BIGGER IS NOT ALWAYS BETTER: OUTSMARTING MEGA-RETAILERS IN THE 21ST CENTURY GIFT INDUSTRY

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ABSTRACT

It is a commonly held belief that the “rich get richer and the poor get poorer.” If this rule holds true across the board, large retail companies can be expected to continue to expand while small companies will shrink in size and number. Given this trend one might ask,"Can small business, which have depended on close interaction with customers, leverage these relationships vis-à-vis technology to compete successfully against mega-retailers?" This thesis hypothesizes that the world is changing and so is the criteria for success in the business world. Therefore, small businesses can indeed carve out a profitable niche for themselves in today's economy by using technology as an expediter of the co-creation of products with customer input. This thesis employs a comparative case study methodology that is compared to a theoretical framework. The theoretical framework builds heavily on Storper and Salais’ “Worlds of Productions.” Storper and Salais outline the importance of “the product” on business strategy. Wal-Mart represents the Industrial World case study. As the world’s largest retailer, Wal-Mart built an empire on
“Always Low Prices.” As a result, Wal-Mart’s products are generic and known for low quality. In contrast, Bungalow, LLC, the Market World case study, is a small business taking advantage of changing economic conditions. Bungalow has built a successful business by producing fun and fashionable tote bags and storage products. Employing a co-creative strategy, Bungalow uses technology to engage their customers in the actual production process.
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Chapter 1. Introduction

It is a commonly held belief that the “rich get richer and the poor get poorer.” Vilfred Pareto, the Italian Economist, first observed this phenomenon in the early 20th century (Koch 3). As Pareto pointed out, notwithstanding any initial state of affairs, wealth would always reach the point where it was distributed on the basis of a 20/80 ratio. That is, 20 percent of the population would own 80 percent of its wealth. Today, scholars are recognizing that this kind of ‘power law’ (Beinhocker 179) is ubiquitous both in nature as well as in many other areas of human activity.

Given these findings, we might expect that a power law, such as the 80/20 rule, will be repeated in the realm of business affairs. The first person to practically apply the 80/20 rule to the business world was the US engineer Joseph Moses Juran. Known as the father of the Japanese “Quality Revolution of 1950-1990”, Juran applied this power law to Japanese production standards by identifying that 80% of a manufacturing problem is caused by 20 percent of the potential causes. This conceptualization gives rise to three key managerial processes for managing quality: quality planning, quality control, and quality improvement. The successful adoption of Juran’s quality standards contributed to the rise of Japan as an economic superpower, and an economic philosophy that others sought to emulate (Flaum 54).
Power laws are not only evident in the world of production, they can also be found in retailing. Thus we find, for example, that 80% of sales are generated by 20% of customers (Koch 48). Likewise only a small proportion of products are profitable, while the vast majority perform marginally at best. If this rule holds true across the board, large retail companies can be expected to continue to expand while small companies will shrink in size and number. Small businesses with fewer than 500 employees represent 99.9% of the 29.6 million businesses (SBA.gov, US Department of Commerce). Already, for example, Wal-Mart is the dominant retailer in the US with a value share of 10% of retail sales in 2008 (Euromonitor 2). If current economic conditions continue to force more small businesses to close, Wal-Mart will only become stronger.

These developments raise the question about the future of small retailers. In the past, they were able to survive competition with larger companies, because retail was ‘information intense’ and entailed considerable transaction costs requiring face-to-face interactions. Thus, for example, at the end of the 19th century, large companies that produced sewing machines and automobiles set up franchises to distribute, as well as help explain their goods (Beniger 198). However, the advent of the internet and educated consumers has lead to less information intense retail transactions, which has contributed to the rise of mega retailers.
Do small businesses have the wherewithal to compete in this environment? Do they have any special advantages under these circumstances? In particular, can small businesses leverage their long history of relationships with clients and customers to remain salient in today’s economy? As importantly, can they use new technologies to woo and retain customers in a way that mega retailers cannot? This thesis addresses these questions. In particular, it asks: “Can small businesses, which have depended on close interaction with customers, leverage these relationships vis-a-vis technology to compete successfully against mega retailers?”

This thesis hypothesizes that the world is rapidly changing and as are the criteria for success in the business world. Therefore, small businesses can indeed develop a unique strategy that allows them to carve out a profitable niche for themselves in today's economy. Doing so will require using technology as an expeditor of the co-creation of products with customer input. This hypothesis builds on Storper and Salais’ production theory, which emphasizes the notion of untradeable goods, which are not subject to scale or price.

This thesis employs a case study methodology. Storper and Salais’ theoretical framework stems from the socio-economic perspective that business must be studied in context. Therefore, a case study based on Storper and Salis’ framework is appropriate. Wal-Mart represents a case study of the Industrial World and is characterized as the
largest retailer on the planet. The small business case study is Bungalow, a small gift company, which manufactures products in the Market World.

This thesis proceeds as follows. This chapter provides a detailed introduction of the research question and methodology. Chapter 2 provides a conceptual framework for analyzing the research question. Building on the work of Storper and Salais, it theorizes the relationship between products and marketing strategies. This unique relationship is segmented into four “Worlds of Production.” Each world represents a “type” of product and how each product should be marketed. A model representing retail strategies in both the Industrial and Market world provides the basis of this thesis’ hypothesis that small business can indeed compete against mega retailers with success.

Chapter 3 is an historical chapter. It describes the emergence of the mega-retailers and how and why they have changed the American retail landscape. Wal-Mart is highlighted in this chapter as the case study of a mega-retailer operating within the context of Storper and Salis’ Industrial World of production. Wal-Mart is the world largest retailer and operates under the marketing strategy of “Always Low Prices.” As a result Wal-Mart focuses on quantity and low cost rather than quality and variety.
Chapter 4 begins with a brief history of small business and lays out a detailed case study of a small, successful manufacturer in the gift industry, and the challenges it faces, in light of mega-retailing. Bungalow, LLC serves as the case study for the Market World of production. Bungalow employs the marketing strategy of “co-creation” in order to compete with mega-retailers. Technology, particularly social media, enables Bungalow to develop direct relationships with customers.

Chapter 5 discusses analysis and conclusions based upon the case studies. It describes the strengths and weaknesses of the study and lays out some questions for future research. Most importantly this thesis’ case studies highlight a shift in the US economic landscape that equals more opportunities for tech savvy, well designed companies to savor success.
Chapter 2. Conceptualizing the Research Question: The Relationship between Product and Business Strategy

2.1 Introduction

This thesis seeks to answer the question: “Can small businesses, which have traditionally depended on close interaction with customers, strengthen these relationships vis-a-vis technology so as to compete against mega retailers?” This chapter lays out the conceptual framework for answering this question. It discusses how the nature of the product helps to determine how it might best be marketed. Building heavily on the theory of Michael Storper and Robert Salais, presented in their work *Worlds of Production*, the chapter describes relationship between product type and marketing strategy. Section 2.2 explains why product is the determining variable in retail marketing strategy. Section 2.3 outlines the “Worlds of Production” framework laid out by Storper and Salais. This theoretical framework identifies four types of “products,” and how each calls for a specific type of sale and business strategy. Section 2.4 applies this framework to the retail industry and discusses the divergent marketing strategies of both small retail businesses and mega retailers.
Specific applications of this model follow in chapters three and four via two case studies.

2.2 The Importance of Product

The revolutionary concept that Storper and Salais introduce into the discussion of marketing is the notion that marketing strategy must reflect the actual nature of the product. In fact, according to Storper and Salais, the nature of the product should play a greater role in determining business strategy than return on investment or other financial variables. Their approach is unique insofar as it provides a basis for developing a marketing approach. Moreover, in the case of this thesis, it suggests new opportunities for small businesses to compete against mega retailers in today’s fast moving, large-scale economy.

The nature of the product is important because it defines production practices, competition, sales strategy, and target audience. Drawing from Marx’s belief that a “commodity…is the material result of an extraordinarily complex ensemble of social processes (37)”, Storper and Salais look at the product in a social context. As Storper and Salais point out, every product reflects something from both its producer and consumer, by virtue of the interactions they establish during the production and exchange processes. Because this
interaction differs greatly from product to product, a product’s “personality,” or nature, will vary according to the framework within which it is created.

The following section describes four distinct frameworks within which products are created. Storper and Salais have coined these frameworks, “Worlds of Productions.” An analysis of each “World of Production” allows us to explain varying marketing strategies that businesses employ. Moreover, this concept further applies to small business as well as mega retailing business strategy and how it relates to success in today’s global economy.

2.3 Worlds of Production

Storper and Salais developed an analytical framework involving four “Worlds of Production” that are based upon the nature of a product. The four worlds of production are the Interpersonal World, the Market World, Industrial World, and the Intellectual World. These worlds differ mainly with respect to their degrees of uncertainty, specialization of product, and the criteria of evaluation and success. Each of the four worlds as illustrated in the figure below offer insights about appropriate retail business strategies. They are described below.
2.3.1 The World of Intellectual Resources

The World of Intellectual Resources is the world of creation. New technologies, materials and products are created in this world. However, it is important to note that production in this world is not completely specialized. As Storper and Salais state, producers in this area...
“develop knowledge with general applicability, not simple incodable practical know-how specialized to a given product or a given client (53).” This is the key differentiating factor between the Intellectual and the Interpersonal World.

Production in the Interpersonal World is situational. The Intellectual World is applicable to a variety of businesses. For example, R&D Departments are based in this world; although once the product has been developed it might become a market or even an industrial product. Because products are created in a research oriented environment in the World of Intellectual Resources, it is difficult to pinpoint a goal or business strategy. Hence, in this world, there is a high risk of error or failure.

