



US small retail businesses' perception of competition: Looking through a lens of fear, confidence, or cooperation



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ABSTRACT

The U.S. retail industry has undergone dramatic changes, leading to the closing of brick-and-mortar retail stores on a large scale. Understanding perceived market competition among small retail businesses may help explain why certain businesses survive or fail in the altered retail environment. This study investigates small retail businesses' perceptions of competition within/outside the community, underlying reasons for their perceptions, and variations in perceptions by different business characteristics. Contrary to common expectations, we found that more than half of businesses interviewed were optimistic in the face of competition. Our data reveal two salient underlying reasons for pessimism and five for optimism. These perceptions tended to differ by operational locality (urban clusters vs. urban areas), business revenues, and innovativeness. Based on the findings, we developed propositions and a framework of small businesses' perceived competition and sustainable competitive advantage. We discussed theoretical and practical implications for small retail businesses' sustainable growth in the challenging retail environment.

1. Introduction

The U.S. retail industry has undergone substantial restructuring as numerous physical retail stores, large or small, have been permanently closed in the last few years, a phenomenon called “retail apocalypse” (Helm et al., 2018). The competition in the U.S. retail industry has become more fierce with rapid digitization and the growing dominance of e-commerce retailers (Huang et al., 2019). While some retailers are successfully transforming or revamping their businesses to adapt to the fast-changing retail landscape, many brick-and-mortar retailers are at risk or slow in transformation (Baird, 2018; Helm et al., 2018). Small local retailers are particularly vulnerable to these changes because small businesses in approximately 93% of U.S. counties are still struggling to recover from the recent financial crisis (Morath, 2016).

Small businesses and entrepreneurs are the engine for the U.S. economy, accounting for approximately 99.9% of U.S. businesses and 47.5% of the private workforce (Small Business Administration, 2018). However, small businesses also have a high failure rate: around 50% of them fail within the first five years (Otar, 2018; Turner and Endres, 2017). Understanding the reasons for success or failure for small businesses is crucial to the sustainability of local economies (Nadim and

Lussier, 2015). Previous studies have found that major reasons for failure of small businesses are lack of resources such as financial capital (e.g., Burns, 2019; Horton, 2017; Lee and Black, 2017); intellectual capital such as management skills, knowledge, and experience (e.g., Campbell and Park, 2017; Horton, 2017); product and service innovation and skills in information technology (e.g., Burns, 2019; Clegg, 2018); and strategic business planning and marketing (e.g., Burns, 2019; Horton, 2017). Prior research also suggests that many businesses fail due to lack of awareness of market competition and inaccurate anticipation of changing environments, threatening their competitiveness and long-term sustainability (Bergen and Peteraf, 2002; Bressler, 2012; Porter, 2008). A slow economy growth and rising consumers' online purchases have increased competition in local markets, affecting small businesses' perceptions of competition within/outside their community. Different perceptions of the competitive environment lead to variations in firms' coping or reaction strategies (Giaglis and Fouskas, 2011). However, few researchers have explored the impact of businesses' perceptions on entrepreneurial activity and sustainability in the face of competition (Fouskas and Drossos, 2010; Saridakis, 2012). In particular, no empirical study has examined how U.S. small retail businesses (SRBs) perceive competition, and how businesses with

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different characteristics or in different competitive environments view or interpret competition differently.

Therefore, this study addresses important gaps in the literature by accomplishing three purposes: (1) examining SRBs' perceptions of competition within/outside the community, (2) investigating underlying reasons for their perceptions, and (3) exploring variations in perceived competition and underlying reasons by business characteristics, both external (operational locality) and internal (business revenues and innovativeness). Developing sustainable competitive advantage is one of the most important business activities but is often challenging for small business owners, especially when the market is competitive (Bressler, 2012). In-depth examination of SRBs' perceptions of competition can help us explain why certain businesses survive or fail in a challenging environment. The findings of the study provide important theoretical and practical implications by enhancing the understanding of SRBs' perceptions of competition, challenges, and coping strategies, and further identifying threats and opportunities to build sustainable competitive advantage for SRBs.

2. Literature review

2.1. Perception of competition

Market competition occurs when some businesses exhibit more competitive forces than others to achieve greater market share (Porter, 2008). The influence of competition can be positive or negative. Competition can drive business growth by stimulating innovation (Porter, 2008; Tsai and Yang, 2013) and labor productivity (Patel and Cardon, 2010); but it can also pressure businesses and reduce profit margins (Schmidt, 1997), consequently increasing the costs of innovations and managerial efforts. Small businesses, with a smaller customer base, fewer resources, and less market power (Bianchi et al., 2010; Wong and Aspinwall, 2004), are particularly vulnerable to external market changes (Cowling et al., 2015). Thus, small businesses tend to cut down investments to avoid risks and generally view market competition pessimistically (Kalleberg and Leicht, 1991; Porter, 2008).

Identifying competitors affects development of competitive advantage, but business owners tend to view competition too narrowly (Bressler, 2012; Porter, 2008). Small businesses compete both with other small businesses within their community and with larger businesses within and outside their community (Haltiwanger et al., 2010). Retailers in more developed areas can attract consumers away from local businesses, particularly in towns too small to support a wide range of businesses (Dunne et al., 1991). Small businesses may also perceive competition from national brands or large retailers (Wong and Aspinwall, 2004). Large businesses are often considered the biggest threat to small businesses because they can take away small businesses' customers (Haltiwanger et al., 2010; Shimomura and Thisse, 2012). Online retailers such as Amazon are becoming major competitors outside their community. Particularly, small businesses struggle with price competition when large businesses aggressively implement low-price strategies (Loader, 2007). The level of threat to a firm's survival or growth increases as the level of control the firm has over the competitive market decreases (Giaglis and Fouskas, 2011).

Prior research on competition has examined the impact of managerial perceptions of a competitive environment on firms' reaction strategies to their rivals (e.g., Fouskas and Drossos, 2010; Giaglis and Fouskas, 2011), and the impact of competition on small businesses' performance (e.g., Huang and Brown, 1999) and labor productivity (e.g., Patel and Cardon, 2010). Since little is known about how SRBs perceive competition within/outside their community, we propose the following research questions:

RQ 1. How do SRB owners/managers perceive competition within/outside the community?

