Survival Strategy of Traditional Small Retail in Competition with Modern Large Retail

Andi Sri Wahyuni1,2,3
1Research Center, Faculty of Economics and Business Administration, University of Szeged, Hungary
2Doctoral School of Economics, Faculty of Economics and Business Administration, University of Szeged, Hungary
3Department of Accounting, Politeknik Negeri Ujung Pandang, Indonesia
andisriwahyuni@poliupg.ac.id

Abstract: This study aims to understand how traditional small retail businesses in Italy compete with large modern retail businesses. This study is a qualitative case study and utilized direct observation for 145 hours in three regions in Italy—Pescara, Chieti, and the factory area—and then conducted a thematic analysis of their survival strategy. The study find that the main factor that determines the sustainability of tabaccai (a traditional small retail in Italy) is the support of the local government, which is strengthened by the local society and the ability of the owners to adapt to the environment. Government support in the form of providing access to limited public goods is an important element in the survival of traditional small retail. These empirical findings provide a new recommendation for traditional small retail businesses in developed countries on how to survive amid the growth of large modern retail businesses.

Keywords: Traditional Retail; Modern Retail; Survival Retail

Introduction

Traditional small retail exists in different countries and evolves with the economy and community culture of the place they operate (Ikadeh - Cloete, 2020; Yasin - Hafeez, 2022). Traditional small retail is also a livelihood for a large percentage of a country's population (Ikadeh - Cloete, 2020). It always matches the capital capacity of the owners and the middle class, who are their customers (Salim, 2013). In general, traditional small retail stores have different characteristics in each community as well as different internal and external environments (Struwig - Nuwagaba, & Krüger, 2019; Zhang - Chan, 2017). Differences in the operating location of traditional small retailers are directly related to different
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environments, social conditions, cultures, governmental systems, and economic conditions (Gimenez-Jimenez et al., 2020; Scarpellini, 2004). These external differences directly impact the survival of traditional small retail. The busier the area it operates, the greater the number of visitors and the longer the business continuity (Ikadeh - Cloete, 2020; Scarpellini, 2004). The better the system of governance for traditional small retail, including the level of government involvement and intervention to support the survival of traditional small retail, the longer the survival of traditional small retail (Cravo - Piza, 2019; Ikadeh - Cloete, 2020; Koto, 2015; Ratten, 2014; Urbancová - Fajcikova, 2019). In addition to external differences, other internal differences, such as the owner's gender and age, also have a strong impact on the survival of a traditional small retail in a community (Gimenez-Jimenez et al., 2020; McKenzie - Paffhausen, 2019). These external and internal factors ultimately determine the survival of traditional small retail businesses anywhere (Ikadeh - Cloete, 2020).

McKenzie - Paffhausen (2019) found that in developing countries, the death rate for small businesses is 8.2%. Further, Kuzmin et al., (2019) found that in the EU countries, the survival rate of small businesses in 5 years is around 50%. It should be noted that previous studies have indicated that most traditional small retailers are struggling to survive and are facing a strong crisis, especially after the arrival of modern retail after the Second World War [e.g., Indonesia (Wahyuni et al., 2021), Nigeria (Ikadeh - Cloete, 2020), Portugal (Farhangmehr et al., 2001), Uganda (Struwig et al., 2019), Ghana (Koto, 2015), and many other countries (Cravo - Piza, 2019)]. Traditional small retail is also vulnerable and has low bargaining power in competition with modern retail (Farhangmehr et al., 2001; Ikadeh - Cloete, 2020; Wahyuni, et al., 2021).

However, the situation in Italy in relation to the survival of traditional small retail is different and there is no any single study that already analyze this issue. Tabaccai, a traditional small retail business in Italy, has survived both in the past and present with a strong and resilient defense (thelocal.it, 2022). In its development, Tabaccai's survival was tested by competition from modern large retail outlets, such as supermarkets. Scarpellini (2004) found that most of the economic boom in Italy from 1951 to 1961 came from the increase in the number of small shops, including traditional small retail. Unlike the general traditional small retail found by researchers in other countries (Ikadeh - Cloete, 2020; Struwig et al., 2019; Wahyuni, et al., 2021), Tabaccai is able to survive and compete fiercely with supermarkets. Tabaccai seems to survive without worrying about the presence of large modern retail, looks elegant, is far from the impression of poor conditions, and customers are eager to come to shop. This provides the opportunity to explore a new and relatively unexplored area of the reason for the survival of traditional small retail amid the growth of large modern retail businesses. Also, this provide a new recommendation for traditional small retail businesses in developed countries on how to survive amid the growth of large modern retail businesses.

