the tests did not generate significant results.

However, when I used the measure of reported optimism (found in Appendix 10) to test for a relationship between product focus and firm performance, the test was significant (Chi–square $p \leq .010$). The result for reported optimism is consistent with what has been found in previous studies, which suggest that a product focus will increase performance. However, in order to replicate findings in other studies, I had to drop the events that occurred up to the entry of the large-format retailers. So, while the explanation that having pre-entry data can lead to differences in study findings could not be proven with reported performance and firm failure (even after dropping T1 data) reported optimism opens the door to speculation that pre-entry data may indeed make a difference.

Another possible explanation for the absence of a relationship between product focus and firm performance may be due to the measure of product focus not taking into account the specific products that a retailer specialized in. Litz (1997) has stated "simply choosing a niche is not enough if the wrong niche is selected" (p. 175). Porter (1985) has also mentioned that there are particular niche positions that provide incumbent retailers with the ability to compete, while there are others that do not. Interestingly, what might account for a niche being the 'right' or 'wrong' niche may depend upon other influences, such as consumer preferences as described in Hypothesis 2. For example, the product measure of décor focus used in building the measure of customer focus was tested alone against firm failure. In a correlation analysis, a retailer that sold décor-oriented products as defined in Hypothesis 2, correlated negatively with firm failure, ($r = -.292, p < .050$).

To pursue this line of thinking further, I conducted a series of Mann-Whitney Rank sum tests on each product category used in this study (i.e., tools, lighting, lumber, flooring). I found that most had no significant relationship with firm failure or reported performance, which echoes the findings in Hypothesis 1. However, the tests on the 'lumber' product category revealed a significant relationship between firms that had a high percentage of their product in lumber and firm failure at T2 ($p < .050$) and at T3 ($p < .050$). While this might make some sense, owing to the fact that the entering large-format retailers emphasize lumber as one of their product lines, the results did not extend to other emphasized lines such as building hardware or gardening supplies. However, we might speculate that lumber may be deemed more of a commodity than other home improvement product lines, and therefore more sensitive to price competition. Also, the relatively high operating costs associated with the larger area needed for a lumberyard may have contributed to making their long-term viability cost-prohibitive.

The findings in Hypothesis 1 are not inconsistent with Echols and Tsai (in press) who also found ambiguity in their study of the relationship between product focus and firm performance. A firm with a high product focus could experience a positive or negative relationship with firm performance. They found that a positive relationship between product focus and firm performance was contingent upon the extent that a firm is embedded in a social network. Firms that had a product focus and were involved in an interconnected interfirm relationship experienced greater firm performance. Furthermore, the more focused the line of products, the more embedded the firm should be in a social network in order to attain high performance. For a research setting like the one in this dissertation, Echols and Tsai's findings might suggest that retailers social networks – such as membership in a buying group, and community involvement – may moderate the product focus vs. firm performance relationship.

Prior research has examined the relationship between an incumbent retailer's membership in a buying group or community involvement and firm performance. As reported earlier, Litz and Stewart's (1998) research findings on incumbents entering networks by way of buying groups found no significant differences between independents and trade-name franchises when it came to products and services. Further, Litz and Stewart's (1996) examination of incumbent home improvement retailers' community involvement found no relationship with firm performance. Given Echols and Tsai's findings, future research may find that examination of the moderating effects of buying groups and community involvement on an incumbent retailer's product focus may generate significant results.

Another possible explanation for the unexpected findings in Hypothesis 1 that warrants closer inspection is that the market had become 'partitioned,' whereby firms offering a wide variety of products are able to coexist with firms that specialized, each having an equal chance of success or failure. Resource partitioning theory was briefly presented in Chapter Two and may offer a theoretical explanation for what is occurring here. The theory relies upon the use of niche-width and scale economies of organizations to explain the increasing combined presence of market concentration and the proliferation of specialists (Carroll 1985). The theory attempts to explain why smaller specialized firms are able to survive in the same market as large-scale organizations. Consistent with resource partitioning theory, there is the presence of scale economies in the Winnipeg home improvement sector, there are more retailers deemed specialists than there are generalists, and there was no significant differences observed between the failure of product specialists and generalists. As will be developed further below in the section on future research, research on large-format retail like the one presented in this study may provide an intriguing opportunity to test resource partitioning theory. As well, resource partitioning theory may help strengthen the theory and concepts within the large-format retail literature. The dataset used for this dissertation does not permit tests of resource partitioning theory, but this study does provide a basis for suggestions for future research.

5.1.2 Hypothesis 2: Specializing on Customer Type

In Hypothesis 2, a retailer's customer focus generated a significant relationship with firm performance. Hamel and Prahalad (1994) assert that forecasting the needs of customers or gaining "industry foresight is based on deep insights into trends in technology, demographics, regulations, and lifestyles" (p. 128). From the findings gathered here, there is an indication that retailer positioning based upon a customer focus (operationalized here as the trades focus and décor focus of incumbent retailers as determined by the lifestyle preferences of the Baby Boomer cohort) may influence firm performance as well as firm failure. Understanding the buyer is central to successfully withstanding market change and forecasting preferences in retail. Peterson and Balasubramanian (2002) state that "retailing, by definition, focuses on consumers" (p. 12). Those retailers that do not pursue information on consumers' purchasing patterns will be at a disadvantage (Kumar, 1997). In the context of retail home improvement products, this means not only understanding the home improvement market, but also the consumers of home improvement products today and in future projections. The findings support the premise that market demand, based upon consumer preferences, is an influence that not only helps to explain the growth and success of large-format retailers, but also contributes to determining the survival of incumbent retailers.

While prior research on large-format retail has recognized that a customer focus is an effective strategy in generating a competitive advantage, the influence of the largest cohort group's consumer preferences on positioning is rarely examined. This oversight could be partially due, as suggested earlier for Hypothesis 1, to a lack of pre-entry data in previous research. If a researcher tested for the influence of cohort preferences without pre-entry information, the results may have generated non-significant findings.

Consistent with this speculation, in order to make my data set more similar to data sets that had been used in previous large-format research, I dropped the pre-entry T1 data. I then re-ran the tests using the customer focus value generated for Hypothesis 2 using only T2 and T3 data. The tests did not find a relationship between customer focus and firm performance without the T1 data. In other words, without including the events leading up to the entry of large-format retailers the data do not reveal a significant relationship between customer focus and firm performance. This may help to explain why previous studies do not report any significant findings like the one found here.

Cutler's (1969) revisit to a previously published data-set on political party preferences may shed some light on what appears to be occurring when pre-entry data is excluded. The data-set Cutler revisited offered a series of cross-sectional survey results (collected in 1946, 1950, 1954, 1958) that identified political party preference in different age groups. The data consistently showed older respondents choosing the more conservative party. At first, it would appear that the data offers consistent evidence that as people age, they become more politically conservative. However, Cutler's subsequent examination of the data looked at all age groups in the first series (collected in 1946) and 'aged' them respectively for each subsequent survey set (collected in 1950, 1954, 1958). He discovered political choice remained largely the same within each age group, with relatively minor increase/decrease fluctuations over time. His findings led him to conclude that, "what may at first appear to be clear and dramatic evidence of one phenomenon when analyzed in a cross-sectional manner, may turn out to be convincing evidence of an alternative effect when the appropriate longitudinal methodology is employed" (p. 587). Although the evidence put forward in this dissertation is not unequivocal, it does illustrate that relying upon cross-sectional data in order to state the influence of particular phenomena as well as to forecast trends can be misleading, and may sometimes result in the opposite of what one might expect.

Hamel and Prahalad (1996) have stated that management should always be able to identify and empathize with the 'ordinary' customer if firms are to meet the needs of consumers. Porter (1985) has discussed the importance of an organization appealing to the buyer's purchasing pattern, or value chain, which for retailers involves understanding the value chain that exists within households. "Understanding households' value chains is less intuitive, but nevertheless important. Households engage in a wide range of activities, and products purchased by households are used in conjunction with this stream of activities" (Porter, 1985, p. 52).

This study formulated a representative value chain for the Baby Boomer age cohort. The age group of people is a reliable predictor of human behaviour (Reynolds and Wells, 1977). Demographers and sociologists alike examine people in age groups, known as cohorts, in order to gain insight into lifestyle choice. The Baby Boomer cohort has been the driving force behind new markets for products and services since the late 1940s and this trend is expected to continue well into their senior years (Ambry, 1990; Foot and Stoffman, 1995; Meredith et al, 2002; Van Gorder, 1990).

An important implication of the theory underpinning this study is that the Baby Boomers will not always be the significant group for retail home improvement to monitor. Their preferences are shifting due to changes in time demands and financial resources, which will ultimately affect the choices they make in homeownership and renovations, not to mention the way they shop. As the number of Baby Boomers owning homes dwindles and entering generations pick up a greater share of home ownership, the customer focus of retailers will shift. The Baby Boomers will relinquish the distinction as the single largest group of homeowners in Canada, passing it on to the 'Echo' generation presently entering the home ownership years. This shift may result in lower-scale home improvements as the younger, high-debt, low-income cohorts start to increase their share of the homeownership market. This is where foresight in the preferences of future generations of homeowners can be a value to incumbent retailers positioning for competition in the future (Kumar and Subramanian, 2000).

For example, there is a growing tendency for aging homeowners to move into condominiums in order to maximize time freedoms. This means that the homeowner that moves to a condominium will no longer toil with the maintenance of their residence. Even for those that remain in their homes, the retention of domestic 'facility managers' is expected to become increasingly popular, where an agency manages all of the maintenance aspects of the home, in essence, offering the same freedoms as a condominium, with the ability to stay in the home. Invariably, this translates into fewer renovations by Baby Boomers, and more maintenance undertaken by professional services rather than the do-it-yourselfer.

Taken together, these trends may mean that in the future retail home improvement may return to catering to do-it-yourselfers, providing the nuts and bolts to homeowners, since the younger cohorts that will comprise the majority of the home owner market will need to carry out the renovations themselves in order to save money. In the meantime, the Boomers will prefer increased service, where shopping in boutiques and upscale shops will be preferred over the warehouse approach of large-formats. If décor shopping is going to be carried out, it will be done in trendy districts that are comfortable and safe to walk with parking close at hand. However, the large-scale high-end renovation projects will diminish in volume. It is no coincidence then that retailers like *Home Depot* and *Wal-Mart* are presently experimenting with smaller store sizes that have more of a boutique or specialty store feel to them (Metters, Ketzenberg and Gillen 2000; Seiders and Tigert, 2000; Hahn, 2000). While this scenario might be assumed understood by managers of retail, the review of literature found the opposite, where few retailers reportedly understood their local demographics and customers.

5.1.3 Hypothesis 3: Narrowing of Focus

The final series of tests regarding change in retailers' product focus (Hypothesis 3A) and customer focus (Hypothesis 3B) versus performance generated a mix of support. Regarding Hypothesis 3A, no significant correlations could be found between retailers that narrow their focus in product and an improvement in performance over the study. This was consistent with the paucity of significance in the positioning of firms by product focus as presented in Hypothesis 1. With regards to Hypothesis 3B, however, a significant relationship between an increase in customer focus and improved reported performance was present, which adds to the significance already found regarding the benefit that a customer focus has for incumbent retailers Adaptation might have a place in explaining increased performance due to change in organizations.

The data set suggests that it may be easier and less costly to change customer focus rather than product focus. Perhaps the resources required to shift product focus are more 'sticky' (Chen, 1996) in comparison to a shift in customer focus. For example, consider the resources required to change product focus: breaking existing merchandising agreements with suppliers, establishing a new social network of contacts, and possibly retraining employees to work with a new product focus. All of the above will cost a retailer both in time and finances. In comparison, changing a customer focus may require a retailer to promote a different bundle of current array of products that appeal to the customer group the retailer is focusing upon. Retail changes associated with a customer focus change may involve items such as merchandising displays, colour schemes, and advertising medium in order to appeal to the customer. While retailers incur an additional expense in the changes to customer focus, it may not hold the same degree of structural inertia as a shift in product focus.

