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How Mom-and-Pop Stores Compete with Grocery Chains? A Perspective of Service Outputs on Self-Employed Retailers in Taiwan

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Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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ABSTRACT

Along with social changes and technological progress, the number of convenience stores and hypermarkets has risen sharply over recent years in Taiwan, and the traditional small 'mom-and-pop' stores thus face severe competition. Surprisingly, these stores have not declined in Taiwan; instead, they show a slight growth in sales. What kinds of service value do they provide under circumstances of insufficient resources and plenty of competitors? This study integrates service outputs theories elicited from marketing channel literature to explore the sources of value-added service of the self-employed retailers in Taiwan. Through in-depth interviews with ten shop proprietors, five service outputs are identified: bulk-breaking, spatial convenience, waiting and delivery time, product variety, and after-sales service. In addition, social functions were found to play an important role that enables the shops to engage in relationship exchanges with their end-users. The intermediary role of the single unit store has irreplaceable and unique advantages, and the findings have many implications for the industry's associates.

Keywords: Retail industry; mom-and-pop; service outputs; marketing channels; self-employed retailers.

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1. INTRODUCTION

Despite the continuous expansion of large retailers, what is more surprising is that more than 80% of the developing world's population still patronizes these stores [1]. Mostly managed by couples with less than five employees, these family-operated retail establishments are referred to as mom-and-pop stores [2]. In Latin America, these far-flung stores even force global makers of groceries and sundries to rethink their distribution strategies, especially for multinational enterprises that engage in fast-moving consumer goods, such as soft drinks, beer, cigarettes, and confectionaries, because these stores are an important distribution channel [1]. In Taiwan, people can still easily find mom-and-pop grocery shops in many smaller towns and in the lanes of cities, even as this island has the highest density of chain convenience stores in the world, with 10,131 outlets, or one per every 2,300 residents [3]. How do these 'traditional' shops continue to sustain themselves in the local retail market?

The self-employed business is classified as a business sector of other commodity retail industry. According to Taiwan's Ministry of Economic Affairs, the turnover of this sector amounted to NT\$168.2 billion in 2014, up 6.83% from the year-earlier level, and even higher than that of convenience stores (4.75%), and Big-Boxes (2.49%) [4]. What kinds of value-added services do they create under the circumstances of insufficient resources and plentiful of competitors?

Some studies have explored the issues of the small employer businesses [1,5,2], yet there appears to be a limited analysis from the perspective of marketing distribution. From a channel view, these stores serve as an intermediary between the consumers and the wholesalers. Coughlan, Anderson, Stern and El-Ansary [6], regarded the intermediary as another 'production line' engaged in producing not the actual product that is sold, but the ancillary services that define how the product is sold. This study thus attempts to explore the contributions of the mom-and-pop stores from the perspective of their service outputs.

Based on in-depth interviews, this study contributes to the literature in three ways. First, this study synthesizes prior research on service outputs to examine the self-employed establishments from a channel viewpoint. Second, it provides a further understanding of

how the mom-and-pop stores gain an advantage when facing external competition. Thirdly, it provides evidence on the factors that may influence retailing businesses in developing countries.

2. LITERATURE REVIEW

2.1 The Industry of Retail

Retailing consists of the activities involving selling goods and services to end consumers for personal consumption [7]. In contrast to wholesaling, the buying motive at a retailer is always personal, and/or family satisfaction, stemming from the final consumption of the item being purchased [8]. Stern, El-Ansary and Coughlan [9], noted that the retailing business seems ordinary; however, marketers have noticed that consumers' purchasing motives in different market segmentations. A particular product or service can be bought at multiple retailing channels, such as convenience stores, supermarkets, hypermarkets, department stores, specialty stores, and online shops, etc. Channel managers know the disparity among various channels in terms of different end-user groups [10,11]. In Taiwan, for example, a hypermarket is the most popular channel due to the operator's promotional strategies, such as low prices, member discount programs, and the store's layout that resembles the typical East Asian traditional markets [12,13]. Recently, competition among different retailing channels has made the industry difficult to differentiate as to who are the real competitors [14,15]. Therefore, choosing a positioning strategy is vital for retailers in the marketplace, and the one chosen should always be driven by the demands of the target market segments for service outputs [6].