2.3.2 The Interpersonal World

The Interpersonal World is one of specialized and dedicated products. Products in this world are made according to the buyer’s criteria. As a result, the relationship between the buyers and producers must be based on confidence, reputation and long standing history. Because this world focuses on customized products, which by definition do not have a significant basis for comparison or context, customers who purchase these products face considerable uncertainty and risk. A myriad of social network sites like Angie’s List and Yelp have been created to mitigate risk in the Interpersonal World.

The Interpersonal World encompasses a myriad of products and services. Fashion, design and craft intensive industries are the most common examples of Interpersonal
businesses. Examples of retail products that fit into the Interpersonal framework are custom-made dresses, handmade furniture and artistic renderings. The key point to remember regarding Interpersonal products is that they are unique and are specific to a certain customer at a definite point in time.

Quality is king in the Interpersonal World. Competition between manufacturers is largely based on quality. Because quality is so important and cannot be determined by generic standards, referrals and recommendations by other customers are vitally important to these types of transactions. Producers need to convey a sense of trust and reliability to reassure their customer. In the Interpersonal World, the customer is emotionally invested in the transaction, because they typically want something very specific to each situation. This emotional pull further heightens the perceived risk of each Interpersonal transaction and makes the personal relationship that much more important.

2.3.3 The Market World

The Market World is comprised of standardized components that are combined in various ways. In this way the Market World can produce standard base products and customize them for different customer needs using combinations of these standard components. The goal of this type of market is to produce standard products that can satisfy a variety of individual tastes and preferences.
As customers are becoming more discretionary in their purchases, more and more retail companies are utilizing Market World mentalities to allow customers to experience variety and standardization in the same purchase. Dell is an excellent example of a Market product. Dell produces “custom” computers for customers by giving them the option of choosing which standard components they would like to include with their purchase of a new “semi-unique” computer. The Swatch flip-flop company is another brilliant example of the market world. Lindsay Phillips, CEO of Swatch Flops, produces a few standard flip-flop bases and hundreds of interchangeable flip-flop straps for seamless customization. The basis of the Market World is that the transactions, while somewhat customized, are based on a set of standard components from which the customer can choose. This standardization reduces the risk of the transaction from a customer’s perspective. Standardization also has the added benefit of allowing the manufacture to produce a larger number of mass produced components without maintaining a large inventory of finished products.

The challenge in the Market World lies on the production side. It is difficult to predict consumer price preferences and demand needs. If an undesirable set of goods is produced it is the manufacturer who risks being left with excess, unsellable inventory. Therefore, it is important that producers within the context of the Market World have a close watch on market and consumer trends.
2.3.4 The Industrial World

The Industrial World is that of mass production. Industrial products are standardized and generic. Storper and Salais define these products as “interchangeable objects for the consumer via objective codified norms for producers (62).” Therefore, these products are designed to look, taste, feel and act in exactly the manner a consumer would expect a generic product to act. Industrial products are predictable versus the unique or specific products of the Market or Interpersonal World.

Manufactures that produce Industrial products have broad rather than particular markets. They are focused on quantity, not necessarily quality. Industrial production is geared to the mass market where consumers are shopping for generic, predictable everyday items. These products do not have a specific character or quality. Storper and Salais explain that the particular character of industrially produced products “is to have no individual character (64).” Generic office or household items are typical Industrial products. Think of all the generic “white products” that are available on the market: plain white towels, white paper plates, low grade white sheets or ubiquitous bright white copy paper. The status quo of a serviceable product is what is important here.

The Industrial World of production presents the least risk for consumers. Heavy fixed investments create stability and consistency. However, the downside to this is no risk, no reward. A customer buys a generic product but not something unique or high quality. Wal-Mart is a great example of an industrialized product producer. Wal-Mart’s mantra of “always
low prices” started a push toward Industrial production globally. In fact, the proliferation of Chinese importing of generic low cost goods has been attributed to Wal-Mart. Wal-Mart’s impact will be further addressed in the next chapter.

2.4 Marketing Strategy in the Retail Industry

Both the Market World and the Industrial World are most applicable to this thesis. Both worlds encompass manufactured goods that are bought and sold as products in the retail industry. The Market World is best associated with small retail business and the Industrial World specifically describes large retail businesses, which are referred to as mega retailers in this thesis. To further explain this relationship I created the model below, grounded in Storper and Salis’ economic geography. This model relates the organizational structures of Market World production to that of Industrial World production. It specifically addresses the differing marketing strategies based on the nature of the products. Moreover, this model serves as the basis of the argument of this thesis, that due to the differing nature of Market goods versus that of Industrial goods, small business will be able to succeed by employing a different, yet appropriate marketing strategy.
This model describes the divergent production strategies of the Industrial World versus that of the Market World. Production strategy of Industrial World is “dictated.” Industrial World production is dependent on economies of scale and economies of scope. Because of mass production, Industrial products are generic.
Industrial manufacturers make price focused production decisions and “direct” the products toward end users knowing that the price advantage will result in sales regardless of the quality or uniqueness of the product.

Different from the Industrial World, production in the Market World is dependent on “co-creation” of products through customer feedback and input. Using a combination of standardized products in a unique manner, based on customer choice, Market manufacturers are able to differentiate themselves from generic Industrial products. As illustrated in the model, Market World production is cyclical in nature. The manufacturer comes up with an idea or product design, solicits customer input, brings the product to market and based on demand feedback, re-engineers the design. This cycle creates the effect of a “new” and unique product that is continually evolving and fresh. Technology facilitates this production process by adding speed and reach to the manufacturer feedback loop. The next section expands upon this cycle and how other economic factors contribute to the success of the small retailer.

2.5 Contributing Economic Factors and Conclusions

The Market World’s co-created cycle of production is becoming increasingly efficient due to the emergence of new technologies and evolving economic conditions. Economist, Eric Behinocker introduces the idea of complexity economics in his book,
Daniel Pink, in his book, *The Origin of Wealth*. In it, he writes about economic evolution by describing the marketplace as a “fitness landscape.” Evolutionary biologist Sewall Wright coined the term “fitness landscape” in 1932 to describe “studying evolution by visualizing the distribution of fitness values as a kind of landscape (Beinhocker 204).” Applying the notion to economics, Beinhocker provides a provocative argument for how companies can create more wealth by adapting to today’s rapidly changing global economy. He argues that if companies fail to adapt, newcomers will come in and take over a piece of the landscape. The slow speed at which large companies evolve leaves space open in the economy for small, more nimble companies to come in and carve out a niche in the marketplace.

Daniel Pink, in his book, *A Whole New Mind*, describes how the business world is changing on a cerebral level. Pink argues that there is a global shift away from left-brain thinking toward right brained thinking. This subtle yet powerful shift is redefining the criteria for success in the new economy. Creative assets are becoming the leading competitive advantages in business. These creative assets coupled with David Teece’s notion of intangible assets provide fertile growth soil for small businesses that are able to leverage these opportunities. Economics and business scholar David J. Teece characterizes intangible assets as “the main basis of competitive differentiation in many sectors. (70)”
Richard Florida takes the notion of creative assets a step further by describing how it is transforming modern day society. In his theory of creative capital, Florida defines a class of “creatives” whose economic function is to create new ideas, new technology, and new creative content. Examples of members of the creative class include artists, scientists, filmmakers, and professors. Creative members of society are found in any industry where workers are engaged in “creative problem solving, drawing on complex bodies of knowledge to solve specific problems” (69). This group is responsible for infusing society with a new work and lifestyle paradigm. This shift towards a creative lifestyle opens up new possibilities for retail manufacturers to market to these individuals.

Technology is the overarching catalyst for the speed of these shifts. It has accelerated the evolution of the global economy. Because of technology’s rapid advance, a whole host of literature has been created to advise businesses about how to “keep up”. As seen in the model, technology facilitates the co-creative production process of the Market World. Because the Market World generates a product that requires a lot of interaction with the customer it must utilize a technology that is designed for human interaction. Social networking technologies serve this purpose. In his book, *The New Community Rules: Marketing on the Social Web*, Tamar
Weinberg describes all types of social media and how it is transforming the way we build community.

The literature reviewed above describes how small businesses may indeed be better poised to succeed in the emerging economic environment. It is argued that small businesses are better able to take advantage of emerging technologies than mega-retailers because they are flexible and quicker to act. Smaller companies are also able to create the kind of communities that support customer loyalty as well as to charge premium prices for the delivery of customized goods.

To address my research question, looking at how small businesses can compete against mega retailers utilizing technology and current economic conditions, I chose a case study methodology as this allows me to look at all the factors of a stereotypical business from these two different economic worlds, and how they interact in relation to the product. The complexity of retail production and sales processes are best illustrated by concrete real-life examples. Moreover, Storper and Salis’ Marxist based theory sees business in context. This context can only be studied well with a case study approach. This comparative case study will lay out the advantages and pitfalls of mega retailers versus that of small businesses.

I chose Wal-Mart as my case study of the Industrial World. Wal-Mart is the largest retailer on Earth and has built an empire on “Always Low Prices.” As a result,
Wal-Mart’s products are generic and known for low quality. In contrast, I chose a small retail gift company called Bungalow as my case study of the Market World. Bungalow has built a successful business by producing fun and fashionable tote bags and storage products. Bungalow utilizes a co-creative strategy for designing new products in which it uses technology to engage their customers in the actual production process.
Chapter 3. “Wal-Mart Effect”: The Emergence of Mega Retailers

3.1 Introduction

Retail manufacturing began when individuals handmade goods and sold them at local markets. Before the Industrial Revolution, market control “depended on personal relationships and face-to-face interactions” (Beniger 7). Today however, "mega retailers" and global mass production has changed the way we buy and sell products. New infrastructure and communication channels have made it possible to globally source goods at low costs and distribute those goods to a wide variety of people. As a result, it is increasingly difficult for independent specialty manufacturers to compete and remain profitable. This raises the question, “Can small businesses, which have depended on close interaction with customers, leverage these relationships vis-a-vis technology to compete successfully against mega retailers?”