**Literature Review**

**Retail Business from Time to Time**

Supermarkets, also known as self-service stores in American culture (Scarpellini, 2004), get bigger and bigger from time to time (Orel - Kara, 2014). Supermarkets, which are becoming larger and more modern, are classified as a modern large retail business. The
modern retail business has several types, such as supermarkets, hypermarkets, and minimarkets (Orel - Kara, 2014). Minimarkets are classified as modern small retail, whereas hypermarkets and supermarkets are classified as large modern retail. The difference is in the size of the store, the number of customers, and the number of items in the store (Moorthy, et al., 2015; Wan, et al., 2018).

In this study, modern large retail refers to a type of supermarket that originated in America. Supermarkets have other terms in previous publications, such as modern large retail, convenience store, and self-service store (Nijssen et al., 2016; Reardon - Gulati, 2008). Modern large retailers have successfully entered the markets of both developed and developing countries (Patterson, 2018; Reardon, et al., 2003). Modern large retail has the ability to adapt to the social, cultural, technological, and demographic contexts of customers in many of the places it operates, enabling it to become a strong business and continue to grow. This power has caused modern large retail to spread rapidly into countries whose economic and cultural conditions differ significantly from those of America. (Grewal et al., 2017; Orel - Kara, 2004; Patterson, 2018; Pritchard, 2000; Scarpellini, 2004; Reardon, et al., 2003).

Modern large retail first appeared in America and broadly spread to other countries after the Second World War (Scarpellini, 2004; Shaw et al., 2004). Therefore, some consider that the spread of modern large retail out of America is an effort of "Americanization" of various countries (Shaw et al., 2004). Retail businesses with modern concepts and self-service started to expand in Asian countries in the 1980s, in Africa in 2005 (Ikadeh-Cloete, 2020), and in Australia in the 1950s (Pritchard, 2000). Modern large retail started to penetrate European countries in the 1940s. This evolution is characterized by the emergence of modern large retail in Britain in 1947 (Shaw et al., 2004), followed by other countries such as Poland in the 1990s (Redawska - Bilinska-Reformat, 2018), Portugal in the 1980s (Farhangmehr et al., 2001), and Italy in the 1950s (Scarpellini, 2004).

As a European country that is one of the seven countries with large and advanced economies in the world (International Monetary Fund, 2022), Italy has a long history of modern retail establishments such as supermarkets. The International Basic Economy Corporation, an American industrial organization, opened the first Italian supermarket in 1957 (Scarpellini, 2004). After being rejected several times by local entrepreneurs in 1959, American supermarket shopping culture has been assimilated into Italian culture to the present day (Scarpellini, 2004). Various supermarket brands are currently scattered in Italy, including Lidl, Spar, Aldi, Coop, and other well-known supermarkets in Europe.

The presence of supermarkets has a negative impact on the growth of local suppliers and traditional small retailers (Das Nair et al., 2018; Gielens, et al., 2018; Ikadeh - Cloete, 2020; Sunanto, 2012; Wahyuni, et al., 2021). Traditional small retail stores, such as well-known household stores, have a high vulnerability in competing with modern large retail stores (see the differences in Table 1).

<table>
<thead>
<tr>
<th>Characteristic/ Retail Business</th>
<th>Supermarket</th>
<th>Italian Kiosk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Big</td>
<td>Small</td>
</tr>
<tr>
<td>Format</td>
<td>Modern</td>
<td>Traditional/Local</td>
</tr>
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Source: Author, 2022
On the outskirts of Pescara City, Chieti City, and the factory area between Pescara City and Chieti City, there are at least three supermarkets that are quite dominating, which are Coop, Interspar, and Lidl. Contrary to previous research conclusions, traditional small retail in Italy is still alive and essential to this day (thelocal.it, 2022). Although supermarkets are scattered along roadsides in Chieti, Pescara, and the factory areas in between, their presence has not had negative impacts on traditional small retail.