RQ 2. What are the underlying reasons for their perceptions of

competition? What are the most salient reasons?

Furthermore, the literature suggests that firms' competitive behavior and firms' growth rate are significantly affected by business characteristics (Cowling et al., 2015). Perceived competition, an individual's interpretation of the intensity of market competition, varies across businesses due to differences in the firm's competencies, beliefs, and situations (Giaglis and Fouskas, 2011; Kemp and Hanemaaijer, 2004). Such perceptions of competition may be influenced by firms' internal factors (e.g., business size, revenues, innovativeness) as well as external factors (e.g., operational locality, competitive environment) (Chowwen and Babaloo, 2016; Dodge et al., 1994; Fouskas and Drossos, 2010; Kemp and Hanemaaijer, 2004). Therefore, we explore the following research questions:

RQ 3. How does small businesses' perceived competition differ by (1) operational locality, (2) business revenues, and (3) innovativeness?

RQ 4. How do the underlying reasons for small businesses' perceived competition differ by (1) operational locality, (2) business revenues, and (3) innovativeness?

3. Method

3.1. Data collection

We conducted one-on-one interviews with SRB owners/managers in a southeastern U.S. state. We used ReferenceUSA.com, an online database of U.S. businesses, as the sample frame. Because a common definition of "small business" is a business with fewer than 100 employees (e.g., Scarborough and Zimmerer, 2011), we recruited participants by contacting independently owned and operated businesses with fewer than 100 employees in 15 cities. Various business formats were selected, including general stores, specialty stores, and resale stores. Major product categories included apparel, footwear, fashion accessories, home interior goods, and floral/gift items. While the entry and exit barriers are relatively low in these sectors due to low capital requirements, the level of competitive threats is high. In particular, apparel, fashion accessories, and footwear are one of the common product categories that consumers shop for online (Zaroban, 2012), so that growing online competition challenges the growth of local SRBs.

The database included the business format, major product category, address, and phone number of each business listed. Within each format, we chose one business out of each five listed. Potential participants were phoned to request their participation in an interview. We screened participants based on the following criteria: (1) at least 19 years old; (2) store owner or manager who is responsible for operating the business, (3) owner/manager of an independent local retail business that sells consumer products and services, and (4) owner/manager of a business that has fewer than 100 employees. If an owner/manager did not wish to participate, we contacted the business listed just below the initially selected business. By this process, we recruited 51 participants. An audio-recorded interview was conducted at each participant's store. Each participant received a \$20 gift card for an incentive.

3.2. Instruments

A semi-structured questionnaire was used to keep the interview focused on the central topics while still developing follow-up questions (Leedy and Ormrod, 2012). The participants were asked how they perceive competition within/outside the community and to explain why they felt this way. After the interview, participants were given a short survey about their demographic and business characteristics. An open-ended scale was used for age and a categorical scale was used for gender and ethnicity. Interval items were used for the number of years in business, the number of employees, and annual revenue. Innovativeness, which reflects a firm's openness to developing new products,

Table 1
Themes that emerged for perceived competition (N = 51).

Category	Underlying reasons	n within category	% within category
Pessimistic about competition (n = 23, 45.10%)	Theme 1: Threat from product/assortment similarities	13	56.52%
	Theme 2: Threat from lower-priced competitors	11	47.83%
	Other	5	21.75%
Optimistic about competition (n = 28, 54.90%)	Theme 3: Confidence in product differentiation	17	60.71%
	Theme 4: Belief in mutual support.	8	28.57%
	Theme 5: Belief in positive competition	8	28.57%
	Theme 6: Confidence in service quality	5	17.86%
	Theme 7: Confidence in competitive pricing	4	14.29%
	Other	1	3.57%

Note. A single participant's response could be coded into more than one theme when the respondent mentioned multiple points.

ideas, and procedures, was measured by five items developed by Brockman et al. (2012) such as "Being innovative is a competitive advantage for my business." The scale's reported reliability was 0.79. All items were measured by using a 5-point Likert scale, ranging from "strongly disagree" (1) to "strongly agree" (5). Cronbach's alpha for innovativeness was 0.84, indicating good reliability (Nunnally and Bernstein, 1994).

3.3. Sample profile

In total, 51 participants completed the interview and post-interview surveys. Of participating stores, 45 (88.2%) had fewer than 10 employees, 3 (5.9%) had 11-20 employees, and one (2%) had 21-30 employees. This sample profile is representative of small businesses in the U.S.: around 89% of small businesses in the U.S. have fewer than 20 employees (Small Business and Entrepreneurship Council, 2018). Participants came from eight of the 15 cities attempted. Based on U.S. Census Bureau classifications (2018), three out of eight cities were urban areas (UAs) with populations greater than 50,000 and the remaining five were urban clusters (UCs) with populations between 2500 and 50,000. Thirty stores (58.82%) were located in UAs and 21 (41.18%) in UCs. Thirty-nine stores (76.5%) were specialty stores, five (9.8%) were general stores, and seven (13.7%) were resale stores, including consignment and thrift stores. Twenty-six stores (51.0%) carried apparel products, 13 stores (19.6%) carried footwear/accessories/floral/gifts, and 12 stores (23.5%) carried a variety of products. Nineteen stores (37.3%) had annual revenues from \$200,000 to \$499,999; eight (15.7%) had annual revenues from \$50,000 to \$99,999; eight (15.7%) had annual revenues from \$100,000 to \$199,999; and five did not answer the question. The majority of participants were female (n = 43, 84.3%), store owners (n = 44, 86.3%), and Caucasian American (n = 48, 94.1%). Around 54.9% (n = 28) were between 41 and 60 years old (mean = 45) and 68.6% (n = 35) had been in business for less than 10 years.

4. Analysis and findings

This study uses an inductive method for theory building by focusing on describing, decoding, and advancing the understanding of a new or less-known phenomenon and underlying relationships (Hlady-Rispal and Jouison-Laffitte, 2014). We first employed qualitative content analysis to identify salient themes from the interviews. This analysis allowed us to systematically discover underlying themes and patterns of relationships. Next, we conducted multi-crosstab analysis by combining the coded data with quantitative business characteristics data in order to investigate the distribution of responses by business characteristics and identify and interpret underlying relationships.