The theoretical framework outlined in Chapter 2 suggested that small businesses can compete by employing a marketing strategy that is based upon the type of product. Storper and Salis characterized worlds of production, two of which pertain
to the case studies in chapters three and four: The Industrial World, which represents generic mass produced goods; and the Market World, which describes goods produced in mass with customizable components.

In keeping with the socioeconomic and Marxist notions that economic impact must be studied in context, this chapter provides a detailed case study of Wal-Mart as an example of the Industrial World of production. The retail model introduced in Chapter 2 describes this type of production as “dictation.” In this sense, Industrial retailers “dictate” which products they will offer customers. These generically produced, low quality goods are manufactured for the sole purpose of generating high volume sales at low costs. Industrial retailers (referred to as “mega retailers” in this chapter) operate with lower margins and depend on economies of scale to generate revenue. Section 3.2 outlines a brief history of retailing, which explains the emergence of mega retailers. Section 3.3 introduces Wal-Mart and describes how this company grew to become the dominant world retailer. Section 3.4 discusses both positive and negative impacts of Wal-Mart, and how they may affect the future of small businesses.
3.2.1 A Brief History of Retail

Retailing can be described as “the sale of goods or merchandise from a fixed location” (Negen 12). This section briefly outlines the evolution of retailing over the last 200 years. Prior to the Industrial Revolution, retailers were extremely “consumer centric.” They were focused on the needs of their most important customers and customized their products solely on the basis of these customers. Since most goods were made by hand on a “per needed” basis, customization was the obvious choice (Koch 23). In this community-focused retail world, marketing was unnecessary. Due to limited transportation and communication, local retail markets were confined to a very small area and the goods produced were typically necessities, which the consumer could not easily produce.

The Industrial Revolution changed the organizational strategy behind business (Beniger 125). Businesses moved from relationship oriented, small-scale operations to standardized, and product-focused, manufacturing plants. The technology, mobility and public policy now available in the United States led to big business, specialization and eventually the assembly line.
The American system of production can be traced back to 1913 with Henry Ford’s successful execution of the Model T car assembly line (Beniger 298). Henry Ford dreamed of making the Model T available and affordable to most US consumers. As a result, he manufactured cars with standardized and interchangeable parts. Standardization made the moving assembly line possible. Ford’s intense commitment to lowering costs caused him to take standardization to the “extreme” by producing only identical Model T’s (Ford 13). By 1916, the Model T’s cost dropped to $360 (Using the Consumer Price Index, this price was equivalent to $7,020 in 2008 dollars). As a result, half of all cars in America were Model T’s by 1918.

Henry Ford’s success acted as a catalyst for manufacturers across all industries to increase production outputs and lower costs. In this context, the natural tendency of big business was to “subordinate customer needs to the exigencies of low-cost mass production” (Koch 101). Henry Ford’s often said, customers could have his Model T in “any color as long as it’s black (Lacey 45).” Consequently, a “one size fits all” mantra dominated successful businesses of the time.

Accordingly, this new way of thinking about business organization might be characterized as “production led”. This approach to business organization was pursued up until the late 1950s (Koch 101), when, in the 1960s, it started to fray under the pressure of customers craving choice and convenience. Consumer preference changes
occurred in parallel with the shift of development from rural communities to urban centers (Michman and Mazze 3). Growing transportation and information networks in the US allowed retail innovations designed to meet these consumer needs. The door was opened for mega retailing.

3.2.2 The Emergence of Mega Retailing in America

Mega retailers swept through the retail world based on the idea that “bigger is better.” Super Targets, Super Wal-Marts, Costco’s, and “everything” stores became ubiquitous on the American landscape. Mega-retailers have proliferated, not only in America, but also throughout the world. These large retail stores have been characterized in a number of ways. Europeans call them “hyper-markets.” American’s refer to these stores as “box retailers”, “super stores”, “discount retailers” and “mega retailers.” These terms generally apply to stores which are at least 26,900 sq. ft, although many new stores however exceed 80,000 sq ft (Cotton 136). This section looks at the emergence of these retailers, and how they have shaped US consumer preferences.

Although “mega retailers” only emerged on a mass scale in the 1960s, the concept of a “mega retailer” goes as far back as 1859. One of the earliest examples is
A&P. A&P also known as the “Great Atlantic & Pacific Tea Company” was founded in 1859 by George Gilman and George Hartford. This company started as a simple tea store on Vesey Street in Lower Manhattan. However, due to overwhelming demand, the company began opening additional outlets almost immediately. Over the years, A&P expanded into groceries. In 1910, the chain had more than 350 outlets. By World War I, A&P had become the largest food retailer and largest chain in the country. It dominated grocery retailing for decades. As powerful as A&P was, however, it never came close to Wal-Mart’s current size. At its height in 1930, A&P captured 2.5 percent of all retail sales with 15,500 stores (Hicks 8). Wal-Mart, by comparison, has 10 percent of all retail sales today (Mitchell 3).

By 1929 chains controlled 22.2 percent of the US market, even as Americans continued to spend nearly four of every five dollars at independent retailers. This ratio remained virtually unchanged for the next twenty-five years. It was only with the rapid suburbanization in the 1950s that national chain stores found their opportunity. In 1956, the first fully enclosed mall opened in a Minneapolis suburb. Chain stores thrived in these new centers, while independent businesses were largely excluded. Today, 90 percent of space in large malls is leased to chains.

At the same time, another idea in retailing emerged, the super store. Meijer is generally credited with pioneering the superstore concept in the United States (Kreiter
A super store is a combination of household and personal goods merchandised in the same store as grocery items. The first Meijer Superstore opened in Grand Rapids, Michigan. Still flourishing in Midwest markets, Meijer is open 24 hours a day, 364 days a year. (In contrast, Wal-Mart, didn't open its first Supercenter until 1988).

Not surprisingly, by 1967, independents’ market share dropped from four fifths to about two-thirds of retail sales. Since then, independent retailers have been steadily losing sales dollars to mega retailers (Mitchell 5). In 1996, the top ten retail chains accounted for a remarkable 15 percent of consumer spending. In 2005, less than a decade later, the top ten retail chains captured nearly 30 percent of the $2.3 trillion that Americans spend in stores each year (Mitchell 10).

3.3.1 “Wal-Mart” the World’s Largest Retailer

It was in this context of rampant shopping center growth that Wal-Mart emerged. (Mitchell 7). Wal-Mart is the largest and most influential “mega retailer”. According to Wal-Mart’s financial statements the company grossed $401 billion in sales for fiscal year 2009 (Wal-Mart corporate). On a micro level, individual Americans spend $36 million dollars every hour at Wal-Mart, twenty-four hours a day, every day of the year. That makes it not just America’s and the world’s biggest
retailer, but also a major force in the lives of people and the global economy (Fishman 25).

The size and scope of Wal-Mart is staggering. It is the largest corporation, retailer, grocer, and jeweler, in the world. Wal-Mart is also the largest private employer in the US, Mexico and Canada (Dicker 3). In fact Wal-Mart can be described as a country unto itself. Worldwide, 7.2 billion people will enter a Wal-Mart store this year. Earth’s population is only 6.5 billion.

Wal-Mart is a now an integral part of the US economy. Every seven days more than one hundred million Americans shop at Wal-Mart. That number constitutes one third of the country. Each year 93 percent of American households shop at least once at Wal-Mart. Wal-Mart’s sales in the US are equal to $4,060.36 spent by every US household in the last year. (Wal-Mart’s profit on that $2060.36 was just $75) (Fishman 6). The recent economic downturn has helped rather than hindered Wal-Mart’s sales. In the first 6 months of 2009, Wal-Mart’s U.S. stores were 2% ahead of the same period in 2008 (Gentry 30). According to a recent market research study published in the Tribune Business News, “Consumers are seeking value, to the point that they now refuse to pay full price (McClatchy 1).”

The very first Wal-Mart opened in 1962 in Rogers, Arkansas, the same year that the first Target and Kmart opened (Mitchell 7). Sam Walton founded Wal-Mart
with a single powerful idea, “sell stuff that people need every day just a little cheaper than everyone else: sell it at that low price all the time and customers will flock to you.” (Fishman 8).

Growth during the first two decades of Wal-Mart’s existence was modest. At the end of 1990, Wal-Mart had just nine supercenters (a supercenter is defined as a retail outlet selling both household goods and groceries in the same building). By the end of 2000, Wal-Mart had 888 supercenters - an average of 7 new supercenters a month, 120 months in a row (Fishman 3). Today Wal-Mart Stores, Inc operates more than 4,200 facilities including Wal-Mart supercenters, discount stores, Neighborhood Markets and Sam’s Club Warehouses (Wal-Mart Corporate). This extraordinary growth spurt can be attributed, in part, to the goal set forth by former CEO of Wal-Mart, David Glass, “Our priorities are that we want to dominate North America first, then South America, and then Asia, and then Europe.” Today, Wal-Mart has exceeded this goal. Wal-Mart operates on all four continents, with more than fifteen hundred outlets outside of the US. International outlets are so successful that Wal-Mart derives one-fifth of its revenue from its international division (Mitchell 16).
3.3.2 Wal-Mart Effects: How Mega Retailers are destroying small town America.

World retail domination did not happen without causalities. Wal-Mart has numerous enemies, due in part to its profound impact on small retail business and manufacturers. This impact is known as “Wal-Mart Effects”. The term “Wal-Mart Effect” refers to the situation when Wal-Mart, or any big-box retailer “comes into a town, reshapes shopping habits, and drains the viability of traditional social shopping areas” (Fishman 10). Heated debates surround the question, “Do ‘mega retailers’ like Wal-Mart help or harm the American economy in the long run?” One side argues that Wal-Mart aids in the growth and strength of the US economy, while the other contends that stores like Wal-Mart are destroying small town America’s local businesses.

