COMPETITIVE STRATEGIES OF INDEPENDENT GROCERS: A TEN-YEAR REVIEW

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ABSTRACT

Independent grocers have faced stiff competition from each other in terms of price competition and moves to consolidate, as well as from large, well-financed grocery chains during the past decade. This paper explores competitive strategies pursued by successful independents for a ten-year period from 1990-2000. The analysis is based on a review of ten years of issues of the Progressive Grocer: The Publication for Strategic Management. Through structured content analysis, five dimensions of competitive strategy pursued by independents were identified and analyzed: marketing, quality, international, low cost, and service. Study results highlight strategic trends followed by successful independent grocers. Study findings provide insight into the strategic responses of independent grocers to the intense competitive pressures faced during the last decade. The paper concludes with suggestions for future strategic actions by independent grocers.

INTRODUCTION

Intense competitive pressures, globalization of consumer demands, and major technological advances have heightened the need for organizations to implement strategic initiatives in order to survive and prosper. While competitive pressures are not new to the grocery industry, smaller independent grocers are experiencing vastly increased competitive burdens. As competition intensifies, important questions emerge. How does an independent grocer compete and survive in today's environment? What can the independent grocers do to differentiate themselves? What strategies have been effective for independents facing stiff competition from much larger competitors?

This study identifies some of the salient strategies pursued by successful independent grocers over the last ten years. Independent grocers were either self-identified and/or described as independents in the media. Independent grocers can be loosely defined as those stores that not publicly owned. Store ownership remains in the hands of family members, a partnership, or a few private owners. Independent grocers may own as few as one store or as many as 30 or more. This study highlights competitive strategies pursued by independents recognized for their success by the media in their field. It also provides insight into potentially successful strategies for the future of independent grocers.
COMPETITIVE STRATEGIES

The competitive strategy pursued by an organization has long been considered a multidimensional concept (Porter, 1980). In the context of small businesses, substantial empirical evidence also supports the multidimensional nature of business strategy (Kim & Choi, 1994). Studies by Dess and Davis (1984), Miller (1988), and Beal (2000) have attempted to operationalize the dimensions of competitive strategy. Beal’s (2000) study delineated five factors: low-cost leadership, and four distinct dimensions of differentiation: marketing, service, quality, and innovation. In contrast with Porter’s generic strategies, Beal’s research focused specifically on the strategic practices of small organizations. In addition, Beal’s work described specific operational actions associated with each strategy of which four relate specifically to different types of differentiation strategies.

Beal (2000) defined low-cost leadership as the strategy of being the lowest cost provider in the industry. Marketing differentiation is creating the perception with targeted customers that the company’s products are distinctly different. Service differentiation distinguishes the firm based on service before, during, and after the purchase. Quality differentiation reflects an emphasis on superior quality. Innovation differentiation focuses on the unique features or performance characteristics of a product. Beal’s study argues that these five dimensions comprise the key dimensions of competitive strategy for organizations. Building on the results of this research, the current study explores the dimensions of competitive strategy utilized by successful independent grocers.

RESEARCH METHODOLOGY

Data Collection

Data were gathered on the competitive strategic practices pursued by independent grocers during the past decade (1990-2000). The research method used was a form of structured content analysis (Jauch, Osborn, & Martin, 1980). Content analysis is a methodology for developing solid descriptive information about a dimension that appears in written form. It allows researchers to make inferences by identifying and categorizing characteristics of messages. Competitive practices pursued by independents were identified through an extensive review of publicly available information similar to Chen and Hambrick’s (1995) work exploring the airline industry. The content analysis methodology is very useful for systematically and objectively examining a large quantity of non-empirical data. For additional information on this methodology, see Analyzing Media Messages: Using Quantitative Content Analysis in Research by D. Riffe, S. Lacy and F. G. Fico (1998).

After reviewing a variety of potential data sources, Progressive Grocer: The Publication for Strategic Management was selected for content analysis. Progressive Grocer is an industry trade journal that has been a leading source of strategic information for the grocery industry for more than 75 years. Progressive Grocer has an annual circulation of over 60,000 and is read by grocers throughout the world. It is a premier source of information for and about the grocery industry and is seen as “the voice” of the industry. Its articles reflect actual practices in the industry. Progressive Grocer is read and referred to by industry leaders across the U.S. and the world.

