

## The Megastore Invasion

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If you were to ask consumers why they shop at a particular supermarket, you will get responses like location, quality, service, selection, and prices. The importance of these variables, however, will be found to vary across individuals. The existence of these consumer differences explains why supermarkets are not totally alike.

A little more than a year ago, the three major supermarkets in Centreville (i.e., National Supermarkets, International Foods, and Bob's Basket Barn [locally known as B3]) were relatively similar in terms of price, quality, and selection. In some cases, there was also a similarity in terms of location (i.e., both National and Bob's had stores in the east end of the city). In other cases, however, a store was relatively isolated from its competition (e.g., International Foods was the only such store in the downtown area), thus, giving it a competitive edge in terms of attracting those consumers who considered convenient location to be an important store-choice criterion. In terms of service, B3 was by far perceived to be the market leader, thus giving it the upper hand in terms of attracting the service-oriented customer. Each of these three companies had multiple stores in this city of 200,000. B3, however, was the smallest of these three chains. It only had two stores, one in the east end and one in the west end of the city. B3 did, however, own the land on a major artery between its other locations but had yet to begin construction. B3 is the only major supermarket in the area that is locally owned and operated.

The competitive atmosphere at the time was basically one of stability, with the odd little skirmish here and there. Each of the players had found its niche in the marketplace and was content with letting that be its focus of attention. However, about two years ago, a new aggressor entered the market – The Megastore. This store was in the west end of the city. To make matters worse, a second store followed two months later; it was located in the east end of the city.

The Megastore was a combination supermarket and general merchandise store. The general merchandise departments included jewellery/cosmetics; intimate apparel; fashions for men, women, and kids; petcare; audio/video; a pharmacy; sporting goods; hardware; a photolab; housewares (kitchenware); and seasonal merchandise. The general merchandise departments were generally located at one end of the store, occupying about 40% of the floor space. There was a two-register checkout area for this section of the store. Customers could also use any of the 29 checkout stands located at the front of the grocery area. The grocery section of the Megastore included the typical grocery product categories found in a traditional supermarket. Around the perimeter of the store was the usual “ring of perishables” (i.e., a deli, seafood, fresh meat and poultry, dairy, mild and eggs, produce, and bakery). There was also a flower shop just before the bakery section. Both of the latter

two departments involve the sale of what are referred to as “crushables,” thereby requiring a location within the store that is just before the final checkout area, which was the case in the store.

In order to stock all the required merchandise for the different departments identified, the size of the store had to be extremely large. Stock clerks wore roller skates to quickly move about the store. There were even golf carts that customers with mobility problems could use while shopping.

Given that the sales volume for groceries in Centreville was relatively stable at the time, particularly since the population in the area was relatively constant, the only way for the new competitor to survive in the market was to take sales away from the competition. Setting low prices was the weapon of choice, accompanied by the promise of having the lowest total shopping bill every day. The store would not be undersold.

Unfortunately for the Megastore, its low-price strategy did not work as well in Centreville as it did elsewhere. The competition did not rollover and die; the other stores fought back in order to maintain market share, even at the expense of profits. Survival was their main concern. The majority of the competitors even used the same competitive weapon as the Megastore: low price. There were, however, two early casualties, one actually being the east end Megastore itself. This store was only able to survive one year in operation. The other casualty was a store owned and operated by National Supermarkets, a store located in the west end near the other Megastore location.

The story, however, was different in a market that was more than twice the size of Centreville. There, the sister store of the Megastore, The Giant Store, was able to capture about 22% of the market with just two stores. Wilson’s Supermarkets, long the market leader, with 75% of the market, suffered the most. The initial onslaught led to the closure of four of Wilson’s conventional stores and one of its warehouse stores.

So what went wrong in Centreville? Did the Megastore misjudge the strength and probable reactions of its competition or did it offer the consumer a shopping alternative that was so different from the status quo that only a limited number of customers found it to be an acceptable choice?

With respect to the Megastore, how did consumers feel about the following features of the marketing strategy used by the store: (1) having to insert 25 cents into the mechanism of the shopping cart to obtain the cart (this deposit was returned when the customer returned the cart to the cart stand), (2) the lack of individual-item price tagging (i.e., there were no price tags on the grocery products, only shelf labels indicating the individual prices were used), (3) the extremely large size of the store, (4) being required to bag one’s own groceries, (5) the heavy emphasis on store brands, (6) the heavy emphasis on nonfood items (e.g., hardware and clothing), (7) the layout of the store, and (8) the service-quality of the checkout staff.