The most significant “Wal-Mart Effects” include lower prices, lower wages and centralized shopping habits of Americans. Lower prices result from the relentless downward pressure on the prices of everyday necessities that a single vast retailer like Wal-Mart can exert. For example, hoping to draw in customers, Wal-Mart, in the early days, sold popular items like shampoo and toothpaste as loss leaders—that is to say, at
a price lower than cost. Today, this is a popular strategy of retail chains nationwide. However, it lowers the perceived value of certain products in the minds of American consumers.

Wal-Mart’s private label brand “Great Value” can also lower the perceived value of standard goods. As a standalone merchant, “Great Value ranks as the nation’s 39th largest retailer (Neff 2).” At an estimated $10 billion in annual sales, “Great Value” grosses more than online giant Amazon.com ($9.6 billion). That figure is also bigger than gross sales for Family Dollar Stores, Bed Bath & Beyond and Whole Foods. The paradox that Wal-Mart faces with respect to “Great Value” is that the lower price point actually depresses sales of staple consumer brands and reduces gross dollar sales. However, because there is no middle man, Great Value still earns greater profit margins.

Lower wages are caused by the downward pressure on wages at all kinds of stores trying to compete with Wal-Mart (Jacobs 7). This type of wage pressure affects workers in local retail outlets as well as in manufacturing plants. Manufacturing management expert and factory owner Sherrie Ford remarked, for example: “Every time you see the Wal-Mart smiley face, whistling and knocking down the prices, somewhere there’s a factory worker being kicked in the stomach” (Fishman 79). Many labor advocacy groups accuse Wal-Mart of exploiting workers and robbing them of
their ability to make a living wage. Wal-Mart denies any wrong doing, and maintains that low prices are the result of efficiency (Neff 23).

The centralization of American shopping habits is caused by the consolidation of consumer product companies trying to match Wal-Mart’s scale (Fishman 9). This effect has been attributed to the closings of thousands of retail specialty stores on main streets across America. Boarded up store fronts and deserted downtowns are prevalent especially in rural communities (Utah Stories). Instead of supporting local businesses, consumers drive to large shopping centers and flock to urban and suburban locations in search of greater variety and lower prices.

In addition to driving down consumer prices, Wal-Mart also pressures manufacturers to reduce production costs and seek out sourcing that provides the largest volume of goods at the cheapest price. This strategy has been used by Wal-Mart since its very first store “Discount City.” Rather than buying locally manufactured goods in Arkansas, Sam Walton trucked in products from wherever they could be sourced most cheaply (Mitchell 7). Sam Walton’s sourcing efforts has expanded into global sourcing and the advent of modern supply chain solutions. In fact, Wal-Mart is arguably the catalyst toward the increase of Chinese imports and a decrease in domestically made goods. Like many of Wal-Marts effects, the supply chain advancements are a double edged sword. Wal-Mart’s “sophisticated systems for
logistics and operations” have increased global efficiency, but at the same time resulted in the decline of US manufacturing.

### 3.3.4 Wal-Mart Effects: How Mega Retailers contribute positively to a growing economy.

Despite fierce criticism, Wal-Mart and many of its proponents emphasize the positive effects that Wal-Mart has on the global economy. This is not the first time a large company has appeared on the US economic scene, and been the subject of intense criticism. In some cases, Wal-Mart has been compared to the railroad industry, which was also criticized for destroying local economies, but which also brought about incredible economic growth (Norris 1).

It is arguable that Wal-Mart’s focus on low cost goods reduces inflation nationwide and makes the economy more efficient. As mentioned above, Wal-Mart’s practices and enormous needs revolutionized supply chain management theory. This in turn led to innovations in managing inventory and shipping goods (Norris 3).

Wal-Mart is also known as an innovator. The company is responsible for many improvements on general consumer products across the board. Deodorant is one of the most powerful examples of this. Until the early 1990’s most deodorants came in a paper box. Wal-Mart decided the box was a waste, taking up too much shelf space, and adding cost to the product. Therefore, Wal-Mart asked the deodorant
manufacturers to eliminate the box. The cost of each box equaled five cents, and Wal-Mart split the savings with a few pennies going to the customer and a few pennies to the manufacturer. In this example, Wal-Mart “used insight and muscle to change the world (Fishman 1).” Scaled to accommodate total US deodorant sales, Wal-Mart saved millions of dollars and thousands of trees. This type of efficiency improvement happens often in the world of Wal-Mart, generating positive impacts globally that the average customer rarely notices.

Even though Wal-Mart is criticized for low wages and mediocre benefits, Wal-Mart employs over 2 million people worldwide and has won numerous awards for promoting diversity (Wal-Mart Corporate). Wal-Mart is also been successful at motivating employees and has been named one of America’s “Most Admired Companies” on FORTUNE’s list since 2003 (Fortune.com). Sam Walton’s legacy of inspiring comradeship, teamwork and devotion to the company continues to motivate some of the world’s top minds to work for Wal-Mart (Michman and Mazze 19).

A company the size of Wal-Mart affects public policy, especially in areas such as health care. More than 94 percent of Wal-Mart associates have some type of health insurance (Wal-Mart Corporate). Former Wal-Mart’s CEO, Lee Scott defended the health care benefits Wal-Mart offers in this way, “The soaring cost of health care in America cannot be sustained over the long term by any business that offers health
benefits to it employees…and every day that we do not work together to solve this challenge is a day that our country becomes less competitive in the global economy.” (Norris 2). In 2009, the Washington Post wrote, “the world’s largest company has become an unlikely leader in the effort to provide affordable care without bankrupting employers, their workers or taxpayers in the process (Meyerson A17).” Wal-Mart’s $4 prescription medicine campaign has already saved customers more than $2 billion since it began in 2006 (Wal-Mart Corporate). Health care is a growing problem in the United States and believe it or not Wal-Mart is looking to become part of the solution.

Defenders of Wal-Mart also claim that lower income American families are able to eat well and purchase household goods because of the retailer. Wal-Mart capitalized on this fact by launching their wildly successful 2006 “Save money. Live better” marketing campaign. The campaign stemmed from watching a video of Sam Walton in 1992 in which he said, "We'll give the world the opportunity to see what it's like to save and have a better lifestyle." Many of Wal-Mart’s core customers would be unable to afford the same array of goods if they were to shop at independent specialty stores. An independently certified study found that Wal-Mart saves the average American household $3,100 per year (Dicker 34). Moreover, Wal-Mart is now transforming the emphasis on savings into a major campaign to bring affordable “green” solutions to the average American household. Wal-Mart wants to make
organic produce, environmentally friendly goods, and sustainable energy practices available to the world.

3.4 Summary and Conclusions

Despite the controversies about Wal-Mart’s, everyone agrees the mega-retailer has a major impact on how we buy and sell goods. Economies of scale attributed to the rise of chain stores. Volume is a key advantage to mega retailing. More sales at lower margins equal more dollars spent and earned (Lebhar 7.). This approach is common in a number of retailing outlets. The more retail outlets, the more volume a chain can generate thus increasing its buying capacity. As one of the first observers of chain store writes “In buying, the chain store undoubtedly enjoys whatever advantage inheres in the factor of quantity.” (Hicks 8).

How then can small businesses, which do not have the advantage of economies of scale and scope, compete in a world where high volume, low dollar reigns supreme? Well known economist Lawrence Mann described the relationship between specialty stores and large retailers in the following manner:

“Scale economies occur when a firm reduces it average cost as it produces more goods and services. When the size of the firm (in terms of total sales) determines cost efficiency, small retailers suffer from higher per unit costs than large retailers (especially chain stores). Their (small retailers) relative importance will probably continue to decrease, but there is no probability they will all be forced out of business, as they usually have the advantage of convenience of location as compared with
department stores and mail order houses, give more personal service (including credit and delivery) than chain stores and are receiving closer cooperation from wholesale dealers who look upon the large-scale retailer as a common enemy. (Mann 1923: 615).

Mann’s characterization ties back to Storper and Salis’ recommendation that small businesses that operate in the Market World of production should have a completely different marketing strategy than that of mega retailers. Mega retailers, and Wal-Mart in particular, have focused on becoming “all things to all people” (Dicker 18). This approach has its limits, however. As people have greater access to a global marketplace and exponential choice, a new trend is emerging that earmarks the importance of customization and quality of goods. The next chapter of this thesis describes how one small retailer, Bungalow, LLC is able to survive in a niche marketplace for consumers desiring the opposite of Wal-Mart’s low cost, low quality experience.
Chapter 4. Bungalow, LLC: “Co-Creating Community”

4.1 Introduction

Questioning the assumption that “bigger is always better,” this thesis seeks to determine whether, instead, “small can be beautiful.” In particular, it asks: can small businesses succeed despite fierce competition from mega retailers. One example is Bungalow, LLC, a small home and accessories manufacturer that is growing despite economic pressures and astonishing competition. This chapter details the success of Bungalow showing how changes in the economy may foster, rather than hinder, certain types of small businesses.

Chapter 3’s case study highlighted Storper and Salis’ Industrial World marketing model, in which Wal-Mart “dictates” low-cost, generic goods to customers. In contrast, Market World retailers, like Bungalow, employ a “co-creative” strategy, in which customers are involved in the actual production of goods. Section 5.2 provides a brief historical perspective of small businesses in America, cumulating with an account of the current economic conditions that may contribute to the resurgence of small business. Section 5.3 outlines the Bungalow story and how by focusing on design, Bungalow uniquely positions itself as a fashion and trend resource. Section 5.4 talks about avenues through which, Bungalow distributes its products including sales
representatives, trade shows and direct retailer networks. Section 5.5 describes how social media technology enables small manufactures such as Bungalow to grow large intimate networks that facilitate the entire co-creative process. Technology has also enabled manufacturers to sell directly to consumers, a practice described in Section 5.6. As we shall see, the convergence of changing economic forces, new technologies, and emerging consumer preferences make it possible for small businesses like Bungalow to excel in today's market.