The audio-recorded interviews were transcribed. In an open coding process, two coders examined the transcribed responses line-by-line, divided them into several segments based on common ideas and labeled each segment (Corbin and Strauss, 1990). In an axial coding process,

the two coders collected labels and generated various categories, then consolidated the various categories to create higher-order categories based on differences and similarities across labels (Spiggle, 1994). In this stage, we codified similar labels into one subcategory (Corbin and Strauss, 1990). We identified themes that represented the specific meaning of each subcategory, labeling each theme. Once the themes were identified and labeled by the first two coders, a third coder checked them to evaluate the credibility of the original coders' interpretative claims. All three coders analyzed the data multiple times to achieve agreement and objectivity (Fournier, 1998).

Through the iterative process of data analysis, we found two distinct categories of SRBs' overall perceptions of competition: those who felt that competition represented a severe threat to the survival or profitability of their business and those who did not. We term those who felt threatened by competition as "pessimistic about competition" and those who did not feel threatened as "optimistic about competition." Within each category, responses from each participant were classified into themes which provided underlying reasons for their perceptions (Table 1). A single participant's responses could be coded into multiple themes. If fewer than three respondents mentioned a specific point, these responses were classified as "other" and eliminated from multiple-response crosstab analysis. We discussed salient themes and patterns of relationships that emerged from each category and developed propositions in relations to the literature review.

4.1. Pessimistic about competition

Around 45% of participants (n = 23/51) reported pessimism in the face of competition within/outside their community. Two major themes emerged as underlying reasons for their pessimism. We illustrate each theme with selected quotes from the transcripts. After each quote, we report the participant's retail format with the participant's gender, age, major product category, and store title.

Theme 1. Threat from product/assortment similarities. This theme was mentioned by 13 out of 23 participants (52%) who expressed pessimism. They attributed their perception to various competitors offering similar products or assortment. Several respondents mentioned a threat from large retailers and expressed concern over growing competition due to their lack of buying power and similarities in product assortments. One participant reported, "... It's hard for a small business to compete with corporate, and I can tell you this because we are experiencing this now. We are trying to expand in the ladies and we end up buying things that other corporate stores are buying ..." (General-variety, female manager, 55). Another respondent said, "... everyone is fighting for the same lines and some people are selling the same lines so you get duplicate styles ..." (Specialty-apparel, female owner, 56). These participants expressed strong negativity toward competitors, particularly large retailers, who carry the same or similar products or assortments.

Theme 2. Threat from lower-priced competitors. Eleven out of 23

participants (47.83%) mentioned threat from competitors' low prices. Particularly, several respondents felt challenged by online retailers' lower-priced products. For example, one said, "The biggest competition is a price-point with the Internet. They don't have to have a storefront. They have a warehouse where they are paying maybe 50 cents a square foot rather. You can have three guys service a store because all they are packing boxes. ... From our standpoint, that is the biggest competition ..." (General-variety, male manager, 47). Other respondents complained that customers shopped in online stores to avoid sales tax. One said, "There is a lot of people who do not have to pay sales tax if they purchase on the Internet. I can't avoid that ..." (Specialty-apparel, female owner, 49). Some participants were concerned about price competition with large businesses due to their stronger buying and price negotiation power. One said, "... they can buy in much more bulk than we can, therefore they can have a sale and sell it for cheaper than we can because they can buy cheaper ..." (General-variety, female manager, 55). One participant further noted that the retail prices of some products offered by large businesses are even lower than the wholesale prices that the participant could get from vendors, reporting, "... the only problem I have as far as competition is like with places like Walmart they sell them cheaper than I can buy them wholesale so that hurts my business a lot ..." (Specialty-accessories/gifts, female owner, 52).

Several participants, mainly from resale stores, expressed a concern over growing price competition from yard sales or thrift stores. For example, one said, "... During the summer time there are yard sales, there's flea markets, there's little thrift malls opening on every corner and it's very difficult to compete with the lower prices ..." (Resale-variety, female owner, 46). Moreover, one respondent felt pressured to price very cautiously because online shopping makes it easy for customers to compare prices, reporting "... it's Internet sales, because people get on and look and compare prices and obviously all of that and so I have to really analyze how I set my prices and try to be competitive with what I can find online ..." (Specialty-apparel, female owner, 52). Generally, these participants reported that small businesses are at a disadvantage in terms of price, compared to large businesses or online retailers. Competitors' lower prices intensify competitive pressure among SRBs and threaten their profits.

Based on the above findings and discussion, we propose the following:

Proposition 1. *SRBs' pessimism about competition mainly arises from (1) growing product/assortment similarities and (2) lower-priced competitors.*

4.2. Optimistic about competition

Over half of the participants ($n = 28$, 54.9%) expressed optimism in the face of competition. Five themes (Theme 3 ~ Theme 7) emerged as underlying reasons for their perceptions, with Theme 3 being most dominant.

Theme 3. Confidence in product differentiation. Out of 28 participants who expressed optimism, 60.71% ($n = 17$) showed confidence in their niche, unique, or superior products or assortment. This theme was the most dominant reason for their optimism. One said, "We have other stores that offer some aspects of what we offer but none that are just like us. We just don't have any as far as exactly what we do" (Resale-apparel, female owner, 41). Several participants described their strategies to source unique products. For example, one said, "... I fly for 6 h at a time to go and buy my clothes. I hand-pick them from each vendor. I don't do the market in Atlanta where all of these vendors go and they go to these big trade shows and that is where they order from so everybody has exactly the same items. I really try to focus in on wanting different, unique, edgy stylish things and I think we are doing a good job and really staying on top with that ..." (Specialty-apparel, female owner, 28). Other participants expressed confidence in their

product quality. One said, "... they [customers] quickly find out that the products don't have the same quality that I have in the shop" (Specialty-apparel, female owner, 52). Some also mentioned offering better assortments while keeping the inventory volume low, a strategy which enabled the participants to consistently introduce new and unique products.

Several participants reported that they worked closely with local artists or designers to ensure the uniqueness and exclusivity of their products. One said, "Our product is totally different. We don't make things that they sell ... We come up with our own unique designs and then we don't sell them to anyone else so that our store is the only place to get those items ... I currently have several designers and we all collaborate and come up with different designs" (Specialty-apparel, male owner, 44). Similarly, another participant stated, "... we have artists in our town that are only exclusive with us" (Specialty-accessories/gifts, male owner, 29). Overall, these participants tended to believe that product/assortment differentiation allowed them to stay competitive and to avoid direct competition with large retailers and local competitors.

