

How small business can win: Surviving e-commerce and category killers

Ridgefield Hardware Case Study

By: Ronald W. Pimentel, Ph.D., Clinical Assistant Professor, Washington State University Carson College of Business

Executive Summary

In the small town of Ridgefield, Wash., growth seems inevitable, with more people moving to the Portland-area suburbs in search of affordable living and a small-town atmosphere. But for the residents of Ridgefield, there is a growing concern about the loss of this very atmosphere, primarily driven by a fear of large stores moving in and displacing smaller local retailers.

When community members were posed with the question “What does Ridgefield need?” on the Nextdoor social media platform, the most discussed topic was the need for a grocery store in town, as currently residents must drive nine miles to the nearest full-size supermarket. While many saw a need for a grocery store, they also expressed concerns over hurting local businesses and the current small-town atmosphere.

This desire to shop local reflects a larger trend in the Pacific Northwest. In fact, a 2017 survey conducted by the Washington State University Carson College of Business found that 57 percent of in-store shoppers prefer local establishments, and 79 percent of respondents indicated they were more likely to buy from retailers that have a positive effect on the local community.

The following case study examines the town of Ridgefield, the community’s attitudes toward growth and local businesses, and how one local business—Ridgefield Hardware—is overcoming the growth of e-commerce and big-box retailers. Key findings include these recommendations for small retailers:

- **Embrace being small and local.** Keep overhead costs low to be profitable with a small, local target market. Consumers are more likely to consider smaller stores they feel are charming and cute. Retail shoppers are willing to make allowances for such stores, including paying slightly higher prices.
- **Personalize relationship marketing.** An advantage of being small and local is the ability to learn the names of customers. Take an interest in them. Let shoppers know they are dealing with a friend.
- **Embrace the community.** Support local organizations and activities. Be visible as much as possible. Be active on local social media channels. Local shoppers are more likely to be loyal to a store that is considered an integral part of the community and a positive contributor to it.

The Situation: Rapid Growth Impacts Small Town Atmosphere

The small town of Ridgefield was founded in the early 1860’s and officially incorporated in 1909. Today, residents and visitors still enjoy the small-town spirit of the community, particularly the downtown area. However, this small-town charm is being threatened by rapid growth and development. During the past decade, it has been ranked as the fastest-growing city in Washington state, growing from 2,324 residents in 2000 to an estimated 7,392 in 2017. It is certainly poised for continued growth, being located on Interstate 5 corridor and near a port that is soon to be reopened on the Columbia River.

Additionally, its proximity to Vancouver, Wash., and Portland, Ore., along with relatively affordable housing, makes it ideal for commuters.

Despite this growth, business in Ridgefield has remained local. Aside from a Subway and Papa Pete's Pizza near the interstate, there are no fast-food chains, big-box stores or supermarkets. Residents can purchase groceries from one of two small markets downtown, but for a market that is larger than a convenience store, Ridgefield residents must drive at least nine miles.

While larger chains have not yet set in, the topic is still top-of-mind for residents. In July 2017, several residents responded to the question "What does Ridgefield need?" on Nextdoor, a private social networking service for people to stay informed about what's happening in their neighborhood. The resulting thread continued for more than five months and included 343 posts. The most discussed topic was the need for a grocery store in town. Though many saw a need for a grocery store, they also expressed concerns over hurting local businesses and the current small-town atmosphere. In fact, several respondents felt it was worth the current drive to adjoining towns for supermarkets, to protect local merchants and the small-town environment of Ridgefield. Slightly more respondents thought it was time Ridgefield had a grocery store, but that it should be located near the freeway rather than downtown.

The sentiments posted in this thread are consistent with findings of a 2017 Washington State University Carson College of Business survey, which found 57 percent of in-store shoppers prefer local establishments, and 79 percent of respondents were more likely to buy from retailers that have a positive effect on the local community. Part of this preference is due to the fact that 78 percent believe local chains or small businesses provide better service, and 60 percent see store employees as valuable sources of knowledge that can help with decision-making. Additionally, those who posted on Nextdoor exhibited sentimental attachments to the local retailers of downtown Ridgefield and the role they play in the community.

However, despite reported preferences for shopping with local merchants, the majority of respondents to the online survey identified Amazon as the retailer from which they expected to make the most purchases during the 2017 holiday shopping season. This may indicate that factors such as perceived convenience and price outweigh the desire to support local businesses. Furthermore, consumers may not even be aware they are slowly transitioning their purchases from in-store to online.

So how can small, local retailers overcome this? Ridgefield Hardware, a quintessential locally-owned and operated retailer, offers valuable insights for small business looking to overcome e-commerce and big-box retail.