5.2 Limitations of this Research

As with all studies, there are limitations to the research carried out here. The limitations relate to: the number of participants in the study; repeated testing of participants; construct measurement; generalizability; the definition of firm failure in this study; and chance. First, the low number of participants in the data-set is the greatest limitation in the research here. This has reduced the ability to undertake analysis with multiple measures, such as multiple regression analysis in order to see the combined effect of measures across several hypotheses. The low number of participants may also explain the lack of statistically significant results when testing Hypothesis 1. However, where this data-set lacked in number of participants, it gained in having the data collected at four points over six years.

Regarding the longitudinal nature of the study, in an effort to reduce instrumentation threat (Cook and Campbell, 1979) nearly all items collected at each time period remained largely unchanged. However, a potential problem that can come out of a longitudinal study with repeated use of the same instruments is participants may become sensitive to questions asked, which may cause disproportionate consideration to the survey-related activities in their work between points of data collection. This threat may have been ameliorated though, given the period of two years between data collection and the volume of material gathered each time.

Regarding construct measurement, the measures used in testing product focus in Hypothesis 1 may not have adequately operationalized a firm's product specialization, which may help to explain why the Hypothesis 1 measures (including the three presented in the Appendices) were not normally distributed and did not generate any significant results. Assigning a focus based upon coarse grain 'specialist' and 'generalist' categorizations, or a mathematically derived value of niche based upon the products sold may not be reliable measures of niche width. In addition, examining a retailer's product variety as well as the customers they serve creates a measure of customer focus in

Hypothesis 2. There is the possibility that this measure may also be insufficient in operationalizing a firm's specialization by customer type.

Generalizability of the study must also be considered as a limit to the research here. For example, although product and customer focus could be used in other retail environments the array of products and industry activities, as well as the characterization of consumer trends as 'décor' and 'trades' focused are fairly specific to the industry of home improvement. However, the activities undertaken in finding the influences on the retail home improvement environment (i.e. understanding the largest consumer group) should be applicable in other retail environments.

Another limitation to the research in this study is how firm failure was measured. Failure has been accounted for in numerous ways. In this study firm failure bundled together organizational 'death' (i.e, the closing of doors) with organizational 'escape' via the changing of stripes by being acquired, relocated, or product-overlap being eliminated. And while escape provides a valuable proxy for measuring the intensity of competitive rivalry (Baum and Korn, 1996), the suggestion that all exits are a reflection of the firm's inability to compete is an attribution that could rightfully be argued as false. For example, Hager, Galaskiewicz, Bielefeld and Pins (1999) discovered in a study of 35 failed organizations that one in five close their doors when management believe they have achieved 'mission completion,' where the objectives of the organization have been met and a new mission is not pursued. It may be possible that some of the incumbent retailers in this study closed their doors with the same rationale of mission completion. The importance of this limitation warrants further study on the assignment of 'firm failure' in research and as such is discussed further in the next section.

In a related vein, we must accept that not all 'fit' firms survive, and not all 'unfit' firms fail. Aldrich (1979) stated: "just as the fittest sometimes fail, because of random variations in the selection process, so patently maladaptive organizations sometimes survive" (p. 54). It may simply be that, by chance, an organization was best suited to the new conditions that are created, or a 'misfit' organization was protected within a benign environment (Miles and Snow, 1984). Furthermore, some organizations, particularly privately held firms will survive, even though they may appear to be inefficient and less fit than others. Porter (1980) explains that "they often work out of homes, use family labour, and avoid regulatory costs and the need to offer employee benefits" (p. 212) offering them more slack resources than would appear possible on the surface.

5.3 Future Research

This study has many implications for future research. I will draw attention to four that are of particular relevance for literature that looks at the performance of incumbents competing against large-format retailers. The first area for future research is to build on what Porter (1996) calls the 'origins of strategic positions,' which describes three different approaches to positioning for competitive advantage. While two of the approaches were investigated in this study, a third remains ripe for study alongside the first two. A second area for future research is to design studies that draw from and test the ability of resource partitioning theory to explain the joint presence of specialist and generalist firms in the same market. Third, future research is required to investigate more carefully the reasons for firms closing in the presence of heightened competition by the entry of large-format retail. Do they close their doors because they have been beaten down by the increased competition, or because they are inclined to see themselves as having achieved their 'mission?' Finally, measures of subjective firm performance as a predictor of firm failure requires revisiting in future research. Subjective measures are regularly used in order to determine firm performance in lieu of access to objective performance measures. However, this study found no relationship between subjective performance measures and firm failure. Each of these four areas of future research is presented below in further detail.

5.3.1 Examining the Importance of Convenience in Firm Focus

Porter (1996) has stated that firms can appeal to a buyer's value chain by way of three distinct bases for positioning in order to gain competitive advantage: variety-based positioning, needs-based positioning, and access-based positioning. The first two of Porter's three sources for strategic positioning (variety-based and needs-based) were explored in this study. The third source for positioning, access-based positioning was not looked at, yet it has a good conceptual overlap with offering convenience to consumers as described in the earlier review of the large-format retail literature.

Porter's first basis, a variety-based approach to strategic positioning entails firms selecting a specific subset of industry products to offer the market. Firms that believe they can provide a distinctive set of activities around a specific product group that others are unable to offer will apply this strategy. In this study, specializing based upon product focus is consistent with Porter's variety-based positioning.

Porter's second basis, a needs-based approach to strategic positioning, entails firms tailoring a set of products to best serve the needs of a target customer group. This approach is used when firms try to differ from their competitors in providing a range of products and activities that are sought out by a particular group of customers. The measure for customer focus in this dissertation is an example of needs-based positioning.

Porter's third source, access-based positioning, entails configuring a firm's activities so that they "reach customers in the best way" (Porter, 1996, p. 67). This requires firms to look at being distinctive in their availability to a target customer group. In Chapter Two, the literature review of retail presented research that suggested how retailers could create an advantage by increasing convenience by way of accessibility for consumers. Some of the research focused upon proximity elements, such as location (Seiders and Tigert, 2000) and layout (Arnold and Luthra, 2000), while other research looked at availability, such as in-stock items (Barber and Tietje, 2004) and hours of operation (Litz and Stewart, 2000). While the findings from previous studies have suggested the importance of access-based positioning in retail, it would be particularly beneficial for a study with a larger number of firms be conducted, so that all three sources of strategic positioning could be analyzed simultaneously.

5.3.2 Applying Resource Partitioning Theory

Future research on the effect of entering large-format competition on incumbent retail could be carried out using resource partitioning theory. An alternative explanation put forward earlier for the finding in Hypothesis 1 was that firms specializing in product might have become partitioned from firms that offer a wider variety. In effect the two are able to co-exist because they serve different areas of the same market. This is consistent with resource partitioning theory, which even posits that the increased dominance of large-format retailers will enhance the life chances of the specialist retailers (Carroll and Hannan, 2000). From a resource partitioning perspective, firms that face the greatest threat in retail home improvement are mid-sized generalist firms. These particular retailers are out-competed by the specialists in their respective product categories, as well as by the larger generalists that enjoy greater scale economies. Outside of the resource partitioning literature, Sheth and Sisodia (2002), as well as Porter (1985) have referred to this particular problem facing mid-size generalists as being 'stuck in the middle.'

Resource partitioning theory looks at the evolution of specialists as being different than the evolution of generalists. Generalists basically compete with other generalists, and the larger generalists will dominate due to scale advantages. Over time the smaller generalists are out-competed and driven out of the market. Specialists thrive because of the market that is left by the out-competed mid-sized generalists. In essence, the 'spoils of war' are split among the ever growing generalists and the smaller specialists. The generalists take the larger spoils that overlap with their product/services interests, and the specialists consume the lesser spoils that fall outside the interests of the generalists. Resource partitioning theory argues that specialists can proliferate in a market if they avoid head-to-head competition with generalists and instead focus on: market segments of little interest to generalists; customer groups with changing needs over time; or specializing in products or services associated with status (Carroll et al, 2002).

Clearly, it would be of considerable interest for future research to examine the efficacy of resource partitioning theory for understanding the dynamics between incumbents and large-format retailers. Such research must be designed to satisfy specific requirements related to the assumptions that resource partitioning theory is premised upon. One such premise assumes that there exists a market center, if only figuratively. Furthermore, resource partitioning theory requires the use of a complete data set. These two specific points are given more attention below, however more can be found on the assumptions and requirements of resource partitioning theory in Carroll and Hannan's (2000), as well as Carroll et al's (2002) reviews of the literature.

A key assumption in resource partitioning theory is that there exists a place in the market where resources are most abundant and where the greatest demand for a firm's products and services can be found. This place in the market is known in resource partitioning theory as a figurative 'market center' or 'uni-modal peak.' It is where crowding and competition by other firms is most intense. It is critical to the application of resource partitioning theory that environmental resources are distributed in this particular manner (Carroll et al, 2002). Given this assumption, resource partitioning theory also presumes that scale advantages will exist in the market because of the presence of high volumes at the market center. While a higher volume of sales at the market center creates the potential for reduced costs and scale economies, the outlying, less crowded regions of the same market will have higher unit costs than the center.

Therefore, in future studies involving resource partitioning theory it is important to include data on incumbent retailers that reside in product sectors beyond the target area of the large-formats, such as wholesalers, rental shops, sellers of used equipment, and retailers located beyond the city limits. For example, in this study, the product sectors observed were limited to those carried by *Home Depot* and *Revy* in their target geographical market. The main approach in explaining the proliferation of specialists is by viewing the resource space outside the target area of generalists (Carroll et al, 2002). By including this area in a study it is possible to compare the amount of resource space available for specialists when market concentration rises. This would require collecting data on incumbent retailers that did not operate within the target area of the entering large-format retailers that are under study.

Finally, A data set of the entire population is also required in resource partitioning theory in order to statistically draw any conclusions on mortality; representative sampling schemes are strongly discouraged. While a representative sample may provide description in the distributed characteristics of firms, organizational demographers make it clear that such samples are not sufficient to support analysis of demographic change or vital rates (Carrol and Hannan, 2000). Moreover, data collection should include the outset of the industry under study, particularly if the inference of age-related mortality is presented. This type of information extends beyond what would be available in sources such as the *Yellow Pages*. Ultimately, census and tax information are more appropriate sources of data for resource partitioning theory. However, the pursuit of a full set of population-level data comes at the expense of detail at the individual organization in the population.

5.3.3 Examining Firm Exit and Failure

Further research on reasons that business owners offer for explaining the closing of their doors is warranted. For example, many researchers have framed the retail home improvement industry as comprised of 'Mom & Pop' retail (Ehrenfeld, 1995; Litz and Stewart, 2000; Metters, Ketzenberg, and Gillen, 2000). We must remember some day, regardless of how well their firm is performing, Mom & Pop will want to retire, and they may not want to transfer the business to others. Such a possible explanation of firm exit merits further examination in studies like this, especially given the number of family owned businesses (N = 27).

While the entry of large-formats may have been the catalyst for confronting the issue of 'retiring' the store, it may have only quickened the inevitable. In effect, perhaps some storeowners who had been living off of the home improvement needs of traditional consumers had been waiting for a reason to exit the market, and the entrance of large-formats gave them one. As a result, Mom and Pop close their doors, marking the event as their own personal 'mission complete,' having successfully managed a career in retail and were now ready to embark upon a new mission, where the store is no longer required. Further study on this explanation for market exit as well as other types of exit such as "orderly failure" by voluntarily entering into bankruptcy (Delaney, 1999) could be reached via 'exit interviews' of managers of failed organizations. This may provide valuable insight into the reasons for the closing of doors and changing of stripes that extends beyond the perception that retailers fight to survive until their last breath.

Along the same lines, if it is true that entry of large-format retailers was especially likely to hasten the exit of firms that were no longer fit to compete in the present environment, then there may be implications for our understanding of appropriate governmental policy issues related to raising 'artificial' barriers to entry for large-format retailers. Perhaps such barriers are serving to protect complacency rather than to promote healthy economic activity. Use of actions like government zoning and trade legislation to protect incumbent retailers from the competitive forces of large-format retail have already taken place in Canadian cities such as Vancouver (McMartin, 2002) and are being discussed as necessary measures in others such as Edmonton (Bohn and Burrill, 2005). However, some claim that the benefits of restrictive barriers have been "largely unfounded" (Miller, et al 1999, p. 117) and could lead to stagnation of products and services available to consumers.