Theme 4. Belief in mutual support. Out of 28 participants who viewed competition optimistically, eight (28.57%) mentioned mutually supportive relationships as the reason. They tended to believe that small businesses can grow together by supporting each other rather than competing maliciously. For example, one said, "In a community this big, and the bi-cities, there is just plenty [of opportunities] for everybody. We try to make sure we're working together and staying on good terms with other stores" (Specialty-apparel, female owner, 41). Another participant said, "... our first instinct as a small business is to send them to another small business ... in this economy especially ... We have to help our fellow businesses out ..." (Resale-variety, female owner, 49). Another reported, "We are not mean, competitive, you know, if they need something they call us or if we need something we call them and we try not to do that too often but we do have that ability and try to stay on a friendly basis with the competitors." (Specialty-apparel, female manager, 50).

Generally, these participants were willing to refer or share customers to/with each other, believing that cooperation would help them grow together, build local competitiveness, and diminish competitive threats from stores outside their community. Gilmore et al. (2001) discussed the importance of creating a supportive atmosphere among small businesses which allows them to share workloads and retain customers in the local market. Our study demonstrates that SRBs tend to build a sense of community by supporting and referring customers to each other even in a difficult time, thus viewing competition through a lens of cooperation.

Theme 5. Belief in positive competition. Eight (28.57%) out of 28 participants who expressed optimism believed that competition is healthy and brings opportunities to develop their businesses. For example, one participant mentioned, "I'm always happy when another consignment store opens around even close by because consignment shoppers beget consignment shoppers so they shop at this one down the street so I actually welcome the competition" (Resale-variety, female owner, 41). Another reported, "I feel like any competition is healthy. I think it just only makes you drive to be better and bigger all the time. I think if you didn't have competition, you would get stuck in a rut because you only do as well as you think you are doing ..." (Specialty-apparel, female owner, 28). Generally, these participants believed that competition is healthy and welcome because it pushes them to think ahead, grow, and build sustainable strategies. Porter (2008) also suggested that market competition enhances the overall competitiveness of small businesses by boosting their performance.

Theme 6. Confidence in service quality. Five out of 28 participants (17.86%) expressed optimism about competition because they offered

better service and built stronger customer relationships than did competitors. Some stated that service-oriented management was their key philosophy, reporting, “We have customers that drive down to us. Our whole business was based on the fact that we cater to our customers and that’s what’s helped us grow ...” (Specialty-accessories/gifts, female owner, 38) and “We are very service-based here ... the bridal and formalwear business in my opinion is very very service-oriented. So we provide something that they don’t provide ...” (Specialty-apparel, female owner, 40). These participants stressed that they took care of each customer. One said, “I try to let people know that they’re getting more personal service from me and even though I have to charge a little more for it that I’m willing to deliver it wherever they want to go ...” (Specialty-accessories/gifts, female owner, 52). Generally, these participants believed that better service and customer relationship differentiated their stores from competitors within/outside the community.

Theme 7. Confidence in competitive pricing. Competitive pricing, also known as competition-based pricing, refers to setting prices based on competitor prices. It includes price matching (Hart, 2019). Out of 28 participants, four (14.29%) expressed optimism about competition because their prices are competitive or lower than competitors’ price. Some owners used price matching to keep their loyal customers. For example, one participant mentioned, “Competition really doesn’t bother me. I’ll match it if I can ...” (Specialty-apparel, female owner, 57). Another said, “I make sure the price-points here were competitive” (Specialty-apparel, female owner, 41). Generally, these participants expressed confidence in their prices and believed that pricing strategies helped them retain customers.

Based on the above findings and discussion, we propose the following:

Proposition 2. *SRBs’ optimism about competition mainly arises from (1) confidence in product differentiation, (2) belief in mutual support among SRBs, (3) belief in positive competition, (4) confidence in service quality, and (5) confidence in competitive pricing.*

4.3. Variations by business characteristics

For quantitative data analysis, we conducted multiple-response crosstabs because participants’ responses could be classified into more than one theme. We analyzed overall distributions of themes and variations in theme distributions by business characteristics.

4.4. Operational locality

After minor responses classified as “other” and two missing values were eliminated, 45 stores, 19 in higher-population UCs and 26 in lower-population UAs, were submitted to multiple-response crosstab

Table 2
Perceived competition by operational locality.

Operational Locality	Category 1			Category 2						Row Total
	Pessimistic about competition			Optimistic about competition						
	Theme1	Theme2	n	Theme3	Theme4	Theme5	Theme6	Theme7	n	
<i>Urban cluster (UC)</i>	3	2	4	9	5	6	2	4	15	19
% across categories (n = 19)	15.79%	10.53%	21.05%	47.37%	26.32%	31.58%	10.53%	21.05%	78.95%	100%
% within category (Cg1: n = 4; Cg2: n = 15)	75%	50%	100%	60%	33.33%	40%	13.33%	26.67%	100%	
<i>Urbanized area (UA)</i>	10	9	14	8	3	2	3	0	12	26
% across categories (n = 26)	38.46%	34.62%	53.85%	30.77%	11.54%	7.69%	11.54%	0%	46.15%	100%
% within category (Cg1: n = 14; Cg2: n = 12)	71.43%	64.29%	100%	66.67%	25%	16.67%	25%	0%	100%	
Column Total	13	11	18	17	8	8	5	4	27	N = 45

Note: Time 1 (Product similarities), Theme 2 (Lower price), Theme 3 (Product differentiation), Theme 4 (Positive competition), Theme 6 (Service quality), and Theme 7 (Competitive pricing).

analysis (Table 2).

