

**WHEN WAL-MART COMES TO TOWN:
A LOOK AT DAVID'S RESPONSE TO THE
ARRIVAL OF RETAILING'S GOLIATH**

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ABSTRACT

This study examines how local retailers responded to Wal-Mart's arrival. The results reveal that Wal-Mart's arrival disrupts existing retailing patterns and forces merchants to alter their competitive strategies. Small merchants tend to place greater emphasis on lower prices and increased promotional activities as a response to competitive pressure.

INTRODUCTION

Discount retailing giants like Wal-Mart have changed and continue to change the face of retailing. In no marketplace is this effect more pronounced than in small-town America. The increasing presence of discount superstores in these markets has cast formidable clouds of economic concern on the brows of local businesses. Many small businesses have already succumbed and others will follow unless existing firms introduce dramatic changes to the way they do business. In searching for these answers, perhaps there are lessons to be learned from Wal-Mart itself.

From its humble beginnings in 1962 as a small discount store in Arkansas, Wal-Mart has become the world's largest retailer. The lofty position occupied by Wal-Mart today did not occur by accident. Wal-Mart developed and implemented an aggressive expansion strategy with small-town markets as its economic and marketing backbone. New stores were located primarily in towns of 5,000 to 25,000 population and typically were greeted with open arms by both community leaders and residents. Initially, most rural towns and cities enthusiastically welcomed the retailing giant, since a new Wal-Mart often meant a wider selection of products and lower prices. These communities felt that the loss of "Main Street" life was simply an incidental price to pay for consumer savings and expanded trade (Carfagno, 1989; Marsh, 1991).

However, it has become increasingly apparent that the retailing giant's success often has come at the expense of small town mainstays (Smith, 1989). Few local merchants can compete

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against expansive 40,000-150,000 square-foot stores whose cosmetics counters alone dwarf most "mom and pop" operations. Nor can many small retailers match Wal-Mart's prices, which are frequently lower than the wholesale prices local merchants pay for their merchandise. As a result, downtown business districts begin to empty, hastening the erosion of most small towns' commercial identity and fabric (Blumenthal, 1987).

While the economic and social merit of Wal-Mart's introduction and continued presence in most small towns is the topic of some debate, it is the responsive behavior of extant small businesses that is arguably most deserving of examination and discussion, as much of the social and economic well-being of this nation was and continues to be predicated on the entrepreneurial spirit of small business. This study provides an examination of how retail merchants in small towns and cities responded to the entry of Wal-Mart. Specifically, local merchants from 5 mid-western communities were surveyed to determine the impact of Wal-Mart's arrival on their marketing decisions and the resulting adjustments in their competitive strategy.

PRIOR RESEARCH

Despite increased scrutiny by a coalition of politicians, historic preservationists, and small shopkeepers in communities throughout the country, Wal-Mart's impact on local retailing communities has been the focus of little scholarly research. Moreover, the few empirical studies that have examined Wal-Mart's impact have produced inconsistent results. Carusone's (1976) examination of retailers in 10 small Ohio communities was one of the first studies to address how large mass-merchandisers affect local merchants. That study found that the development of shopping centers and large discount stores in rural communities had created highly competitive environments. The number of independent local merchants decreased by approximately eight percent during the ten-year study period, while the number of chain store outlets increased by nearly eleven percent.

Walzer and Stablein's (1981) found that the growth of mass-merchandisers and regional shopping centers in general has had important impacts on existing consumption patterns and retail structures. They concluded that the most successful local merchants adapted by offering broader selections at lower prices. However, they added that many other small retailers were forced out of business.

Ozment and Martin (1990) investigated the impact of large discount retail chain stores on the competitive environments of 164 rural counties in Arkansas, Missouri, and Oklahoma. The results of their study revealed that the structure of retailing in areas that have large discount stores was dramatically affected. Specifically, the per capita retail sales in communities containing a large discounter were significantly higher than communities without a mass-merchandiser. The authors concluded that large discount stores, such as Wal-Mart, generally benefit host communities by generating increased tax revenues, greater product selection for consumers, and elevating the local market's overall competitiveness. The study focused on existing conditions, however, so the longitudinal impact of mass-merchandisers was not addressed. Further, no attempts were made to examine the economic conditions before and after the arrival of large discounters.

