



Small Retail Businesses' Varied Perceptions of Market Competition

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Problem and Purpose Statements. Small businesses play a significant role in the U.S. economy. However, the 2008 Great Recession severely impacted small businesses, intensifying the level of competition not only with other small businesses but with large businesses as all had to fight for fewer customers. Small businesses, which serve a smaller customer base and have fewer resources and skills than large businesses, are very vulnerable to external market changes (Malhotra & Temponi, 2010). Accordingly, intense competition is often associated with business failure and small businesses rarely welcome competition (Kalleberg & Leicht, 1991). However, while competition reduces firms' profit margins and adds enormous pressure to businesses, it can also drive business growth by stimulating innovation. The literature suggests that awareness of market competition is positively related to business competitiveness as it drives businesses to closely monitor changing business environments, likely threats, and opportunities, and to develop coping strategies in a timely manner (Bergen & Peteraf, 2002). However, few studies have examined how small businesses perceive and respond to market competition (De Jong, 2011). Furthermore, previous studies found that even under the same market environment, perceptions of market competition vary by owners' characteristics or organizational factors (Clark & Montgomery, 1999; Kemp & Hanemaaiher, 2004). These findings indicate that understanding organizational differences is important to understand business perceptions and strategies in response to market competition. Therefore, the purpose of our study is to address two research questions: (1) how do small businesses perceive market competition within/outside the community and what are their underlying reasons? and (2) how does their perceived competition vary with the level of business revenue and innovativeness? Due to the lack of empirical studies on this topic, we followed the grounded theory approach and incorporated the literature review into the discussion to avoid biases in the interpretation of the findings.

Method. Potential samples were selected using ReferenceUSA.com, a free business database. We interviewed 51 small business owners/managers in eight southeastern cities, focusing on stores that carry non-durable products such as apparel, accessories, footwear, home interior goods, and gift items. The majority of participants had fewer than 10 employees (88.2%) and were store owners (86.3%), female (84.3%), and Caucasian Americans (94%). The mean age was 45 years. Transcribed responses were content-analyzed by three coders to enhance inter-coder reliability. The first investigator developed initial coding categories. Using these categories, the second investigator recoded the responses; finally, the first and third investigators reviewed all coding. Discrepancies among coders were solved by consensus. Following open, axial, and selective coding procedures, major themes were identified. Responses not merged as major themes or incomplete responses in the post-survey were deleted in multiple-response

crosstab analysis. Businesses were divided into low (below \$199,999, n=17,) vs. high revenue (> \$199,999, n=23) groups. Innovativeness scores were calculated and based on the median split, the participants were divided into low vs. high innovativeness groups (n=22, each).

Results and Discussion. We first classified the participants as those who felt competition and those who did not. We then analyzed underlying reasons for their perceptions. Participants who felt competition (45%) expressed increasing competitive pressures and threats, and the two most salient reasons were having many competitors carrying similar products and competing on low prices and discounts. These participants tended to have negative associations of competition and often took passive or reactive approaches to survive by maintaining the same practices or matching prices at customers' request. On the other hand, 55% of the participants did not feel competition within/outside their community: the majority expressed strong confidence in their unique/superior products and services, some expressed a community mindset for supporting each other's businesses to survive, and a few viewed competition as a healthy and positive practice to grow their businesses. However, such confidence and positive beliefs do not seem to correlate with business performance, as indicated by the sluggish growth rates in the small business sector in the U.S. in post-recession periods (Leubsdorf, 2011). Furthermore, multiple-response crosstab analysis showed varied attributions of the reasons for feeling vs. not feeling competition by business revenue and innovativeness. The majority (73%) of the businesses with higher revenue did not feel competition within/outside the community, mostly expressing great confidence in their niche/superior products. By contrast, the businesses with lower revenue had a split view on perceived competition. Half of this group felt threats from competitors mainly because competitors offer similar products and lower prices. Counterintuitively, while the high innovativeness group had a split perception on market competition, the majority (68%) of the low innovativeness group did not feel competition, primarily attributing the reason to their niche and superior products. The findings of this study may indicate that small businesses tend to be optimistic, leading to a high level of complacency and in turn overlooking potential threats and competitors (Bergen & Peteral, 2002). Furthermore, many small businesses might not fully understand or recognize the nature of post-recession competition. They might not thoroughly scan their external business environment and internal competitiveness, resulting in a narrow definition of competition or an inaccurate assessment of the actual market situation. Given that close monitoring and objective competition scanning are essential drivers of entrepreneurship and business growth (Bergen & Peteral, 2002), this study indicates that businesses must specify their strongest competition as well as broaden perceptions of potential competitors to better estimate the market situation and cope with emerging threats more effectively.

This study fills a gap in the literature by examining small businesses' perceptions of market competition within/outside the community. Findings will provide more specific guidance to help small businesses compete more effectively by understanding varied perceptions, problems, and challenges, knowledge which in turn will facilitate effective and practical measures to help the prosperity of the U.S. small business sectors.

References will be provided upon request.