- SRBs operating in UCs:* Participants in UCs were predominantly optimistic about competition (n = 15/19, 78.95%), mainly attributing the reason to Theme 3 (product differentiation) (n = 9/15, 60%). They occasionally mentioned Theme 5 (positive competition; n = 6/15, 40%), Theme 4 (mutual support; n = 5/15, 33.33%), and Theme 7 (competitive pricing; n = 4/15, 26.67%) as the reasons for their optimism. Theme 6 (service quality) was least mentioned (n = 2/15, 13.33%). Few participants in UCs (n = 4/19, 21.05%) were pessimistic, mentioning Theme 1 (product similarities; n = 3/4, 75%) and Theme 2 (lower price; n = 2/4, 50%).
- SRBs operating in UAs:* Overall, participants in UAs had no dominant views: 53.85% (n = 14/26) were pessimistic and 46.15% (n = 12/26) were optimistic about competition. Pessimists in UAs attributed the reason to Theme 1 (product similarities; n = 10/14, 71.43%) and Theme 2 (lower price; n = 9/14, 64.29%), respectively. The majority of optimists in UAs mentioned Theme 3 as a reason (n = 8/12, 66.67%). Unlike optimists in UCs, few mentioned Theme 4 (n = 3/12, 25%) and Theme 5 (n = 2/12, 7.69%), and none mentioned Theme 7.

The majority of SRBs in UCs were optimistic about competition, mostly because of their differentiated products. Although the themes were not dominant, SRBs in UCs mentioned Theme 4 and Theme 5 were more frequently than did those in UAs. These participants viewed the competition more positively and believed that sharing or referring customers to each other benefits because sharing can boost the local economy and encourage customers to shop locally. In addition, while participants in UCs expressed confidence in competitive pricing, SRBs in UAs tended to perceive competition slightly more pessimistically, feeling more pressured from intensive competition. These differences suggest that businesses in more competitive markets (such as UAs), perceive competition and problems differently than do businesses in less competitive markets (such as UCs) (Dodge et al., 1994). However, since smaller cities had a greater decline in employment and a tougher business environment (U.S. Congress Joint Economic Committee, 2017), prevalent optimism among SRBs in less competitive markets may reflect complacency or a limited understanding of market competition, factors which may threaten entrepreneurial sustainability. Carter and Jones-Evans (2000) also pointed out that small business owners may be overly optimistic, leading to complacency about their businesses. Based on these findings and the literature review, we propose the following:

Proposition 3. *SRBs in UCs tend to be optimistic about competition, mainly due to their confidence in product differentiation. However, this optimism may threaten SRBs’ sustainable competitive advantage through complacency or inaccurate anticipation of changing market conditions.*

Table 3
Perceived competition by annual revenue.

Annual revenue	Category 1			Category 2						Row Total
	Pessimistic about competition			Optimistic about competition						
	Theme1	Theme2	n	Theme3	Theme4	Theme5	Theme6	Theme7	n	
<i>Low (\$199,999 or less)</i>	4	4	8	6	2	2	1	2	9	17
% across categories (n = 17)	23.53%	23.53%	47.06%	35.29%	11.76%	11.76%	5.88%	11.76%	52.94%	100%
% within category (Cg1: n = 8; Cg2: n = 9)	50%	50%	100%	66.67%	22.22%	22.22%	11.11%	22.22%	100%	
<i>High (higher than \$199,999)</i>	6	4	6	11	5	6	4	2	17	23
% across categories (n = 23)	26.09%	17.39%	26.09%	47.83%	21.74%	26.09%	17.39%	8.70%	73.91%	100%
% within category (Cg1: n = 6; Cg2: n = 17)	100%	66.67%	100%	64.71%	29.41%	35.29%	23.53%	11.76%	100%	
Column Total	10	8	14	17	7	8	5	4	26	N = 40

Table 4
Perceived competition by innovativeness.

Innovativeness	Category 1			Category 2						Row Total
	Pessimistic about competition			Optimistic about competition						
	Theme1	Theme2	n	Theme3	Theme4	Theme5	Theme6	Theme7	n	
<i>Low</i>	4	5	7	9	5	2	3	2	15	22
% across categories (n = 22)	18.18%	22.73%	31.82%	40.91%	22.73%	9.09%	13.64%	9.09%	68.18%	100%
% within category (Cg1: n = 7; Cg2: n = 15)	57.14%	71.43%	100%	60%	33.33%	13.33%	20%	13.33%	100%	
<i>High</i>	8	5	10	8	3	6	2	2	12	22
% across categories (n = 22)	36.36%	22.73%	45.45%	36.36%	13.64%	27.27%	9.09%	9.09%	54.55%	100%
% within category (Cg1: n = 10; Cg2: n = 12)	80%	50%	100%	66.67%	25%	50%	16.67%	16.67%	100%	
Column Total	12	10	17	17	8	8	5	4	27	N = 44

4.5. Business revenues

After minor responses classified as “other” and five missing values were eliminated, 40 stores were submitted to multiple-response crosstab analysis (Table 3). Businesses were classified as low revenue if they had annual revenue under \$199,999 (n = 17) and high revenue if they had annual revenue over \$199,999 (n = 23).

- (1) *Low-revenue SRBs*: Overall, low-revenue SRBs had no dominant view: 52.94% (n = 9/17) were optimistic and 47.06% (n = 8/17) were pessimistic about competition. The low-revenue optimistic participants attributed the reason mainly to Theme 3 (product differentiation) (n = 6/9, 66.67%). Only a few mentioned Theme 4, Theme 5, Theme 7 (n = 2/9, 22.22%, respectively), and Theme 6 (service quality; n = 1/9, 11.11%). The other low-revenue pessimistic participants attributed the reason evenly to Theme 1 (product similarities) and Theme 2 (lower price) (n = 4/8, 50%, each).
- (2) *High-revenue SRBs*: Most high-revenue participants were optimistic about competition (n = 17/23, 73.91%), mainly attributing the reason to Theme 3 (n = 11/17, 64.71%). Theme 5 (positive competition; n = 6/17, 35.29%) and Theme 4 (mutual support; n = 5/17, 29.41%) were occasionally mentioned, with high-revenue participants mentioning them slightly more frequently. This finding suggests that high-revenue optimists tend to view competition more positively, believing in benefits from healthy competition and mutual support among small businesses. Although few high-revenue participants were pessimistic (n = 6/23, 26.09%), they mainly mentioned Theme 1 (6/6, 100%), followed by Theme 2 (n = 4/6, 66.67%).