4.2 A brief history of small business in America

As outlined in the historical analysis of Chapter 3, the distinction between small and large businesses occurred in the late 1880s when economies of scale and scope became important to the US market. Mega-retailing emerged and sapped up market share from independent specialty shops. Consequently, business literature focuses on large companies. However, the history of small business remains an important component to US economic development.

According to historian, Mansel Blackford, small businesses are “vital components of a rich and diverse national economy (6).” In his book, A History of Small Business in America, Mansel argues that small businesses have survived by “exploiting market niches through flexible production and marketing strategies.” While there is no specific consensus as to the definition of “small”, the US Small
Business Administration (SBA) defines a small business in the retail industry as a company with 100 or fewer employees (SBA Factsheet). Moreover, SBA statistics find that small businesses represent 99.7% of all employer firms and employ just over half of all private sector employees. These findings make clear that small businesses are a significant component of the US economy. Perhaps as important as economic reasons, “[small businesses] have occupied a special place in the American imagination (Blackford 7).”

Before 1880, small businesses were the norm. In this economic environment, “personal trust lay at the heart of colonial America’s business system (Blackford 15). Face-to-face interaction and personal relationships dominated the exchange of goods. At the time, US retailing consisted of three distinct groups; storekeepers, wholesalers, and peddlers. Country storekeepers were arguably the most important small business people of their day. By 1839, 57,565 retail outlets existed in the US. The average amount of capital invested in each store was $4,350 (Blackford 13).

Because most stores were the only retail establishment in town they carried a broad assortment of goods. In exchange for goods, store keepers accepted all types of payment and extended generous credit terms because cash was in short supply. Blackford describes the “main economic function of the stores is to facilitate the exchange of goods” (16). In addition to being business owners, country store keepers
played an important social role in each community. Missouri trader John Jones, described the importance of store keepers in this way, “He is the general locum tenes, the agent of everybody, and familiar with every transaction in his neighborhood. He is a counselor without license, and yet is invariably consulted, not only in matters of business, but in domestic affairs (Blackford 37).”

Wholesalers constitute the second important retail segment. Concentrated in large metropolitan areas such as New York, Philadelphia, Baltimore, Chicago and St. Louis, wholesalers amassed goods, typically via auction, to supply retailers. According to the United Nations Statistic Division, "wholesale" as applies to the retail industry is the resale (sale without transformation) of new and used goods to retailers…” Historically wholesalers, otherwise known as jobbers, “assumed an increasingly important role in the lengthening chain of transactions extending from British factories across the Atlantic, over the Appalachians and into the small country stores…” (Beniger 155). Once or twice a year storekeepers made trips to purchase goods from these wholesalers. The supplies were typically bought on credit though a bill of exchange. The terms of the bill were 6 months interest free, followed with 6 months at 6% to 10% interest. The jobber’s competitive advantage was direct access to market information and being able to purchase the best goods at the lowest price.
As the United States population dispersed further into the frontier, a new type of small business emerged, peddlers. Peddlers typically purchased $300 to $2,000 in goods (about the same as a store) from a wholesaler or manufacturer and turned their stock in three months (Blackford 20). Peddlers usually sold a variety of goods but some specialized in specific products like spices, medicines or hats. As peddling evolved, some became manufacturers’ representatives and worked directly for companies. However, as population centers grew by the early 20th century, few independent peddlers remained.

As described in Chapter 3, industrialization in the late 19th century gave rise to the growth of big business. Developments in technology and transportation allowed chain stores to maximize distribution and increase retail outlets. In 1931, retailing expert Malcolm McNair wrote, “in the US the major scene of the industrial revolution has definitely shifted from production to distribution (Blackford 108).” Throughout the 20th century, as mega retailers grew in dominance, small businesses continued to survive by “producing specialty products for niche markets (Blackford 200).”

Even though the world has changed significantly from the 1880’s until today, the same basic small business structure of storekeepers, wholesalers and peddlers remains intact. The independent retail market still consists of thousands of independent stores, individual manufacturers (who act as wholesalers), and peddlers.
that I describe in section 5.6 as direct to consumer sales professionals. Despite the fact that the basic players in the small business retailing world are the same, the economic conditions affecting these players has shifted significantly.

According to writer, Daniel Pink, having passed through the Industrial Age, the world is presently being transformed from an information to a Conceptual Age. In his recent, best selling book, *A Whole New Mind*. Pink argues that, whereas in the Industrial Age factory workers were valued, and in the "Information Age" knowledge workers were valued, in today’s "Conceptual Age" value will be placed on creativity and right-brain aptitudes. Consequently, creators and empathizers will have the competitive advantage.

Pink’s theoretical framework pairs nicely with those of authors Dan Florida and Eric Beinhocker. Dan Florida conducted extensive research on the creative class, a rising group of American workers (38 million and growing) whose main source of competitive advantage is their creativity. Economic geographer Eric Beinhocker introduces the concept of “Complexity Economics,” postulating that the economy is an evolutionary system that is changing at an exponential rate. The common thread binding the work of these three researchers is the idea that the world is evolving in complexity and, for that reason, there are definite shifts in the way businesses determine competitive advantage. Under these circumstances, small businesses can be
successful despite fierce competition from mega retailers. As we will see in the following case study, Bungalow leverages changing economic conditions, Market world business development strategies, face-to-face relationships, and online networks via social media to sustain double digit growth.

4.2.1 Bungalow’s Story

To succeed in Daniel Pink’s Conceptual Age requires high touch, high context. High context is “the capacity to detect pattern and opportunities, to create artistic and emotional beauty, to craft a satisfying narrative, and to combine seemingly unrelated ideas into something new” (2). High touch is the “ability to empathize with others, to understand the subtleties of human interaction, to find joy in one’s self and to elicit it in others, and to stretch beyond the quotidian in pursuit of purpose and meaning” (3). It is within this context that Bungalow must develop and tell their story. A good story is the foundation of a successful business. According to Pink, “the essence of persuasion, communication and self-understanding has become the ability also to fashion a compelling narrative (101)”.

Bungalow’s narrative is compelling. Bungalow was founded in 2004 by Ben and Deb Johns. As Bungalow’s owners, Deb and Ben are the “juice” behind the brand. Deb’s experience as a fashion editor at Vogue and her keen intuition as a lifestyle
consultant, fuel Bungalow’s design and color choices. The John’s lifestyle inspires their products. The Bungalow lifestyle is about being unpredictable – “it’s about finding a comfortable way of living that’s not too serious, but one that makes you feel good about being there.” It is exemplified by their four children and four dogs all living in a huge (yet inviting) Georgetown home recently featured on MTV’s “Teen Cribs.” Modeled after their own lifestyle, the intent of Bungalow is to design and manufacture fashionable and functional tote bags for the US Gift Market. And, as the company’s success makes clear, Bungalow customers relate to the fun, whimsical, high paced, functional life that the John’s portray.

Getting started, the Johns noticed a space in the retail market for a colorful, durable, inexpensive tote bag that was functional as well as fashionable. As a result, the “Deano Tote Bag” emerged as the original Bungalow product. Scout, the owner’s own dachshund dog, was featured on the label and a new “brand” was born. Since 2004, Bungalow has grown from a simple tote manufacturer to a full line of products including storage, flooring, accessories and totes called the “Scout Collection.”

Because of the high costs in the domestic economy, Bungalow cannot afford to manufacture its goods inside the US. Therefore, Bungalow custom designs all its products in house and contracts three factories in China to produce their goods. The Bungalow supply chain network flows as follows. Two especially talented graphic
designers create product forms and patterns. These original designs are then sent to China where the goods are produced. Bungalow currently sells over 400 SKUs in fifteen different patterns with wholesale price points ranging from $3 to $22. The average gross wholesale margin is 65%. These goods are then imported to a warehouse in Somerset, New Jersey via a New York port. The warehouse in New Jersey (Gordon Management Incorporated) acts as a fulfillment center from which goods are distributed to retailers across the country.

Bungalow distributes products to a network of two thousand independent retailers through fifty plus sales representatives, as well as through direct business-to-business sales. Of these retailers, only nine are large companies. As a result, Bungalow relies almost exclusively on small specialty shops to support their business model. In an effort to diversify, last year Bungalow began selling direct to consumer via their website, http://www.bungalowco.com. This venue, however, currently represents less than five percent of total sales and is not expected to be a large sales revenue segment in the near future. In the retailing world, this type of sale is known as direct to consumer. It is a new business model for wholesalers in the retailing industry, and will be described in detail in section 5.6.
4.2.2 Design: A Fashion Resource

Bungalow not only tells a compelling story; it is a fashion, trend and design resource for retailers and consumers alike. Design is one of the key ingredients to success in the Conceptual Age. According to Pink, “It’s no longer sufficient to create a product, a service, an experience, or a lifestyle that’s merely functional. Today it is economically crucial and personally rewarding to create something that is also beautiful, whimsical or emotionally engaging” (70). Because of Deb’s background in the fashion industry, Bungalow is able to “clothe” their functional products in compelling, trendy designs. Twice a year she travels to Paris and Milan to discover the next season’s fashion statements. Based on her research, she creates “trend boards.” The trend boards are given to the designers and provide the basis for Bungalow’s newest patterns. These activities position Bungalow to be, not only a manufacturer, but also a design resource. Placing Bungalow products in a store elevates the retailer’s reputation as an on-trend marketplace, which is increasingly important to consumers today.

