

IDENTIFYING COMPETITIVE BOUNDARIES:
AN ANALYSIS OF THE IMPACT OF COMPETITIVE SITUATIONS
ON CONSUMER'S PERCEPTIONS OF RETAIL STORES

J. Joseph Cronin, Jr., University of Kentucky
Scott W. Kelley, University of Kentucky

Abstract

This paper reports the results of a survey designed to assess how consumers' perception of a retail store is affected by its competitive position. Specifically, two questions were addressed: (1) does the traditional assumption that retail competition tends to be intertype appear to be true in practice? and (2) what advantages are gained by a retailer positioned in a "competition free" environment? Managerial implications are presented.

Introduction

The environment in which retailers are operating is extremely competitive. The intense competition retailers face is generally considered to be of two types, intertype competition (between dissimilar stores; e.g., traditional department versus discount department stores) or intratype competition (between similar stores; e.g., traditional department stores versus traditional department stores). Within this competitive environment, however, the notion of competition-free retailing has been identified as an emerging concept in retail management (Bates, 1977). Competition-free retailing occurs when a retailer is positioned in markets in which competitors are either limited in number or poorly organized. Aside from the obvious economic advantages a relatively noncompetitive environment offers, a number of strategic ramifications exist for retailers selection of markets in which to compete. In particular, the identification of actual competitors is of importance. Knowledge of who their competition is allows retailers to better position themselves to compete.

The study presented was designed to answer two important questions. First, is the traditional assumption that retail competition tends to be intratype (Hirschman, 1978) correct? Second, what advantages (or disadvantages) does a retailer gain from being positioned in a "competition-free" environment?

Background

The intent of this paper is to investigate how the basis of competition affects the advantage gained by the retailers involved. More specifically, the intent was to identify the actual domain of competition within the department store retail sector and to ascertain how the level of competition affects consumers' perceptions of competing retailers.

Department store types have been distinguished by Hirschman. The classification system developed and empirically tested by Hirschman recognizes three types of department stores (Hirschman, 1978):

1. traditional department stores
2. national chain department stores

3. full-line discount department stores

Traditional department stores are locally owned full-line department stores whereas the national chains are similar stores such as J. C. Penny's, which operate on a national basis. The discount department stores are differentiated from the national chain department stores on the basis of their price structure. Typically, the discount department store competes for the lower price - higher volume business.

Hirschman (Hirschman, 1978) states that competition tends to be intratype, rather than intertype. For example, traditional department stores tend to compete mainly with other national chain department stores; and discount department stores compete with other discount department stores. Based upon the three department store types, this study evaluates the competitive environment in two cities to determine the impact on consumers' perceptions of stores.

The perceptions of the stores were based upon seven attributes. These included (1) quality of sales people, (2) size of merchandise selection, (3) prices, (4) quality of merchandise, (5) merchandise display, (6) customer services; such as credit availability and return policies, and (7) special services; such as home decorating services. The selection of these attributes was based on several earlier studies (c.f. Arnold, Oum, and Tigert, 1983; Hansen and Deutscher, 1980). These studies, use the same basic criteria utilized in this study for evaluating retail image and patronage patterns.

The Competitive Situation

Because the investigation presented is designed to ascertain whether the assumption that retail competition tends to be intratype is correct and to analyze how consumers' perceptions of stores are influenced by the level of competition within a market, a description of the competitive situation in the market examined is necessary. In analyzing the competitive environment which is summarized in Table 1, it is apparent that the traditional department store market in City₁ is "competition-free." There is only one traditional department store (TDS₁, four outlets) operating in this market. On the other hand, the competitive environment for traditional department stores (TDS's) in City₂, can be considered highly competitive. There are four TDS₁ outlets operating, which is identical to the situation in City₁; however, there are eighteen outlets of three other TDS's in City₂. Therefore, City₁ fits the definition of Bates' (1977) competition-free environment, if the assumption that competition is intratype is accepted.