In other words, the entry of large-formats may prevent incumbent retailers from becoming complacent. Failing to scan the environment for potential challengers coupled with "earning unsustainable margins", or "ignoring buyer needs" is one of the largest pitfalls in defensive strategies and may have actually invited the new competition to their market in the first place (Porter, 1985). Sam Walton, founder of Wal-Mart had explained in the past that "his company had been invited into small towns [as a result of] Mom-and-Pop retailers who remained mired in the past by charging high prices, offering only spotty selection of goods, and refusing to open on Sunday or reducing evening hours" (Davidson and Rummel, 2000, p. 168). Recall that the findings generated in this study suggest that firm failure in light of increased competition had stabilized over time (failures in T2 = 12; T3 = 8; T4 = 0). This pattern could be argued as the outcome of a market 'shake-out,' which led to the closure of the complacent stores.

In sum, future research is required to shed further light on non-performance-related reasons why incumbent firms exit in the face of large-format entrants, including the possibilities of 'mission complete' and complacency. As well, it would be interesting to have comparative studies of markets with and without artificial barriers to help better understand the implications of restrictive legal barriers as an approach to managing competition with large-format retailers.

5.3.4 Reconsidering the use of Subjective Performance Measures as Proxy for Objective Performance Measures

Although some studies in the literature have suggested that subjective assessments of firm performance are highly consistent with objective internal and external measures (Dess and Robinson, 1984; Venkatraman and Ramanujam, 1987), this dissertation could find no relationship between subjective measures of performance (reported performance) and firm failure. Put differently, an incumbent retailer initially reporting high performance was just as likely to fail over the course of this study as a retailer reporting low performance.

In lieu of objective measures and firm failure, researchers often rely upon subjective reports of firm performance. This practice is largely due to the difficulty in retrieving financial information from privately held firms in order to generate objective performance measures (Dess and Robinson, 1984). The concern with subjective measures is that they may possess perceptual biases that do not accurately represent the performance of the firm. For this reason a majority of empirical studies that examine the relationship between strategic management and organizational performance in small firms have been restricted to success or failure as the measure of performance.

Dess and Robinson's (1984) has often been cited to warrant the application of subjective measures in the absence of objective measures (on a search using ISI Web of Knowledge, the article had been noted as being cited 244 times in other peer-reviewed journals). Indeed, the findings of Dess and Robinson's (1984) are seldom questioned; in the broader context of organizational performance, only one other study was found that does so (Sapienza, Smith and Gannon, 1988). Dess and Robinson (1984) argue that studies of subjective failure (or success) offer limited advance warning to managers that are headed towards firm failure, and thereby point to the value of subjective performance data. However, my search of data bases revealed no study that tests whether a firm with low subjective performance scores is indicative of a firm heading toward objective failure, or whether it is simply representative of a temporary slow period that may in due course be remedied.

Thus a counter argument to Dess and Robinson (1984) suggests that it is better to have no information than to have managers base decisions on subjective data that has no effect on the likelihood of failure. In sum, the linkage between firm performance and firm failure requires more research in order to clarify for retailers that low firm performance does not necessarily forecast firm failure; and more importantly, that high performance does not necessarily predict success, thus countering the argument by Dess and Robinson.

5.4 Conclusion

This study has important contributions for the study of interorganizational competition, particularly for incumbents facing large-format entrance. Most notably, the findings suggest that current theory and practice pays too much attention on product focus and not enough on customer focus. Specializing based upon a product focus alone does not provide any significant difference in performance when studied longitudinally through a period of heightened competition. On the other hand, this study suggests that retailers should concern themselves with a customer focus.

This dissertation is consistent with and builds on scholars like Echols and Tsai's (in press) observation that the niche-performance relationship is not necessarily clear-cut, and Porter (1985) and Litz (1997) caution that not all niche positions are equal. This study not only supports the importance of selecting the proper niche to specialize in but it also provides theory and concepts for scholars and practitioners alike to assess the environment in order to identify the best niche to exploit, thereby enabling firms to be positioned for maximum fit during periods of heightened competition. Niche positioning is multi-dimensional with some dimensions being more important to performance than others. It may be that the level of importance of these dimensions may change based upon the market conditions a firm finds itself in. My study makes a contribution towards conceptual and theoretical development on how to incorporate extraorganizational customer information alongside intraorganizational activities toward managing product lines.

By investigating two different types of specialization, this research contributes to further understanding the ways that incumbent retailers can distinguish themselves from their competitors. Central to the contributions made in this study is the argument that understanding the preferences of the largest cohort of consumers can lead to explanation as well as prediction of the success and failure of organizations in increased competition. The findings suggest that during heightened competition a customer focus, which appeals to the preferences of a significant cohort, provides a competitive advantage.

The findings also suggest that although incumbents can make changes to improve performance, such changes are not very common; adaptive changes may be more common than organization ecologists might expect, but less common than the strategy literature would expect.

Finally, note that these findings were directly related to the fact that it was a longitudinal study rather than cross-sectional, underscoring the need for such research to facilitate strong theory building. As Miller et al (1999, p. 119) have stressed; "competition is by its nature, a longitudinal construct." The availability of pre-entry data was particularly important for identifying the salience of a customer focus (Hypothesis 2). The longitudinal nature also permitted analysis of firm adaptability over time (Hypothesis 3), and provided a richer look into the role of product focus (Hypothesis 1).

Appendix 1

Survey Instrument at T1 (1995)

PART 1 : YOUR STORE'S HISTORY IN THE NEIGHBOURHOOD

How many years has your store been...
- in operation? 10 years
- in this neighbourhood? 10 years

About how close do you live to the store? ____ miles or 4 kilometers

10 minutes

How long have you worked...
- in this industry? 11 years
- for this firm? 10 years
- at this location? 10 years

About what percent of your customers do you know by name? ____________ %

Is your store a family business? Please circle yes or no.

1 no
2 yes If yes, for how long? 10 years

How did you get involved as an owner of the store? Please circle appropriate number.

1 does not apply - I do not own the store
2 started the store myself
3 took it over and/or bought it from another family member
4 bought the store from a non-family member
5 other: ____________________

Who do you expect to *own* this store 10 years from now?

1 the present owner(s) will continue to own the store
2 the store will probably have ceased operations
3 family members related to the current owner
4 someone not related to the present owner

Who do you expect to *manage* this store 10 years from now?

1 the present manager(s) will continue to manage the store
2 the store will probably have ceased operations
3 family members related to the current manager
4 someone not related to the present manager

Does the store owner also own the building?

1 yes
2 no

Is your business currently for sale?

1 yes
2 no

- 2 -

PART 2 : DESCRIBING YOUR STORE'S PRODUCTS AND SERVICES

About what percentage of your store's 1994 total sales came from:

• the sale of *products*: 100 % • the sale of *services*: _____ %

Please list your five most important *services* in order of sales amounts:

1.
2.
3.
4.
5.

Please estimate the percentage of your 1994 sales by *product* category by placing an X in the appropriate spot along each line for each product group.

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• hardware		X									
• power/hand tools		X									
• electrical		X									
• lighting/fans	X										
• plumbing & fixtures		X									
• lumber									X		
• plywood/paneling				X							
• flooring/carpet/vinyl	X										
• kitchen & other cabinets	X										
• patio furniture	X										
• housewares	X										
• major appliances	X										
• other: ________											

Which of the following best describes your *product* line objectives for this store?

1 This store offers a *narrow but deep* assortment of products. We seek to satisfy customers looking for specialized and hard-to-find products.

2 This store seeks to offer a *broad but limited* selection of different products. We offer customers a basic selection in many product categories.

PART 3 : YOUR STORE'S MEMBERSHIP IN A BUYING GROUP

Is your store a member of any formal or informal buying group (for example Home Hardware in retail hardware, or I.G.A. in retail groceries)? Please circle yes or no.

1 No
2 Yes If *yes* please answer the next 3 questions - otherwise go to Part 4.

What is the group's name? ALLROC

How long have you been a member of this group? 10 years

How important do you think being a member of a buying network is in helping your store in the following areas? Please circle the appropriate number.

	not important				very important
• reducing operating costs	1	2	3	4	5
• improving store image	1	2	3	4	5
• product education	1	2	3	4	5

PART 4 : YOUR STORE'S TECHNICAL EXPERTISE

This group of items deals with the knowledge of your store's employees in a number of different areas. Please circle that best answers each item.

How often do you or your employees...

	yearly	monthly	weekly	daily	hourly
• provide advice to customers?	1	2	3	4	5
• hold scheduled workshops to demonstrate products?	1	2	3	4	5
• have customers ask you questions you don't know the answer to?	1	2	3	4	5
• talk to a tradesman to be able to answer a customer's question?	1	2	3	4	5
• get additional training on the products or services being sold?	1	2	3	4	5
• learn something from a customer who's visiting your store?	1	2	3	4	5

- 4 -

PART 5 : YOUR STORE'S STRATEGIC PRIORITIES

Which of the following is ***more important*** to your store's strategy? Circle the appropriate number.

1 maintaining high service levels
2 maintaining an excellent product selection

Which of the following is ***more important*** to your store's strategy?

1 maintaining high service levels
2 maintaining low retail prices

Which of the following is ***more important*** to your store's strategy?

1 maintaining an excellent product selection
2 maintaining low retail prices

Suppose that you receive a number of requests for a line of products that is related to your existing product lines, but one that you do not carry (for example, suppose that you sell hand and power tools, and you begin to get requests for screws, nails, bolts and other fastener hardware that you do not carry). Which of the following statements best describes what your response would be?

1 I would continue to refer customers to other stores who sell the line they've inquired about even though I might lose potential sales. I would do this because I believe it is important to maintain my focus on my present product lines and avoid spreading myself too thin.

2 I would inquire about adding the product line to those I already sell even though it might take more of my time and add inventory and other costs. I would do this because I believe it is important to maintain a broad variety of products to meet my customers' changing needs.

To ***measure my store's success***, it is generally better to measure...

1 the level of current sales (that is, larger sales are better)
2 the level of current profit margins (higher margins are better)

To ***increase profits*** it is generally better to...

1 hold margins constant and increase sales volume
2 increase margins and hold sales volume constant

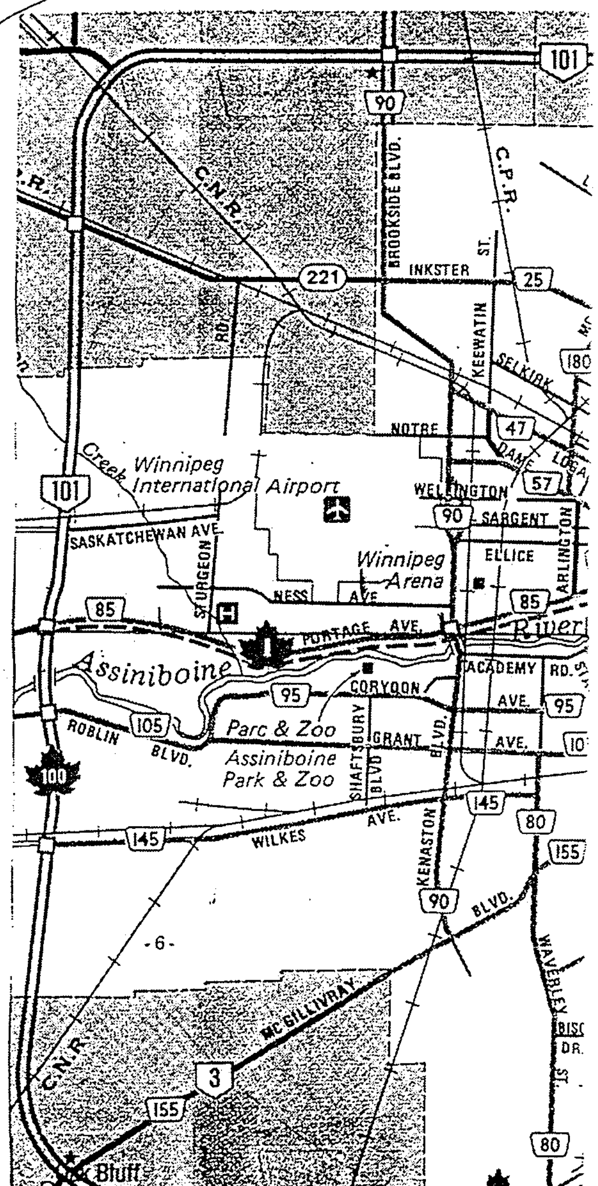
To ***minimize losses*** it is generally better to...

