

# Consumer transactions with SMEs: implications for consumer scholars

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## Abstract

Historically, the consumer movement has defined business as big business. This paper proposes that we shift the focus to consumer transactions with small- and medium-sized enterprises (SMEs). After SMEs are defined, facts about the realities of SMEs are used as stepping stones to develop the idea that consumer interactions with SMEs are different than those with large firms and merit the attention of consumer scholars. Thirteen recommendations are tendered for future research including rethinking our traditional approach to consumer behaviour theory, consumer policy, and consumer movement theory.

**Keywords** SME, small- and medium-sized business, consumer, consumer transaction, big business, consumer movement, Canada.

## Introduction

When asked to brainstorm about the issue of how big, medium and small businesses differ in their relationships with consumers, a group of consumer studies pre-professionals identified the following 13 criteria: remoteness from the consumer; quality control and standards; convenience; credit and finance services; qualifications and training of personnel; complaint and redress handling; product, service and market research development and promotion; ability to customize and target niche markets; ability to comply with, and influence, market regulations; relative competition and power in the marketplace; power to intimidate and exploit consumers; political and lobbying activities; coping with consumer advocacy groups; and their role in

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the consumer movement. This exercise prompted the author to reflect on the assumptions held in the consumer literature about the relationship between consumers and businesses leading to this preliminary commentary about consumer interactions between small- and medium-sized enterprises (SMEs) vs. big business.

Turner<sup>1</sup> discusses consumers and small businesses but he focuses on how they are both similar in their relationship to big business rather than how consumers face different problems with small business than big business. For instance, he suggests that consumers and small businesses have similar buying power, spending patterns, borrowing patterns, tendencies for insolvency, tax burdens, and insurance problems. In an interesting twist, he challenges the consumer movement to 'add the economic mistreatment of small business to their agenda of consumer abuses to be stamped out' (pp. 5–6). This paper raises the challenge of shifting the focus of the consumer movement to consumer transactions with SMEs and uses Canada as a working example.

Several prominent consumer movement scholars identify four main players in the consumer movement: consumers, government, consumer organizations and sellers that are referred to as large corporations, manufacturers, and trade or industry associations.<sup>2–6</sup> To fight for consumers we must understand sellers<sup>7</sup> taken to be 'big' business. Indeed, the 20th century economy has traditionally been characterized by the presence of big business, with different markets referred to as oligopolies, duopolies, monopolies and multi- or transnationals. We currently conceptualize the market economy as a dual market economy that places big business in the centre and small to medium business on the periphery.<sup>8,9</sup> The cornerstone concern of traditional consumerism is big business.<sup>10</sup> The major players in the consumerist game are transnational corporations (TNCs).<sup>11</sup>

Schooler<sup>7</sup> proposes that people in the consumer movement should focus on the adversarial relationship

between the producer and consumer rather than the seller (retailer) and the consumer. He argues that the latter are simply the point of contact while the large producer has to focus on efficiencies related to production, distribution, processing, transportation, labour and marketing. From the perspective of small- to medium-sized businesses, this argument is flawed. 'The smaller firm is not a scaled-down version of the larger firm' (p. 8).<sup>12</sup> Sellers in the realm of small business can be the sales people, retailers, producers and manufacturers, sometimes all of them at the same time.

Furthermore, small business people often struggle and live on the financial edge, just as many consumers do.<sup>1</sup> Because of their small size but large numbers, they rely on a collective voice in Canada, the Canadian Federation of Independent Business (CFIB). Consumers rely on consumer organizations to represent their voice. Both are increasingly relying on the internet for infor-

mation and services, a practice fraught with potential transaction problems, as will be discussed.<sup>13</sup>

This skewing of the consumer movement toward big business has lead scholars in the consumer studies field to develop compelling arguments for the presence of an imbalance between buyers and sellers; however, they have assumed that the seller is the large, corporate firm. For example, Garman and Eckert<sup>14</sup> and Feldman<sup>2</sup> provide a typical overview of why sellers have the advantage over consumers in market transactions, mainly because of competing interests, goals and resources (Table 1). Big business is the focus of Table 1. Small- and medium-sized businesses do not usually have large funding, paid lobbyists, trained sales staff, large advertising budgets or a strong competitive stance in the market.<sup>12</sup>

This situation leads one to question the difference between consumer interactions with SMEs rather than

**Table 1** Buyer–seller conflict between big business and consumers (extrapolated from Garman and Eckert<sup>14</sup> and Feldman<sup>2</sup>)