Ten years of issues of Progressive Grocer were researched to identify strategic activities pursued by successful independent grocers. Specific articles were identified by searching for key words which included independent, strategic, success, and competitive. In total over 80 articles were identified and reviewed resulting in the documentation of 361 examples of competitive strategies (see Bibliography).
Coding Structure

A formal coding structure was used to perform the content analysis. The structure was based on previous studies that attempted to operationalize dimensions of competitive strategy. This study utilized findings from Beal’s (2000) study that were modified and expanded upon as more concise definitions arose from evidence gathered during the study. As a result, the final coding framework incorporated strategic dimensions closely aligned with the grocery industry.

Three independent coders were trained on the coding structure. Each coder was given all 361 data points in random order. The raters were not previously involved with the data and had no contact with each other during the coding process. A kappa coefficient of agreement was calculated to determine inter-rater reliability between the three coders. According to Siegel and Castellan (1988), this coefficient is calculated as the ratio of the proportion of times the raters agree to the maximum proportion of times that the raters could agree. The kappa coefficient for this study is K=92. When all raters were not in agreement, the majority rating was selected. In a few cases, when coders differed on the coding of a data point, the point was reviewed and a majority decision subsequently reached on the coding of the data point.

**Table 1 – Coding Categories and Examples of Strategic Activities specific to each Coding Category**

<table>
<thead>
<tr>
<th>Coding Category</th>
<th>Examples</th>
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<tbody>
<tr>
<td>Service Differentiation</td>
<td>Emphasizes customer services before, during, and after purchase. This includes development of new customer services, improvement of existing services, and improvements that enhance service to the customer including technological enhancements. Examples include before or after purchase factors including such activities as providing general services to the community; for example, the sale of postage stamps. Other examples include support of community projects, sending birthday cards to customers, establishing a no-wait policy, offering prepared foods, offering choice of paper or plastic bags, adding in-store salad bar, recycling facility, or scanning equipment.</td>
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<td>Marketing Differentiation</td>
<td>Involves creating perceptions in the minds of targeted customers that the firm’s products or services are distinctively different from those of the competition. This includes building brand or company identification, advertising and promotional programs, establishing reliable wholesale or manufacturer relationships, direct marketing to specific customers, and tracking customer preferences for focused marketing campaigns. Examples include: coupon offerings, discount programs, free samples, special promotions or themes, in-store displays, etc.</td>
</tr>
<tr>
<td>Low-cost Leadership</td>
<td>This factor involves management decisions to improve the efficiency and productivity of operations, and the enhancement of processes or procedures, with particular emphasis on the financial management of the company. Examples include pricing strategies, displaying comparison prices, changes in employee policies, development of strategic alliances, improving store layout or appearance, etc.</td>
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<tr>
<td>Quality Differentiation</td>
<td>Emphasis is on superiority in the reliability and durability of the products and services. This includes quality control or improvement measures, benchmarking of industry best practices, efficient resolution of customer problems, and product improvements. Examples include: customer loyalty programs, offering private label or name brand products, focus on freshness, emphasis on variety of products available including generic or organic foods</td>
</tr>
<tr>
<td>International Differentiation</td>
<td>Emphasizes products or services to customers based on ethnicity. This includes any efforts to attract the international customer or to respond to the expanded global tastes of the U.S. consumer. International Differentiation: Examples include offering ethnic foods, providing services specific to international consumer desires, adding bilingual labels or bilingual staff.</td>
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Coding Categories

Definitions of each of the five dimensions identified by Beal’s (2000) study were modified to include grocery specific activities. In particular, the innovation dimension was reframed to focus on innovations to meet growing consumer demand, specifically in the international area, as documented in the study data. Low-cost leadership was also expanded to incorporate not only low-cost efforts but also other managerial efficiency efforts. These modifications were based on a grounded theory approach influenced by (Glaser & Strauss, 1967; Gioia & Chittipeddi, 1991; Sutton & Callahan, 1987). The final framework facilitated a comprehensive analysis of study data. Coding categories utilized in the study are presented in Table 1. Specific examples of strategic actions relative to each coding category are also contained in Table 1.

