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Small-independent retailers vs. organized retailers: An empirical study in Indonesian economics of service industries

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ABSTRACT

This paper explores the influence of strategic planning and functional-business strategy in helping small-independent retailers/traditional retailers to survive amidst the competition with organized retailers. Based on cross-sectional survey research, this study illustrates the influence of strategic planning and functional-business strategy to retailer–supplier relationship, consumer loyalty program, and retailer performance. In order to clarify the relationships among these constructs, a structural equation model (SEM) is employed to examine the model fit and the five hypotheses. The results show that strategic planning is critical for small independent retailers due to its influence on the retailer–supplier relationship and consumer loyalty program. Besides, consumer loyalty program is also influenced by functional-business strategy. The retailer–supplier relationship and consumer loyalty program exhibits a positive influence on the small-independent retailer performance. The research supports the existence of a more complex that the consumer loyalty program fully mediates the relationships between strategic planning and functional-business strategy on retail performance. Moreover, the retailer–supplier relationship fully mediates the relationship between strategic planning and small retailer performance. These findings constitute a new contribution to the literature on small retailer research streams through the development of cross category relationships such as strategy, buyer behavior, and structure categories. Besides, this study can enhance the strategic management as well as the performance of small-independent retailers to achieve sustainable competitive advantage.

1. Introduction

In the Free Trade Area (FTA) era, several organized retails operate in Indonesia. Organized retail is defined as large-scale chain stores that are corporatized and are applying modern management technique. Due to her huge population of 230 million, Indonesia attracts many organized retailers such as hypermarket (Carrefour, Makro), supermarket (Giant, Hero), and mini-market (Indomaret, Alfamart); and they are rapidly expanding by using various formats. Given fourth and fifth rank, Indomaret and Alfamart are two top retailers in Indonesia that lead mini-market chains respectively in the retail business (Retail, 2007). In a relatively short time, these mini-markets quickly mushroomed into giant chains in a number of outlets. This evidently threats small-independent retailers. Traditionally, small independent retailers/traditional stores are mom-and-pop stores, single stores, sole-proprietorships, or owned and run by individuals or family. Currently, there is tight competition between organized retailers (Indomaret and Alfamart) and small-independent retailers since these organized retailers have expanded to smaller cities and also have grown in suburban areas due to the growing number of residential complexes. We aim to investigate how small-independent retailers can be successful in that competitive environment.

Previous studies of small-independent retailers have been reviewed by Runyan and Droge (2008). Their works suggested that focusing on buyer's behavior, both in retailer–supplier relationship (up-stream behavior) and retailer–consumer relationship (down-stream behavior/consumer loyalty) would be essential for retailers. The question is how different exogenous variables impact buyer behavior to uncover the key factors that influence small retailer performance and survival. Runyan and Droge (2008) suggested the need to examine in detail the relationships of local retailing (structure) with local consumer loyalty (buyer behavior). Recently, some researchers have begun to consider the functional-business (Ramakrishnan, 2010; Paswan et al., 2010; Massa and Testa, 2011) and strategic planning (Veskaisri et al., 2007) on various aspects of retailer performance. This study is motivated by their initiatives.

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This research extends the study by Runyan and Droge (2008) who investigated the relationships between the small retailer research streams. We propose categories of buyer behavior (retailer–supplier and retailer–consumer relationships) and an overall categories of strategy (strategic planning, and functional-business strategy) for small-independent retailer to determine its key performance and survival. The key drivers of business performance as stated by some researchers are strategic planning and functional-business strategy (Ramakrishnan, 2010; Paswan et al., 2010; Veskaisri et al. 2007; Perry, 2001).

Strategic planning serves an important role in stimulating the collective process for shaping the development of common goals and priorities (Vila and Canales, 2008). In the past, strategic planning was used as a means to shape commitment towards a budget, but now it sets guidelines for operation planning. Existing literature (Veskaisri et al., 2007) exhibits that there is a positive association between the strategic planning and the growth of small retailer. By means of practicing strategic planning, small retailers can inherit a significant advantage regardless of the time it takes to adopt those strategies. This result is consistent with previous studies showing small retailers that have adopted more planning strategies managed to survive (Perry, 2001; Phillips and Calantone, 1994). Moreover, Ramakrishnan (2010) adopted functional-business strategy for small-independent retailer to operate their business. Functional strategies rooted from an enunciation of the elements of marketing-mix (Hambrick, 1980). Some variables are considered in the functional strategy such as pricing, product, and service. Meanwhile, the conceptualization of the three generic business strategies by Porter, such as cost, leadership, differentiation and focus are adopted in retail business strategy. By integrating functional-business strategy, retailers can achieve competitive advantage that improves their performance (Ramakrishnan, 2010).