Consumer	Big business
<ul style="list-style-type: none"> <li>• Limited resources</li> <li>• wide range of consumer concerns and issues</li> <li>• Effectiveness in marketplace is compromised by 1 and 2</li> <li>• Use after tax dollars to purchase</li> <li>• Free rider problem (public goods)</li> <li>• Question about whether the consumer interest is represented by advocates</li> <li>• Is there professional consumer expertise?</li> <li>• Goal is to maximize satisfaction at lowest price; want value, quality and service for money</li> <li>• Amateurs in many markets</li> <li>• Limited consumer education</li> <li>• Buying is not a full-time job because work and play compete for time</li> <li>• Rarely talk to more than few sellers when making a purchase and rarely make large purchases more than once</li> <li>• Rarely talk to more than few sellers when making a purchase and information</li> <li>• Infrequent buyer of most products and services resulting in undeveloped shopping skills</li> <li>• Potential to be exploited by sellers via advertising and marketing</li> <li>• Sometimes have no choice in market because of monopoly</li> <li>• Expect fairness in transaction</li> </ul>	<ul style="list-style-type: none"> <li>• Big funding</li> <li>• Industry specific concerns</li> <li>• Effectiveness in marketplace enhanced by 1 and 2</li> <li>• Use tax deductions for lobbying expenses</li> <li>• Private goods, no free riders</li> <li>• Business interest is sure to be represented by paid lobbyist</li> <li>• Have paid, capable Professional Affairs Departments and Consumer Affairs Departments</li> <li>• Goal is to make a profit with lowest expenses; want to stay in business and maximize return on investment</li> <li>• Experts in one market</li> <li>• Often college graduates as managers, marketers or sales staff</li> <li>• Have expertise in selling because it is their job</li> <li>• Ads reach many consumers and staff talk to consumers interested in their product or service on a daily basis</li> <li>• Market research reveals extensive information about customers; seller is privy to undisclosed product-related information</li> <li>• Sell the same product or service all of the time resulting in honed selling skills</li> <li>• Size of company and control of advertising limits intimidation or exploitation by consumer</li> <li>• Monopolies can ignore consumer needs</li> <li>• Level of fairness determined by degree of competition, chance of offending consumer</li> </ul>

big business. Has the development of consumer protection theory and policy, even entire university programmes designed to train people in the consumer science field, been shortsighted because of its focus on big business? Shouldn't serving the consumer interest include reflection on the differences inherent in the potentially adversarial, even beneficial, relationship between the consumer and SMEs, in addition to conflict between the consumer and large business? To address these concerns, small- and medium-sized businesses will be defined. Then, facts about the realities of SMEs will be used as stepping stones to develop the idea that consumer interactions with SMEs are different than those with large firms and merit the attention of consumer scholars along 13 dimensions.

**Defining small- and medium-sized businesses**

Canadians work in four major industry sectors in the Canadian economy: (1) the goods-producing sector including primary (agriculture, forestry, fishing, oil), mining, manufacturing (converting raw material into goods) and construction; (2) the trade sector including wholesale and retail; (3) the market services sector including transportation, communication, utilities, finance, insurance, real estate, services (personal and business), accommodation, and food; and (4) the funded sector including community services (education, health and welfare) and public administration/government. By far, the large firms tend to be represented in the primary and goods-producing sectors (especially manufacturing) as well as wholesale trade while small- to medium-sized businesses function predominately in the wholesale and retail trade, market services sectors, food and accommodations, construction (primary) and arts/entertainment/recreation.<sup>15-18</sup> Small firms also predominate in business services, hospitality, and 'other' services such as dry cleaners, hairdressers and recreation (Table 2).<sup>15,16</sup>

In 2002, there were approximately 2.2 million businesses in Canada.<sup>16</sup> SMEs account for 97.4% of all businesses in Canada and the large business sector accounts for only 2.6%.<sup>19</sup> Industry Canada holds this number for SMEs even larger with less than 0.3% of businesses considered large business. Canadian SMEs deliver 60% of Canada's economic output, generate

**Table 2** Percentage of people employed in SMEs in industry sectors<sup>16</sup>

Industry sector	Percentage of people employed in SMEs in each sector (0-500 employees)
Construction	89
Other services	87
Accommodation and food	85
Arts/entertainment/recreation	84
Real estate/rental	79
Professional services	76
Wholesale trade	75
Administration/waste management	66
Retail trade	61
Manufacturing	60
Health (data available for 0-100 employees)	47
Transportation/warehousing	36
Information/cultural	36
Finance and insurance	34
Utilities	14
Forestry/mining	5

SMEs, small- and medium-sized enterprises.

80% of national employment and 86% of new jobs. They, not big business, are the engines of the Canadian economy.<sup>20</sup> The SME sector is credited with creating half of the million new jobs in 2002.<sup>16</sup> The CFIB<sup>21</sup> puts this number at two-thirds of new jobs and refers to SMEs as 'the other half of the economy - the non-stock market economy which is made up of independently owned businesses' (p. 2).<sup>22</sup> About three-quarters of SMEs produce services and one-quarter produce goods.<sup>16</sup>

Industry Canada<sup>16</sup> recognizes that many institutions define SME according to their own needs: annual sales, number of employees or size of assets. Industry Canada accepts that goods-producing firms are considered small if they employ fewer than 100 people. Service producing firms are considered small if they employ fewer than 50 people. Anything between 50 and 500 is considered medium sized. The smallest of small businesses are called micro-businesses, having fewer than five employees.<sup>23</sup> Industry Canada,<sup>16</sup> Statistics Canada<sup>24</sup> and the Nova Scotia Department of Finance<sup>19</sup> report that three-quarters of Canada's businesses employ fewer than five

people, and more than 97% of all businesses have fewer than 50 employees.

