



Competing with Big Retailers

By Greg Varhaug

For every story of a small retailer driven out of business by a larger competitor, there is another story of a small store that manages to adapt to the new challenge and emerge stronger than before.

Many stories speak ominously about how the opening of a new supercenter in a small town spelled the end for that town's small retailers. But for every story of a small retailer driven out of business by a larger competitor, there is another story of a small store that manages to adapt to the new challenge and emerge stronger than before. Try as they might, big box retailers can't be all things to all people.

The trick for small retailers is to go where the big stores can't. Small-store owners have to be on the lookout for untapped markets. It is possible to compete with large retailers in areas where they have no inherent advantage, simply because of their size and reach.

For some small retailers, the key to surviving when a larger rival appears on the scene is to alter their basic business model. They may specialize, or start selling more upscale products. They may try targeting a different clientele. They may even move. But many small retailers find ways to fill niches left open by big competitors that don't require them to completely rework their original business model.

One key attribute for successful small retailers is knowing how to weather temporary reversals. It's important not to overreact to new challenges. Some small-store owners close their doors at the first sign of trouble—sometimes even before the new competitor opens theirs.

Whenever a large store hosts its grand opening, there's almost always at least a temporary downturn for

smaller competitors nearby. Whether that downturn persists after the novelty of the new store has faded can depend on how the smaller store reacts. Simply surviving the inevitable short-term downturn when a larger competitor opens is the first step.

The Survival-Mode Trap

When small retailers go into “survival mode” because a new competitor arrives on the scene, they risk falling into a common trap. When times get tough, small-business owners feel as though they’re forced to devote all of their energies to the day-to-day chores of running the business. This means they may neglect the efforts needed to grow their business. While in “survival mode,” they may find it necessary to temporarily cut employee hours. Deciding to cut advertising and promotion is often ill-advised, and can be fatal to the business.

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Small retailers must constantly reexamine their operations, especially as seen through the eyes of their customers. It’s hard to find time to step back and take stock of your situation when it’s all you can do just to keep your doors open. But long-term success requires you to keep an eye on the big picture. Otherwise, you may miss your most profitable opportunities—either because you simply fail to see them, or because you’re stretched too thin to effectively capitalize on them.

Big Box Competition

Big box stores born in the 1960s (like Target, Wal-Mart, and K-Mart) have grown in the decades since to

become retail giants. But they were never really at the top of the food chain in retail sales. These general-retail big boxes have never dominated the overall market share in their category in the same way that Lowe’s and Home Depot now dominate in retail hardware and home improvements.

These days, bricks-and-mortar businesses of all sizes are in competition with online retailers like Amazon and shopping portals like eBay. Unable to beat these large outfits, some small retailers decide instead that it’s better to join them, creating online stores on third-party sites as a first step to reaching customers who would otherwise be beyond their reach.

Taking On A Larger Competitor

James Anderson, owner of the Texas Guitar Company in Houston, admits that they are feeling the pinch from the new Guitar Center that recently opened nearby. Texas Guitar opened in 2003 with just a few employees. In addition to offering music lessons, they also sell guitars, amps, and music accessories. Texas Guitar also employs a full-time technician for repairs and customizations. Even in a city the size of Houston, there are only a handful of qualified guitar techs. Texas Guitar's repair shop is the first choice for many local pros.

Their larger competitor, Guitar Center, is a chain of music-equipment supercenters owned by Bain Capital. Guitar Center has 244 locations nationwide. The chain is expanding, though it has had serious financial troubles. Guitar Center is reportedly \$1.6 billion in debt.

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The conventional wisdom that small retailers cannot compete on price with big box stores is not always true. "The idea that we can't beat Guitar Center on price is just a myth," Anderson says. "This is one area where I wish shoppers were better educated." He points to tags on many of his guitars and amplifiers, comparing the list price with Guitar Center's price and Texas Guitar Company's price. Sure enough, Texas Guitar Company's price is lower on many items.