Survival of Traditional Small Retail

According to Steinmetz (1969), small businesses have three growth phases to survive in the market. Stage I is life or death, that is, the very first stage in determining a small business's ability to survive after entering a market. Stage II is managerial, which is characterized by owners being able to lead employees and no longer serving as employees in the company they started. Finally, Stage III is when the start-up becomes a large company, meaning that it no longer has the status of a small business. According to Steinmetz (1969), survival is seen only from the perspective of the owner of a small business, while outside influences are not considered. Steinmetz's (1969) view focused only on the internal survival factor and did not consider the influence of external factors. Resilience is seen only as the effort and ability of the business owner, regardless of the disruption or support from the business environment. Therefore, according to Steinmetz (1969), the survival or failure of a small business depends on the owner's ability to sustain it. Other studies also agree that small businesses depend on the ability of the owners to sustain and uphold their business reputation (Beneke, et al., 2015; Ikadeh - Cloete, 2020; Struwig et al., 2019).

While Steinmetz (1969) focused on owner ability, Naumzik et al. (2022) focused on consumer satisfaction. A company's survival is determined by its ability to maintain the quality of customer satisfaction. When the quality of customer satisfaction falls short of expectations, it can ultimately lead to the failure and closure of a business. Based on the view of Naumzik et al. (2022), firm survival is determined only by external factors directly related to the operation of the firm.

Unlike Steinmetz (1969) and Naumzik et al. (2022), Cravo - Piza (2019) believe that the most important thing for the survival of a business, especially in the context of a small business in a society, is state intervention. The result of Cravo - Piza's (2019) study is more upheld because it analyzes various research findings on small businesses using a systematic review method. Cravo - Piza (2019) found that government intervention will severely hamper the strength and survival of traditional small businesses. Although owners of traditional small retail perform well internally, such as demonstrating tenacity, diligence, and thoroughness, when giant markets like modern large retail stores operate near them, customers flock to the modern large retail stores. The reasons for the choice of customers can be diverse, ranging from product variety and new products to shopping convenience. Therefore, Cravo - Piza (2019) stated that the existence of traditional small retail needs to be supported not only through access to funds but also in terms of formalization, business environment, exports, clusters, training, technical support, access to credit, and innovations. For example, Salim (2013) cited that the requirements for opening modern large retail should be tightened. Modern large
retail may not operate in an area if there are many traditional small retailers in the area. With this rule, society's shopping activities in a residential area would be concentrated in traditional markets and traditional small retail stores. Such institutional support will have a long-term impact on the survival of a small retail business.

**Methods**

This study is a qualitative case study and utilized direct observational research. The data are obtained through direct observation in three areas of Abruzzo, Italy, which are Pescara, Chieti, and the factory area between the cities of Pescara and Chieti, in June 2022. These three areas include location of tabaccai in large and crowded city Pescara and Chieti) and quite city (the factory area) in Italy. The direct observation was conducted for 145 hours (the time for traveling from Hungary to Italy and writing the field notes is included) focusing on focuses on the strategies used by tabaccai owners in sustaining their business. The data were collected through field notes.

After completing the field notes, the data were analyzed thematically to determine the strategy tabaccai uses to sustain its business. In addition to the direct observation, additional data are obtained from mass media reports and articles on tabaccai published on online media.

The main advantage of employing direct observation is that it produces a highly detailed, nearly complete record of what individuals do (Wells - Lo Sciuto, 1966). In this case, the outcome does not depend on a respondent's ability to interpret a question correctly or a respondent's lack of memory of recent events. It is independent of any tendency to rationalize behavior to make it appear in the best light. However, the direct observation method also has its disadvantages. It only provides information on behavior, so it cannot always be interpreted easily.

**Findings**

*Tabaccai* (tobacco shops), as known as traditional small retail in Italy, generally has the T symbol on a rectangular plaque placed in front of the store. Ciccarelli et al. (2018) reported that Italy had 60 authorized dealers of *tabaccai* in 2000, and the territorial density of *tabaccai* is quite high (60/233). *Tabaccai* can be found in both large cities and small villages in Italy, including the City of Pescara, the City of Chieti, and the manufacturing area between them. *Tabaccai*'s resilience has been tested over time and has remained strong to this day.

The biggest factor in *tabaccai*’s ability to survive is product differentiation, which is facilitated and supported by the government. *Tabaccai* sells public transport tickets used in Pescara, Chieti, and the factory areas. The ticket prices sold are cheaper than the ticket prices sold at the bus machines. If the passenger buys from a vending machine on the bus, the ticket price is 2.5 euros, and if the passenger buys from *tabaccai*, the ticket price is only 2 euros. Instead of buying more expensive tickets on the bus, passengers can buy from *tabaccai*.