This study shows some evident areas where the research on small retailer is relevant. Firstly, we investigate the retailer–consumer relationship from the standpoint of small-independent retailers. Secondly, we empirically demonstrate the relationship between buyer behavior, structure, and overall strategy (Runyan and Droge, 2008). By examining the links among these factors, we provide insights that influence small retailer performance and survival. We propose a structural equation model (SEM) approach to analyze the relationships between the overall strategy (strategic planning and functional-business strategy), the buyer behavior (retailer–supplier and retailer–consumer relationships), and the small-independent retailer performance. As expected, the insights from the proposed model can enhance the strategic management as well as the performance of small-independent retailers.

This paper is organized as follows. Section 2 provides model development and research hypotheses. Section 3 describes methodology of the research. Section 4 highlights research findings. The final section provides conclusion, theoretical implications, and managerial insights.

2. Model building and research hypotheses

The framework of the emergent theoretical macrostructure for small retailing is described in Fig. 1 (Runyan and Droge, 2008).

In this study, we examine all categories excepting strategic implementation. There are five constructs engaged in the model building process that are extracted from three categories comprising of the overall strategy, the buyer's behavior, and the structure. Runyan and Droge's (2008) competitive strategy and marketing strategy are incorporated into the functional-business strategy. Therefore, the overall strategy category in this study consists of sub-constructs, such as strategic planning and functional-business strategy. Similarly, the categories of buyer's behavior consist of
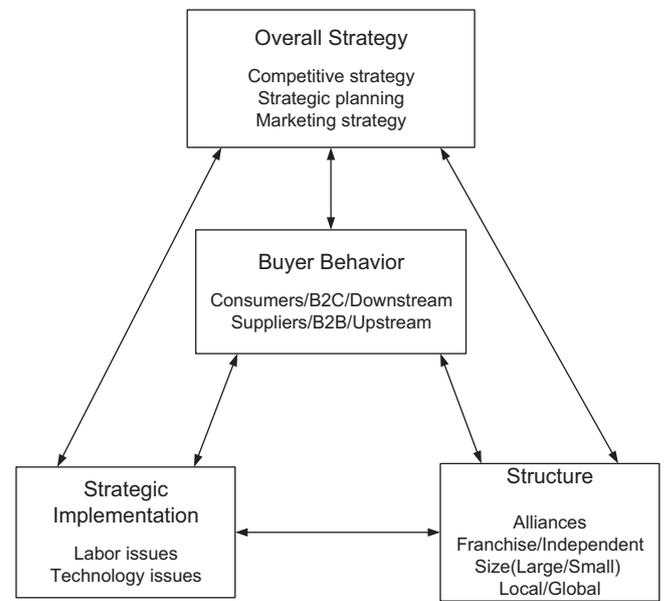

Fig. 1. Emergent macrostructure of small retailer research stream (Runyan and Droge, 2008).
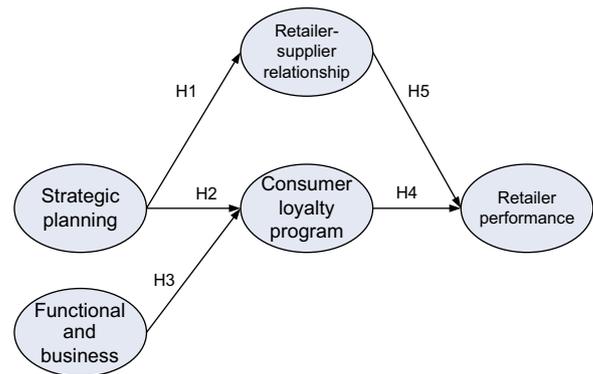

Fig. 2. Theoretical model.

retailer–supplier relationship (B2B upstream) and consumer loyalty program (B2C downstream). The small independent retailer is selected to represent the structure category. The overall constructs and their relationship are illustrated in Fig. 2. By studying these relationships, we could uncover the most important resources in small retailers that influence their performance and survival.

2.1. Strategic planning

Among the four basic functions of management, planning is the first essential function. Prior planning remarkably reduces the probability of failure. Strategic planning refers to strategic formulation. It includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long-term objectives, generating alternative strategies, and choosing particular strategies to pursue (David, 2009).

In establishing long-term objectives, Gaskill et al. (1993) identified that generating a long term business plan such as generating merchandize plan is the most important determinant contributing to business success. A merchandize plan is defined as the planning of size and composition of merchandize inventories as well as a variety of functions dealing with the purchase, display, pricing, promotion, and sale of merchandize. For generating alternative strategies and choosing particular strategies to pursue, Sharma (2008) developed