It's in the sales of accessories where the larger competitor is taking a bite. Anderson explains that before the new Guitar Center opened, he could count on the profits from accessories like guitar strings to cover a certain portion of his monthly overhead costs. The standard markup on these low-cost items is high, usually around 100 percent. Guitar Center sells accessories like strings at prices so close to cost that it isn't worth it for Texas Guitar to match their price. The problem is compounded by other big boxes, like Best Buy, that have also recently started selling music accessories.

Black Friday

Anderson explained how Black Friday, the Friday after Thanksgiving and often the busiest shopping day of the year, places small retailers at a disadvantage. This is especially true if you're selling the same items as a big box store. During the holiday season, many manufacturers lower their "minimum advertised price" (MAP) to within just a few dollars of the retailer's cost for the item. Large retailers can take advantage of profits from high sales volumes on reduced-price items. Small retailers simply can't reach those sales volumes.

As if that isn't enough, some large retailers have started advertising below the MAP, which is a violation of their distribution agreement. According to reports in industry trades, this practice is increasingly common and occurs throughout the year. A smaller shop might lose their dealer's authorization for advertising below the MAP. Big retailers are rarely, if ever, called out for this unfair practice.

Refining Business Strategies

On the retail side, Texas Guitar has adapted to its new market conditions by changing the guitar brands it carries. Many of the newer, smaller guitar brands provide quality and value comparable to the better-established brands. In addition, the dealership requirements for the smaller guitar brands are not as stringent as for the major brands; for example, stores are not required to stock as many units of the smaller brands. This way, Texas Guitar sidesteps the problem of price matching by its larger competitors.

Though it's not publicized, it is well known in the industry that some of the same outsourced parts manufacturers for major musical-instrument brands also manufacture parts for a range of smaller brands. This situation is common in many manufacturing industries besides musical instruments.

Where it comes to music lessons, which provides most of the company's income, Texas Guitar is taking its competition head-on. This is one area where the size of the company doesn't matter: in the end, it's quality alone that counts. Texas Guitar's competitors aren't in a position to simply undercut their price. The potential customer base for this type of service is not that large. And thanks to social media, word gets around quickly.

Anderson explains, "We knew we would take a hit in the short term when this new, bigger music store opened nearby." He says his company saw a decrease in the number of new students right after Guitar Center opened, but he insists that the downturn in lessons is only temporary. "I'm banking on my teachers," Anderson says. "I know that Guitar Center can't assemble a teaching staff comparable to ours. And we also still have arguably the best guitar technician in Houston." To get the student count back to its previous level, Anderson says that Texas Guitar is expanding its online and social media presence.

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Social Media

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The top-down structure of large companies is incompatible with the

democratic nature of social media.

Big companies are uncomfortable with social media because it's an environment where they can't control the message, and their audience is free to talk amongst themselves. Not all companies have been able to benefit from social media: there is a long list of disastrously clumsy social media campaigns initiated by large companies.

Big companies may get thousands of people to "like" them on social media, but the fact is that consumers don't feel the same connection with large companies that they do with some smaller ones. One reason may be that people naturally root for the underdog. Many big companies know better than to even allow the public to post comments on their Facebook pages. The Facebook pages of big companies that do allow comments are littered with snide remarks from



Three Brothers Bakery's Janice Jucker credits much of the company's recent success to help the firm received from the University of Houston's Small Business Development Center. UH SBDC offers assistance and advice to Houston small-business owners free of charge. They also offer timely and informative workshops at affordable prices. Some workshops are free.

Offer the best customer service possible. It sounds simple, but it can create a real competitive advantage that doesn't cost anything. Customer service at big stores is rarely consistent. If you can't find any more ways to save your customers' money, then look for things you can do to help save them time. It's all about improving the customers' shopping experience. Using customer-management software is an easy way to ensure regular customer contact and follow-up.

Look for any opportunities to get free publicity. But remember, media "bumps" are hit and miss. Don't expect miracles just because someone put you on radio, on TV, or in the paper. Almost all media is archived online, so direct your customers and contacts to your archived stories. Always save a copy for yourself. Sometimes the most valuable thing about media coverage is that it can draw more media.