The competitive situation in the national chain department store (NC) market can be considered similar in City₁ and City₂. In addition, the

competitive environment in the full-line discount department store (DDS) market is also quite similar in City₁ and City₂.

Based upon the earlier findings of Bates (1977), one would expect consumers to evaluate a specific store differently when the competitive environment was different. For instance, TDS₁ is in a "competition-free" environment in City₁ but a very competitive environment in City₂. Therefore, you would expect the store to be evaluated differently by consumers in the two cities on the seven attributes investigated. Because no research has been published to date which addresses the impact of the competitive situation on consumers' perceptions of retailers, no directionality can be hypothesized for this difference.

One is also lead to believe that department stores of the same type in similar competitive environments will be evaluated similarly. In this study, it was expected that stores of the first national department store (NC₁) in City₁ and City₂ would be evaluated similarly as would stores of the second national department store chain (NC₂) which also had outlets in both cities. There was also one full-line discount department store (DDS₁) which had stores located in both cities. The expectation was that these outlets would be equivalently perceived in City₁ and City₂.

TABLE 1
AN ANALYSIS OF COMPETITIVE ENVIRONMENTS
UTILIZING STORE TYPE^a

	Traditional Department Stores		National Chain Department Stores		Full line Discount Department Stores	Total Department Stores
	TDS ₁	Others	NC ₁	NC ₂	Inclusive	
City 1	4	0	3	8	39	54
City 2	4	18	4	5	37	68

^a Based upon an actual count of the Yellow Pages listings of the respective cities.

The Research Setting

The data used in this study was collected as part of a larger research project conducted for a traditional department store organization with locations in three midwestern states. A random telephone survey of 313 women was taken. There was an approximately equal representation between the two cities; 159 cases from City₁, 154 cases from City₂. An analysis of the demographics of the two cities reveal that they are very similar. The populations of the SMSA's in which City₁ and City₂ are located are 1,093,316 and 1,166,575 respectively. The population is 84 percent urban in City₁ and 82 percent urban in City₂. Females fifteen years or older make up forty percent of the population in both cities. Fifty-four percent of the females over sixteen are in the labor force in both cities. The median household income in City₁ is \$17,316, in City₂ it is \$18,674. The median ages of City₁ and City₂ are 28 and 29 respectively (Census of the Population, 1980). At the time of this study, total retail sales were \$5,314,682,000 in City₁ and \$5,832,336,000 in City₂. This ranked these two cities 37th and 34th nationally in total retail sales, respectively. General merchandise sales were \$823,484,000 in City₁ and \$816,561,000 in City₂, ranking the cities 34th and 35th nationally. Retail sales per household were \$12,893 in City₁ and \$13,538 in

City₂ (Sales and Marketing Management: 1982 Survey of Buying Power). Given the similarities in the demographics of each city, it is reasonable to assume that any differences in the ratings of attributes between cities should not be credited to differences in the characteristics of the two cities' populations.

Summary of Findings

As discussed earlier, it was anticipated that our findings would support the results of a previous study conducted by Hirschman (1978). She found that within the department store industry there was a tendency toward intratype competition as opposed to intertype competition. In the context of the present study, this would lead one to believe that given similar competitive environments for a specific department store type there should be no significant differences between the rankings of attributes in the two cities. Conversely, when there are differences between the competitive environments of specific department store types in the two cities, the attributes of the store in the competitive environment should be perceived differently than the store in the "competition-free" environment. The results are summarized in Table 2.