In 2000, Statistics Canada's Business Register counted 1 706 650 SMEs, defined as all private sector, for-profit enterprises with fewer than 500 employees and gross revenues less than \$50 million.<sup>25</sup> Using the North American Industrial Classification System (NAICS) to the five-digit level, the definition of SME changes to those having annual revenue between \$30 000 and \$5 000 000. Overall, there were 66 190 SMEs using this definition.<sup>26</sup>

Small firms are accounting for a growing share of job creation in the Canadian economy while larger firms are seeing their share reduced.<sup>15</sup> This growth in the SME sector is generally attributed: to lower barriers to entry thanks to technology; to the trend toward corporate and public sector outsourcing, consulting and downsizing leading to niche markets; to a shift to the service sector (more than 70% of Canadian workers have a service sector job);<sup>27</sup> to a rise in self-employment in reaction to high levels of unemployment;<sup>12</sup> and to the need to care for family members.<sup>9,28</sup> According to *Canadian Market Facts*, some 16% of Canadian households, in 1996, contained someone operating a business or an employee working from home in a home-based business.<sup>28</sup> The increase in SMEs is also attributed to market deregulation through dismantling of protectionist regimes, more complex career paths that accommodate an increased desire for control over lifestyle choices, increased market uncertainty that worked against huge long-term investments in very large operations, a gradual alignment of public policy to favour SMEs, and the maturation of the eight million strong baby echo cohort replacing the baby boomers as the new entrepreneurs.<sup>29</sup>

### Consumer transactions with small- and medium-sized businesses

If we can accept that SMEs are unique, with their own set of challenges and demands, then we can assume that consumer transactions with SMEs will be different from for large business. There is a collection of marketplace imperfections around which consumer movement issues are conventionally organized:<sup>30,31</sup> product choice and safety; package and labelling; pricing strategies;

information and advertising; selling, promotion and distribution;<sup>6,32-34</sup> complaints and redress; repairs and warranties;<sup>35</sup> consumer education; a healthy environment; and protection of the consumers' economic interest.<sup>36</sup> Many of these 'market failures' are identified in the following discussion of problems and opportunities faced by consumers as they deal with, and work in, an SME vs. a large corporation.

### Job creation, job security and the consumer interest

This section will address the challenges to economic security that consumers face when they work, or shop, at SMEs. In 1998, there were 12 952 300 people employed in Canada with more than half working at SMEs (56%).<sup>21</sup> In 2001, this number had increased to two-thirds, with nearly half of the labour market (47%) working in small enterprises employing less than 100 people and another 16% working in medium-sized firms employing between 100 and 500 people.<sup>16</sup> Indeed, SMEs are accounting for a growing share of job creation in the economy while larger firms are seeing their share reduced. Between 1979 and 1995, small business created 755 000 new jobs (about half of all new jobs), medium-sized firms created 515 000 and big firms created 227 000 jobs.<sup>15</sup> The largest firms now employ 41% of all Canadian employees, down from 54% in 1980 while, small firms (< 50) raised their share of the workforce to 36% from 26%. In 2002, SMEs' share of employment has grown to 55.9%.<sup>21</sup> Micro-firms employing five people or less have been growing at an average annual rate of 5% since 1981 while the number of larger employers has actually declined by 0.5% a year.<sup>12,37,38</sup>

The downside of this reality is the dismal success rate of very small businesses. About one in three new businesses fails within 3 years because of delays in collecting receivables, inability to make sales, and lack of skills to manage and develop the business.<sup>12,16,39</sup> This failure rate is especially true for micro-enterprises employing less than five people. This situation is compounded by the fact that three-quarters of SMEs are in the service sector<sup>16</sup> and that the service sector exhibits the highest mortality rate, a reality further exacerbated by the fact that we live in a service economy. Also, it is the smaller service firms that exhibit the higher mortality rates.<sup>39</sup> More and more people working in small service sector

businesses can anticipate that their job is not secure and that their future economic security is jeopardized because of sporadic income resulting from frequent job turnovers. This situation has grave implications on the person's role as consumer and their attendant consumer interest relative to their labour interest, with the latter becoming the dominant concern.

Nearly 350 000 Canadians started a business in the 1990s. Some 2.3 million workers are now self-employed; that is about 15% of the labour force.<sup>21,40</sup> About 43% more Canadians are now self-employed than at the beginning of 1990.<sup>41</sup> About 15% of SMEs are passed on from one family member to another while half are started from scratch and the rest are started by purchasing an existing business.<sup>21</sup> Family-owned businesses in Canada employ 4.7 million full-time workers (30 h or more per week at a main job) and 1.3 million part-time workers.<sup>42</sup> An intriguing facet of SMEs in Canada is that they *are* family firms, often with one leader who does not discuss business issues with their spouse or children (60%). This lack of communication is an issue for consumers working in SMEs because one of the issues not discussed is who will take over if the leader dies or retires. Will the company be able to continue to exist if there is not a sound succession plan to facilitate shifting ownership and management to the next generation? Church reports a recent Deloitte and Touche sponsored study conducted for the University of Waterloo (in Ontario) of more than 750 Canadian family companies. She reports that more than half of the current leaders of family-owned firms expect to step down in the next decade and, what is more important, almost half (43%) said it is not important to them that the business remains in the family. Seventy-three per cent did not have a business strategy, 65% did not have a succession plan and more than half had no process established for picking a successor. This situation does not bode well for Canadian consumers working in family-owned businesses during the next decade. Not only is there a strong chance that the firms may undergo a difficult time of transition upon the loss of the leader but there is a stronger likelihood that these firms will close down, downsize or restructure meaning wide spread job loss for many employees. Furthermore, issues related to redress come into play if the business does not exist anymore.