Stone's (1988) examination of 17 rural Iowa towns was the first study to explicitly address Wal-Mart's impact on local merchants. Using census data, Stone concluded that per capita sales increased faster in towns with Wal-Mart stores than in comparable towns across the state. Stone also reported that Iowa towns within a 20-mile radius felt Wal-Mart's pull. Retail sales in these communities declined by nearly 10 percent after five years. The retailing giant's impact was more ominous for Iowa's smallest hamlets. Newly opened Wal-Mart stores drained as much as \$200,000 a year from towns under 1,000 people. Moreover, Stone identified clothing, drug, jewelry, auto-parts, variety, and hardware stores as being especially susceptible to severe market share losses. Hardware stores, for example, typically lost over 40 percent of their market share.

Franz and Robb (1988) examined Wal-Mart's impact on retail employment and wages in 14 rural Missouri counties. They found no evidence of Wal-Mart producing a negative impact on local economies. In fact, measures of income, wages, and salaries increased for all the counties studied. While the number of retail establishments declined over the period of the study, the authors speculated that the remaining establishments were larger and had more employees and larger payrolls than previously existed. However, Franz and Robb failed to compare the changes in these measures to counties without a Wal-Mart, thus, it is not possible to tell whether the changes that occurred were directly attributable to Wal-Mart's arrival. Furthermore, the study remains suspect because it was sponsored by Wal-Mart (Greer, 1989).

In August 1994, hearings were held before a House Small Business Committee on whether large discount superstores, such as Wal-Mart, located in small towns have harmful effects on small business and local communities. Based on the findings of a University of Missouri study, the ultimate conclusion drawn in these hearings was that large discounters help attract new business. Further, just as discount stores create employment opportunities and keep rural residents from having to travel to stores in distant cities, discounters create jobs and shopping alternatives (Verdisco, 1994).

Most recently, McGee (1995) examined the retail sales and tax data from small towns to determine the effects of Wal-Mart stores on communities in five Midwestern states. This latter study found that per capita retail sales and taxes increased faster in towns with a Wal-Mart than those without. Further, noncompeting businesses experienced the greatest benefits, while local merchants in direct competition with Wal-Mart experienced revenue losses ranging from five to fifty percent. Businesses in nearby small towns suffered as well.

While existing research focusing on Wal-Mart's impact on local businesses consists largely of anecdotal evidence and inconclusive empirical research, there is little question that Wal-Mart's presence has an impact, perhaps both positive and negative, on the existing retail structure of most small towns and cities. Anecdotal evidence suggests a direct link between the arrival of Wal-Mart and the deterioration of the central business districts of small towns (Sheets, 1989; Marsh, 1991). Paradoxically, Wal-Mart's presence provides some local merchants a needed competitive jolt, forcing them to develop unique niches and services in order to survive (Cockerham, 1994). Unfortunately, this argument cannot be fully supported since there has been no empirical research conducted explicitly examining the response of local merchants to Wal-Mart's arrival.

Given the paucity and inconclusiveness of existing research, this study was undertaken to explore the impact of Wal-Mart's arrival on existing small businesses and identify their competitive response(s). Further, it is important to note that this research was funded totally and exclusively through a university research grant and is in no way affiliated with any commercial and/or retail institution. Specific questions addressed by the research included:

- i. Were existing retail businesses impacted by the arrival of Wal-Mart? If so, what was the nature and extent of that impact? Did that impact diminish over time?
- ii. How did existing small businesses initially and subsequently respond to Wal-Mart's arrival?
- iii. Were there differences in how impacted versus non-impacted retailers responded to Wal-Mart's arrival? If so, what were those differences?

METHODOLOGY

The data were collected from a consensus (i.e., total population) sample of 658 retail merchants in 5 rural Midwestern towns where Wal-Mart had opened a store between 1989 and 1994. The sample focused on towns with populations of less than 25,000 inhabitants and were more than 20 miles from a metropolitan area. These sample parameters helped better elucidate Wal-Mart's explicit impact on the rural retail community.

Data were collected through a mail survey. The design and administration of the questionnaire relied heavily on Dilman's multi-step "total design method" (1978). The initial step involved mailing a cover letter, questionnaire, and postage-paid return envelope. A reminder postcard was sent to all potential respondents one week later. Finally, a second cover letter, questionnaire, and postage-paid return envelope were sent to the nonrespondents two weeks later.