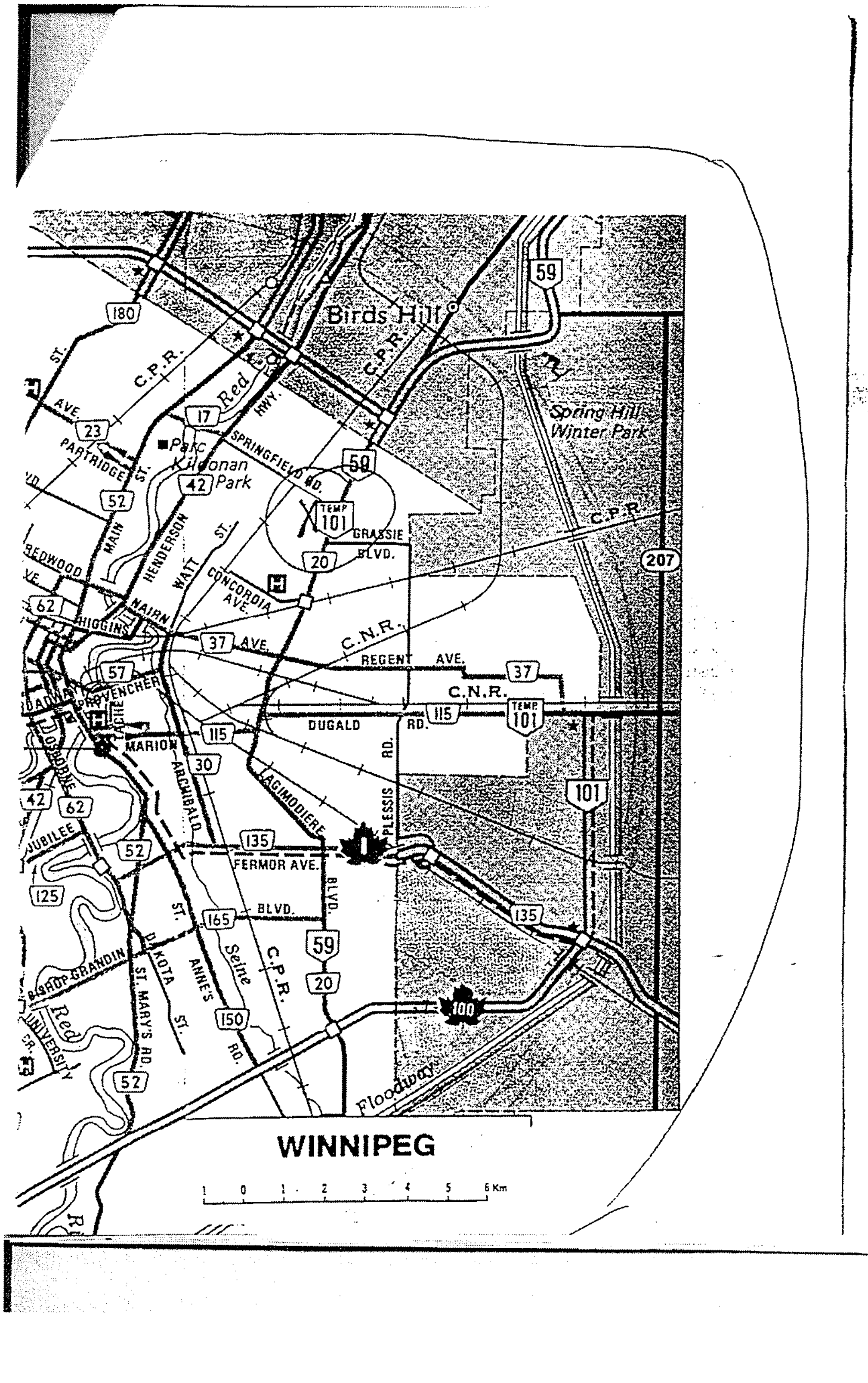
1 hold margins constant and lose sales
2 reduce margins and hold sales volume constant

PART 6 : ESTIMATING YOUR STORE'S CORE TRADING AREA

On the following map please do the following:

1. Place an X to represent your store's current ~~location~~
2. Draw a circle around ~~your~~ store's core trading area.




Birds Hill
Spring Hill Winter Park
C.P.R.
C.N.R.
Red
Seine
Floodway
Park Kildonan Park
SPRINGFIELD RD.
GRASSIE BLVD.
CONCORDIA AVE.
REGENT AVE.
DUGALD RD.
LAGIMODIERE BLVD.
PLESSIS RD.
FERMOR AVE.
ARCHIBALD
ST. ANNE'S RD.
ST. MARY'S RD.
DAKOTA ST.
BISHOP GRANDIN
JUBILEE
UNIVERSITY
MARION
PROVENCHER
HIGGINS
NAIRN
REDWOOD
PARTRIDGE
MAIN ST.
HENDERSON HWY.
WATT ST.
WINNIPEG
0 1 2 3 4 5 6 Km

PART 7 : YOUR STORE'S CUSTOMERS

Please place an X in the appropriate spot along each line in estimating the *percentage of your 1994 sales* that came from each of the following groups:

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• trades/handyman										X	
• do-it-yourselfers		X									
• occasional shoppers		X									
• institutional buyers		X									
• other: ______________											

Please place an X in the appropriate spot along each line in estimating the *percentage of your 1994 customers that came into your store* from each group:

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• trades/handyman			X								
• do-it-yourselfers											X
• occasional shoppers											X
• institutional buyers	X										
• other: ______________											

PART 8 : YOUR STORE'S EMPLOYEES

In addition to yourself, how many employees work in your store?

• *full-time* employees 55 • *part-time* employees 20

How long has your typical employee remained with this store?

• *full-time* employees 10 years • *part-time* employees 3 years

About how many of your employees are in each of the following categories?

50 regular high school education only
_____ vocational-technical high school education only
_____ community college educated
4 university educated
1 former/present tradesperson

-8-

PART 9 : YOUR STORE'S CUSTOMER RELATIONSHIPS

How often do you or your employees...

	never		sometimes		always
• greet your customers by name as they enter the store	1	2	3	4	5
• try to develop friendships with customers while they're shopping in the store	1	2	3	4	5
• make it a priority to be around the store during regular hours in order to get to know customers	1	2	3	4	5

If a customer asks, how often would you or your employees...

	never		sometimes		always
• hold merchandise for longer-than-normal lengths of time	1	2	3	4	5
• give out your home phone number to customers just in case they have an after-hours emergency	1	2	3	4	5
• place special orders for customers without requiring deposits from them	1	2	3	4	5
• loan customers products to try out before they buy them so they get exactly what they need	1	2	3	4	5
• open the store up in the middle of the night in order to help customers with an emergency	1	2	3	4	5
• keep the store open past official store hours to help out customers	1	2	3	4	5
• let customers rent equipment without putting down a deposit	1	2	3	4	5
• take back products even if customers don't have a receipt	1	2	3	4	5
• take back products even if they're opened	1	2	3	4	5
• take back products even if they're used	1	2	3	4	5
• extend credit to customers because of how well you know them	1	2	3	4	5

PART 10 : YOUR STORE'S COMMUNITY INVOLVEMENTS

This group of items deal with how your store is involved in its community. Please circle the appropriate number for each activity your business is involved in.

	no involvement				very involved
• business (e.g. Chamber of Commerce)	1	2	3	4	5
• charitable (e.g. United Way)	1	2	3	4	5
• service (e.g. Kiwanis, Rotary, Lions)	1	2	3	4	5
• youth (e.g. sponsoring sport team)	1	2	3	4	5
• religious (e.g. in-kind for church auctions)	1	2	3	4	5
• other: ____________	1	2	3	4	5

How *useful* are these activities in helping customers form relationships with your store? Please circle the appropriate number for each item.

	no help whatsoever				helps a lot
• business (e.g. Chamber of Commerce)	1	2	3	4	5
• charitable (e.g. United Way)	1	2	3	4	5
• service (e.g. Kiwanis, Rotary, Lions)	1	2	3	4	5
• youth (e.g. sponsoring sport team)	1	2	3	4	5
• religious (e.g. in-kind for church auctions)	1	2	3	4	5
• other: ____________	1	2	3	4	5

About how many hours each week do you spend working....

• on store-related matters? 45 hours

• on community involvements? 2 hours

In addition to the items listed above, is there anything else that you do to help form good working relationships with your customers? Please comment in the area below.

PART 11 : YOUR STORE'S 1994 PERFORMANCE

What were this store's 1994 ***total sales***? Circle the appropriate number.

1 less than $100,000
2 between $100,000 and $249,999
3 between $250,000 and $499,999
4 between $500,000 and $999,999
5 between $1,000,000 and $4,999,999
6 between $5,000,000 and $10,000,000
7 over $10,000,000

How satisfied are you with your store's ***current performance*** in each of the following areas?

	very unsatisfied				very satisfied
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5

How have each of the following changed for your store ***over the past five years***?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5

What changes do you expect for your store ***over the next five years***?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5

Does your store have a profit sharing or gain sharing plan? 1 Yes 2 No

PART 12 : YOUR COMMENTS

Is there anything else you would like to tell use about your store ? If so, please use this space for that purpose.

Thank you for your time!

Appendix 2

Survey Instrument at T2 (1997)

PART 1: YOUR STORE'S HISTORY IN THE NEIGHBOURHOOD

How many years has your store been...
- in operation? ___ years
- in this neighbourhood ___ years

About how close do you live to the store? ___ miles or ___ kilometers
___ minutes

How long have you worked...
- in this industry? ___ years
- for this firm? ___ years
- at this location? ___ years

Is your store a family business? Please circle yes or no.
- ☐ no
- ☐ yes If yes, for how long? ___ years
  If yes, how many family members are involved as owners? ______
  If yes, how many family members are involved as managers? ____

How did you get involved as an owner of the store? Check one of the following boxes.
- ☐ does not apply - I do not own the store
- ☐ started the store myself
- ☐ took it over and/or bought it from another family member
- ☐ bought the store from a non-family member
- ☐ other: ______________________

Who do you expect to own this store 10 years from now?
- ☐ the present owner(s) will continue to own the store
- ☐ the store will probably have ceased operations
- ☐ family members related to the current owner
- ☐ someone not related to the present owner

Who do you expect to manage this store 10 years from now?
- ☐ the present manager(s) will continue to manage the store
- ☐ the store will probably have ceased operations
- ☐ family members related to the current manager
- ☐ someone not related to the present manager

Does the store owner also own the building?
- ☐ yes
- ☐ no

Is your business currently for sale?
- ☐ yes
- ☐ no

2

PART 2: DESCRIBING YOUR STORE'S PRODUCTS AND SERVICES

About what percentage of your store's 1996 total sales came from:

- the sale of *products*: ___ % • the sale of *services*: ___ %

Please estimate the percentage of your 1996 sales by *product* category by placing an X in the appropriate spot along each line for each product group.

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• hardware & fasteners	_	_	_	_	_	_	_	_	_	_	_
• power/hand tools	_	_	_	_	_	_	_	_	_	_	_
• electrical/lighting/fans	_	_	_	_	_	_	_	_	_	_	_
• plumbing, heating & fixtures	_	_	_	_	_	_	_	_	_	_	_
• lumber/plywood/paneling	_	_	_	_	_	_	_	_	_	_	_
• paint/wallcovering	_	_	_	_	_	_	_	_	_	_	_
• flooring/carpet/vinyl	_	_	_	_	_	_	_	_	_	_	_
• kitchen & other cabinets	_	_	_	_	_	_	_	_	_	_	_
• patio/yard/garden	_	_	_	_	_	_	_	_	_	_	_
• housewares	_	_	_	_	_	_	_	_	_	_	_
• major appliances	_	_	_	_	_	_	_	_	_	_	_
• other: _______	_	_	_	_	_	_	_	_	_	_	_

Which of the following best describes your *product* line objectives for this store?

☐ This store offers a ***narrow but deep*** assortment of products. We seek to satisfy customers looking for specialized and hard-to-find products.

☐ This store seeks to offer a ***broad but limited*** selection of different products. We offer customers a basic selection in many product categories.