Try holding in-store events. Getting new people into your store is the first step to turning them into customers. Make a video of your event to post online.

Consider a big-box-based promotion. Some small retailers run promotions where they accept gift cards from big box stores, maybe for just a limited time. You can then use those gift cards to purchase your business supplies.

dissatisfied customers. Social media for these companies often devolves into an extension of their complaints department. Every second or third post from the company is an apology, with a bland reassurance that a customer's complaint will be "shared with the appropriate team."

Small Retail Done Right

Three Brothers Bakery opened in Houston in 1949. This family bakery specializes in quality custom cakes and breads. From their early years, the firm grew steadily and enjoyed moderate success. At that time, there was no real competition from grocery stores, since store-bakery cakes then were cheap and of low quality.

Jump ahead to the early 2000s. Large chain stores like Randall's and Kroger's had upgraded their bakeries, even offering custom cakes. Store bakeries were no longer synonymous with low quality. Up to this point, Three Brothers had never advertised. Janice Jucker, co-owner of Three Brothers, explains, "We used to think that since Three Brothers has the best product, people are going to come. But we realized it doesn't work like that anymore." In 2005, Jucker decided the company had rested on its laurels long enough.

Three Brothers was an early adopter of the internet. The company launched its first website in 2001 and its Facebook page in 2005, well ahead of most of their competition. It started selling online in 2006. At that time, the company subscribed to an SEO service charging \$750 per month. Jucker states, "That was some of the best money I ever spent, because the residual of that \$750 per month is still paying us today. And that's because it got us to the top of the search engines, and we've remained at the top of our search category locally ever since."

The Pecan Pie Saga

Three Brothers' big break came from an unexpected source, and it almost didn't happen. At the time, Three Brothers had only two items that were small enough and stable enough to ship: gingerbread men

and pecan pies. Jucker recalls, “In 2010, *Country Living Magazine* named our pecan pie the best mail-order pecan pie America has to offer.” But there was a hitch. A few months prior, Three Brothers encountered problems that had forced it to suspend its online store. The company was redesigning the online store when, Jucker says, “*Country Living* said they would not put us in the magazine unless we had an online store. That was on a Thursday, and I told them I would have one by Monday. Our other online stores each took months to build. I did this one in four days.”

Country Living ran the story, and things have never been quite the same. “Since then, we’ve shipped thousands of pecan pies every year. A couple of years ago, on our busiest shipping day in December, we shipped 750 pecan pies in one day.” It turned out to be the product that would introduce Three Brothers to the wider world.

The *Country Living* article has drawn more business for them with each successive year. “Every holiday season, when you search for ‘pecan pie,’ that *Country Living* article is on the top of the first page. And we get web referrals from it. That’s the joy of the Internet. The things you do today can actually pay you more, three years later, than when you first did them.”

Some time later, the food editor at the *Houston Chronicle* wanted someone to bake a new confection he had dreamed up, with pecan pie as one of its components. He remembered the *Country Living* article and turned to Three Brothers. Jucker says the company made the confection “as a joke.” The *Chronicle* then ran a story about it—which in turn landed them a feature on the Food Network. This break brought them still more business.

More recently, Three Brothers has begun offering its pecan pies in wooden boxes, which can be customized with a company logo. The company is involved in a promotion where a part of the proceeds are donated to a program that makes wooden toys for disadvantaged kids.

Jucker sums up, “That whole pecan pie thing drove all of this. It’s driving the website, it’s driving the boxes. That pecan pie story really changed the face of our business.” To think that none of this would have happened if Jucker had simply thrown up her hands when *Country Living* told her she needed an online store! Instead, she moved

heaven and earth to make it happen in time. “We worked it,” Jucker concludes. “We definitely worked it.” **N**

Greg Varhaug has written software instruction manuals and procedural manuals for many Houston companies. He operates HoustonGuitar.com, a commercial music-instruction website.