### Earning power and spending power

Working at an SME also effects a consumer's earning and spending power, thereby impacting their economic security in the short and long term. Those people who are self-employed, or who pay their employees working in their small- to medium-sized businesses, earn less than people who get paid by large corporations. In 1995, the former earned, on average, Can \$44 000 while the latter earned \$57 000.<sup>38</sup> Mandale<sup>28</sup> reports that 45% of Canadian home-based businesses have revenues of less than \$25 000. However, SMEs consistently generate far more new jobs than do larger firms meaning they account for an increasing share of total employment.<sup>38</sup> This combination of factors means more and more consumers are working in small businesses earning less money, often with few to no benefits, and in firms which may only be in business for 3 years because of the failure rates of small firms. A growing number of consumers with low wages and no benefits do not bode well for the overall strength of the economy that depends of consumer spending to survive. Winn<sup>13</sup> confirms that 'small business wins high marks for providing a pleasant work environment . . . but low marks for job opportunities and financial rewards' (p. 17). Furthermore, SMEs often hire part-time workers.<sup>42,43</sup> Part-time jobs have increased by 24% in Canada, three times as fast as the growth in full-time employment. Also, young people, older people and women tend to hold part-time positions and it is getting harder for all three to find jobs.<sup>41</sup> Small firms are often characterized by low and erratic pay, poor or no fringe benefits (pension plans, health insurance), unclear worker benefits, often without union protection, and little opportunity for career advancement.<sup>27</sup>

The situation of the consumer/labourer is exacerbated when one considers that smaller firms do not turn the profits that larger firms do, mainly because of excessive taxation in the form of local property, business taxes, Worker's Compensation premiums, personal income tax and employer health tax.<sup>21,38</sup> These circumstances mean that salaries may not go up at any appreciable rate in small firms relative to larger firms implying that the consumer's economic security (a basic right) is compromised because of their earning incapacity and their inability to plan for, and save for,

future income security. Indeed, incomes of people working at SMEs are lower than for those working at big business.<sup>21</sup>

Another aspect of economic security is retirement planning. Canada has a five-tiered retirement system: Old Age Security programme, Canada Pension Plan (CPP), Registered Retirement Pension Plans (RRSPs), company pension plans and individual investment portfolios. The financial reality of SME employees raises many barriers to gaining future financial security, and lack of finances impacts one's consumer interest, profoundly. This is true for any non-standard employee defined as those with part-time employment, who are multiple job holders and who are self-employed. To illustrate, lack of access to registered company pension plans means owners and employees of SMEs cannot plan for their future financial security using this vehicle. Special rules exist for payments into the CPP if one is a part-time worker, a trait of many SME employees. One has to work more than 30 h per week to be able to pay into CPP and has to be with the firm for more than 2 years. This rule creates a challenge for employees of SMEs because they tend to work part time (it may be less than 30 h a week) and they do not change jobs easily, meaning they will not have the chance to find a place where they can gain more hours of work. Once they are satisfied in their job environment, they stay there. In the majority of SMEs, the employees are working for many years in the same company. One of the main reasons for leaving it the low average wages.

Many Canadians cannot afford to pay into a volunteer RRSP, especially those employed in low-waged SMEs. More than two-thirds of Canadians (65%) contribute *nothing* to RRSPs; 11% pay as much as they are allowed to pay; and the rest contribute only 13% of what they are allowed to put into RRSPs. Borrowing to make an RRSP contribution is usually a good idea; yet, over 80% do not borrow the money to make the contributions.<sup>44</sup> The number of Canadians who 'planned to contribute' to RRSPs is declining (from 50% to 34% in only 2 years) adding to the reality of not contributing at all (65%).<sup>45</sup> Most Canadians do not invest in the stock market. It is evident that consumers working in SMEs will face financial challenges in the future.

### Job satisfaction, training and customer service

Employees in small businesses are typically very satisfied with their jobs, and generally more satisfied than employees of larger firms despite the fact that they work far more hours.<sup>21,38</sup> SME owners especially worked onerous hours with 80% reporting they never worked less than 50 h and half worked more than 60 h per week. Over 85% of those employed in small firms, and 76% in medium-sized firms, indicated they were 'very' or 'somewhat' satisfied in their job. Seventy per cent of public sector employees, and 84% in big business, were 'very' or 'somewhat' satisfied in their job. Ninety-one per cent were satisfied if they were self-employed.<sup>21</sup>

This satisfaction in SMEs implies that consumers could come to expect friendlier service at small establishments but this does not guarantee qualified service. Small- to medium-sized firms tend to have a smaller percentage of managers and executives and more sales and marketing staff. A recent study suggests that this flat organizational structure enables these firms to respond to customer needs more rapidly. This suggestion may be mitigated by the fact 44% of SMEs had difficulties finding qualified labour to meet their staffing needs.<sup>21</sup> To make matters worse, these firms depend on informal, on-the-job training of staff rather than formal training<sup>37</sup> with 60% opting for an informal approach to training.<sup>21</sup> This training approach implies that the sales and marketing staff may not have adequate training to deal with consumer inquiries and complaints although, when polled, small and medium firms rated customer service and flexibility in responding to customer needs as their top priorities.<sup>37</sup>

Although 95% of Canada's exporters are SMEs, and although more SME firms are exporting than before,<sup>13</sup> they still tend to sell the majority of their goods and services inside their home market.<sup>37</sup> This proximity means that the quality and calibre of consumer service should become rapidly known to the rest of the local market. Their desire to serve customers, however, is contradicted by not formally training the staff and complicated by the fact that most sales are made to local customers. This conundrum will have ramifications for consumer well-being in that consumers are more likely to hear of the anticipated level of service; but, if that service is not up to standard, they cannot count on any

upgrade in service because of a lack of a propensity to not train sales or marketing staff. To exacerbate the situation, not only are those who are employed ill trained, but there are about 300 000 unfilled positions in SMEs meaning there is less staff than needed to deliver the service consumers expect. Many of these 'empty positions' are in retail, financial services, community service, and construction, the sectors of industry most likely to include SMEs.<sup>21</sup>