PART 3: YOUR STORE'S CUSTOMERS

Please place an X in the appropriate spot along each line in estimating the *percentage of your 1996 sales* that came from each of the following groups:

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• trades person	_	_	_	_	_	_	_	_	_	_	_
• do-it-yourselfers	_	_	_	_	_	_	_	_	_	_	_
• occasional shoppers	_	_	_	_	_	_	_	_	_	_	_
• institutional buyers	_	_	_	_	_	_	_	_	_	_	_
• other: _______	_	_	_	_	_	_	_	_	_	_	_

PART 4: YOUR STORE'S MEMBERSHIP IN A BUYING GROUP

Is your store a member of any formal or informal buying group (e.g., Home Hardware)

☐ no

☐ yes If yes, for how long? ___ years

If yes, how much of your stock comes from the buying group? ____%

If yes, how important do you think being a member of a buying network is in helping your store in the following areas? Please circle the appropriate number.

	not important			very important	
• reducing operating costs	1	2	3	4	5
• improving store image	1	2	3	4	5
• product education	1	2	3	4	5
• responding to new competitors	1	2	3	4	5
• attracting customers to your store	1	2	3	4	5

PART 5: YOUR STORE'S EMPLOYEES

In addition to yourself, how many employees work in your store?

• *full-time* employees ____ • *part-time* employees ____

How long has your typical employee remained with this store?

• *full-time* employees ____ • *part-time* employees ____

About how many of your employees are in each of the following categories?

______ regular high school education only ______vocational-technical high school only

______ community college educated ______ university educated

______ former tradesperson ______ present tradesperson

About how many hours each week do you spend working...

• on internal store-related matters? (e.g., inventory, display management) _______ hours

• on monitoring your competition? (e.g., studying flyers, visiting stores) _______hours

• on community involvements? (e.g. Kiwanis, United Way) _______hours

PART 6: YOUR STORE'S TECHNICAL EXPERTISE

This group of items deals with the knowledge of your store's employees in a number of different areas. Please circle the one that best answers each item.

How often do you or your employees...

	yearly	monthly	weekly	daily	hourly
• provide advice to customers?	1	2	3	4	5
• hold scheduled workshops to demonstrate products?	1	2	3	4	5
• have customers ask you questions you don't know the answer to?	1	2	3	4	5
• talk to a tradesman to be able to answer a customer's question?	1	2	3	4	5
• get additional training on the products or services being sold?	1	2	3	4	5
• learn something from a customer who's visiting your store?	1	2	3	4	5

Does your store have a point-of-sale accounting system? ☐ yes ☐ no

Do you subscribe to any industry trade newspaper/magazine? ☐ yes ☐ no

PART 7: YOUR STORE'S COMMUNITY INVOLVEMENTS

This group of items deal with how your store is involved in its community. Please circle the appropriate number for each activity your business is involved in.

	not involved				very involved
• business (e.g. Chamber of Commerce)	1	2	3	4	5
• charitable (e.g. United Way)	1	2	3	4	5
• service (e.g. Kiwanis, Rotary, Lions)	1	2	3	4	5
• youth (e.g. sponsoring sport team)	1	2	3	4	5
• religious (e.g. in-kind for church auctions)	1	2	3	4	5

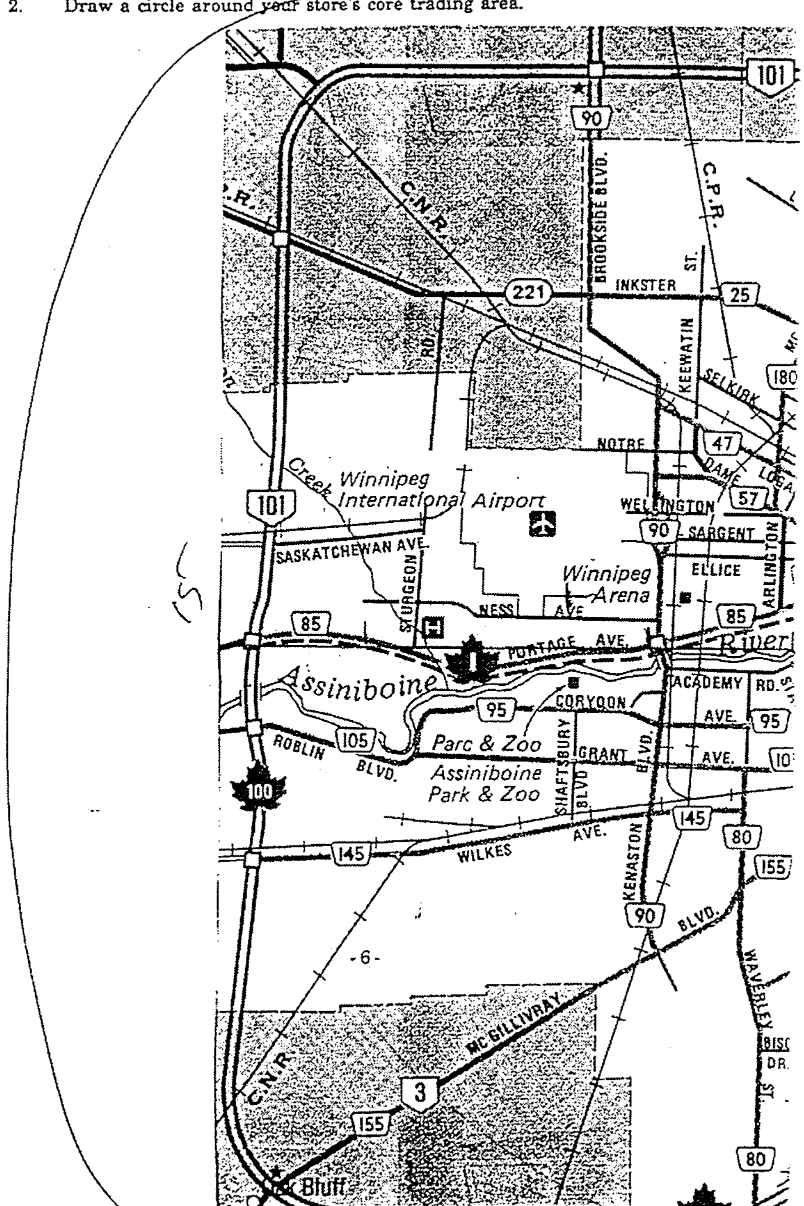
• other: ______________

In addition to the items listed above, are there any other out-of-store activities you are involved in which help to form good working relationships with your customers? Please comment on back.

PART 6 : ESTIMATING YOUR STORE'S CORE TRADING AREA

On the following map please do the following:

1. Place an X to represent your store's current location
2. Draw a circle around your store's core trading area.



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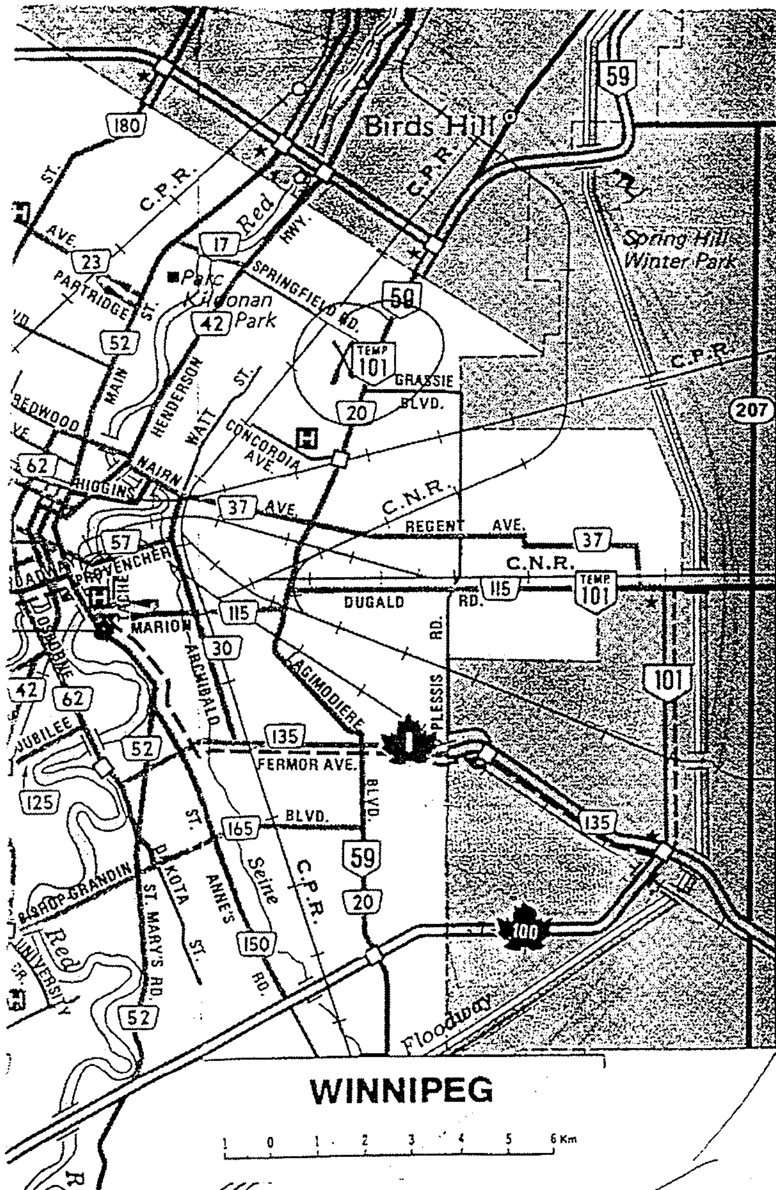

WINNIPEG
1 0 1 2 3 4 5 6 Km

PART 9: YOUR STORE'S CUSTOMER RELATIONSHIPS

How often do you or your employees...	never		sometimes		always
• greet your customers by name as they enter the store	1	2	3	4	5
• try to develop friendships with customers while they're shopping in the store	1	2	3	4	5
• make it a priority to be around the store during regular hours in order to get to know customers	1	2	3	4	5

If a customer asks, how often would you or your employees:

	never		sometimes		always
• give out your home phone number to customers just in case they have an after-hours emergency	1	2	3	4	5
• loan customers products to try out before they buy them so they get exactly what they need	1	2	3	4	5
• open the store up in the middle of the night in order to help customers with an emergency	1	2	3	4	5
• keep the store open past official store hours to help out customers	1	2	3	4	5
• let customers rent equipment without putting down a deposit	1	2	3	4	5
• take back products even if customers don't have a receipt	1	2	3	4	5
• take back products even if they're opened	1	2	3	4	5
• take back products even if they're used	1	2	3	4	5

About what percent of your customers do you know by name? ____%

About how many dollars did you spend on advertising in 1996? $________________

What percent of your 1996 advertising budget was spent on:

___ % television   ___ % radio   ___ % newspaper   ___ % flyers   ___ % other

If you use flyers   - How frequently do you distribute flyers? ________________

- How many addresses receive them each time? ________________

PART 10: YOUR STORE'S STRATEGIC PRIORITIES

Which of the following is ***more important*** to your store's strategy?

- ☐ maintaining high service levels
- ☐ maintaining an excellent product selection

Which of the following is ***more important*** to your store's strategy?

- ☐ maintaining high service levels
- ☐ maintaining low retail prices

Which of the following is ***more important*** to your store's strategy?

- ☐ maintaining an excellent product selection
- ☐ maintaining low retail prices

Suppose that you receive a number of requests for a line of products that is related to your existing product lines, but one that you do not carry (e.g., suppose that you sell hand and power tools, and you begin to get requests for screws, nails, bolts and other fastener hardware that you do not carry). Which of the following statements best describes what your response would be?

- ☐ I would continue to **refer customers to other stores** who sell the line they've inquired about even though I might lose potential sales (to maintain focus on my present product lines and avoid spreading myself too thin).

- ☐ I would **inquire about adding the product line** to those I already sell even though it might take more of my time and add inventory and other costs (to maintain a broad variety of products to meet my customers' changing needs).

To ***measure my store's success***, it is generally better to measure...

- ☐ the level of current sales (that is, larger sales are better)
- ☐ the level of current profit margins (higher margins are better)

To ***increase profits*** it is generally better to...

- ☐ hold margins constant and increase sales volume
- ☐ increase margins and hold sales volume constant

To ***minimize losses*** it is generally better to...