The survey instrument was developed after an extensive review of existing strategic management, marketing, and small business literature (e.g., Robinson and Peace, 1988; Conant, Smart, and Solano-Mendez, 1993; Shama, 1993) and contained questions addressing four general issues. First, the questionnaire solicited data concerning Wal-Mart's impact on the local retailer. Next, five-point, Likert-scaled questions were used to collect data concerning the extent to which local merchants altered their competitive tactics in response to Wal-Mart's pending entry into the local market (e.g., 1 = not at all... 5 = very much). The third area addressed the emphasis placed on various competitive methods employed by local merchants following Wal-Mart's arrival (e.g., 1 = no emphasis... 5 major, constant emphasis). Finally, the survey instrument solicited information about the local retailer's age, location, size, and level of employment. The survey instrument was pretested on six small retailers not included in the study's sample and no key informant problems were evident.

In addition to descriptive statistics which were used in developing overall respondent and response profiles, the Kruskal-Wallis one-way analysis of variance test was used to determine whether or not significant differences existed in the responses of sample retailers. The results of these analyses are described in the following section.

RESULTS

Overall, 222 of the 658 surveys were returned in useable form, representing an effective response rate of nearly 34 percent. To detect any potential nonresponse bias, a telephone survey was conducted with 30 nonrespondents randomly selected from the original mailing list. Five descriptive questions concerning the retailer's annual sales, number of full-time employees, number of part-time employees, age, and distance from the recently opened Wal-Mart store were asked. Independent t-tests between the nonrespondents and respondents were insignificant indicating negligible nonresponse bias.

Sample Profile

Table 1 presents the sample's summary statistics. Most of the retailers were quite small in terms of both annual revenues and number of employees. Nearly 65 percent of the sampled stores had annual sales of less than \$500,000. Most small firms employed fewer than 5 full-time (78.1 percent) and part-time (84 percent) employees. Less than 5 percent of the businesses had more than 15 full or part-time employees. In terms of business longevity, 28.9 percent of the respondents have been in business for ten years or less, while a similar percent (26.2 percent) have been in business between eleven and twenty years. Most of the responding businesses (44.9 percent) have been in existence for over twenty years. Geographically speaking, 21.1 percent of the respondents were located less than 1 mile from Wal-Mart, while 45.5 percent were located between 1 and 5 miles. Approximately a third of the responding firms (33.4 percent) were located more than 5 miles from Wal-Mart.

Compared to industry averages, the sample's demographics correspond closely to national averages in the areas of employment and annual sales (1994 Statistical Abstract of the United States). In terms of business longevity, sample respondents appear to be somewhat older than the national average, as only 34.2 percent of small businesses across the nation have been in business for over twenty years. Finally, locational comparisons were not possible given the study's focus. Thus, while regional in scope and somewhat skewed toward more established firms (which may not be surprising given the study's focus on established small businesses in rural communities), the sample appears to be adequately reflective of small business in the vital areas of employment and sales.

Nature of Impact

A summary of Wal-Mart's impact on existing small businesses in the year following its arrival is presented in Table 2. A majority (72 percent) of the responding firms indicated they had been impacted by Wal-Mart's arrival. Of those impacted, 52.6 percent reported they had been negatively impacted, while 18.7 percent reported a positive impact. Of those negatively impacted, 22.2 percent experienced a decline of less than 10 percent in their store's revenues during the 12 month period immediately following Wal-Mart's entry into the area. Further, 30.4 percent of the negatively impacted respondents claimed annual revenue reductions of more than 10 percent.

Table 1

Descriptive Statistics

(N = 222)*

What is your approximate annual sales level?