Case Study: Ridgefield Hardware

Ridgefield Hardware, owned by Scott and Cathy Hughes and located on the corner of Pioneer Street and Main Street, is considered by many to be the center of the small town. Established in 1914, the store has operated continuously for over a century and exemplifies the treasured small-town spirit of Ridgefield. At 3,500 square feet, it is a small store selling a full line of hardware and giftware. Similar to many locally-owned hardware stores, it is affiliated with a supplier—Orgil. The store and its owners are well-regarded in the community. In fact, the Hughes' beloved dog Otis was so popular among residents he was recommended for the position of city manager of Ridgefield.

To gain further insight into the attitudes and sentiments toward Ridgefield Hardware, a question was posed on Nextdoor to solicit feedback on the store. Sixty-one community members responded. Of note, given all respondents were self-selected participants and only included members of Nextdoor, they are not a random sample and may not be representative of the store's full market. Nevertheless, several themes became evident from an examination of the thread.

The comments were overwhelmingly positive. Ridgefield residents like their hardware store for many reasons:

Comprehensive Selection

More than half of respondents shared that they appreciated the store's broad selection. The owners' strategy of a "broad and shallow" assortment is working. A 14-year customer commented, "I have never gone into Ridgefield Hardware and not found what I needed." Another respondent mentioned he is frequently surprised to find needed goods at the store that he did not expect it to have. Perhaps the most significant comment about the store's inventory was, "You can find things there you cannot find at big box stores. If they do not have it, they will order it for you."

Convenience Over Price

Shoppers generally expect to pay higher prices when shopping at a small, local hardware store, as compared to big-box home improvement stores that enjoy cost advantages from buying directly from suppliers in large quantities. Ridgefield Hardware buys inventory from a distributor. According to owner Scott Hughes, prices at Ridgefield Hardware run an average of 10 percent higher than at Home Depot or Lowes. However, for certain products for which the demand is price-inelastic, the home improvement stores often add even higher markups and thus Ridgefield Hardware's prices are still competitive.

Some Nextdoor respondents perceived the prices to be comparable. More perceived that the home improvement stores had lower prices, but not enough lower to justify the expense and time of the longer drive. Some expressed a willingness to pay slightly higher prices at Ridgefield Hardware because of their affection for the store or out of a sense of duty to support local merchants.

Affection for Owners

Scott and Cathy Hughes are popular in the community. Affection for them was mentioned in 26 posts, and eight respondents mentioned them by name. They are described as being friendly, engaging, knowledgeable and helpful. They know customers by name and make them feel valued. Scott and Cathy are also active in the community, serving on the Port Commission and other local initiatives. One respondent commented, "The 'family' of owners are Spudders [Ridgefield High School mascot] at heart and are interested in each person that becomes their customer." Another expressed similar feelings, "They post events, RHS sports schedule, and fully participate in community events. They are a 'safe zone' for kids. Every time I go there I feel like I'm buying from a friend."

Part of the popularity enjoyed by Scott and Cathy comes from the perception that their motives are admirable. One customer commented, "They want to help people more than sell them something." Another posted that "...they are just as cheerful whether you just buy a candy cane or make a big purchase." Scott previously worked in a high-pressure position with a major corporation but is happier

running the little store. He is pleased the store does well enough to pay the bills. A boon to the business came when a cellular phone service provider leased space on the roof of the store for an antenna.

Customer Service

Closely related to comments about the owners were 26 comments about service levels, including 12 comments about special or unexpected service. One customer related going to the store to buy a kit to hook up a dryer. He really only needed the hose but figured he would have to purchase the whole kit to get it. Scott asked if he needed the whole kit and then cut just the length of hose needed and sold that alone. Respondents also reported being pleased that Ridgefield Hardware will cut glass, special-order items and provide valuable advice for home projects.

Customer satisfaction is further enhanced by psychological effects identified by the *expectancy disconfirmation model* (Churchill & Surprenant, 1983; Swan & Trawick, 1981). Several customer respondents expressed surprise at performance levels that exceeded their expectations. This was expressed in regard to service levels, prices being competitive, the comprehensiveness of the store's inventory and the selection of gift items it carries.

Charm and Retail Atmospherics

Also related to comments about the owners are comments about the charm of the store. The citizens of Ridgefield cherish the small-town charm of the historic downtown area, and the hardware store is part of that. One respondent described it as being old-fashioned and "straight out of Mayberry." A few respondents mentioned appreciating the Hughes' dogs in the store. Twenty respondents used the word "love" or otherwise expressed feelings of affection for the store. One post stated, "It is the cutest store, and I love showing it off when family and friends visit." Another post included, "We love our hardware store," and others expressed feelings of the store belonging to them as a community.

For many, the store plays a special role in the community. It was identified as the "center," "cornerstone," "heartbeat" and "heart and history" of Ridgefield. Several customers posted comments about how the town should support local merchants, and Ridgefield Hardware in particular. One devoted customer stated, "Our community would be less of one without them here."

Self-congruence models (Aaker, Jennifer, 1999; Swan, John E. and Trawick, I. Frederick (1981) are relevant in this case. The Nextdoor thread indicated values shared by many Ridgefield residents. They consider themselves to be people that support local businesses and want to maintain the small-town charm of Ridgefield. To achieve self-congruence, they must be loyal customers of Ridgefield Hardware.