#### **Business success and failure rates and consumer redress**

The failure rate of small businesses has ramifications on the consumer's right to redress. In a marketplace which is moving toward more small businesses (which tend to close after 3 years) consumers can anticipate that there will not be a firm to return to for redress, repairs, replacement parts, ongoing service, etc. This possibility has to be factored into their decision to buy products or services from small businesses just as it does when buying from multi- and TNCs which entail cross-border transactions in a global marketplace.<sup>46</sup>

Furthermore, while a 2002 National Bank of Canada<sup>47</sup> survey found that 85% of SMEs believe that customer service is very important, it also found that only one in five (18%) had a specialized customer service division to deal with consumer complaints! More encouraging is that two-thirds had made some form of arrangement for dealing with customer relations, with the task falling to the administration, finance or sales departments, a task for which they are not likely trained. Also encouraging is that 40% of SMEs have a written customer service policy and 39% have a non-written policy. But, the study did not refer to the contents of these policies and it found that 20% have no customer service policy at all. While the nature of the customer service delivered related to the sale of goods (81%), there is an increase in the importance that SMEs are giving to dealing with customer complaints. Three-quarters (74%) now deal with customer complaints more explicitly. If this trend continues, consumers should have more success in obtaining redress from SME transactions. Leduc<sup>48</sup> suggests that SMEs develop customer satisfaction forms and slip them in with the purchase, send a follow-up postcard, email or phone and create a separate page at the firm's website for comments and complaints. Con-

sumers are used to these tactics from big business so should be receptive to these initiatives.

#### **Small firms' remoteness from consumer**

One of the consumer interest issues for large firms is their alienation from the interest of the consumer.<sup>2</sup> The trend toward people working for SMEs suggests that people may begin to perceive themselves as less alienated or removed from the marketplace and consumers if, in their role as labourer or employer, they are working in smaller firms. They are likely to make more direct contact with other consumers, especially in the retail trade and market services sectors where most small businesses function.<sup>16,18</sup> This closer proximity to consumers may make the labourer/employer more sensitive to the needs of consumers leading to enhanced consumer service and respect of the consumer's interest at the micro-transaction level and the macro policy level.

#### **SMEs and big box retailers**

More than one-third of Canadian SMEs are located in towns and villages followed by one-quarter situated in suburban areas. One-quarter is in urban centres or downtown. About 20% are located in rural areas.<sup>21</sup> About 80% of Canadian consumers live in cities meaning at least half of them have access to SMEs in the suburb or downtown. The 20% of Canadians who live in the rural areas will have to drive to nearby cities or to nearby towns or villages to access SMEs. In fact, consumers now tend to drive great distances to shop at big box retail malls. These unenclosed shopping centres, anchored by large-format big box retail stores, have become the fastest-growing retail format in Canada's shopping landscape.<sup>49</sup> In 1998, big box outlets accounted for 66% of the new retail footage built in the country's nine largest cities. Consumers are less likely to shop at malls now. Where are they going? Power centres were the alternative shopping format of choice for 37% of these Canadian individuals implying that the other two-thirds still prefer to shop at indoor malls and SMEs.<sup>50</sup>

Given the recent trend of big box retailers, who set up business on the fringe of the community, SMEs need to reconsider their relationship with consumers. The proliferation of big box retailers in Canada over the past

few years has forced many SME downtown retailers out of business and others are barely hanging on. Large chain stores, like WalMart, has provided a wake-up call to smaller downtown store owners. These big box stores challenge SME retail communities and retail merchants to: raise their standards; refocus their efforts to satisfy the retail customer; train their personnel; look for something different from what the big box stores offer and then think about how they want to position themselves for the future; work collectively; resolve staff performance problems; and, invest in technology.<sup>51</sup>

Another facet of this trend is that most of the big box retail centres comprise American-owned large firms (employing more than 500 people). As of 2000, over 100 US large retailers were operating in Canada, up from 21 in 1992. Eighty-five per cent of these firms have more than four stores in Canada and three-quarters are expanding even more. Just one example illustrates this growth. Payless Shoes expanded from three stores to 154 stores in just 3 years. What is staggering is that these numbers do not include American-based food or restaurant retailers which are also numerous in Canada. This 'US invasion in mall, Main-Street and big box retail venues'<sup>52</sup> is creating intense competition and loss of market shares for Canadian retailers of all sizes.

Canadian consumers are becoming increasingly concerned with the encroachment of American interests in Canada, notably in the retail sector. A Centre for Research and Information on Canada study<sup>53</sup> found that over half of Canadians (52%) felt Canada was becoming more like the USA. Over two-thirds (67%) felt that this momentum could be stalled, that it was not inevitable. From a marketplace perspective, SMEs provide a viable market for consumers interested in 'buying Canadian' and keeping the Canadian identity strong. In spite of close ties to the US economy, consumer patriotism remains strong in Canada with nearly seven in 10 (67%) indicating that they 'buy Canadian-made products whenever they can, even if it means they have to pay a bit more than for the same product made in another country' (p. 2).<sup>54</sup> Two-thirds of citizens are angry that the Canadian government is not doing more to stop US firms from buying up Canadian companies.