Less than \$250,000	39.3%	(87)
\$250,000 to \$499,999	25.5%	(57)
\$500,000 to \$999,999	20.4%	(45)
More than \$1,000,000	14.9%	(33)

Including yourself, how many full-time employees does your business employ? (mean = 4.2 employees)

Fewer than 5 employees	78.1%	(173)
Between 5 and 10 employees	13.7%	(30)
Between 11 and 15 employees	5.0%	(11)
More than 15 employees	3.2%	(7)

Including yourself, how many part-time employees does your business employ? (mean = 3.7 employees)

Fewer than 5 employees	84.0%	(186)
Between 5 and 10 employees	9.6%	(21)
Between 11 and 15 employees	3.2%	(7)
More than 15 employees	3.2%	(7)

How many years has your store been open? (mean = 26 years)

Fewer than 5 years	7.9%	(17)
Between 5 and 10 years	21.0%	(46)
Between 11 and 20 years	26.2%	(58)
More than 20 years	44.9%	(100)

How many miles from you business is the recently opened Wal-Mart store: (mean = 9.9 miles)

Less than 1 mile	21.1%	(47)
Between 1 and 5 miles	45.5%	(101)
More than 5 miles	33.4%	(74)

*Some percentage and sample size totals may not equal 100% and 222 respectively due to rounding errors and nonresponse to some questions.

Table 2

Wal-Mart's Impact Measures

(N = 222)

Which of the following statements about Wal-Mart's arrival is true?

Wal-Mart's arrival had an impact on my retail store	72.0%
Wal-Mart's arrival had no impact on my retail store	28.0%

During the 12 month period immediately after Wal-Mart arrived, your store's sales...

Did not change	28.8%
Decreased by less than 10%	22.2%
Decreased between 10% and 25%	25.3%
Decreased by more than 25%	5.1%
Increased by less than 10%	12.1%
Increased between 10% and 25%	6.6%
Increased by more than 25%	0.0%

How long did it take before the impact of Wal-Mart's arrival began to diminish?

Less than 1 month	2.6%
Between 1 and 6 months	7.7%
Between 7 and 12 months	4.6%
More than 1 year	7.7%
Wal-Mart's impact has not diminished	40.8%

In addition to the 28 percent of the respondents who indicated that Wal-Mart's entry into the local market had no impact on their firm, 18.7 percent of the respondents indicated they had been positively impacted by Wal-Mart's presence. Of this latter group, 12.1 percent experienced a sales increase of less than 10 percent, while 6.6 percent of the positively impacted firms reported sales gains of 10 percent or more.

Duration of Impact

In terms of impact duration, a majority (40.8 percent) of the respondents indicated that Wal-Mart's impact had not yet diminished. Those reporting that Wal-Mart's impact diminished in less than 6 months and between 6 months and a year were 10.3 and 12.3 percent respectively. More profoundly, 40.8 percent of the sample responded that Wal-Mart's impact has not diminished. No distinction in the direction of the impact (i.e., positive or negative) was ascertained for this latter response category.

Preemptive Competitive Responses

Table 3 presents the preemptive responses of local merchants to Wal-Mart's pending arrival. As can be seen, the results provide some anticipatory insight into the competitive behavior of small firms. In most instances, the responses indicate minimal preemptive competitive behavior. Rather than a statement of apathy, perhaps the absence of more

provocative preemptive actions on the part of existing small businesses suggests an almost passive acceptance of an erosion in their market position, as well as a "What else can I do?" attitude toward available competitive responses.

Table 3

Local Merchant's Preemptive Response to Wal-Mart's Arrival

(Total Sample, N = 222, Responses Presented as Percentages)

To what extent did your store engage in each of the following measures prior to Wal-Mart's arrival?

Competitive Response	Not at All	Little	Somewhat	Much	Very Much
Added new product lines	40	24	19	12	5
Altered labor force	66	17	10	6	1
Altered store hours	70	16	11	2	1
Changed marketing strategy	34	23	25	14	4
Changed advertising message	42	20	24	10	4
Diversified into other businesses and/or services	54	14	15	10	7
Increased promotional budget	48	21	21	7	3
Increased civic involvement	57	25	12	5	1
Increased sales promotion	43	23	21	10	3
Loosened customer credit	70	14	10	5	1
Modified target markets	38	18	28	13	3
Pruned some product lines	37	20	22	13	8
Spent relatively more on radio and/or print advertising	49	21	17	9	4
Used more price incentives	34	28	23	10	5

Responding firms were most active in adjusting their products lines (i.e., 21 percent of the responding firms altered their product lines significantly [much or very much] by pruning products). Relatedly, 17 percent of the respondents adjusted their product mix by adding products, while a like number of firms diversified into other businesses and/or services. Contrastingly, the least engaged in preemptive responses (either not at all or little) consisted of labor adjustments (83 percent), store hours (86 percent), civic involvement (83 percent), and credit practices (84 percent).