Overall, while low-revenue SRBs had no dominant view, most high-revenue SRBs expressed optimism about competition. High-revenue optimists tended to view competition through a lens of confidence and cooperation. Cooper et al. (2016) found that availability of resources influences a firm’s innovation efficacy in developing new products, processes, or markets. High-revenue SRBs have more financial

resources than low-revenue counterparts to offer differentiated products and thus are better able to support local businesses and foster positive competition. These businesses should build sustainable competitive advantage by leveraging financial resources to differentiate product offerings and create value for customers. Based on the above findings and literature review, we propose the following:

Proposition 4. *High-revenue SRBs tend to be optimistic about competition, mainly due to confidence in product differentiation. This optimism among high-revenue SRBs presents an opportunity to build sustainable competitive advantage through continuous investment in product differentiation to align with changing market conditions.*

4.6. Innovativeness

After minor responses classified as “other” and one missing response were eliminated, 44 participants (low innovativeness, n = 22, mean = 3.46; high innovativeness, n = 22, mean = 4.61) were submitted to multiple-response crosstab analysis (Table 4). Overall, the majority of the low-innovativeness group (hereafter non-innovators) expressed optimism toward competition, whereas the high-innovativeness group (hereafter innovators) had a split view of competition.

- (1) *Non-innovative SRBs*: The majority of non-innovators were optimistic about competition (n = 15/22, 68.18%), mainly attributing their optimism to Theme 3 (product differentiation (n = 9/15, 60%), followed by Theme 4 (mutual support; n = 5/15, 33.33%). The seven non-innovative pessimists mentioned Theme 2 (lower price; n = 5/7, 71.43%) slightly more than Theme 1 (product similarities; n = 4/7, 57.14%).
- (2) *Innovative SRBs*: Innovative SRBs had no dominant view: 54.50% were optimistic (n = 12/20) and 45.45% were pessimistic (n = 10/22). Among the innovative optimists, Theme 3 was the most frequently mentioned reason (n = 8/12, 66.67%), followed by Theme 5 (positive competition; n = 6/12, 50%). Theme 5 was mentioned more frequently by innovative optimists than non-innovative

optimists ($n = 2/15$, 13%), a finding which may indicate that innovative optimists tend to better understand the competitive nature of the industry and believe that competition pushes them to upgrade and innovate.

Among the innovative pessimists, Theme 1 was the most frequently mentioned ($n = 8/10$, 80%), showing a different pattern from non-innovative pessimists who mentioned Theme 2 slightly more frequently. This difference suggests that while innovative SRBs feel pressured by growing product/assortment similarities among businesses, non-innovative SRBs feel threatened by the lack of price competitiveness.

Brockman et al. (2012) found that customer orientation improves performance for small businesses with high innovativeness but not for those with low innovativeness, suggesting that customer orientation does not provide competitive advantage when the businesses are unable to grasp new concepts and approaches. Therefore, SRBs' innovativeness plays a critical role in business decisions by affecting the way they view the market competition and develop coping strategies. Unfavorable market environments increase the importance of innovation for sustainable competitive advantage (Mann and Byun, 2017; Morris et al., 2007). Furthermore, the theory of defensive pessimism suggests that some pessimists use a strategy to cope with anxiety and perform better by anticipating possible challenges and planning for worst-case scenarios (Norem, 2008). Meza et al. (2019) also found that pessimistic entrepreneurs tend to earn 30% more than optimistic entrepreneurs. Similarly, we argue that innovativeness will push pessimistic SRBs to manage rising competitive pressure more effectively through continuous monitoring of competition and searching for feedback and solutions to stay innovative, thus presenting an opportunity to build sustainable competitive advantage. Therefore, we propose the following:

Proposition 5. *Non-innovative SRBs tend to be optimistic about competition, mainly due to their confidence in product differentiation. However, this optimism among non-innovative SRBs may threaten sustainable competitive advantage through complacency or inaccurate anticipation of changing market conditions.*

Proposition 6. *Pessimistic innovative SRBs tend to be more influenced by more sustainable competitive advantage such as product differentiation, whereas pessimistic non-innovative SRBs tend to be more influenced by less sustainable competitive advantages such as price. However, pessimism among innovative SRBs may present an opportunity to build sustainable competitive advantage through continuous monitoring and planning for anticipated challenges to stay innovative and differentiated.*

5. Discussion and implications

Traditionally, small businesses tend to view market competition pessimistically because small businesses in a highly competitive market are more likely to fail (Kalleberg and Leicht, 1991; "The good and bad effects," 2016). Contrary to common expectations, we found that more than half of SRB owners and managers are optimistic about competition, mainly viewing competition through the lens of confidence or cooperation. Previous studies have found that optimists tend to pay attention to positive information, actively engage in problem solving, and stay ambitious and persevere in the face of failure (Carver, 2015). However, many studies also confirm that optimism can be risky. In an uncertain or rapidly changing business situation, optimists may fail to see details or seek new information, leading to poorly informed decisions (Beazley, 2019). Too much optimism could create overconfidence, resulting in underestimating chances of failure (Meza et al., 2019). Overconfidence among small firms negatively affects their performance (Invernizzi et al., 2017), leading owners to become blinded to what consumers want or how competitors are doing.

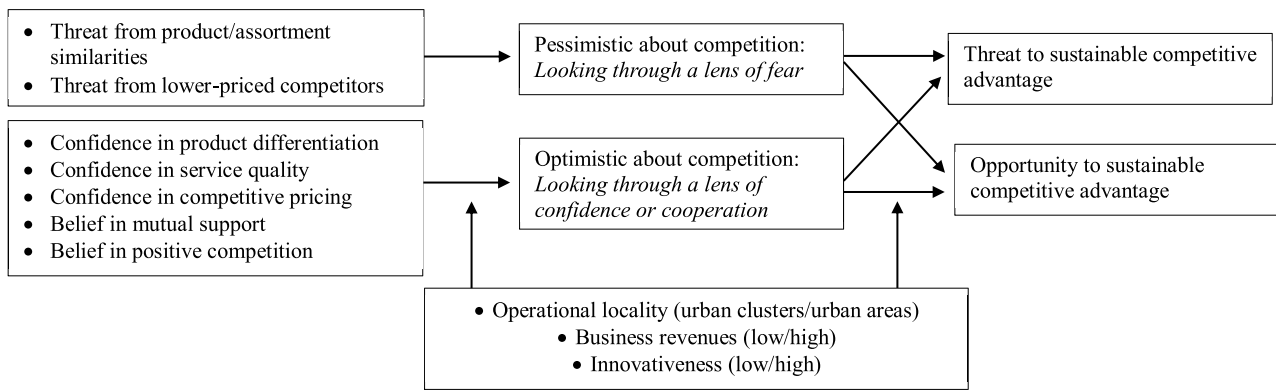
In our study, optimism was prevalent among SRBs operating in