- ☐ hold margins constant and lose sales
- ☐ reduce margins and hold sales volume constant

For our store to compete against **Revy / Home Depot** it is generally better to...

- ☐ increase margins & increase volume
- ☐ decrease margins & increase volume
- ☐ increase margins & decrease volume
- ☐ decrease margins & decrease volume

PART 11: ARRIVAL OF GIANT COMPETITORS

1. How will the arrival of Revy's and Home Depot impact your store's **sales**?

- ☐ it will cause our store to go out of business
- ☐ it will have a significant negative impact
- ☐ it will have a marginal negative impact
- ☐ it won't have any effect
- ☐ it may have a marginal positive impact
- ☐ it definitely will significant positive impact

2. How will the arrival of Revy's and Home Depot impact on your store's **margins**?

- ☐ it will cause our store to go out of business
- ☐ it will have a significant negative impact
- ☐ it will have a marginal negative impact
- ☐ it won't have any effect
- ☐ it may have a marginal positive impact
- ☐ it definitely will significant positive impact

3. What if Revy's or Home Depot mounted a very strong advertising campaign claiming that:

a) they **specialize in serving local tradespeople** (e.g., selling commercial grade products, offering expert service, opening at 6:00 a.m. with free coffee & donuts)? Choose the one **best** answer:

- ☐ continue with "business as usual" (e.g., you don't sell to contractors anyway)
- ☐ match or outdo their incentive (e.g., offer more generous credit policies, sxlonger hours/coffee)
- ☐ re-direct emphasis to other customers (e.g., focus on do-it-yourselfers, drop/add product lines)
- ☐ quit (e.g., leave, close or sell the store)
- ☐ other: ______________________________

b) they **emphasize seminars** to teach do-it-yourselfers (e.g., how to install a sink). Would you...

- ☐ continue with business as usual (e.g., you either offer or can't afford to offer similar seminars)
- ☐ match or outdo seminars (e.g., begin to offer similar seminars)
- ☐ re-direct emphasis to other areas (e.g., increase focus on service, product quality, price)
- ☐ quit (e.g., leave, close or sell the store)
- ☐ other: ______________________________

c) they **have the lowest prices** in Winnipeg? Would you...

- ☐ continue with business as usual (e.g., your pricing policy is attractive as it is)
- ☐ match or offer even lower prices (e.g., on all items, on high profile/advertised items only)
- ☐ re-direct emphasis to other areas (e.g., product quality, customer service, product selection)
- ☐ change product line (e.g., include fewer price-sensitive products)
- ☐ quit (e.g., leave, close or sell the store)
- ☐ other: ______________________________

d) **have the widest selection** of brands in Winnipeg? Would you...

- ☐ continue with business as usual (e.g., you offer a wide selection already, you can't afford more)
- ☐ match or outdo brand selection (e.g., add new lines)
- ☐ re-direct emphasis to other areas (e.g., price, customer service, product quality)
- ☐ quit (e.g., leave, close or sell the store)
- ☐ other: ____________________

PART 12: YOUR STORE'S 1996 PERFORMANCE

What were this store's 1996 total sales?
Circle the appropriate number.

- ☐ less than $100,000
- ☐ between $100,000 and $249,999
- ☐ between $250,000 and $499,999
- ☐ between $500,000 and $999,999
- ☐ between $1,000,000 and $2,499,999
- ☐ between $2,500,000 and $4,999,999
- ☐ between $5,000,000 and $9,999,999
- ☐ over $10,000,000

How big is your store's selling space?
Circle the appropriate number.

- ☐ less than 1,000 sq. ft.
- ☐ 1,000-1,999 sq. ft.
- ☐ 2,000-2,999 sq. ft.
- ☐ 3,000-3,999 sq. ft.
- ☐ 4,000-4,999 sq. ft.
- ☐ 5,000-7,499 sq. ft.
- ☐ 7,500-9,999 sq. ft.
- ☐ over 10,000 sq. ft.

About what are your average yearly sales per square foot? $_______

How satisfied are you with your store's *current performance* in each of the following areas?

	very unsatisfied				very satisfied
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

How have each of the following changed for your store *over the past five years*?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

What changes do you expect for your store *over the next five years*?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

Does your store have a profit sharing or gain sharing plan? ☐ Yes ☐ No

YOUR COMMENTS

Is there anything else you would like to tell us about your store in light of the arrival of Revy's and Home Depot? If so, please use this space for that purpose.

Thank you for your time!

12

Appendix 3

Survey Instrument at T3 (1999)

PART 1: YOUR STORE'S HISTORY IN THE NEIGHBOURHOOD

How many years has your store been...

- in operation? ___ years
- in this neighbourhood ___ years

About how close do you live to the store? ___ miles or ___ kilometers
___ minutes

How long have you worked...

- in this industry? ___ years
- for this firm? ___ years
- at this location? ___ years

Is your store a family business? Please circle yes or no.

☐ no
☐ yes If yes, for how long? ___ years
If yes, how many family members are involved as **owners?** ______
If yes, how many family members are involved as **managers?** ____

How did you get involved as an owner of the store? Check one of the following boxes.

☐ does not apply - I do not own the store
☐ started the store myself
☐ took it over and/or bought it from another family member
☐ bought the store from a non-family member
☐ other: ______________________

Who do you expect to **own** this store 10 years from now?

☐ the present owner(s) will continue to own the store
☐ the store will probably have ceased operations
☐ family members related to the current owner
☐ someone not related to the present owner

Who do you expect to **manage** this store 10 years from now?

☐ the present manager(s) will continue to manage the store
☐ the store will probably have ceased operations
☐ family members related to the current manager
☐ someone not related to the present manager

Does the store owner also **own the building?**

☐ yes
☐ no

Is your **business currently for sale?**

☐ yes
☐ no

2

PART 2: DESCRIBING YOUR STORE'S PRODUCTS AND SERVICES

About what percentage of your store's 1998 total sales came from:

• the sale of *products*: __ %   • the sale of *services*: __ %

Please estimate the percentage of your 1998 sales by *product* category by placing an X in the appropriate spot along each line for each product group.

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• hardware & fasteners	_	_	_	_	_	_	_	_	_	_	_
• power/hand tools	_	_	_	_	_	_	_	_	_	_	_
• electrical/lighting/fans	_	_	_	_	_	_	_	_	_	_	_
• plumbing, heating & fixtures	_	_	_	_	_	_	_	_	_	_	_
• lumber/plywood/paneling	_	_	_	_	_	_	_	_	_	_	_
• paint/wallcovering	_	_	_	_	_	_	_	_	_	_	_
• flooring/carpet/vinyl	_	_	_	_	_	_	_	_	_	_	_
• kitchen & other cabinets	_	_	_	_	_	_	_	_	_	_	_
• patio/yard/garden	_	_	_	_	_	_	_	_	_	_	_
• housewares	_	_	_	_	_	_	_	_	_	_	_
• major appliances	_	_	_	_	_	_	_	_	_	_	_
• other: ______	_	_	_	_	_	_	_	_	_	_	_

Which of the following best describes your *product* line objectives for this store?

☐ This store offers a ***narrow but deep*** assortment of products. We seek to satisfy customers looking for specialized and hard-to-find products.

☐ This store seeks to offer a ***broad but limited*** selection of different products. We offer customers a basic selection in many product categories.

PART 3: YOUR STORE'S MEMBERSHIP IN A BUYING GROUP

Is your store a member of any formal or informal buying group (e.g., Home Hardware)

☐ no

☐ yes If yes, for how long? ___ years

If yes, how much of your stock comes from the buying group? ____%

If yes, how important do you think being a member of a buying network is in helping your store in the following areas? Please circle the appropriate number.

	not important			very important	
• reducing operating costs	1	2	3	4	5
• improving store image	1	2	3	4	5
• product education	1	2	3	4	5
• responding to new competitors	1	2	3	4	5
• attracting customers to your store	1	2	3	4	5

3

Please place an X in the appropriate spot along each line in estimating the *percentage of your* 1998 *sales* that came from each of the following groups:

	None	1-9%	10-19%	20-29%	30-39%	40-49%	50-59%	60-69%	70-79%	80-89%	90-100%
• trades person											
• do-it-yourselfers											
• occasional shoppers											
• institutional buyers											
• other: ________											

About how many dollars did you spend on advertising in 1998? $________________

What percent of your 1998 advertising budget was spent on:

___% television ___% radio ___% newspaper ___% flyers ___% other

If you use **flyers** - How **frequently** do you distribute flyers? ________________

- How **many addresses** receive them each time? ________________

PART 5: YOUR STORE'S EMPLOYEES

In addition to yourself, how many employees work in your store?

• *full-time* employees ____ • *part-time* employees ____

How long has your typical employee remained with this store?

• *full-time* employees ____ • *part-time* employees ____

About how many of your employees are in each of the following categories?

______ regular high school education only ______ vocational-technical high school only

______ community college educated ______ university educated

______ former tradesperson ______ present tradesperson

About how many hours each week do you spend working...

• on internal store-related matters? (e.g., inventory, display management) _______ hours

• on monitoring your competition? (e.g., studying flyers, visiting stores) _______ hours

• on community involvements? (e.g. Kiwanis, United Way) _______ hours

PART 6: YOUR STORE'S TECHNICAL EXPERTISE

This group of items deals with the knowledge of your store's employees in a number of different areas. Please circle the one that best answers each item.

How often do you or your employees...

	yearly	monthly	weekly	daily	hourly
• provide advice to customers?	1	2	3	4	5
• hold scheduled workshops to demonstrate products?	1	2	3	4	5
• have customers ask you questions you don't know the answer to?	1	2	3	4	5
• talk to a tradesman to be able to answer a customer's question?	1	2	3	4	5
• get additional training on the products or services being sold?	1	2	3	4	5
• learn something from a customer who's visiting your store?	1	2	3	4	5

Does your store have a point-of-sale accounting system? ☐ yes ☐ no

Do you subscribe to any industry trade newspaper/magazine? ☐ yes ☐ no

PART 7: YOUR STORE'S COMMUNITY INVOLVEMENTS

This group of items deal with how your store is involved in its community. Please circle the appropriate number for each activity your business is involved in.

	not involved				very involved
• business (e.g. Chamber of Commerce)	1	2	3	4	5
• charitable (e.g. United Way)	1	2	3	4	5
• service (e.g. Kiwanis, Rotary, Lions)	1	2	3	4	5
• youth (e.g. sponsoring sport team)	1	2	3	4	5
• religious (e.g. in-kind for church auctions)	1	2	3	4	5

• other: ________________

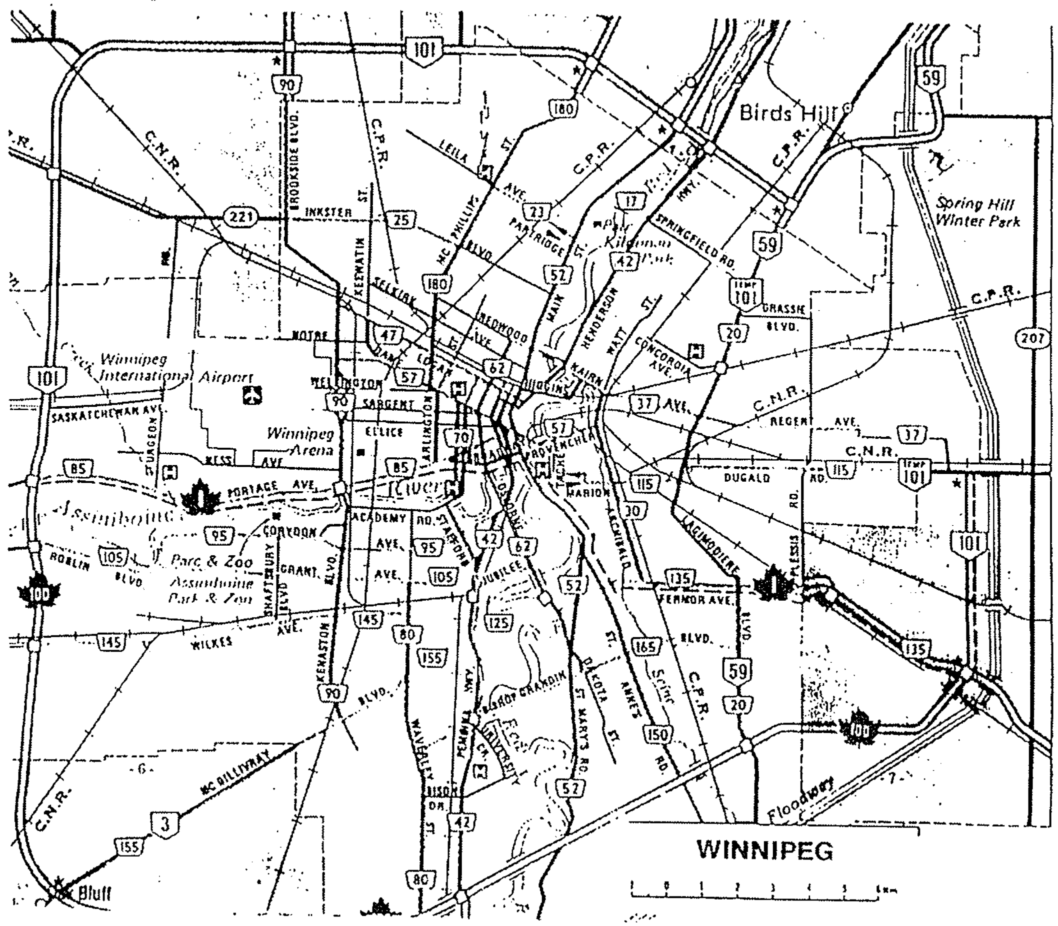
In addition to the items listed above, are there any other out-of-store activities you are involved in which help to form good working relationships with your customers? Please comment on back.