Competitive Advantages

Despite growing competition, Ridgefield Hardware has been able to survive through shrewd business practices that only a small business can have, from its low overhead costs and proximity to downtown, to personalized customer service and affection for the owners on the part of the community.

Thanks to a small mortgage on the building and family members providing much of the labor, the Hughes have been able to keep costs low and survive on the sale of last-minute and emergency items. They are also astute at maintaining a broad and shallow inventory to meet diverse customer needs without carrying the burden of low-turnover stock.

The comprehensive selection combined with convenient location for Ridgefield residents has allowed the company to stave off competitors. For customers who don't want to make the 30-mile round-trip to the nearest home improvement store, and for those whom the convenience of ordering online is not a sufficient advantage for purchasing something needed immediately, Ridgefield fulfills their need.

Furthermore, Scott and Cathy are masters at relationship marketing. Visiting Ridgefield Hardware feels like being a guest in the Hughes' home, complete with dogs curled up by the fire (heater). They are recognized as embodying the small-town charm Ridgefield is so anxious to preserve.

On Nextdoor, not only did respondents rave about the Hughes' expertise and service levels, they complained that when shopping at big-box home improvement stores, they had difficulty finding a knowledgeable staff member to assist them and give reliable advice. In the 3,500-square-foot Ridgefield Hardware store, it is never difficult to find a helping hand.

Market Challenges

The growth of Ridgefield brings additional business to the hardware store, but it also increases the likelihood of larger competitors locating nearby. So, how long can residents count on the store being there for the community?

Scott Hughes estimates roughly 75 percent of his business comes from shoppers who make the main purchases for their projects at Home Depot or Lowes and then buy fill-in and emergency items from Ridgefield Hardware. Although Ridgefield Hardware carries power tools and some other big-ticket items, such things are more often bought online or at home improvement stores that have larger selections.

Interestingly, however, none of the Nextdoor comments made any reference to shopping online. Still, the rise of e-commerce has undoubtedly affected local merchants like Ridgefield Hardware, as a great majority of items that can be purchased in a store can also be purchased online—even materials such as lumber, concrete mix and nails. Amazon Prime members can order items midweek and have them in time for a weekend project, and home delivery is now even more convenient than shopping at a store that is very nearby.

Finally, the growth in Ridgefield is leading to the loss of traditional customers to more than just big-box competitors or online alternatives. As farm land is converted into housing tracts, the town is becoming less rural and more suburban. Some long-term residents that constituted a core of the population are leaving for more remote rural areas and are quickly being replaced by suburbanites. It is not certain that such new residents will have the same loyalty to Ridgefield Hardware as those that are leaving. Only time will tell.

Recommendations for Local Retailers

Some of the findings from this case study may be applicable to other small, local retailers. First and foremost, embrace being small and local. Keep overhead costs low to be profitable with a small, local target market. Take advantage of expectancy disconfirmation effects by exceeding shopper expectations. The case study shows that customers may make allowances for the store being small and have low expectations. On the flipside, consumers are more likely to consider smaller stores to be charming and cute, and consequently, like them more. With this in mind, it is feasible to offer

exceptional service, lower-than-expected prices or unexpected selection, and to achieve greater customer satisfaction and loyalty.

Large retailers and chains have distinct advantages over smaller retailers. The smaller retailer, however, may be in a better position to achieve customer loyalty. People often identify with the community in which they live, and the community may even become part of their self-concept. The small local retailer should capitalize on this and demonstrate how they are also part of the community and have values that resonate with community members. Support local organizations and activities. Be visible as much as possible. Be active on local social media channels.

Another advantage of being small and local is the ability to learn the names of customers. Take an interest in them. Let shoppers know they are dealing with a friend. As a result, people who identify with the community may also identify with the retailer and become a loyal customer as part of maintaining congruence in their self-concepts.

An unintended consequence of this study is that it created greater awareness for Ridgefield Hardware—people would come into the store talking about the Nextdoor thread. This points out another potential approach for small retailers, which is to take advantage of anything that can bring positive attention to the store. The Saturday following Thanksgiving (the day after “Black Friday”) has been designated as “Small Business Saturday,” during which consumers are encouraged to shop at small establishments. Bloem (2017) outlined various tactics for small retailers to capitalize on that day, including suggestions to “go big on social media” and use the event as an excuse to tell the retailer’s story. For Ridgefield Hardware, the old-fashioned Fourth of July parade in downtown Ridgefield offers another opportunity to share the company story. The event attracts many people into town, and the hardware store is right on the parade route.

Finally, in such a dynamic, changing retail environment, it is a good idea for small businesses to have a back-up plan. Scott and Cathy Hughes know that despite their efforts and success, they cannot count on the store thriving forever. Consequently, they have contingency plans and other investments besides their hardware store. For the time being, however, it is business as usual with happy customers at Ridgefield Hardware.

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