Companies like Bungalow are important to the future of retail because they represent innovation, choice, style and support independent specialty shops. In today’s market, accessory companies like Bungalow are well positioned to increase sales. In what is known as the “Lipstick Syndrome” “recessions stifle apparel spending, but
women satisfy their fashion cravings with updated accessories, cosmetics and jewelry (Gentry 2).” With seasonal, fashionable and affordable bags, Bungalow is ready to snap up some of this market share.

In an effort to stay on-trend, Bungalow replaces 80% of its line each year with new products. Staying current with patterns and styles is part of Bungalow’s multifaceted marketing strategy. One of the biggest challenges in the gift world is answering the customers’ most common question, “What is new?” Newness, individuality and being on trend are the competitive edges for which gift manufactures are best known. There are two main introductory periods for products. New-year introductions are showcased in January and mid-year introductions in July. At both times, the line debuts at the Atlanta International Gift Market (the largest gift trade show in the country). In 2009, Bungalow launched its first “Fall and Holiday Collection” and plans on adding an additional “Back to School Collection” in 2010. This constant turn of fresh new product designs provides a significant competitive advantage over generic products that one might find at Wal-Mart.
4.3.1 Bungalow’s Network: Leveraging Sales Rep Relationships

A great story and a well designed product are useless without a network with which to distribute that product. One of the greatest challenges that small manufactures face is distribution. How do manufacturers introduce their products to independent specialty shops? As a whole, gift industry retailers are late adopters of technology. Many still send in hand-written orders via fax. Others rely on traveling sales reps to bring new products and ideas through their doors. Many do not have internet access in their stores and are resistant to email. Trade shows, are still the place where many retailers write product orders year after year. Because of this, the traditional form of reaching these retailers is through independent sales representatives and trade shows. However, it is arguable that these traditional forms of marketing are not efficient or cost effective enough in today’s high-tech, high-volume marketplace.

Independent sales representatives provide the most common distribution method for specialty manufacturers. These reps work on a strict commission basis, which is typically 15%. An average sales representative will carry between 10 and 30 product lines. The most successful sales representatives have long standing relationships with store owners in a particular region close to their own home. Their
competitive advantage is face-to-face interaction, trust and relationship. Many of these small retail shops rely on sale representatives to bring them the hottest new products that their customers will love.

Sales representatives have organized themselves into larger “Rep Groups” that service entire markets. For example, Appelman Schauben services Bungalow in the entire South East. Its territory includes the states of Georgia, Kentucky, North Carolina, South Carolina, Florida, Alabama, and Mississippi. Appelman Schauben is one of the largest regional sales rep groups in the United States contracting over 20 independent sales representatives.

Commission is earned by writing orders both in showrooms during industry trade shows and on the road, where orders are placed directly from store owners. Once an account is established, reps are paid on any order placed by that retailer regardless of its origin. However, a sales rep’s job is not secure. Manufacturers may cancel commission agreements with a 30 day notice. As a result, many manufacturers employ reps to build their business and gain brand exposure across multiple territories. Once the brand is established, they cancel their agreements and sell directly to the same accounts cutting out the sales reps. This practice has lead to fear and mistrust between manufacturers and sales representatives, which is especially problematic in an occupation where the value of the sales rep to the retailer is relationship and trust.
Sales reps face challenges not only from manufacturers; poor economic conditions can also wreak havoc on their commissions. In the most recent recession, sales representatives are struggling to stay afloat. According to a recent report by CRM analyst firm CSO Insights, almost half of all salespeople did not make their sales targets in 2009 (Lager 30). Business to business marketing strategist, Shih states, “more than ever, sales reps must strive to maximize the lifetime value of their customer relationships versus maximizing the value of a single transaction (Shih 69).”

Some sales rep organizations are creatively leveraging new technologies and ideas to remain profitable and broaden their market share. Perhaps the best example of this type of evolution is One Coast—the largest sales rep group in the country. One Coast was formed in the last decade by the acquisitions of several smaller sales groups. According to One Coast sales manager, Jeremy Hearst, “we must leverage technology or be swallowed up by it”. In an effort to leverage technology, One Coast engineered a completely new concept in the retail world, “an online showroom” called Snap Retail. The online showroom functions as a virtual marketplace where retail shops can browse many products and place one order for several different types of goods at the same time. Each manufacturer ships their own product to individual retailers and pays One Coast a commission on the sale. Snap Retail is available as an online marketplace 24 hours a day 365 days and year. As well, it conducts four “online shows” per year
where retailers can take advantage of specials such as free shipping and discounted merchandise if they purchase during these specific time periods.

Despite efforts of progressive rep groups like One Coast, the current sales rep model is inherently flawed. The manufacturer relies on an independent entity to manage its brand awareness, customer perception, and marketing. New technologies allow manufactures to communicate with their customers directly on a mass scale. Instead of using sales representatives as “middle men” there are alternative strategies that can be employed to reach retailers directly.

4.3.2 Bungalow’s Network: Leveraging Trade Show Visibility

Trade shows are the second traditional venue where specialty manufactures gain exposure to retailers. There are trade shows for almost every industry occurring every month of the year. Trade shows are expensive, labor intensive, and time consuming. For example, Bungalow spends over $50,000 and travels with half of its employees to exhibit at the New York International Gift Fair. Due to declining attendance in recent years, Bungalow struggled to make back its investment via orders placed at the show. As a result, Bungalow pulled out of the New York Show and focuses on the larger Atlanta and Dallas Markets. There will always be a need for the
face-to-face high imprint type of visibility that trade shows provide. However, there may be a trend to smaller more focused shows instead of huge industry wide expos. John Hill, president of John A. Hill and Associates recommends attending one major trade show a year and attending several smaller, more focused venues. “The audience may not be as large, but the possibility of generating more opportunities for my clients has proven to be higher. With this approach, the client can get two or three trade shows out of what it would cost to exhibit at a single major trade show” (McGuire, 2).

4.3.3 Bungalow’s Network: Leveraging Direct Relationships

Technological advancements have made it possible for manufacturers to communicate directly with retailers. While trade shows and sales reps are still part of their traditional business model, Deb and Ben Johns have decided to pursue a direct relationship with as many retailers as possible. The strategy behind this plan coincides with the Market World’s model of co-creation. Co-creating with the owners of specialty shops is the quickest and best way to generate product loyalty, buy-in and co-ownership. If a shop owner feels like they are part of the process of designing a product, they are more likely to sell this product with passion in their stores. The goal of this co-creative process is to successfully market their products and build a
community of like minded individuals that meet to share ideas, merchandising strategies, and struggles. In this community, retailers and Bungalow representatives can empathize with each other. Empathy is emphasized as another Conceptual Age success factor (Pink 110).

To formalize the process of connecting and engaging with customers, Bungalow created a customer loyalty program, the “Scout Kennel Club”. The Kennel Club segments customers into four tiers. An order placed in 2010 automatically guarantees membership to the club. Customers with $3,000-$10,000 in annual sales are “Rising Stars”. Customers with $10,000 - $25,000 in annual sales are “Scoutie Stars” and customers over $25,000 in annual sales are “Scoutie Super Stars”. Each group is privy to exclusive benefits. For example, special discounts, invitations to seasonal product previews, access to unique industry information and participation in a dynamic online community designed specifically for this group of retailers. Customer loyalty programs are not a new concept in the retail world. Many companies engage their customers in this way.

The difference between Bungalow’s loyalty program and that of most manufacturers is that the Kennel Club is “customer centric.” Bungalow intends for its customers to receive intrinsic benefits from being an active member of their community beyond the “monetary rewards” that are offered. Studies conducted by
Harry Harlow and Edward Deci in the late 1940s revealed that “intrinsic rewards” are far more powerful motivators than money alone (Pink 4). These studies can be further extrapolated to comparing retail sales of specialty shops versus that of mega retailing. Consumers shop at Wal-Mart to receive the lowest price, period. There is no other motivation for buying industrial products. However, consumers shop at specialty retailers because they are intrinsically motivated by the rewards of helping out a local retailer or supporting a story or cause that is important to them. Because intrinsic rewards are so much more powerful than monetary ones, once these patterns are established the customer will continue to shop for products that provide the most powerful intrinsic rewards.

4.4.1 Leveraging Social Media Technology to Build Community

Technology is the conduit by which Bungalow’s retailer network is able to grow and communicate with each other. Technology, in particular the Internet, significantly changed the retail industry. “The Internet’s the number-one communications channel ever built- it’s the printing press plus the phone” (Lager 33). In recent years, the introduction of Web 2.0 and social media outlets allows businesses a virtual space to interact with customers. Social networks are not just a fad, evidence
suggests that they are not only here to stay but represent a shift in the way Americans conduct their lives. Forrester Research states “more than 80% of those US adults who are online use social media at least once a month (Pack 30)”. Despite the fact most American’s are using social media for personal connections, many retailers still have not adopted social media for business use. According to Paula Rosenblum, founding partner at Miami-based Retail Systems Research, “Social networks provide retailers with an opportunity to engage proactively with their customers, but it is not clear if a lot of retailers are doing it yet...essentially the potential of social networks has yet to be realized (Gentry 30).” Consequently, this arena provides a new venue in which small business can gain competitive advantage.

The principles behind social media are connection and community. Everyone wants to be part of a community of like-minded people. A recent study by the E-tailing Group, Inc. found that 83% of consumers who frequently shop on the web are interested in sharing information about purchases in online social communities, and 67% say they spend more online after getting recommendations from their online community of friends. In Bungalow’s case, the question is, “Once customers are identified, segmented and rewarded, how does Bungalow communicate with them and continue to build brand awareness and sales?” The obvious choice is social media.
Even though the world of social media is here to stay, the specific technological platforms might change. Already Facebook has eclipsed MySpace, and Twitter emerged almost overnight as the premier micro blogging interface. Soon enough a brilliant programmer will build a better social media mousetrap and another platform will emerge. Therefore, it is important that the execution of any social marketing strategy is not based on a particular technology but on a compelling story that can evolve with any user interface.