While a number of tactical issues and practices were examined in this phase of the research, it is interesting to note that the two most prevalent preemptive changes engaged in by responding small businesses were strategic in nature. When measured by a composite of

the responses classified as either engaged in somewhat, much, or very much, changes in marketing strategy and target market were the two most pursued preemptive responses (43 percent and 44 percent respectively). These latter findings suggest that small businesses recognize that tactical responses are least effective and are short-term responses at best. Further, if the small business is to survive, then repositioning via a change in overall marketing strategy or target market offers the greatest opportunity for continued success.

Not all small businesses were impacted negatively by Wal-Mart's entrance into the local market. As indicated earlier, 18.7 percent of the respondents experienced a sales increase, while 28 percent of the respondents experienced no change in sales levels. Given the presence of these three groupings, a comparative analysis of preemptive actions across groupings was conducted. These results are presented in Table 4 and indicate that while significant differences in level of emphasis were found for 13 of the 14 preemptive responses across impact groups, the most potentially insightful finding dealt with the marginal preemptive emphasis given to all areas by all groups.

The findings for the negatively impacted group mirror the findings for the entire sample presented and discussed earlier. The four preemptive actions taken most often by this group fell in the areas of product (addition and deletion) and strategy (includes target market selection). It is interesting to note that even these action areas received mean emphasis scores below three, perhaps providing a measure of response ambiguity on the part of this respondent segment.

Compared to the negatively impacted group, the findings indicate that both the positively impacted and no impact groups engaged in virtually no preemptive actions of any type as indicated by low mean emphasis scores of 2.02 (product pruning/no impact) and 1.68 (product addition/positive impact). This research did not explore underlying reasons for responding firms actions or inactions.

On-Going Responses

Table 5 presents the results addressing the competitive methods used by small retailers since the mass-merchandise entered the market. These findings generally were consonant with the previous findings on preemptive actions. The most emphasized (considerable and major) competitive methods used by small businesses were carrying higher quality merchandise (66 percent) and providing heightened levels of customer service (62 percent).

Recognizing that two of Wal-Mart's primary competitive weapons are low price and promotional strength (i.e., advertising expenditures), it is not surprising that the least engaged in competitive responses (composite of no and very limited emphasis) were to carry lower priced products (72 percent), pricing below competitors (65 percent), and to increase advertising (64 percent).

Table 4

Results of Kruskal-Wallis Test of Local Merchant's Preemptive Response to Wal-Mart's Arrival

Competitive Response	Negative Impact Means ¹	No Impact Means ¹	Positive Impact Means ¹	χ^2
Added new product lines	2.50	1.93	1.68	11.51**
Altered labor force	1.82	1.41	1.06	14.21***
Altered store hours	1.50	1.39	1.25	1.73
Changed marketing strategy	2.76	1.97	1.18	37.15***
Changed advertising message	2.46	1.82	1.62	16.55***
Diversified into other businesses and/or services	2.35	1.67	1.25	15.74***
Increased promotional budget	2.29	1.55	1.18	32.67***
Increased civic involvement	1.93	1.43	1.37	16.09***
Increased sales promotion	2.41	1.70	1.50	21.19***
Loosened customer credit	1.58	1.43	1.06	6.68*
Modified target markets	2.73	1.83	1.50	34.49***
Pruned some product lines	2.74	2.02	1.43	22.62***
Spent relatively more on radio and/or print advertising	2.25	1.67	1.50	15.30***
Used more price incentives	2.65	1.86	1.43	28.64***

¹Means reflect average response based on the following five point Likert scale: 1 = Not at All; 2 = Little; 3 = Somewhat; 4 = Much; 5 = Very Much

*p<.05; **p<.01; ***p<.001

When considered on the basis of impact, significant differences were found for all but one of the response strategies examined. These findings are presented in Table 6. In all instances, negatively impacted firms took a significantly more aggressive posture compared

to the two other groups. In what might be considered the most salient finding of this latter analysis, the results indicate that all three groupings emphasized the same two competitive actions (albeit with significantly different levels of emphasis), high quality merchandise and customer service, areas thought to be weaknesses for most mass merchandisers.

Table 5

Local Merchant's Competitive Methods since Wal-Mart's Arrival

(Total Sample, N = 222, Responses Presented as Percentages)

To what extent has your retail organization emphasized each competitive method since Wal-Mart opened its store (or since you opened for business)?