TABLE 2
STORE ATTRIBUTE VALUES

Attribute	City 1		City 2		City 1		City 2	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Quality of Store Atmosphere	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Value for Money	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Service	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Merchandise Selection	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Customer Assistance	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Facilities	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82
Staff Attitude	2.11	0.85	2.05	0.82	2.05	0.82	2.05	0.82

Our findings indicated the following:

- Traditional department stores in the "competition-free" environment of City₁ were generally ranked lower on the seven attributes studied than traditional department stores in the competitive environment of City₂.
- National chain department stores in City₁ were ranked significantly lower than national chain department stores in City₂ on the seven attributes studied, even though the competitive environments of the national chain department stores were viewed as similar between cities.
- Full line discount department stores in City₁ were ranked significantly lower than full line discount department stores in City₂ on the seven attributes studied, even though the competitive environments of the full line discount department stores were viewed as similar between cities.
- Department stores in general were ranked lower on the seven attributes studied in the less competitive environment of City₁ than in the more competitive environment of City₂.

Traditional Department Stores

The traditional department store (TDS₁) investigated operates in a "competition-free" environment

in City₂. The expectation was that the differences in the "competitiveness" of the two markets would lead to different perceptions of the store between the cities. A difference was found; however, consumers' perception of the store was lower in the "competition-free" market of City₁. This finding was surprising especially considering that the firm is based in City₁ and is considered an integral part of that community.

Several possible explanations for this finding were considered. First, the result could be due to conceptual differences in the store outlets from city-to-city. After interviewing managers of TDS₁, this possibility was rejected because the four outlets in City₁ are each approximately the same size as the four outlets in City₂, and the store layouts and merchandise assortments are also nearly identical.

A second possible explanation considered was possible variations in the demographic and attitudinal characteristics of consumers. This was also rejected. Demographically the cities are very similar, as was indicated earlier in the paper. An attitude survey was not incorporated in the study, but intuitively the cities appear very similar. The cities are 150 miles apart and are both typical midwestern cities with dominant service-oriented economies. Extreme differences in attitudes between the pair of cities is not likely.

The explanation which seems most likely in the context of this study centers on the nature of the competition encountered by TDS₁ in the two markets. In the more competitive environment of City₂, TDS₁'s outlets are generally rated higher because they are forced to perform more efficiently than their outlets in the "competition-free" environment of City₁.

National Chain Department Stores

In the two markets examined, there were two national department store chains which had outlets located in both cities; NC₁, and NC₂. There are a total of eleven national chain department stores in City₁ (three NC₁'s and eight NC₂'s). In City₂, nine national chain outlets were in operation (four NC₁'s and five NC₂'s). This would appear to suggest similar ratings between cities for the national chain outlets due to their relatively similar intratype competitive environments. However, the perceptual ratings of the stores based upon the seven attributes measured found the national chains in City₁ rated consistently lower than those in City₂. These comparisons were conducted within chains, so the differences cannot be explained by dissimilarities between NC₁, and NC₂ outlets.

The consistently lower ratings of the national chain department stores in City₁ (see Table 2) might be explained by intertype competition rather than intratype competition. As mentioned earlier, the intratype competitive environments are very similar in each city; however, the intertype environment (as indicated by the difference in the total number of stores in each city) is more competitive in City₂ than in City₁. The lower level of competition among department stores in general in City₁ might explain the lower rankings

for the national chain department stores there. These findings seem to indicate that the intertype competitive environment may be a more important factor than the intratype competitive environment when evaluating retailing opportunities.

Full-Line Discount Department Stores

The findings concerning discount department stores are similar to those of the national chain department stores. It was anticipated that there would be little difference in the ratings in the discount department stores between cities due to the similar intratype competitive environments (see Table 1; 39 discount outlets in City₁, 37 in City₂). Even though the intratype competitive environments for the discount department stores were similar in both markets, discounters in City₁ were again rated lower on all seven attributes under consideration. This would seem to indicate that intertype competition may again be a more important consideration than intratype competition.

"Competition-Free" Retailing

The results indicate that "competition-free" retailing does not enhance the market strength of retailers. In the "competition-free" market (traditional department stores) investigated, the retailer performance was perceived lower than in the competitive environment. This seems to indicate that if the consideration of retail competition is limited to the intratype dimension, "competition-free" positioning does not enhance consumer perceptions. Rather, it appears to be associated with less efficient performance, which could invite competitors to enter the market.