2.2 Service Outputs in Marketing Channels

Based on demands for the outputs of the marketing channel, Bucklin [16] defined service outputs as the value-added services created by channel members and consumed by the end-user along with the product purchased. The magnitude of service outputs provided by channel members determines the importance of the channel. The more the service outputs, the higher the value created by the channel member [9,11,17]. Bucklin [16] specifies four generic service outputs: Bulk-breaking, spatial convenience, waiting or delivery time, and product variety. Bulk-breaking refers to the end-user's ability to buy its desired (possibly small)

number of units of a product or service, even though they may be originally produced in large, batch-production lot sizes. Coughlan et al. [6] further indicate that if channel members can provide a suitable product mix according to the consumers' demands, such an ancillary service can be deemed as bulk-breaking. Spatial convenience provided by the market decentralization of retail outlets increases the consumers' satisfaction by reducing transportation requirements and search costs. Product variety describes generically different classes of goods making up the product offering. The more the product variety is available to the end-user, the higher the output of the marketing channel system. Moreover, waiting or delivery time refers to the time period that the end-user must wait between ordering and receiving goods. The shorter the waiting time, the more convenient it is for the end-user, who is a necessary requirement to plan or predict consumption far/when moving forward.

Rangan, Menezes and Maier [18], however, argue that this list of service outputs by Bucklin is too generic. Consumers have different preferences for products and markets; hence, the four service outputs have various degrees of emphasis in different channels. However, Coughlan et al. [6] postulate that given the different emphases, service outputs can be used to differentiate the end-user from the desired channels of distribution. For instance, those who prefer smaller lot sizes, less waiting time, and a one-stop-shop purchase, could pay a higher retail price at selected channels. Based on the four service outputs as proposed by Bucklin, Rangan et al. [18] proposed five service outputs specifically for the industrial channels of distribution, namely, product information, product customization, product quality guarantee, after-sales service, and product logistics. In fact, the

five service outputs are similar to Bucklin's concept. For instance, product logistics bears the semblance of the spatial convenience and waiting time of Bucklin; product customization is comparable to bulk-breaking. However, after-sale service can fill the gap of Bucklin's theory with regard to service outputs.

3. RESEARCH METHODS

3.1 Research Design

The case study approach is suited for it produces in-depth information on a small number of individuals [19], and searches beyond simple snapshots of events, people, or behaviors [20]. In particular, there are calls for more qualitative research in marketing areas [21,22]. Yin [23] suggests that among the various qualitative research methods, an in-depth interview is most commonly used and is the source data for a case study. This study therefore uses in-depth interview as the main basis of research.

Within this method, a mom-and-pop store refers to a family-operated non-chain retail establishment with less than five employees [2]. Therefore, a semi-structured questionnaire was developed from the literature and covers the five types of service outputs as inspired by Bucklin [16] and Rangan et al. [18]. A purposeful sampling was used to ensure that the samples included the five generic service outputs. A total of 14 store proprietors were invited to participate in the face-to-face interview. However, some of those who did not want to answer specific questions were excluded. As a result, ten proprietors of the mom-and-pop stores were interviewed (see Table 1). During these hour-long sessions, interviewees were encouraged to talk openly with the assurance of anonymity for

Table 1. Background information of the respondents

Code	Gender	Age	Level of education	Interview time	Region
A001	Female	51-60	Elementary school	65 Mins	Taoyuan
A002	Female	51-60	Elementary school	52 Mins	Taoyuan
A003	Male	41-50	Junior high school	47 Mins	Taoyuan
A004	Male	31-40	Senior high school	38 Mins	Taoyuan
A005	Female	Above 61	Elementary school	48 Mins	Taoyuan
A006	Male	Above 61	Elementary school	48 Mins	Keelung
A007	Female	51-60	Elementary school	60 Mins	Taipei
A008	Male	Above 61	Elementary school	44 Mins	Keelung
A009	Male	51-60	Junior high school	30 Mins	Taipei
A010	Male	51-60	Elementary school	30 Mins	Taoyuan

their shops. The interviews were recorded, using a tape recorder, with the permission of the participants who were interviewed. Follow-up telephone calls with the interviewees were held, wherever necessary, to further clarify issues [24]. The interviews were conducted and studied in Chinese, and subsequently translated into English.