The nature of the design and marketing strategy of the Megastore was quite different from what had existed in Centreville prior to the market entry of this store. Prior to the entry of the Megastore into this market, customers did not have to insert any money to obtain a shopping cart and all merchandise was individually priced. While the stores varied in size, with most being the size of the typical supermarket, the stores had, at most, seven checkout stands, not the 29 available at the Megastore. Bagging was not the responsibility of the customers; either the cashiers or baggers were used to bag the customer's groceries. While all of the other stores sold store brands, the primary emphasis was on well-known manufacturer brands, not on store brands. Except for the normal line of health and beauty aids (HBA's), very little general merchandise was carried in the traditional supermarkets in Centreville. Even though the competitor stores also used a grid layout and had a ring of perishables, the smaller size of these stores made it easier for customers to find what they were looking for; it was not necessary to scan travel as far or to scan a large inventory to find the items of interest. Finally, the service level of the checkout staff appeared to be more customer focused than transaction oriented at the competitor stores. The cashiers at the Megastore were more concerned with processing customers quickly rather than engage in social interaction with the customers, something that the customers at B3 particularly liked to do.

Whatever the residents of Centreville did not like about the Megastore was enough to force the company to close its east end store within one year of opening. The retail space occupied by the Megastore was subdivided into two equal parts, with one half of the space converted for use by one of the company's traditional supermarkets and the other half being leased to a separate company that sold family-oriented fashions. It also resulted in a drastic change in the company's marketing strategy. The only promises remaining were to offer the "lowest total shopping bill on the best-selling grocery items in the province" (Whatever they are?); to beat the competitors' "best specials;" and to have the lowest prices on milk, butter, eggs, bread, and sugar (excluding competitors' coupons).

While the Megastore may have had its problems with trying to penetrate the Centreville market, the presence of this aggressive competitor was responsible for the many changes that took place in the local market after its market entry. B3 renovated its two stores, built a warehouse in order to take advantage of volume buying, and indicated that a third store is on the way. The National Supermarkets' store in the regional mall in the city was upgraded to one of its other banners. International Foods also upscaled its store in the east end. A smaller regional competitor expanded its product offering in order to offer more savings. Even a new competitor entered the market for the first time.

In the final analysis, the presence of the Megastore in the Centreville market appears to have brought many benefits to the consumer. Those who shop at the Megastore are offered a shopping alternative that satisfies their needs. For those who shop elsewhere, many improvements have been carried out that can only make the shopping experience more enjoyable. However, the one casualty involving

a pre-existing store means that the remaining shoppers at this store were forced to find an alternative store at which to shop for groceries.

As a final note, a year and a half after the west end Megastore opened, it too was closed. The company replaced this store with one of its traditional supermarket banners, occupying only half of the original retail space. The remaining space was taken over by another company that focused on the family-oriented fashions.

### Questions:

1. Define the following terms: retailer, supermarket, hypermarket, ring of perishables, trade area.
2. What is the geographic size of the primary trade area for a supermarket? for a hypermarket?
3. Why would a consumer select one supermarket over another as the store of choice?
4. What are the different characteristics of a supermarket that customers would use to determine which store to select?
5. What are the two primary components of the weighted expectancy-value attitude model? Explain each component.
6. Based on the weighted expectancy-value attitude model, how can a retailer segment a market (i.e., what component of the model would be used)?
7. Based on the weighted expectancy-value attitude model, how would customers evaluate the nature of the Megastore?
8. Based on the information in the case, why would a customer select the Megastore over the competition as the store of choice?
9. Based on the information in the case, why do you think the Megastore decided to enter Centreville with two stores instead of just one?
10. Based on the information in the case, how did the competition try to neutralize the positive aspects of the Megastore?
11. Why do you think the two Megastores failed in Centreville?

12. Review the literature (trade and academic) to find out why consumers select one supermarket over another. What does the literature reveal? [Do not use Wikipedia as a source; use the Periodical database listing available at the library of your school? You may want to go back many years to find some of the earlier research in this area. The Journal of Retailing is definitely a good source to use.]
13. What are the different ways to segment the supermarket market?
14. Based on your literature research, what recommendations would you have made to the management of the Megastore before it decided to enter Centreville. [Suggesting carrying out more research doesn't answer the question. Be specific in terms of your recommendations.]