Intratype--Intertype Competition

An alternative explanation for the "competition-free" position effect on retail perceptions may be that retail competition is actually intertype. The data investigated suggests that this is the case. In every intratype comparison, significant differences were found between the two cities even though none were expected because there were no differences in the level of intratype competition. In each case the direction of the difference was the same; the more competitive intertype market (City₂) was perceived to have better performance. This would appear to suggest that the proper competitive comparison level is intertype. Thus, "competition-free" retail markets can exist, but only where there are no or only poorly organized intertype competitors.

Managerial Implications

"Competition-free" retailing and the level of competition within the industry (intratype versus intertype) are concepts which have had wide exposure in the retail literature (Bates, 1977). The success of a "competition-free" positioning strategy depends a great deal upon the retailers definition of their competitive boundaries. It appears that two alternatives exist. Retailers might define their competitive boundaries to be intratype as recommended by Hirschman (1978), or alternatively the relevant competitive boundaries

can be considered to be intertype. The findings presented in this study indicate that an intertype definition may be more appropriate because consumers appear to consider competition to exist across store types.

If the relevant competitive boundaries in retailing are defined to be intertype as indicated, there are several implications for retail managers. When a new retail market is under consideration, all current competitors should be examined. For example, a full-line discount department store which is contemplating entry into a new market should examine all facets of the department store market in the proposed environment not just the intratype discount sector. When establishing a new retail outlet, it is reasonable to assume that there are a finite number of consumer dollars to be spent. It is, therefore, imperative that retailers properly define their competitive boundaries. Consumers spend their dollars based upon their own set of criteria, not according to how someone else defines their options. Thus, retailers must define the boundaries of competition according to consumers' perceptions of their alternatives. This study suggests that consumers' perceptions do not delineate the level of competition to a narrow basis. Rather, they appear to seek their own "best value."

A second implication of this study involves consumers' perceptions of the efficiency of retail outlets. The results presented suggest that the retailers operating in the less competitive environment of City₁ were perceived as less efficient than those in City₂. In only one case (out of a total of 28) was the performance of a retailer in the less competitive City₁ perceived as better than the performance of retailers in City₂. This again stresses the importance of intertype competition. It would seem that a new retail outlet which defined its competitive boundaries to be intertype could be successful in City₁ with an efficient performance level. In the more competitive environment of City₂, where the current market entries are perceived to be relatively efficient, it would be more difficult to launch a successful outlet.

It is obvious from these results that the proper definition of competitive boundaries is not only important in identifying potential market opportunities, but also in the designation of appropriate retail strategies. Retailers' product lines, store hours, credit policies, price structure, advertising, etc., should be influenced by the intertype competitive environment, as well as the intratype. An inadequate definition of competitive boundaries may cause a retailer to miss potential opportunities. Knowing one's competition from the viewpoint of consumers can help a retailer to avoid such mistakes as overpricing, inadequate services, and misspecified product assortments. Proper definition of competitive boundaries helps stores position themselves to effectively compete against their "real" competition.

Conclusion

It was anticipated that this study of consumers' perceptions of retail establishments would verify

the intratype nature of retail competition. Instead, the findings suggest that competitive boundaries in retailing should be defined as intertype. The study indicates that retail managers should consider the intertype competitive environment when contemplating strategic alternatives, when evaluating new markets, and when choosing positioning strategies. It is also suggested that "competition-free" environments be evaluated on an intertype rather than an intratype basis.

Limitations

While this study did not rule out all the plausible alternative explanations for its findings, reasonable care was taken to focus the investigation on differences in the competitive environment. Therefore, this work should not be taken as conclusive proof that a "competition-free" environment is non-existent or that the basis of retail competition is strictly intertype. Rather, it suggests that the concept of "competition-free" retailing and limiting the analysis of retail competition to an intratype basis do not appear applicable to all retail markets. Retail managers, thus, should exercise care in their employment of these concepts.

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