PART 8: ESTIMATING YOUR STORE'S CORE TRADING AREA

On this map please do the following:

1. Place an X to represent your store's current location

2. Draw a circle around your store's core trading area.



PART 9: YOUR STORE'S CUSTOMER RELATIONSHIPS

How often do you or your employees...	never		sometimes		always
• greet your customers by name as they enter the store	1	2	3	4	5
• try to develop friendships with customers while they're shopping in the store	1	2	3	4	5
• make it a priority to be around the store during regular hours in order to get to know customers	1	2	3	4	5

If a customer asks, how often would you or your employees:

	never		sometimes		always
• give out your home phone number to customers just in case they have an after-hours emergency	1	2	3	4	5
• loan customers products to try out before they buy them so they get exactly what they need	1	2	3	4	5
• open the store up in the middle of the night in order to help customers with an emergency	1	2	3	4	5
• keep the store open past official store hours to help out customers	1	2	3	4	5
• let customers rent equipment without putting down a deposit	1	2	3	4	5
• take back products even if customers don't have a receipt	1	2	3	4	5
• take back products even if they're opened	1	2	3	4	5
• take back products even if they're used	1	2	3	4	5

About what percent of your customers do you know by name? ____%

Have there been any changes over the past five years in terms of your store's orientation toward customer service?

- ☐ no
- ☐ yes If yes, then would you say that the customer orientation of:
  - a) "front-line" staff (i.e. sales clerks, delivery staff) has:
    - ☐ increased
    - ☐ stayed the same
    - ☐ decreased
  - b) "behind-the-scene" staff (e.g. bookkeepers, warehouse) has:
    - ☐ increased
    - ☐ stayed the same
    - ☐ decreased
  - c) physical facility has:
    - ☐ increased
    - ☐ stayed the same
    - ☐ decreased

PART 10: YOUR STORE'S STRATEGIC PRIORITIES

Which of the following is ***more important*** to your store's strategy?

☐ maintaining high service levels
☐ maintaining an excellent product selection

Which of the following is ***more important*** to your store's strategy?

☐ maintaining high service levels
☐ maintaining low retail prices

Which of the following is ***more important*** to your store's strategy?

☐ maintaining an excellent product selection
☐ maintaining low retail prices

Suppose that you receive a number of requests for a line of products that is related to your existing product lines, but one that you do not carry (e.g., suppose that you sell hand and power tools, and you begin to get requests for screws, nails, bolts and other fastener hardware that you do not carry). Which of the following statements best describes what your response would be?

☐ I would continue to **refer customers to other stores** who sell the line they've inquired about even though I might lose potential sales (to maintain focus on my present product lines and avoid spreading myself too thin).

☐ I would **inquire about adding the product line** to those I already sell even though it might take more of my time and add inventory and other costs (to maintain a broad variety of products to meet my customers' changing needs).

To *measure my store's success*, it is generally better to measure...

☐ the level of current sales (that is, larger sales are better)
☐ the level of current profit margins (higher margins are better)

To *increase profits* it is generally better to...

☐ hold margins constant and increase sales volume
☐ increase margins and hold sales volume constant

To *minimize losses* it is generally better to...

☐ hold margins constant and lose sales
☐ reduce margins and hold sales volume constant

For our store to compete against **Revy / Home Depot** it is generally better to...

☐ increase margins & increase volume
☐ increase margins & decrease volume
☐ decrease margins & increase volume
☐ decrease margins & decrease volume

PART 11: ARRIVAL OF GIANT COMPETITORS

1. What impact has the arrival of Revy's and Home Depot had on your store's sales?

- ☐ it has caused our store to go out of business
- ☐ it has caused a significant negative impact
- ☐ it has caused a marginal negative impact
- ☐ it has had no effect
- ☐ it has had a marginal positive impact
- ☐ it has had a significant positive impact

2. What impact has the arrival of Revy's and Home Depot had on your store's margins?

- ☐ it has caused our store to go out of business
- ☐ it has caused a significant negative impact
- ☐ it has caused a marginal negative impact
- ☐ it has had no effect
- ☐ it has had a marginal positive impact
- ☐ it has had a significant positive impact

3. How have you competed with Revy and Home Depot in terms of:

a) serving local tradespeople (e.g., selling commercial grade products, offering expert service, opening at 6:00 a.m. with free coffee & donuts)? (choose the best answer) Have you...
   - ☐ continued with "business as usual" (e.g., you don't sell to contractors anyway)
   - ☐ improved your service to this customer group (e.g., offered better credit policies, longer hours, coffee)
   - ☐ Re-directed emphasis to customers (e.g., focus on do-it-yourselfers, drop/add product lines)
   - ☐ quit (e.g., left, closed or sold the store)
   - ☐ other ______________________________

b) offering/providing seminars to teach do-it-yourselfers (e.g., how to install a sink). Have you...
   - ☐ continued with business as usual (e.g., you already offer, or can't afford to offer, such seminars)
   - ☐ added more seminars (e.g., began to offer similar seminars)
   - ☐ re-directed emphasis to other areas (e.g., increased focus on service, product quality, price)
   - ☐ quit (e.g., left, closed, or sold the store)
   - ☐ other ______________________________

c) having the lowest prices in Winnipeg? Have you...
   - ☐ continued with business as usual (e.g., your pricing policy is attractive as it is)
   - ☐ lowered your prices (e.g., on all items, on high profile/advertised items only)
   - ☐ redirected emphasis to other areas (e.g., product quality, customer service, product selection)
   - ☐ changed product line (e.g., include fewer price-sensitive products)
   - ☐ quit (e.g., left, closed or sold the store)
   - ☐ other ______________________________

d) having the widest selection of brands in Winnipeg? Have you...
   - ☐ continued with business as usual (e.g., you offer a wide selection already, you can't afford more)
   - ☐ increased brand selection (e.g., add new lines)
   - ☐ re-direct emphasis to other areas (e.g., price, customer service, product quality)
   - ☐ quit (e.g., left, closed or sold the store)
   - ☐ other ______________________________

PART 12: YOUR STORE'S 1998 PERFORMANCE

What were this store's 1998 **total sales**?
Circle the appropriate number.

- ☐ less than $100,000
- ☐ between $100,000 and $249,999
- ☐ between $250,000 and $499,999
- ☐ between $500,000 and $999,999
- ☐ between $1,000,000 and $2,499,999
- ☐ between $2,500,000 and $4,999,999
- ☐ between $5,000,000 and $9,999,999
- ☐ over $10,000,000

How big is your store's **selling space**?
Circle the appropriate number.

- ☐ less than 1,000 sq. ft.
- ☐ 1,000-1,999 sq. ft.
- ☐ 2,000-2,999 sq. ft.
- ☐ 3,000-3,999 sq. ft.
- ☐ 4,000-4,999 sq. ft.
- ☐ 5,000-7,499 sq. ft.
- ☐ 7,500-9,999 sq. ft.
- ☐ over 10,000 sq. ft.

About what are your average yearly sales per square foot? $_______

How satisfied are you with your store's ***current performance*** in each of the following areas?

	very unsatisfied				very satisfied
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

How have each of the following changed for your store ***over the past five years***?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

What changes do you expect for your store ***over the next five years***?

	significant decrease		about the same		significant increase
• sales levels	1	2	3	4	5
• net profit	1	2	3	4	5
• sales growth rate	1	2	3	4	5
• community involvement	1	2	3	4	5

Does your store have a profit sharing or gain sharing plan? ☐ Yes ☐ No

YOUR COMMENTS

Is there anything else you would like to tell us about your store in light of the arrival of Revy's and Home Depot? If so, please use this space for that purpose.

Thank you for your time!

12

APPENDIX 4

Independent Variables: Hypothesis 1

Generalists and Specialists

Population ecologists have distinguished between organizations characterized as generalists or specialists for several decades (particularly following Hannan and Freeman, 1977) to discuss competition among organizations that differ along a single environmental dimension (niche-width). Generalists rely upon a wide variety of resources at any time, while specialists rely upon one or a very limited variation. This is a simple classification, yet often used in studies involving organizational niche (Carroll et al, 2002). Retailers in this study were deemed specialists if their products mainly focused upon any one of the fourteen product areas identified in the survey with limited variation. Specialist firms provide products that are within a narrow focus. Examples of specialist firms are paint stores (*Glidden*), or flooring (*A & R Carpet Barn*). Generalist stores would provide a wider focus in products, crossing into multiple product types. Examples of generalists would be general home improvement stores (*Windsor Plywood*) or merchandisers that cross into multiple product categorizations, such as *Canadian Tire*. I used the above method in categorizing retail home improvement stores and classified each store, based upon their reported product variety, and my fourteen years of industry knowledge. This combination provided the sufficient institutional knowledge to assign the product niche of retail home improvement stores, which is an accepted approach to niche categorization (Dobrev et al, 2001).

Generalists received a value of one (1), and specialists received a value of two (2). The number of specialists dropped from 40 at T1 to 32 at T2 (see *Table 3.3*). By the end of the study 27 remained. The failure rate of specialists was 32.50 percent. Generalists reduced from 18 (T1) to 14 (T2), stopping at 11 by T3, for a failure rate slightly below 39 percent (38.9%). In a Chi-square test (see *Table A-1*), no significance was found for the distribution of generalists and specialists across incumbents that survived or failed.

Table A.1: Firm failure of generalists and specialists at T3.

		Firm Failure at T3		
		Survived	Failed	Total
Generalists	Count	11	7	18
	%	61.1%	38.9%	100.0%
	% of Total	19.0%	12.1%	31.0%
Specialists	Count	27	13	40
	%	67.5%	32.5%	100.0%
	% of Total	46.6%	22.4%	69.0%
Total	Count	38	20	58
	% of Total	65.5%	34.5%	100.0%

APPENDIX 5

Independent Variables: Hypothesis 1

Retail Store Typology

Retail store type is a less coarse-grained categorization of retail stores than the specialist and generalist distinction. Retail type is determined by assigning each incumbent retailer the classification that Miller, Reardon and McCorkle (1999) arrived at following their review of classification types. Upon their review, Miller et al voiced concern for the imprecision present in extant classifications, which they believe may lead to nonexclusive categorization. They prepared a retail categorization that identifies retail stores as one of three types: 'limited-line specialists,' 'broad-line specialists,' and 'general merchandisers,' taking into account the consistency that is present in the end-use of product lines that a retailer offers.

Limited-line specialists "offer the highest level of consistency of product lines" (p. 108) and in the context of this study, would relate to stores catering to a specific line of products, such as paint (*Glidden Paints*) or flooring (*A & R Carpet Barn*). Forty of the 58 participating retailers were assigned the category of limited-line specialists. Broad-line specialists provide a "broader level of consistency of product lines" (p. 108) thus offering complementary products towards a similar end-result. An example of a similar end-result would be retailers that o ffer products that would support a full home r enovation (*Star Building Supplies* or *Home Depot*), yet, would not extend to products external to the generic end-result, such as automotive products. Thirteen out of the 58 stores were identified as broad-line specialists. General merchandisers offer "relatively inconsistent product lines" (p.108), providing products that satisfy needs that are not necessarily complementary in end-use (*Sears*, *Wal-Mart*). Five of the stores were identified as general merchandisers.