Given the rapidly changing nature of social media, Bungalow must craft its communication strategy around telling its story to a community of like-minded people who want to participate and share in the Bungalow lifestyle. This however, has its challenges. There are two distinct communities that Bungalow must communicate with, so the biggest challenge is using two concurrent marketing strategies. One marketing strategy aims to garner consumer support with people who purchase Scout anywhere in the marketplace, whether it be at a retail store, online, or at a special event. The other marketing strategy is to create a community of independent retailers that sell Scout to consumers. This market segment currently represents the majority of Bungalow’s revenue. Bungalow decided to use two different social media channels, Facebook and Ning to address the needs of each group. Both strategies are outlined in the following sections.
4.4.2 Leveraging Consumer Networks: Facebook Fan Page

With 400 million active users and growing, Facebook is the most popular social media site in the world (Facebook Statistic Page). In the last couple of years Facebook has evolved from a strictly personal based social networking site to a place where business can advertise, promote brand awareness and create “fan clubs.” Many businesses create Facebook “fan pages” as a way to connect and distribute information to their customers. According to Facebook Statistics, more than 1.5 million local businesses have already set up fan pages and more than 20 million people become fans of pages each day. Bungalow launched a fan page in early 2010 earning over 500 fans in the first week. The target “fan” in this case is an end customer. In this sense, an end customer is someone who purchases Scout bags for personal use, not to resell. The purpose of Bungalow’s fan page is to connect with customers who love Scout products, and engage them in the co-creative process. However, wholesale customers generate 95% of Bungalow’s revenue, so while they can become a “fan” of the page, this venue does not allow Bungalow to build private community with their core customer base.

Facebook has not been widely used in a business-to-business context. Visa is exploring this model by creating a Facebook based business community called the “Visa Business Network”. Visa says “it’s just there to help small-business owners
connect with each other and manage their businesses, not to turn a profit.” (O’Sullivan 1). This large effort is the first to organize businesses on Facebook. The most popular element of the network according to Visa’s Craddock, “is the ability to find other businesses (O’Sullivan 2).” It is all about connection and the sharing of unbiased information. This is a significant characteristic, because it transforms the Facebook model of “consumer-to-consumer” interaction to “business-to-business” interaction.

Clara Shih, the head of social media alliances and product strategy at Salesforce.com created Faceconnector, a Facebook application that integrates profile and friend data with accounts, leads, and contacts in Salesforce CRM. She wrote a revolutionary business to business book regarding this application called The Facebook Era: Tapping Online Social Networks to Build Better Products, Reach New Audiences, and Sell more Stuff. Based on Shih’s research and Visa’s business community example, Bungalow considered using Facebook for their retailer community, but instead chose a platform that could be better customized called Ning.

4.4.3 Leveraging Retailer Networks: Ning

Bungalow realized early on that the key to growing their business is winning customers that love the Scout brand so much that they act as brand “evangelists”. This means that retailers will give Scout a special section in their store, and enthusiastically sell the Scout brand. After a series of co-creative experiments in
2009, Bungalow decided to create an online business to business network. Summer 2009, Bungalow asked top retailers and sales representatives for input on 2010 pattern and new product introductions. Bungalow took this approach with a three-tiered plan. First, Bungalow invited retailers and reps attending the Atlanta Summer Gift Mart to a private viewing room where they were able to view all the new product forms, provide improvement suggestions, and rate new patterns on sale-ability.

Immediately after the Atlanta Mart, Bungalow invited choice local retailers to the home of the company’s owners, Ben and Deb Johns, for a preview luncheon where this process was repeated in an intimate and warm environment. The unexpected result of this event was incredible brand loyalty and insight into how retailers view and merchandise their product. Moreover, Bungalow discovered that retailers marketing Scout products via non-traditional sales channels were equally successful and sometimes more successful than traditional “brick and mortar” establishments. For example, Haute Lava, Bungalow’s largest independent retailer, is an online only business. Monogram Me, another top retailer, offers in-house custom monogramming on every product sold. Susan Zimmerman sells exclusively through retail shows and direct sales in heavy tourist areas on Cape Cod. Only 10% of her sales are accounted for through a storefront.
Due to multiple requests from retailers and reps that were invited to physical previews but couldn’t attend, Bungalow also decided to conduct an online preview for pattern choice only. Using “Go to Meeting” Bungalow was able to show these folks 39 potential patterns. Their input was incredibly helpful for whittling down those choices to the 15 patterns that were introduced in 2010. The online survey was not as powerful as meeting with customers face-to-face, but those who attended eagerly gave one hour of their time and were grateful to be included in a small way to helping the company make important design decisions.

Bungalow’s strategy is exactly the opposite of Wal-Mart’s dictation process. By collaborating with customers regarding the production process, Bungalow is shifting “the control of information from marketers to consumers (Weinberg 22).”

Out of this process an online retailer network, called the “Scout Kennel Club,” was born. This network is a private community of retailers that purchase Scout. Because Bungalow wanted complete control over the user interface and design, they chose Ning as the platform for this network. With over 1.5 million networks and counting, this 2006 start-up is taking the social media world by storm. PC World Magazine describes Ning as “especially powerful for building a space in which to interact with customers (Stern 31).”
Bungalow’s social Business to Business community is also an excellent resource for online market research. 43% of market research is now conducted online (Fitzgerald 1). The online market research industry has grown into a business worth hundreds of millions of dollars, of which 20% to 30% belongs to B-to-B companies (Fitzgerald 1). The most popular way to conduct online market research is online surveys, search analytics and site analytics. Google has dominated this market with their ever popular and free “Google Analytics” application. However, Bungalow’s ability to gather market research directly from its online retailer community is far superior to reading computer statistics.

4.5 A New Approach for Manufacturers, Direct to Consumer

As sales through retailers continue to shrink, more and more wholesale companies and manufacturers are deciding to sell directly to consumers in addition to continuing their wholesale businesses. According to a new study by Connecticut based Peppers and Rogers Group, “consumer direct sales will account for 12% of all retail sales in 2010” (Peppers, Rogers 255). While this leap may seem like a no brainer – higher margins and merchandising control, it is very difficult to concurrently operate two distinct business models. David Halek, director of the study at Peppers and
Rogers says, “the increasingly hybrid nature of shopping is blurring the lines between traditional and consumer direct sales channels (Consumer Direct).”

Bungalow launched its direct to consumer website in July 2009. This is the only shopping venue where customers can purchase all Scout products at full retail mark-up directly from Bungalow. Since then, this site consistently generates $3,000 of additional sales dollars per month and averages 126 hits per day, with little to no formal marketing. However, building a direct to consumer sales division is not as simple as setting up a website with a shopping cart. According to John Metzger, CEO of the communication’s firm Metzger Associates, “Wholesalers new to the e-commerce world need to make a strong investment in infrastructure that supports all aspects of customer service, technical support, product support and returns (O’Sullivan 13).”

Some challenges that Bungalow faces in marketing to consumers are as follows. First, in house customer service is not set-up to field calls from end customers. End customers ask different questions and typically expect quick and expedient customer service. Bungalow’s in house customer service usually deals with retailers who order an average of $500 worth of wholesale goods at a time. To mitigate this problem, Bungalow contracted a third party order entry and customer service company headquartered in New Jersey that handles the retail web sales.
Other challenges include photography, marketing and timing. Wholesale photography is very product centric. How does the product look? How do you display a product in a store? What are the merchandising strategies? Wholesalers are trying to show retailers how they would sell a product in a particular store or the best way to display multiple products all together. The most successful Bungalow retailers are able to tell a retail story using multiple complimentary products that create an eye catching retail display. Therefore, wholesale photography rarely includes people or props.

However, end customers are interested in seeing products in use. For example, “How does a particular tote bag look on a pretty woman?” “How do the storage items look in a person’s closest or pantry?” This type of photography is designed to help people understand how to use products in their personal lives. It should elicit an emotional response like “Yes, I need that bag for my next trip to the beach!”

Another challenge is actually have time to invest in marketing the online consumer site. Mr. Shah, owner of B2CJewels.com says, “just making a great product or site wouldn’t really help. The most important thing is getting the word out there about your business (Banjo 2).” In order to do that all marketing channels must be explored including Google adwords, blogs, social networking sites and email marketing. Getting noticed is definitely a challenge.
Retail sales came in around $100,000 in 2009 and they are forecasted at $300,000 for 2010. That number represents only 2.5% and 10% of the business annually. However, undercutting wholesale sales is not the goal of the direct to consumer website. The big goal is to extend Bungalow’s brand image and strengthen the recognition of the company. As a policy, Bungalow keeps retail on its site at manufacturer suggested retail price (MRSP) and rarely discounts on-line merchandise. Bungalow uses Amazon.com to sell off discontinued goods, keeping that out of the main retail channels.

Another way to approach direct to consumer sales is by working with individuals who purchase Bungalow products at wholesale and sell directly to consumers instead of operating through a brick and mortar store. As mentioned earlier, some of Bungalow’s best customers are non-traditional. Susan Zimmerman, also known as Sue.b.do, is a direct to consumer expert and sells Bungalow in many venues. For the past 20 years, Sue has built a business around selling products at churches, temple events, boutiques, philanthropic opportunities, home parties, craft shows, road races, and consumer trade shows. According to Sue, “I sell whenever there is a gathering of a lot of people for a purpose.” Sue targets vibrant events where people gather for “happy” reasons. She believes that in such settings “there is an emotional and physiological need to buy something to remember where you are at.” A Sue sells
product well above manufacturer suggested retail prices and contends that “she” is the added value. “Personality sells my products… it is not about the price but the emotional pull. People want to buy a piece of me.” Sue’s competitive advantage is leveraging her own personality and relationships with customers.