4. RESULTS

4.1 Bulk-breaking

The interviewees indicated that they would choose the most suitable bulk-packed products and then break them down into smaller quantities for sale. Some stores even allowed customers to weigh the products as they wanted. Since a bulk purchase enjoyed discounts; the stores earned profits from these price gaps. As two interviewees remarked:

“As for rice, sugar, and beans (mung bean, soybean, and azuki bean), we buy by bags, then sub-pack them. For instance, we put 500g of rice into one bag and sell at NT\$ 25 per bag. This is the long-time practice. Some customers weigh by themselves (at their discretion), which is very convenient” (A001).

“We have a kind of popular chocolate balls, which are made into 10 balls per bag from a large basket. Kids like them. Sugars are packed by 10 or 20 per bag, with small quantity per bag” (A010).

Selling egg was typical of the bulk-breaking. Nowadays, most convenience stores or hypermarkets sell eggs in a ‘box’ unit (usually ten eggs in a box), implicitly forcing consumers to buy an entire box of eggs. On the contrary, the mom-and-pop stores sell eggs on a single basis’. For example, *“Some customers come in to buy only one egg for NT\$ 7 dollars”.* (A006). *“Eggs are sold everywhere, and packed in a unit of box; however, some people just like to buy a few. Isn’t it (sub-packaging) good? This is how we are different.”*(A002-1).

In addition, product mix as suggested by Coughlan et al. [6] was another feature that favors business performance of the mom-and-pop stores, such as *“We combine popular products, such as a mix of preserved fruits and candies, and as mix of gums and toys. These were combined by us”.* (A008)

4.2 Spatial Convenience

Convenience is acknowledged to be increasingly important to consumers [25]. It not only saves time and effort costs, but also provides consumers with high value-added services [26]. Garnered from the interviews, spatial convenience can be further categorized into a one-stop-shop and locational proximity. As for the former, *“Customers usually come here to buy brooms, gift boxes, or crackers, which are available, as well as lighting balls, candles, or other cleaning articles, isn’t that convenient for customers?”*(A006) expressed one respondent.

In terms of the latter, the stores promoted different products according to their locational characteristics. For example, the stores near schools mostly promoted toys and candies, while those near residential areas tended to display more household goods. Two interviewees provided their experiences:

“Toys, snacks, drinks, and lottery are available here, among which lottery, toys, and candies are the most attractive, as we are near an elementary school.” (A008).

“Sometimes, women will ask their kids to buy soy sauce or vinegar when they are in cooking, as we are near a residential area”. (A010)

4.3 Product Variety

In addition to spatial convenience as previously mentioned, a more important thing for these stores was that there must be ‘goods’ being sold; that is, providing a variety of product offerings for consumers. As one interviewee stated *‘small as it is, the sparrow has all the vital organs.’* The following comments were typical:

“We not only sell hardware, rice and candies, but also wine, stationery and medicine. Customers come and buy all they need, as we provide all kinds of products”. (A001)

“We have plenty of products. Look! even the wall is full of meat, nipple, and medicine mixes, even including different spices”. (A002)

In particular, traditional Chinese medicine (specifically for cooking) and some sundries had strong odors. They generally were not

acceptable sales items in the chain convenience stores. The mom-and-pop stores filled this product gap perfectly as stated, "We also have curry, chicken in rice wine, Chinese medicine and so on. Everything you can imagine." (A004)

4.4 Waiting and Delivery Time

The interviewees reflected that it was indeed more convenient to place an order through their stores rather than to order directly from the manufacturers, especially for those who required orders with large quantity and consumption in advance. This service output saved time and storage costs for the consumers. Two salient examples were provided below:

"We accept large quantity orders, most of which are for weddings and funerals. We will order a large quantity of goods on their behalf, and deliver to their homes. In this way, they (customers) do not have to look for vendors by themselves." (A007).

"Usually customers need large orders of goods, e.g. cigarette, liquor, beverage. Manufacturers generally do not accept their orders directly; we will purchase on their behalf and deliver within a week." (A002).