Categorization of the retail stores was assigned to a scale, based upon the consistency present in their products. General merchandisers received a value of one (1), broad-line specialists were assigned a two (2), and limited-line specialists were given a three (3). These values maintain consistency of direction with the 'generalists and specialists' scale.

The number of limited line specialists dropped from 40 at T1 to 32 at T2. By the end of the study 27 remained (see *Table A.2*). The failure rate of limited-line specialists was 32.50 percent. Broad line specialists reduced from 13 (T1) to 9 (T2), stopping at 6 at T3, for a failure rate slightly below 54 percent (53.85%). General merchandisers remained steady at five stores throughout the study. In a Chi-square test, no significance was found in this categorization with incumbents that survived or failed.

Table A.2: Firm failure based upon retail type at T3.

		Firm Failure at T3		
		Survived	Failed	Total
General Merchandiser	Count	5		5
	%	100.0%		100.0%
	% of Total	8.6%		8.6%
Broad Line	Count	6	7	13
	%	46.2%	53.8%	100.0%
	% of Total	10.3%	12.1%	22.4%
Limited Line	Count	27	13	40
	%	67.5%	32.5%	100.0%
	% of Total	46.6%	22.4%	69.0%
Total	Count	38	20	58
	% of Total	65.5%	34.5%	100.0%

APPENDIX 6

Independent Variables: Hypothesis 1

Niche Width Score

In this classification of niche width, I combined Miller et al's (1999) retail typology that is assigned to participants with the fine-grained product focus measure that is derived from their reported product variety to create a 'niche width' score. Multiplying two previously established values creates the niche width score: retail type is multiplied by the niche focus value:

[Retail Type x Product Focus = Niche Width Score]

The two measures create a new measure where values are distributed anywhere on a scale from '0' to '3.0.' The narrower the retailer's focus, the greater the niche width score, suggesting a highly specialized approach to providing products in retail home improvement. The mean niche width score at T1 (N=57) was 2.0870 (see *Table A.3*). At T2 (N=38) the mean was 2.0597, and at T3 (N=37) the mean increased to 2.1122. Over time, the mean niche width score of incumbents increased. While the study's number of firms at the various stages was 58 (T1), 45 (T2), and 38 (T3), the table shows only participants that had no missing data in the construction of their niche focus score.

Table A.3: Niche width score descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
T1 Niche Width Score	57	2.0870	0.9297	0.1231
T2 Niche Width Score	38	2.0597	0.9283	0.1506
T3 Niche Width Score	37	2.1122	1.0303	0.1694

In a paired samples t-test of the mean niche width score at T1 and at T3, no significant difference was found. The correlation between T1 and T3 was significant and positive ($r = .941$ and $p \leq .001$).

APPENDIX 7

Testing Hypothesis 1
Generalists and Specialists

An initial series of cross-tabulations were conducted to determine if there were any significant differences between specialists and generalists that survived and failed. There were no significant differences in firm failure or reported performance found between stores identified as either generalists or specialists. This suggests that the distinction between the two store types does not necessarily offer any difference in competitive advantage. Further testing of these variables was conducted utilizing Mann-Whitney Rank Sum tests to determine if significant findings may be present in a more fine-grained non-parametric. The findings in the Mann-Whitney Rank Sum tests however confirmed the cross-tabulations conducted. No significant differences could be found in firm failure or reported performance between stores identified as either specialists or generalists (see *Table A.4*).

Table A.4: Summary of findings for Hypothesis 1: Generalists and Specialists.

Cross-tabulation of Specialists and Generalists with:	
Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant
Mann-Whitney Rank Sum Test of Specialists and Generalists with:	
Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant

APPENDIX 8

Testing Hypothesis 1
Retail Store Typology

An initial Chi-Square test was conducted on surviving stores to determine if there was any significant difference in any retail store type from the overall rate of failure. Then cross-tabulations were carried out using only incumbent retailers identified as limited-line and broad-line retail. However, both the one-sample Chi-square test and the cross-tabulations were unable to find any significant difference in firm failure (*Table A.5*). Given the overall survival rate, the expected survival rate of each retail type did not differ significantly. The remainder of the testing of retail type was conducted utilizing Mann-Whitney Rank Sum tests to determine if significant findings may be present in a more fine-grained non-parametric. The Mann-Whitney Rank Sum tests produced no findings that would suggest that any difference in retail type produces a more favourable market position. The distinction of a limited-line, broad-line, or general merchandiser has produced no significant difference in firm failure, or reported performance.

Table A.5: Summary of findings for Hypothesis 1: Retail Typology.

One-Sample Chi-Square Test of Retail Type with:	
Firm Failure at T3	Not Significant
Cross-tabulation of Retail Type with:	
Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Mann-Whitney Rank Sum Test of Specialists and Generalists with:	
Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant

APPENDIX 9

Testing Hypothesis 1
Niche Width Score

Testing of the scalar measure niche width score was conducted by utilizing the Mann-Whitney Rank Sum tests to determine if significant findings may exist. However, the Mann-Whitney Rank Sum tests produced no findings that would suggest that any difference in the niche width score of incumbent retailers produces a more favourable niche in the market. The distinction by way of a niche width score has produced no significant difference in firm failure and reported performance (*Table A.6*).

Table A.6: Summary of findings for Hypothesis 1: Niche Width Score.

Mann-Whitney Rank Sum Test of Niche Width Score with:

Firm Failure at T2	Not Significant
Firm Failure at T3	Not Significant
Reported Performance at T2	Not Significant
Reported Performance at T3	Not Significant

APPENDIX 10

Dependent Variables

Reported Optimism

Three subjective performance measures were generated for this study. They are reported performance, reported optimism and intention to exit. In an exploratory factor analysis, reported optimism had three of the items load together (see *Table 3.1.4*) with an Eigenvalue of 2.449 and accounted for 19.774 percent of the variance. The mean of two or more of the three reported optimism items were used to form the total score for reported optimism in each time period with a range between a low of '0' and high of '5.0'. By taking the mean of only two of the three items it is possible to maximize the number of cases represented in the analysis. Reliability tests undertaken on the optimism measures also provided sufficient Cronbach's alpha scores in each period of data collection: T1 (alpha = .83), T2 (alpha = .87), and T3 (alpha = .73).

Table A.7: Reported optimism descriptive data at each time period.

	N	Mean	Std. Deviation	Std. Error Mean
Reported Optimism at T1	54	3.6451	0.7167	0.0975
Reported Optimism at T2	38	3.7982	0.6178	0.1002
Reported Optimism at T3	35	3.8762	0.4579	0.0774

The mean generated at each time period increased over the previous, period with the mean optimism score at T1 (N=54) starting at 3.6451 (see *Table A.7*). The mean increased to 3.7982 at T2 (N=38) and then to 3.8762 at T3 (N=35).

APPENDIX 11

Dependent Variables

Change in Reported Optimism

Change in reported optimism is derived from the three-item 'reported optimism' measure. Reported optimism is used in concert with the change in niche width and change in customer fit measures to test the hypotheses generated regarding narrowing of focus. The change in reported optimism from one point of data collection to another was measured in the same manner as the previously presented measures. The difference in a retailer's reported optimism score at T1 is subtracted from the value at T3. The value generated is recorded as the change in reported optimism between T1 and T3 (T1–>T3). For example, if a retailer's optimism score was 4.25 (suggesting a high level of optimism) at T1 and then at T3 the score was 3.50, a change in optimism of –0.75 would be recorded between T1 and T3. This would suggest that the level of optimism has diminished over time.

[Reported Opt. at T3 – Reported Opt. at T1 = Reported Opt. Change T1 –> T3]

The mean change in reported optimism over the study was .2742. (see *Table A.9*), suggesting an increase in the level of optimism over time of the incumbents that survived through the study period. The low number of firms reported in the table below (31 of a possible 38) is due to missing data in cases.

Table A.8: Change in reported optimism descriptive data.

	N	Mean	Std. Deviation	Std. Error Mean
T1-T3 Reported Optimism	31	0.2742	0.7559	0.1358

APPENDIX 12

List of Participants

Participating Stores at T1	Firm Failure at T2	Firm Failure at T3	Product Focus at T1	Customer Focus at T1	Change in Prod. Focus T1 to T3	Change in Cust. Focus T1 to T3
Behnke Greenhouses	Yes		1.00	0.06	.	.
Bird Building Supply	Yes		0.74	0.41	.	.
Burron Lumber	Yes		0.84	0.16	.	.
Capital Lumber	Yes		0.55	0.78	.	.
Cedar Products	Yes		0.86	0.30	.	.
Chick Lumber	Yes		0.73	0.80	.	.
Dominion Lumber	Yes		0.69	0.44	.	.
Dynasty Bath & Kitchens	Yes		1.00	.	.	.
Paint Place	Yes		0.95	1.53	.	.
Sutherland Plumbing	Yes		0.57	0.10	.	.
Sutherland Supplies	Yes		0.57	0.25	.	.
W.A.S.O.	Yes		0.94	0.07	.	.
Bill's Greenhouse		Yes	1.00	0.05	.	.
Color Your World (St. Vital)		Yes	0.62	1.04	.	.
General Paint		Yes	1.00	1.55	.	.
Kilcona Lumber		Yes	0.83	0.14	.	.
Livin' Color		Yes	0.85	1.29	.	.
Save Way Lumber		Yes	0.40	0.50	.	.
Windsor Plywood (Regent)		Yes	0.63	0.25	.	.
Winnipeg Supply		Yes	0.42	0.59	.	.
A & R Carpet Barn			0.85	0.92	0.15	0.12
Anco Wholesale			0.25	0.97	0.20	0.00
Arbo Florists			1.00	0.00	.	.
Canadian Tire (Fort Garry)			0.22	0.90	0.06	-0.33
Canadian Tire (Garden City)			0.29	0.60	-0.15	0.10
Canadian Tire (Southdale)			0.24	0.85	-0.10	-0.28
Canadian Tire (Westwood)			0.33	0.75	.	.
Canadian Tire (Wpg. Centre)			0.50	0.84	-0.11	0.04
Carrara Tile			0.95	1.50	-0.18	0.13
Cedarman			0.79	0.22	-0.11	0.29
Charleswood Lumber			0.62	0.36	0.03	0.17
Color Your World (Nairn)			0.94	1.39	0.00	0.33
Color Your World (Portage)			0.95	1.39	-0.01	0.20
Corydon Hardware			0.54	1.19	-0.09	0.00
Dels Electric			0.95	1.06	0.00	0.07
Doner Paints			0.81	1.73	-0.04	-0.15
Even-Spray & Chemicals			0.95	0.50	.	0.00
Glidden Paints (Portage)			0.83	1.40	0.17	0.03
Glidden Paints (St. Vital)			1.00	1.75	0.00	0.00
Habitat Re-Store			0.25	1.09	-0.08	-0.52
North American Lumber			0.64	0.68	-0.07	0.13
Northern Paint			1.00	1.95	.	.
Paddon Florists			1.00	0.00	0.00	.
Portage Avenue Paints			0.83	1.27	0.17	-0.16
Riverside Nurseries			1.00	0.18	0.00	-0.25
Robinson Bath & Kitchen			0.89	1.44	0.11	.
Robinson Lighting			1.00	1.44	-0.15	0.56
Schriemer's Greenhouses			0.90	0.05	0.10	0.06
Schwartz Sales			0.52	1.42	0.13	-0.13
Shelmerdine's			0.68	0.15	0.32	0.15
Sherwin-Williams			1.00	2.00	0.00	0.00
St. Mary's Greenhouses			0.85	0.13	0.15	0.38
Star Building Materials			0.67	0.88	0.07	-0.21
Superlite			1.00	1.63	-0.05	0.08
T & T Seeds			.	.	.	.
Total Lighting			1.00	1.50	-0.23	0.09
Western Paint			1.00	1.50	0.00	-0.19
Windsor Plywood (Century)			0.69	0.54	-0.34	-0.08

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