*Tabaccai* has been recognized by locals as a place to buy bus tickets. This has a positive impact on their income, as both locals and foreigners buy from them. For example, when I needed advice as a tourist and asked the locals in Chieti where I could buy bus tickets, I was immediately directed to buy bus tickets from *tabaccai*. Locals' recommendation of
Tabaccai as a place to buy tickets is voluntary word-of-mouth (WoM) promotion of tabaccai. The action of locals to promote tabaccai to tourists is a sign of the satisfaction of locals as the main tabaccai consumers. Prebensen et al. (2010) found that satisfied consumers will happily carry out WoM promotions for a company. This support from locals is a social asset of traditional small retailers like tabaccai, which is not owned by modern large retailers (Scarpellini, 2004). Such support from the local community also sustains tabaccai in Pescara, Chieti, and the factory areas.

In addition, tabbaccai’s ability to survive amidst competition from modern large retailers such as supermarkets scattered around its operating territory is due to its product differentiation strategy. Tabaccai not only sells cigarettes and bus tickets but also other daily necessities such as snacks for small children, soft drinks, and lottery numbers. When customers come to buy bus tickets with their families, including their children, tabaccai can reach out to these children as well. Children’s snacks such as candy stored in the front of the store incite children to urge their parents to buy. When parents are busy buying bus tickets, kids choose the snacks they like. All of these supports (see Table 2 for the details), help tabaccai to survive until now. Support from the external side determine the ability of tabaccai’s survival in competing with modern large retail.

Table 2. Factors for Tabaccai Survival

<table>
<thead>
<tr>
<th>Factor</th>
<th>Action for Tabaccai Survive</th>
</tr>
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<tbody>
<tr>
<td>External</td>
<td></td>
</tr>
<tr>
<td>Local government</td>
<td>Giving access to be able to sell limited public goods.</td>
</tr>
<tr>
<td>Local community</td>
<td>Voluntary WoM (Word-of-Mouth) marketing.</td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>Product differentiation</td>
<td>Selling the main product, public goods, and different kind of products for advertisement.</td>
</tr>
</tbody>
</table>

Source: Author, 2022

Conclusion

The local government in Pescara, Chieti, and the factory areas gave permission to tabaccai owners to sell public transportation tickets. This proves what Cravo - Piza (2019) stated that government support in the form of providing access to limited public goods is an important element in the survival of traditional small retail. The most important thing for the survival of a business, especially in the context of a small business in a society, is the intervention of the state.

In addition to the support from the local government, locals also support tabaccai. The context of Italy as a developed country makes locals not to perceive all that comes from America as something great. In fact, in the past, it has been proven that supermarkets have been rejected by locals (Scarpellini, 2004). In contrast to locals in developing countries who see the luxury of supermarkets as a symbol of modernity (Wahyuni, et al., 2021; Ikadeh - Cloete, 2020; Koto, 2015), in Italy, locals support tabaccai and even introduce it to foreigners. Actions like this are a great social asset for tabaccai.

In addition to these two external factors, the initiative of an owner of traditional small retail is also important. An owner of tabaccai sells goods other than the main goods as product differentiation. Snacks for kids are sold although they are not the main product sold by tabaccai. This also supports the findings of Ikadeh - Cloete (2020), Struwig et al., (2019), and
Steinmetz (1969) about the importance of internal factors in traditional small retail. Although internal factors are important, without government intervention, internal factors will not work much. Even when the *tabaccai* owner provides various types of snacks for children, without selling public transportation tickets, parents will not come to buy tickets, and their children will not also buy snacks at *tabaccai*. Therefore, the results of this study are not consistent with those of previous studies (Beneke, et al., 2015; Ikadeh - Cloete, 2020; Steinmetz, 1969; Struwig et al., 2019) that only focused on internal factors of surviving strategy for small retail businesses.

This study finds that the main factor that determines the sustainability of *tabaccai* is the support from the local government, which is strengthened when locals also support *tabaccai* and owners adapt to their environment. These empirical findings provide a new recommendation for traditional small retail businesses in developed countries on how to survive amid the growth of large modern retail businesses.

**Limitation and Future Research**

The main limitation of this study is that the data source only comes from direct observation. However, this study does not solely rely on this primary data; it is also complemented by the inclusion of secondary data sourced from local news outlets in Italy, as well as other relevant references pertaining to *tabaccai*. Another limitation of this study stems from the reliance on internet-based local news as the sole source of information, which excludes potential support from traditional print media such as newspapers and magazines.

Further research can analyze the survival of traditional small retail by using depth interviews and other relevant techniques. An important point to be researched in the future is how the strategy of traditional small retail businesses helps them to survive and what causes some not to survive.

**References**


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