urban cluster areas, high-revenue SRBs, and innovative SRBs. Furthermore, we found that regardless of business revenues, innovativeness, or operational locality, the most dominant reason for optimism was confidence in product differentiation. SRBs believed that their products were different, unique, and superior to other stores. Non-innovators' optimism toward competition and confidence about their product differentiation were surprising because retailers who lack innovativeness are commonly expected to perish due to competition. We also found that stores in UCs did not feel much pressure from competition, mainly believing that their products were unique, different or better. Some businesses operating in less competitive environments such as urban clusters or rural areas may have a natural monopoly as the only firm within a certain geographical area (Dodge et al., 1994), leading them to perceive competition optimistically. However, businesses operating under such market environments are likely to have a false sense of confidence in their performance, thereby risking complacency and inaccurate anticipation of changing markets. A limited awareness of competition could lead businesses to overlook potential threats and competitors (Porter, 2008). Our findings suggest that many small businesses in states with slow recovery rates may not fully recognize the nature of competition.

In addition, we found that a significant number of SRBs were pessimistic about competition, feeling pressured from competitors' lower prices and similar products/assortments, looking at competition through the lens of fear. Porter (2008) proposed rivalry as one of the five forces that shape industry competition and suggested that rivalry among competitors intensifies when a large number of competitors sell undifferentiated products and compete on price. The lack of product differentiation makes it increasingly difficult for businesses to attract and keep customers, and low price strategy reduces profitability. Such challenges are not limited to small businesses: the majority of products sold at U.S. department stores can be found at Amazon (Petro, 2016). Differentiation is becoming more difficult, and product parity is one of the major reasons for failure of businesses in today's competitive retail arena. Thus, SRBs lacking differentiation will face growing pressure from lower-priced competitors. Sustainable competitive advantage of differentiation is achieved when products are unique and hard for competitors to replicate (Porter, 2008). Borchardt et al. (2018) found that local SRBs can compete against leading brands by offering niche products with local characteristics such as products made with local sources. Furthermore, Peters and Bodkin (2018) found that consumers tend to feel a sense of retail store community when they socially engage with other shoppers and employees and when they purchase local products and participate in local events in a store, which in turn creates shared bonds among consumers. SRBs should deliver unique products and experience by creating local connections with their customers which large or national brands will have difficulty building.

In our study, pessimism was commonly expressed by SRBs in urban areas, low-revenue SRBs, and innovative SRBs. While these businesses were commonly concerned about the lack of product differentiation and price competitiveness, SRBs in urban areas and innovative SRBs tended to feel more pressured by growing product/assortment similarities. Prior research suggest that pessimists tend to pay more attention to negative information and deny or avoid uncertain or challenging situations (Carver, 2015). However, in some cases, pessimistic entrepreneurs tend to be more successful by being more realistic about the challenging situations they are facing (Norem, 2008). In particular, we argue that innovative pessimists SRBs can survive or even build sustainable competitive advantage by being alert for ever-changing demands, continuously assessing their weaknesses, and listening to negative feedback from customers to create a meaningful point of differentiation in consumers' minds.

We also found some less salient but interesting patterns among Themes 4 through 7. Compared to counterpart businesses, optimistic SRBs in UCs, high-revenue SRBs, and non-innovative SRBs have a slightly stronger tendency to believe in mutual support, viewing



Dominant perceptions of competition	Threat or Opportunity	Implications
<ul style="list-style-type: none"> SRBs in UCs are optimistic mainly due to confidence in product differentiation. 	<ul style="list-style-type: none"> Optimism among SRBs in UCs is likely to present a threat to building sustainable competitive advantage. Businesses may have a false sense of confidence due to the lack of competition in their geographic areas, thus leading to a risk of complacency and inaccurate anticipation of a changing market. 	<ul style="list-style-type: none"> Be aware of the competition beyond the local community and understand changing market conditions.
<ul style="list-style-type: none"> High-revenue SRBs are optimistic mainly due to confidence in product differentiation. 	<ul style="list-style-type: none"> Optimism among high-revenue SRBs is likely to present an opportunity to build sustainable competitive advantage. For optimistic businesses, a favorable financial position is likely to be highly related to product differentiation. 	<ul style="list-style-type: none"> Leverage financial resources to improve product differentiation to align with changing market conditions. Expand the investment in differentiation to other areas and take risks if necessary to raise an entry barrier.
<ul style="list-style-type: none"> Non-innovative SRBs are optimistic mainly due to confidence in product differentiation. 	<ul style="list-style-type: none"> Optimism among non-innovative SRBs is likely to present a threat to building sustainable competitive advantage. Businesses may have a false sense of confidence due to their low innovation orientation, thus leading to a risk of complacency and inaccurate anticipation of a changing market. 	<ul style="list-style-type: none"> Be aware of the competition beyond the local community and understand changing market conditions. Develop a culture of innovation within the business.
<ul style="list-style-type: none"> Innovative SRBs are pessimistic mainly due to growing pressure from product/ assortment similarities. 	<ul style="list-style-type: none"> Pessimism among innovative SRBs is likely to present an opportunity to build sustainable competitive advantage. Pessimistic innovators are likely to anticipate rising challenges and manage their anxiety through continuous monitoring and planning to stay innovative. 	<ul style="list-style-type: none"> Actively monitor competition and seek for continuous feedback and solutions to align with changing demands. Leverage creativity and innovativeness to create meaningful differentiation and avoid price-based competition.