From a pure consumer choice perspective, access to a combination of SMEs and big box retailers (whether Canadian or American) means the consumer has an

advantage in the marketplace. This is a short-term, non-transparent advantage, however. Big box retailers tend to embrace growth policies that result in the death of the downtown because of its monopoly, weakened communities, eventual tax increases (passed on in higher consumer prices), barely minimum wage, part-time hours, no benefits, and no unions while crushing SMEs and local businesses.<sup>55</sup> This untenable situation creates challenges for the consumer striving for income and security and, for other consumers, raises ethical dilemmas because big box TNCs are known for sourcing products made from child labour, sweatshop labour or prison labour.

Shopping at SMEs, instead of just at large business, keeps the money in the community, supporting local small business. This advantage is mitigated by the big box retailers, who often lobby for, reply upon, Sunday shopping – a trend that SMEs tend to futilely resist because they are small family-oriented firms who value these aspects of their nature. There arises an uneasy dilemma. With so many people working part time, split work, and in multiple jobs at SMEs, when do they do their household and financial management tasks if not on weekends? But, if they can do these tasks on Sundays, when do they spend quality time with their family, one of the reasons they own a small business (or work there) in the first place? This is a recognized conflict of interest for SMEs, their employees and consumers.<sup>43</sup> Those employed in SMEs have to work unsocial hours to meet the consumer need for adequate, extended shopping hours. But, they are consumers, too. This is more of an issue for the employees of the SMEs, who work flexible hours to meet round-the-clock consumer demand, than it is for consumers, for whom it is a convenience.

#### Foreign investment and consumer choice criteria

Another dimension to the issue of SMEs and big box retailers is that low-income employees of SMEs (or low-income Canadians for that matter) cannot afford to support the more expensive local businesses even if they wanted to 'buy local' or 'buy Canadian'. They are put in an uncomfortable situation that needs to be recognized. But, for those consumers who can afford this choice criterion, there may be some hope for this issue. Ninety-

six per cent of SMEs in Canada are independent with no affiliation to a parent firm (86%).<sup>17</sup> If it is affiliated with a parent company, that firm is Canadian. Consumers buying from a small- to medium-sized business, and who tend to use foreign ownership as a choice criterion, can feel confident patronizing these businesses. Multi-national capital is invested abroad (e.g. in Canadian firms) so as to extend or defend the owner's global position relative to other multi- or transnational companies in foreign markets.<sup>8</sup> Consumers concerned with a potential loss of control over jobs and economic security, because of excessive foreign investments, can draw some comfort from the lack of status of foreign investments in Canadian SMEs.

#### Civil society, SMEs and the consumer interest

Reid<sup>40</sup> suggests that most successful small- and medium-sized business people have a sense of mutual advantage and community responsibility and realize that the society they operate in is like the air they breathe. CFIB<sup>21</sup> reports that 98% of Canadian SMEs believe that using sustainable development practices is possible and desirable, with 12% of these believing that this should occur even if it curbs economic growth. The propensity for social and environmental responsibility among SMEs bodes well for the consumer interest in civil society. Civil society is made up of non-commercial, non-governmental, and public interest organizations all focussed on altering the current social structure to compensate for the centralization of power and to mitigate the shortcomings of markets and the political process on behalf of citizens at large.<sup>56</sup> Those working in the civil society are supposed to act as a counterweight to state power, opening up channels of communication and participation for marginalized groups, providing training grounds for activists and promoting pluralism. They provide a collective voice for those who individually have little access to power with policy makers and thereby bring policy makers the insight and experience of those working with and on behalf of marginalized citizens.<sup>57</sup>

Turner<sup>1</sup> suggests that SMEs are also marginalized groups and that alliances between consumer advocates and small firms would be good for the consumer interest. There is a huge global movement for TNCs to be

socially responsible and accountable. There is a chance that small businesses will also exercise their growing economic power from a socially responsible perspective because 'the size, scope and impact of small businesses is similar to the size, scope and impact of middle-income consumer households' (p. 320). Furthermore, Gorman<sup>58</sup> cautions that, although governmental and public concern for corporate behaviour and social issues intensified during the last three decades, small businesses have been challenged as they strive to report their attempts to be socially responsible. Turner's suggestion, that scholars turn their attention to the similarities between small businesses and consumers, has special merit in relation to civil society because 'small business and consumers have a structural relationship with the economy that is similar' (p. 318). The challenge is to find business leaders who believe that the community and civil society is as much their business as is the business of their enterprise. CFIB<sup>21</sup> notes that two-thirds of SMEs consider having made 'some' to 'a great deal' of progress in dealing with environmental issues in their community (one aspect of civil society). The common bottom line becomes about changing lives rather the striving for the almighty dollar.<sup>59</sup>

#### E-commerce and SMEs

In 2000, one-third of Canadians (4 million households) had made a purchase on the internet.<sup>60</sup> An estimated 2.2 million Canadian households spent almost \$2 billion shopping on the internet in 2001, placing 13.4 million orders. They placed an average of 5.9 orders from any location and the average value of each order was \$148.00. Just over 57% of these four million households made a commitment to order, and, in four out of five cases, paid for items over the internet, despite security and privacy concerns. Two-thirds of these purchases were from Canadian businesses.<sup>61</sup>