RESULTS

Figure 1 displays 1990 study results. It shows that strategic efforts pursued by independent grocers focused on only two dimensions: service and marketing. Also notable was that these strategic actions were pursued almost equally. In contrast, study data from 1995, Figure 2, highlights that four different strategies were being pursued. Service remained a primary strategy representing slightly more than half of the strategic initiatives. In 2000, Figure 3, study data reveal that five different dimensions of strategic activities were pursued. The newest addition was strategic efforts aimed at meeting consumers’ needs for international foods and international marketing. For 2000, strategic activities relative to service were found to be twice as common as marketing strategies. This is in contrast to the beginning of the decade when marketing strategies were being pursued equivalently with service strategies. Study data demonstrate a dramatic increase in the variation of competitive strategies actively pursued by independent grocers by the end of the decade.
Figure 3: 2000

Figure 4: Trend Line by Strategy

Service

Figure 4 presents a trend analysis of strategic activities across the ten-year study period. This analysis reveals a consistent emphasis on service as a primary competitive strategy. Services were consistently expanded during the 1990’s, peaking in 1999. Figure 2, 1995, shows that service remained strong despite a decline in marketing differentiation strategies. Successful independents were continuously added new services such as a snack bar, bakery, salad bar, floral shop, banking services, dry cleaning, video sales and rentals, postal services, one-hour photo finishing, and wine or beer shops. The most recent strategic endeavors in service differentiation strategies included on-line shopping with home delivery and ready-to-eat hot entrees or complete meals packaged to go.

Marketing

As depicted in Figure 4, marketing was a consistently pursued competitive strategy throughout the ten-year period with a significant emphasis during a three-year period from 1992-1994. Specific strategies included in-store food giveaways and food samples, special promotions and displays, in-store demonstrations, niche marketing, in-store entertainment,
double coupon offers, and an intensive focus on building customer loyalty through a wide variety of frequent shopper programs and discount cards. Focusing on the best customer's continued to be a key strategic effort in 2000. Some of the programs noted were personalizing services by sending specialized flyers depending on the shopper's purchasing habits and family needs. Other programs made a special effort to know their best customer's names and favorite products. Thus, a preferred customer could be greeted at the meat counter with "Hello, Mrs. Smith, we have your favorite fresh salmon in today."

Low-Cost Leadership

Low-cost leadership strategies, shown in Figure 4, fluctuated dramatically from their first appearance in 1991 to a high in 1994 and a complete absence in 1997. The trend line in this category demonstrates some distinct peaks and valleys in the use of this strategic option. The most consistent strategic effort in this category was remodeling of the store and store layout. Successful independents also focused on reducing overhead costs and involving and empowering employees including offering stock options and providing extensive training opportunities.

Quality

Figure 4 also highlights that quality differentiation strategies first appeared in 1992 with a relatively steady increase until 1997 followed by substantial increase in emphasis in both 1998 and 1999. Specific quality differentiation strategies identified included a focus on freshness of produce, baked goods, and from-scratch meals. Health foods were also important and included an emphasis on organic foods and low-fat items. Strategic emphasis was also given to high quality meats, extensive deli-meat selection, and expert butchers.

International

International strategies (Figure 4) first appeared as focused strategies in 1993 and showed minimal activity until booming in 1999. Strategic practices included offering an extensive variety of ethnic foods as well as an emphasis on meeting the needs of the ethnic consumer. Most recently, the international focus extended to include the hiring of bilingual employees, advertising in foreign languages, and providing labels and signage in several languages.

SUMMARY

As a percent of total strategic actions pursued, competitive efforts in either service or marketing were the top strategic efforts in each of the ten years of the study. Marketing and service strategies tended to compete for primary strategy pursued. In 1991, service fell sharply in relation to marketing. However, from 1992-1996 service strategies exceeded marketing. Marketing then exceeded service again in 1997 only to be substantially surpassed by service in 1998-2000. Most notably, in 2000, marketing differentiation, while still the second highest strategy pursued, fell to only 50% of that of service (19% marketing, 38% service) from its position in 1990 as an equally important competitive strategy with service differentiation. Service only declined as a percent of total strategic initiatives with the advent of the international focus. Marketing differentiation strategies tended to be inversely related with low-cost strategies. As one increased, the other decreased.