Fig. 1. A Framework of SRBs' perceived competition and sustainable competitive advantage.

competition through a lens of cooperation. [Morris et al. \(2007\)](#) suggest that small businesses can gain competitive advantage and improve financial performance through “coopetition,” i.e., cooperation between competing companies, especially when in challenging markets. While enclosed malls are disappearing, open-air shopping areas can still serve as entertainment places. Many consumers are not happy with store closings and want more physical stores to improve their offerings and stay relevant and innovative in the midst of retail transformation ([Helm et al., 2018](#)). A study also predicts that offline stores will be an important touchpoint to create unique customer experience in the era of digitization ([Huang et al., 2019](#)). Local SRBs can create a coopetitive atmosphere and collaboratively build local shopping destinations. [Ryu and Fortenberry \(2017\)](#) found that young, idiocentric consumers are willing to shop at small-town retailers as a convenient shopping option to buy a variety of unique products, highlighting the importance of mutual relationships among SRBs as well as with town administrators to promote local retail as a shopping destination for this consumer group. However, coopetition succeeds when members share mutual benefits, trust, and commitment ([Morris et al., 2007](#)) and overly close ties among businesses may deter business growth and innovativeness ([Porter, 2008](#)). Therefore, SRBs should network with businesses with different capabilities, resources, and geographic locations while

keeping a balance in relational commitment and activities.

In addition, SRBs in UCs, high-revenue SRBs, and innovative SRBs tended to attribute their optimism to positive outcomes of competition, believing that healthy competition pushes them to improve and perform better. High-revenue and innovative SRBs tended to better understand today’s competitive retail market, showing confidence due to their financial positions or innovativeness. SRBs in UCs tended to be optimistic because they had less competition in lower-population areas, thus welcoming more competition to further boost local businesses.

Delivering exceptional customer service is key to competitiveness, especially for small business, because it helps them build customers’ loyalty to stores and generate positive word-of-mouth ([Brockman et al., 2012](#)). [Schultz et al. \(2016\)](#) found that customers’ perceived relational closeness with the business affects customer loyalty; when customers feel welcomed by and close to the store staff, or when they perceive the store as an important part of neighborhood life, customers tend to be loyal to the store and recommend it to others. In our study, while confidence in service quality was one of the least mentioned reasons for optimism, it was most frequently mentioned by high-revenue SRBs, implying a positive association between service quality and financial performance. However, these participants often compared themselves to mass discounters such as Walmart which offer minimal customer

service. None of them compared their service to that of national specialty stores or department stores known for outstanding customer service. This finding indicates that SRBs tend to find competitors or best practices from businesses geographically close to them, leading to a limited understanding of the range of competition and changing consumer demand. Local SRBs can build competitiveness when they have a better understanding of local customers' habits and needs (Borchardt et al., 2018). Therefore, SRBs should broaden the scope of perceived competition and align their service offerings to meet changing demands and expand their target market.

Lastly, some optimistic SRBs operating in UCs tended to express confidence because they match prices or offer competitive prices. However, this practice may threaten sustainable competitive advantage because competition-based pricing is used when businesses compete on the same or similar products. This pricing strategy may reduce profit margins and is not ideal for small businesses who do not have price competitiveness. Small businesses should build competences in differentiated products to avoid pressure from price matching (Hart, 2019).

To conclude, using both qualitative and quantitative analysis, we examined themes and underlying patterns of perceived competition among SRBs owners and managers in the U.S. Knowledge of SRBs' varied perceptions and underlying reasons by different business characteristics, both external (operational locality) and internal (revenues and innovativeness), provides a groundwork for understanding SRBs' perceptions of competition and long-term competitiveness. Based on salient findings and discussion in the literature review, we proposed propositions and developed a framework for SRBs' perceived competition and sustainable competitive advantage (Fig. 1). We highlight underlying reasons for pessimistic versus optimistic perceptions and the influence of different business characteristics on perceptions of competition and further discuss how these factors lead to potential threats and opportunities for building sustainable competitive advantage. Through the framework, we argue that overconfidence, complacency, overestimation of their performance, and underestimation of market changes present a threat for some optimistic SRBs. On the other hand, we argue that some pessimistic SRBs, as compared to overly confident and optimistic SRBs, may have a better opportunity to build and sustain competitive advantage through realistic assessment of their performance and continuous monitoring of changing market conditions. Our findings provide important implications for retailers and policy makers. SRBs should realize potential problems and threats to reduce the risk of failure, while policy makers can use the knowledge from our study to assess SRBs' perceived competition by business characteristics, provide resources to help SRBs better understand changing market conditions and build sustainable competitive advantage, or develop policies to promote healthy competition and local entrepreneurship.

5.1. Limitations and directions for future research

Although this study extends our understanding of perceived competition among SRBs and fills substantial gaps in the literature, we acknowledge several limitations. First, our participants were SRBs with fewer than 20 employees in a southeastern U.S. state. Therefore, the findings of this study may not be generalizable to SRBs in different locations or of different sizes. Different geographic locations, cultures, or organizational size may be related to different perceptions of competition (Fouskas and Drossos, 2010). Future research may explore similarities and differences in perceptions by these factors and improve the generalizability of the findings. In addition, although qualitative studies do not require large samples, the findings of the study are still limited by the small sample size. Also, the majority of the participants were female owners or managers. Gender differences may exist in market perceptions and decision-making processes (Gielnik et al., 2017; Santos et al., 2016). Future researchers could recruit larger and more balanced samples to increase the validity of the findings and compare gender differences in perceived competition. Future research may also

include more diverse product categories to increase the generalizability of the findings.

Our study provides a foundation for future research. We qualitatively and quantitatively examined salient themes, underlying patterns of relationships, and the impact of business characteristics on perceived competition among SRBs. We encourage researchers to empirically test the relationships proposed in our study or extend the framework by including other important variables. Longitudinal studies could investigate the impact of pessimistic vs. optimistic views of competition on small businesses' long-term sustainability. Additionally, we discussed potential problems with overconfidence in product differentiation among SRBs. Therefore, future research should empirically examine perceptual gaps between small businesses and consumers in evaluating the performance and competitiveness of SRBs in their local areas. Lastly, future research is needed to further examine the phenomenon of viewing competition optimistically through a lens of cooperation. What drives such perceptions? In what ways do small businesses cooperate? How do consumers react to local businesses' collaborative market approaches? What are the benefits and problems of cooperation among SRBs? Findings from these questions will provide many theoretical and practical implications for community development and further the role of SRBs in building sustainable competitiveness of local markets.

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Appendix A. Supplementary data

Supplementary data to this article can be found online at <https://doi.org/10.1016/j.jretconser.2019.101925>.

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