Half of Canadian SME's use the internet, lagging behind the USA which has an adoption rate of two-thirds. Nearly one-third of Canadian SMEs have no intention of using the internet and 20% intend to adopt it within the next 3 years, implying that three-quarters could be using the internet by 2005. This reality exists despite the fact that using the internet increased SME revenue by 7% and decreased costs by 9%.<sup>21</sup> As

reported by Market Impact, a TWA Research/Royal Bank study showed that 62% of Canadian businesses have access to the internet.<sup>62</sup> Furthermore, the study confirms that 47.6% of small businesses (with \$1–10 million in revenues) have a website; 57% of mid-size companies (with \$11–25 million in revenues) have a website; and 74% of large companies (with \$26–150 million in revenues) have one. A CFIB survey found 61% of the country's SMEs are connected to the internet. Medium-size firms with 100–499 employees are the most connected, according to the study, with only 51% of firms with four or fewer employees currently linked (as cited in Market Impact). Recent Industry Canada<sup>60</sup> data supports this finding, noting an even higher percentage of SMEs hooked to the internet, 69% as of 2000 (up from just 15% in 1996).

Having access to the internet is one thing; using it for e-sales in the retail sector is quite another thing. Canada-wide, only 7.5% of businesses of any size reported selling goods and services online in 2002. While business-to-consumer transactions in *all sectors* accounted for just 13% of e-sales in Canada (the rest being for business-to-business, 40% of all sales in the *retail sector* were via e-commerce. In 2002, over one-quarter (27%) of sales over the internet were to consumers or households, a substantial increase from 2001. The dollar value of business-to-consumer sales rose 58.5%, to \$3.7 billion in 2002. Retailers attracted \$1.7 billion in online sales in 2002, up 16%. And, while e-commerce sales accounted for only 0.6% of total private sector operating revenue in 2002, this was up from 0.2% in 1999. Canadian SMEs reported that they expected only 3% of their revenue to come from the internet.<sup>63</sup> This is not surprising given that, among the businesses engaged in e-commerce, 43% of those that sold online in 2001 stopped selling in 2002. In 2002, seven firms stopped selling over the internet for every 10 that started. This low revenue also reflects the reality that SMEs tend to use the internet primarily as a communications and research tool rather than a sales tool.<sup>62</sup> Indeed, only 7–10% of Canadian businesses used the internet to sell retail goods in 1999, regardless of the size of the business.<sup>16</sup> The fact that there is more SMEs in Canada than large business is reflected in the reality that e-business is concentrated in SMEs with 59% of sales over the internet. Enter-

prises with more than 500 employees were responsible for only 41%.<sup>60,64</sup>

These statistics reveal several issues for the increasing number of consumers transacting with SMEs over the internet. The number of SMEs offering e-sales to consumers is increasing but is still a very small percentage of overall e-commerce in Canada. This may be a good thing right now because there is a 70% chance that the SME will not be using the internet for sales after the initial transaction with them. Because SMEs anticipate only 3% of their revenue to come from e-sales, consumers cannot expect a wide range of product offerings at this time (assuming that inventory and offerings would be small in anticipation of such a low source of revenue). Also, SME redress practices are less than desirable, at best. Consumers can expect even worse service with e-sales from SMEs if the recent Consumer International (CI) e-commerce survey is any indication.<sup>65</sup> The results of this inaugural study pertain to 'well known, well-established sites', implying TNCs or large domestic corporations. If they, with all of their resources, cannot meet the needs and legal expectations of e-consumers, how can SMEs? Consumers experienced a severely limited choice in product areas; gapping holes for information related to delivery charges, order progress, and privacy, return and redress/complaint policies and procedures; late or no arrivals of goods ordered while being charged by the firm for the good; delayed refunds; and, sketchy information about the domicile of the company. On the upside, Mayer,<sup>66</sup> commenting on the 2001 follow-up to this study, notes that the performance by large electronic retailers had improved in virtually every respect of the original study while still wanting in three areas: information provision on several fronts, delivery of confirmed orders and speed of refunds when goods are returned. As part of a 'legitimate retail channel' (p. 115), SME participants in e-commerce must be vigilant in their market presence if they expect to meet growing consumer demand for e-sales, especially because two-thirds of the money Canadians spend on the internet is at Canadian companies.<sup>61</sup>

Given the nature of SME transactions set out in this discussion, it is evident that consumer e-transactions with SMEs will be even more fraught with troubles than with big business. This is especially true given that

Scully<sup>67</sup> claims that SMEs put their websites out there and then wait for something to happen. They do not follow through so they are not reaping the benefits of a web presence nor are their potential consumers. Scully reports on a study that found that the most significant value of a website is not e-sales or revenues but improved customer service and better customer relations, which can lead to future sales and revenue. Only 55% of SME retailers in this particular study expected better retail e-sales, initially. SMEs have to know their 'users', their potential customers and know what their needs are. To do this, SMEs need to do personalized follow-ups so as to recognize repeat consumers and to increase their confidence and satisfaction with the e-transaction and SMEs – building user/shopper profiles is a necessity for SMEs, even if they are not engaged in the e-sale part of the business. We now know that, with a few exceptions, shoppers at large Canadian retail stores are similar to those who visit the retailers' websites.<sup>68</sup> Does this hold for SME consumers?