Analysis of the late 1990's revealed management, quality, and international vying for the lead competitive strategy. Strategies focusing on quality differentiation and low-cost leadership were significant efforts in 1998. In 2000, the data showed these categories to be of relatively equal emphasis with service remaining a lead emphasis.
DISCUSSION

This study explored the strategic practices of independent grocers during a decade of intense competition. Because study data is based solely on actual experiences, study results are extremely relevant and useful in informing practice. Results showed that the most frequently mentioned strategy for success was superior service. Service differentiation remained the primary competitive tool for independent grocers throughout the 1990’s. In addition, study results showed a steady increase in the number of competitive strategies pursued as the decade progressed.

Despite all the new challenges independent grocers faced during the tumultuous period from 1990-2000, service differentiation was the most heavily relied upon approach for attaining and maintaining competitive advantage. The most frequently noted change in specific service strategies pursued was the addition of a variety of non-food service options like in-store banking or photo labs. More recent trends were the addition of on-line or electronic shopping.

Throughout the years, marketing efforts also were a consistent focus. Primary marketing efforts focused on niche marketing and the development of a variety of programs to enhance customer loyalty. The boom in 1997 was primarily driven by marketing efforts focused on specific consumer purchase habits. Marketing differentiation strategies appeared to replace any strategic efforts in the low-cost leadership area in 1997. However, from 1998 on, marketing strategies decreased in emphasis.

Low-cost leadership efforts continued to fluctuate throughout the years. A pattern manifested in the data was a consistent focus on service coupled with strategic initiatives generally split between marketing differentiation and low-cost leadership. The decline in marketing strategies in 1992 and 1994, in particular, were counterbalanced by significant increases in the focus on low-cost leadership.

Quality efforts played a key role in the late 1990’s particularly in 1998, 1999, and 2000. The emphasis on quality efforts seemed to surpass marketing efforts during the last years of the decade. Particular areas of emphasis for quality differentiation strategies were on the freshness of produce, baked goods, and prepared meals. Successful independents were positioning themselves to be the place to stop for the “home-cooked” meal that could be served to the family fresh and hot that evening.

Low-cost leadership and international strategies were pursued with relatively equal effort at the end of the decade. Primary areas of emphasis in these strategic efforts included the addition of scanning equipment, store remodeling and the offering of a variety of ethnic foods as well as foreign language signage.

Implications for Practitioners

Though only preliminary and suggestive, a second outcome of this study was to identify relevant implications for future strategic actions of independent grocers. Study results provide support for following an historic recipe for success: superior service; as well as the capitalizing on the latest technological advances to improve efficiencies and gather customer data.

Service as a differentiation strategy worked successfully for a wide variety of independent grocers during the decade of the study as well as countless previous years. Industry and consumer expectations appear to be for high-levels of service from the independent grocer. Technological changes provide the grocer with new opportunities for higher levels of
efficiency and service along with more focused marketing efforts. The appearance of strategic initiatives to meet the desire for international foods and the needs of non-English speaking consumers demonstrates the ongoing need to continuously identify and employ new dimensions of competitive practices. The successful independents in 2000 included those that successfully developed new innovative strategies for the consumer with more global tastes and a wider variety of ethnic heritages.

Today’s competitive environment demands an ever-broadening range of competitive strategies to ensure the growth and survival of the independent grocer. Although competition over the last decade has been fierce, many independents have found the recipe for strategic success.

REFERENCES


**Paula Schmidt Weber, PhD.** is an Associate Professor of strategic management and international management at St. Cloud State University, St. Cloud, MN. Dr. Weber has previously taught a variety of management topics at the University of Houston —Victoria, and at New Mexico Highlands University. Her publications include manuscripts in the Journal of Applied Behavioral Science, Journal of Management Education, Case Research Journal, and the Leadership and Organization Development Journal. She has served as an assistant editor for the Journal of Applied Business and Behavioral Sciences and has been a reviewer for numerous publications. Dr. Weber’s primary research interests are in the areas of organizational change, organization development, and strategic decision-making.