Sue continually morphs her business based on the information and reactions she gets from being in front of people. That is how she has succeeded in growing her own business. Sue believes direct to consumer sales is the very best source of market research and the least expensive way to fine-tune a business. While Sue is an avid social media marketer on Facebook and twitter, she believes that there is no real substitute for face-to-face interactions and being able to buy a product in the midst of an emotional event. Sue.b.do is on the cutting edge of retail sales. Her direct to consumer business model is attractive yet still underdeveloped at Bungalow and in the retail world at large.

4.6 Summary and Conclusions

Without a doubt, there is a place in today’s economy for small retail manufactures like Bungalow. Because of favorable economic conditions, a great story, and a unique product Bungalow has increased sales revenues more than 30% each year since its inception in 2004. However, it is not clear how moving from face-to-face
relationship based sales to technology based sales will affect the personal connection that characterizes small manufacturers and retailers.

This case study highlights that small is indeed beautiful because small retailers are nimble and creative enough to tap into the marketplace pulse, and create from what is real now. This type of present, emotional connection and understanding of the marketplace “temperature” is crucial. Rosenblum states, “Retailers that tap into consumer sentiment have a better chance of understanding their customer and of being a winner” (Gentry 32). Any 21st century marketing strategy must combine not only a great product at a great price but also with great service and great people. The evolved consumer, particularly those included in Dan Florida’s creative class, wants to know who they are buying their products from and whether or not they can trust them. The co-creation process inherent in the Market World business strategy is uniquely suited to the rising creative class and the Conceptual Age. However, it is tough to strike a balance between the mutual purpose of what is in it for the business and what is in it for the customer (CRM 32). The concluding chapter will explore some of these findings in detail and point out future retailing trends and research needs.
Chapter 5: Summary, Conclusions and Future Research

This thesis set out to determine whether or not small retailers are able to compete against mega retailers in today’s economic environment. Using Storper and Salis’ *Worlds of Production* as a theoretical framework, I developed two marketing models to use as a frame of reference in this thesis. The first model describes the Industrial World of production’s marketing strategy, “dictation.” The second model illustrates a different approach for Market World manufacturers, “co-creation”. These models suggest that small retailers can indeed compete against mega retailers by using the appropriate model for their Market product and employing the strategies of co-creation.

Socio-economic theory suggests that businesses must be studied in context, so I chose case studies representing each economic model. Wal-Mart represented the Industrial World of production and provides the example of the world’s largest mega retailer. Competing mainly on price, Wal-Mart dictates products and pricing to the US consumer market, and thereby receives a lot of positive and negative attention. Bungalow, LLC served as the case study for the Market World of production. This case illustrates how one innovative company is able to grow by employing co-creative marketing strategies and leveraging relationships via new technologies.
In fact, given that both Wal-Mart and Bungalow are incredibly successful and growing, it would appear there is a place for both mega retailing and specialty retailing in today’s economy. Moreover, according to recent research by Daniel Pink, Richard Florida and Eric Beinhocker, the evolution of the economy and creative success factors in the coming Conceptual Age may increase the competitive advantage of Market retailers.

The retail production model I created in Chapter 2 represents a significant contribution to the field. This model emphasizes that Market manufactures must employ a different marketing strategy than Industrial manufacturers due to the nature of the product. Most importantly, this concept of a co-creative production process is a new way of thinking about retail strategy for businesses of the future. Social media technologies allow manufacturers to reach out to and solicit feedback from customers in ways that were not possible a few short years ago. This allows small manufactures the ability to further customize their products and make better inventory and design choices. Less excess inventory leads to higher gross margins and more dollars to invest in new products.

In the case of Bungalow, I was actually able to apply this model to a real world business. Final numbers need to be analyzed but the co-creative efforts at Bungalow including the preview party, Ning and Facebook sites have all lead to successful
pattern and form choices in 2010. Typically at least one pattern sells significantly less than others. However, all the patterns chosen using co-creative marketing strategies have performed well.

Because Bungalow is an ongoing case study of this co-creative production model it will be helpful to analyze comparative business and sales data before and after applying these techniques. I believe this co-creative process is applicable to a variety of retail segments. The emergence of completely customizable consumer products like Timbuk2 Bags and Café Press is further evidence that the modern consumer values being engaged in the production process. New manufacturing, web and social media technologies open up this world to a wide variety of manufactures.

More research on consumer trends in the coming decade is needed to support the hypothesis that specialty retailing is on the rise. A comparative quantitative analysis of segmented consumer groups would be especially helpful when predicting future spending habits of US consumers. According to Richard Florida the creative class already comprises 30 percent of our workforce, and it is growing. Small businesses would benefit from an analysis of consumer data relating to the creative class and creating products that cater to their choice and preferences.

As the recent economic recession recedes, there is great need to measure evolving retail trends and industry sectors where consumers are willing to spend their
excess dollars. There is a growing trend around shopping, buying and sourcing local. This trend is counter to Wal-Mart’s strategy that aims to source the cheapest products no matter how far away they are produced. Local shopping movements are fueled by a sub-set of consumers who are willing to pay significantly more for a similar product in an effort to support local businesses and re-invest money into the local economy. According to research conducted by the Institute for Local Self-Reliance and the Austin consulting firm Civic Economics “for every $100 spent at a locally owned store, $45 remains in the local economy, compared with about $13 per $100 spent at a big box (Weisul 59).”

Some of the more interesting findings from this thesis relate to the movements away from traditional distribution channels (such at sale representatives and trade shows) toward marketing directly to retailers. This trend gives rise to uncertainty for people currently employed by traditional distribution channels. It particularly raises the question of, “How can sales representatives evolve to bring value to manufactures and retailers alike?” It also indicates that large trade shows may decrease in size and number, giving way to local and regional trade shows. This trend benefits manufacturers because customers attending local, specific trade venues are more qualified, therefore resulting in higher sales.
There is also evidence of a movement from brick and mortar stores to non-traditional retail venues such as websites, local events, and home parties. More research is needed to understand this trend, and how it will affect not only small town America but also the landscape of urban centers in the future. Online sales still only account for less than 15% of total retail sales, but as this number continues to rise, we must wonder, what will happen to brick and mortar establishments? Will retail store space give away to office space or entertainment venues? Other research suggests that online sales will plateau and US consumers will use the web as a browsing and research tool which will influence offline sales. Under these circumstances, it is important for brick and mortar stores to have an online presence that enhances the in-person shopping experience.

Bungalow, LLCs case study, looked at the influence of direct to consumer sales on the company’s business model. More research is needed to determine the growing direct to consumer sales channel. Direct to consumer sales allows anyone the ability to become a retail business owner. With little overhead and minimal risk, people involved in direct to consumer sales have a definite competitive advantage, given the high overhead, static retail store. Because direct to consumer professionals typically operate from mobile businesses, they are able to attract the best customer for their
product instead of employing marketing techniques to lure the correct customer to them.

One of the big questions this thesis raises is, “How will the growing influence of social media and new technologies affect business-to-business communication and marketing techniques? In addition, can and will technology replace face-to-face interactions, and how will such an approach affect business in general? According to industry experts such as Sue Zimmerman, face-to-face interaction is “the best bang for your buck” and there is no substitute. Assuming that this assessment is correct, social media compliments, but does not replace face-to-face marketing and sales efforts.

Still, the greatest shift of all is the control of information from marketers to consumers. In this sense, consumers are able to rate, vote, talk about, and share experiences with each other about specific products and services. Web 2.0 revolutionized the internet, replacing “static” based content with user generated content. Blogging, social media, product reviews, forums and networking sites exploded, so marketers can no longer simply throw information at a large audience. Instead, information must be solicited and generated from the very group to which one aims to market. Social media allows manufactures to generate consumer feedback loops that enhance the co-creative marketing process. In cases like Wal-Mart, social
media is less appropriate because the primary reason people shop at Wal-Mart is low prices.

On a macro level, this thesis brings up the question of whether or not our society is moving toward impersonal transactions, like Amazon, or if we are gravitating toward more personal venues? According to Daniel Pink, our society is not becoming less personalized by technology, in fact it is shifting toward valuing high touch, high context personal experiences. In this sense, technology enhances the experience but does not replace it.

In a social context, the shift of valuing intrinsic motivation over monetary rewards will not only impact the retailing industry but also business at large. Additional research is required to better understand social entrepreneurial business models such as Tom’s Shoes, and how this company balances between doing good in the world and generating a profit. For every pair of shoes Tom sells, the company donates a pair to a child in need. The Tom’s Shoes model is one example of many successful businesses that operate around a cause narrative, from which customers can create a community. As consumer communities become more powerful, they can influence political and social changes around the world.

Social entrepreneurial business models are not to be underestimated. Traditionally, social entrepreneurs have been concerned with generating social capital
around an idea or cause, whereas business entrepreneurs traditionally focus on generating monetary profit. However, the research in this thesis suggests that the lines between the two are blurring. By leveraging a social cause to generate profit, business owners are elevating the role of retail dollars being used to “change the world.” In fact, an excellent question to explore is whether or not social entrepreneurism is the next big economic movement that characterizes the Conceptual Age. Making money alone does not motivate members of the creative class. Modern day society demands meaning as a requirement for motivation.

This thesis puts a much needed spotlight on the importance of small businesses in the US economy, when many scholars are focusing on the influence of mega retailers and large corporations. Economic forces, consumer preferences, and emerging technologies are changing at an exponential rate, so we must look at competitive advantage and marketing products in new ways. It is important that creativity remains at the forefront of any strategic business model, and that the customer is likewise engaged in the creative process. Given these findings, innovative small retailers are indeed poised to succeed in today’s rapidly evolving economic and social environments.
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