Competitive Method	No Emphasis	Very Limited/Some Emphasis	Considerable/Major, Constant Emphasis
Buying convenience (e.g., delivery)	24	37	39
Carrying higher priced items	32	40	28
Carrying higher quality merchandise	15	19	66
Carrying a variety of product lines	23	49	28
Carrying lower priced items	49	41	10
Civic involvement	32	41	27
Depth of product selection	26	48	26
Holding sales	30	46	24
Increased use of advertising	44	37	19
Monitoring competitor's pricing	30	50	20
Post-purchase service (e.g., liberal return policy)	24	31	45
Pre-purchase service (e.g., personal attention)	18	20	62
Pricing below competitors	40	50	10
Sales promotion (e.g., coupons)	37	46	17
Stocking private label brands	39	32	29
Stocking unique products	24	37	39
Stocking highly recognized brand names	25	41	34
Store layout and merchandise presentation	20	42	38

Table 6

Results of Kruskal-Wallis Test of Merchant's Competitive Emphasis since Wal-Mart's Arrival

Competitive Method	Negative Impact Mean ¹	No Impact Mean ¹	Positive Impact Mean ¹	χ^2
Buying convenience (e.g., delivery)	3.17	2.87	1.93	9.96**
Carrying higher priced items	2.91	2.64	1.43	20.20***
Carrying higher quality merchandise	2.52	2.62	1.68	7.69*
Carrying a variety of product lines	2.16	1.74	1.43	7.59*
Carrying lower priced items	2.85	2.42	1.75	11.72**
Civic involvement	2.75	2.53	1.56	13.25***
Depth of product selection	3.76	3.67	2.68	4.57
Holding sales	2.69	2.29	1.93	7.33*
Increased use of advertising	2.40	2.34	1.56	8.31**
Monitoring competitor's pricing	2.60	2.39	1.87	5.04
Post-purchase service (e.g., liberal return policy)	3.13	2.92	2.00	8.34**
Pre-purchase service (e.g., personal attention)	3.80	3.43	2.31	11.87**
Pricing below competitors	2.27	1.97	1.62	6.49*
Sales promotion (e.g., coupons)	2.56	2.11	1.81	7.48*
Stocking private label brands	3.20	3.02	1.75	13.57***
Stocking unique products	2.81	2.83	1.87	7.80*
Stocking highly recognized brand names	2.67	2.59	1.60	6.88*
Store layout and merchandise presentation	3.12	2.87	2.12	7.25*

¹Means reflect average response based on the following five point Likert scale: 1 = No Emphasis; 2 = Very Little Emphasis; 3 = Some Emphasis; 4 = Considerable Emphasis; 5 = Major, Constant Emphasis

*p<.05; **p<.01; ***p<.001

DISCUSSION AND IMPLICATIONS

Wal-Mart's entry into local communities clearly has an impact on existing retail trade patterns. Although not all small retailers are affected adversely, the overall impact can be quite negative. The results of this study indicate that the average local merchant generally can expect stagnant revenues, if not significant declines. Further, this does not appear to be a short-term phenomenon.

Aside from revealing the impact of Wal-Mart's arrival on local retailing communities, the results of this study strongly indicate that individual retailers respond differently. The manner in which the local merchants respond to Wal-Mart's arrival may very well be the key to their store's long-term success. Competing on price, Wal-Mart's primary competitive weapon, may be futile. Small merchants need to be more creative in addressing the competitive challenges that mass-merchandisers present.

Wal-Mart, other discount chains, and the so-called "category killers" are all successful because they exploit buying power, distribution power, and sophisticated technology. However, these factors facilitate success primarily because they can be deployed uniformly on a large scale with little room for customization. The latter is where the small retailer can excel. True, the local retailer must remain relatively price competitive, but the local merchant is much more likely to appreciate the nuances of the local customer. Consequently, these merchants should be better able to satisfy their clientele by offering a deeper selection of higher quality products and superior customer service.

In other words, the local merchant must become a much better niche marketer. Successful small retailers of the next decade will effectively compete "around" the mass-merchandisers instead of trying to compete "against" them. These small merchants will use their superior customer knowledge, intelligent stocking, and service to better ensure their continued economic vitality.

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