#### SME consumer profiles

So, a final, logical question stemming from the discussion in this paper is how do SME consumers differ from big-business consumers, off line and on line? The Strategic Operating Management Centre<sup>69</sup> in the UK recognizes that one of the top problems facing SMEs is the lack of point of sale data resulting in no real understanding of consumer demand, characteristics or profiles. RBC Financial Group *et al.*<sup>29</sup> recommend that SMEs conduct more research and development (R&D) and it only makes sense that this R&D includes customer profiles and shopping habits. Consumers would benefit from this because SMEs would be more innovative and able to develop goods and services to meet market demand. Oftel,<sup>70</sup> the UK regulator for telecommunications, notes that one of its future research projects for SMEs is to work toward segmenting the consumer market into different types of consumers, based on their usage patterns and attitudes, so as to yield information that can be used to assess extent of competition, demand and access; monitor success and identify demand for consumer information. This is an area ripe for research by consumer scholars.

#### Summary

Patronizing SMEs exposes the consumer to many challenges and potential market failures in such areas as choice, complaints and redress, information, consumer education, selling practices, repairs and warranties and protecting their consumer interest in general. More specifically, consumers can expect to confront the: (1) inability to be a repeat customer at, or to return items to, a store that is not in business any more for a myriad of reasons discussed in the paper; (2) potential for dealing with insufficient and under trained staff, although the staff is likely to be very satisfied with their jobs intimating a positive experience that can offset the frustration with other aspects of the transaction; (3) likelihood of shopping at stores that cannot meet their service expectations despite that SMEs sell most of their products and services in their local market and community and are geographically closer to their client than are TNCs; (4) probability that SME staff will not have knowledge of consumer demand, needs, or consumer behaviour patterns; (5) chance of being daunted in their desire to keep their money in their community by supporting local businesses and buying Canadian because of the big box retailer trend and the inability of SMEs to balk this trend that leads to higher prices and reduced product choice at SMEs; and (6) reality that they will be thwarted in their efforts to engage in e-commerce with SMEs which, as yet, cannot meet the growing consumer demand for this retail channel because of SMEs' low adoption rates, inclination to discontinue e-selling a short time after launching the service and because of poor management of e-sale technology if it is used.

Working at, or owning, an SME exposes the person to many challenges to their consumer interest. (1) Job creation and job security (economic security for present and future) are threatened because of the high failure rate of SMEs, lack of unions, lack of benefits (especially health care and pensions), part-time nature of much of SME work, and lack of succession plans. (2) The ability of an employee to earn money and gain spending power as a consumer is compromised by working at an SME because of lower wages, lack of opportunity for career advancement and all of those items noted in the previous sentence. (3) While

employees may be happier working at an SME than at a larger firm, this happiness does not necessarily translate to being happier in their consumer role. (4) Employees of SMEs also face a dilemma if they work in parts of the nation that allow Sunday shopping. While they need the work to earn money to shop in their consumer role, they run the risk of reducing quality family and community time by working and shopping. Those employed in large stores also face this quandary, but not to the extent of SME employees. SME employees may feel powerless in this situation because it creates a conflict of interest between their labourer and consumer roles.

### Recommendations

This preliminary discussion of the nature of consumer transactions with SMEs generates several areas of potential research for consumer scholars:

- Change our conception that the cornerstone of consumerism is big business<sup>10</sup> so that it embraces SME and big business. Assuming that the major players in the consumerist game include SMEs forces us to reframe our theories about consumerism, consumer policy and consumer behaviour.
  - Major changes to our approach to consumer policy then needs to happen to overcome the assumption that business or industry means big business. Consumer protection policies that target consumer transactions with SMEs need to be examined relative to those targeting TNCs and large retailers.
  - Augment consumer behaviour literature with research that profiles the nature of SME consumers and their patterns of behaviour. This means re-examining consumer decision-making models, information-processing models, etc. Advertising, promotion and other aspects of the marketing model may all need to be challenged so as to accommodate the nuances of SMEs.
  - Expand the channel of distribution literature so that it profiles SMEs as a retail channel instead of assuming that retailers are big corporations.
  - Extend e-commerce literature to include the nature of the SME-to-consumer transaction
- instead of using the current business-to-consumer designation.
- Explore the intriguing links that seem to exist between the SME labourer and that same person in their consumer role.
  - Expand the corporate social responsibility movement to include the SME social responsibility movement instead of assuming that corporate and SME are interchangeable.
  - As Turner<sup>1</sup> suggested, add the economic mistreatment of SMEs to the consumer movement agenda because the economic and political reality of the SME appears to be closely related to the consumer interest.
  - Conceptualize SMEs as the core of the market economy instead of on the periphery. This reconceptualization literally means shifting our focus away from big business to SMEs as the centre of the consumer transaction and rethinking the assumption that SMEs are simply scaled down versions of large business or TNCs.
  - Extend our understanding of the ubiquitous term ‘the business sector’ to include the many industry sectors within which SMEs function and assume that consumer transactions are different in each sector, just as we do with big business.
  - Those in the consumer movement should foster links between the ‘voice of the SME’ (e.g. the CFIB) instead of today’s reality wherein those people representing ‘the consumer voice’ often engage in relationships with individual, organized and funded voices of fewer, but powerful, TNCs or their trade associations.
  - Augment the assumption that the relationship between consumers and business is adversarial with the notion that the relationship between consumers and SMEs is more likely to be cordial and beneficial, especially because the consumer often lives in the same community as the seller. This type of relationship merits a different management and nurturing approach than that with big business.
  - Recently, the consumer movement has aligned with the civil society movement. Consumer scholars should examine the link between SMEs and civil society. Owners and employees at SMEs are often

thriving members of their local community comprising many civil society members advancing worthy causes such as environmental, social welfare, ethnicity, gender, etc. Both the SMEs and civil society organizations deal with issues of access to power, inclusion, marginalization, etc. just from different perspectives.

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