4.5 After-sales Services

Among the respondents, most provided after-sales services to their consumers. The most popular ones were return of goods and a home delivery service. For example,

"Occasionally, customers might buy outdated products or defective products. As long as they are not due to improper use, we replace the products". (A006)

"As for any questions from customers over any product, we provide solutions to them, such as usage problems, cooking methods, and replacement." (A005)

Interestingly, some stores even provided an on account service, namely, a monthly settlement. The service was actually not for the purpose of earning interest on income, but rather of retaining their customer's loyalty. "We are willing to settle the account each month, which provides convenience to our regular customers, and they feel good about our store" (A002). This service was unique and very different from the chain convenience stores and hypermarkets.

4.6 Social Functions

4.6.1 Shop-centered agora

In addition to the above five service outputs, this study also found that, outside some front doors of the stores, there appeared several chairs that were actually provided for neighbors to sit and chat. This service certainly was not included in their business scope, but it gradually turned some stores into becoming a small community which, to a certain extent, characterized a social function.

"Every night, people sit down and chat in front of our store, and sometimes they play chess and mahjong. At festivals, some people even have barbecues here and share with the neighbors. In this way, our store becomes a small gathering place". (A001-1)

"Ha, you have seen it when you arrive, the chairs at the door are for customers, and sometimes several acquaintances come for a chat, mostly the old people". (A010)

4.6.2 Sales of reminiscence products

Among the interviewed stores, many have been established for over 40 years, and have been passed down from generation to generation. Some products which were popular several years ago were still being sold, such as playing cards and Mox Jet. Despite not being major business items, they were well remembered by some of the customers. For example, "This is the feature and history of our store, the prize drawing is our style." (A002-2)

"The most interesting is prize drawing toys, as this type of game is few. We have the games in which NTD 10 may draw NTD100 and NTD1000. It is our best memories." (A010)

This study found that those mom-and-pop stores located in villages and townships were the most capable of sustaining social functions that cannot be fully imitated by large retailers and convenience stores.

5. CONCLUSION

5.1 Discussion

This study investigated the mom-and-pop stores in Taiwan from the perspective of service outputs.

The findings of this study give the impression that, among the various service outputs, bulk-breaking seems to make the highest contribution to the profits of these self-employed businesses. This is probably because small packaged products generally have a higher gross margin. In the meantime, bulk-breaking also provides more choices for consumers in terms of purchase quantity, and the buying of one-egg mentioned above was an example. Product variety might be the second one to offer consumers more choices in shopping preferences. For instance, some stores sold strong smelling commodities, whilst others promoted products in terms of regional features. The product diversity successfully differentiates the mom-and-pop stores from those product standardized convenience stores. As soon as the above two service outputs are equipped, and, as a result, the spatial convenience would develop its function to attract consumers. Waiting and delivery time as well as after-sales services finally enhance customer loyalty.

According to the social exchange theory [27], exchange patterns can be divided into social exchange and economic exchange. The former is based on trust, obligations, and gratitude, whereas the latter involves contractual obligations. Similarly, MacNeil [28], and Rousseau and Parks [29], presented a contract concept by dividing exchange relationships into a transaction contract and a relational contract. The former is similar to the economic exchanges, while the latter resembles the social exchanges. This economic-social perspective was also found in the transaction of the mom-and-pop stores and, it appeared that the economic exchange prioritizes the social exchange.

5.2 Implications

This study has several implications for academics. Firstly, the self-employed business is classified as a business sector of other commodity retail industry, which accounted for 15.2% of the total sales in 2014 of the retailing industry in Taiwan [4]. However, there is a distinct lack of academic research, particularly from the perspective of marketing distribution. This study details how these establishments provide service outputs to consumers in an Asian market. Secondly, and more likely due to the emphasis on consumer products, the Bucklin's model did not mention the after-sales service. This study incorporated previous research on service outputs in marketing channels to

examine the contributions of each output, specifically how the self employers create competitive advantages in the retailing channels. Thirdly, the social functions were found to be critical for some mom-and-pop stores. The finding improves our understanding of the service outputs which are mostly based on commercial benefits.

Three implications for practitioners and channel managers can also be drawn from the findings. Firstly, it is important for the mom-and-pop stores to make every effort on product sub-packaging, such as rice, powder, sugar, and so on, because bulk purchases generally lowers costs. Secondly, the stores should provide diversified products to attract customers according to the different regional features. However, the store operators should also notice that offering greater variety typically means carting more inventory. Thirdly, the stores can strengthen their after-sales service and social functions with regular customers because an excellent customer service can translate directly into sales and profit.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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