

Small Town Grocers in Iowa: What does the future hold?



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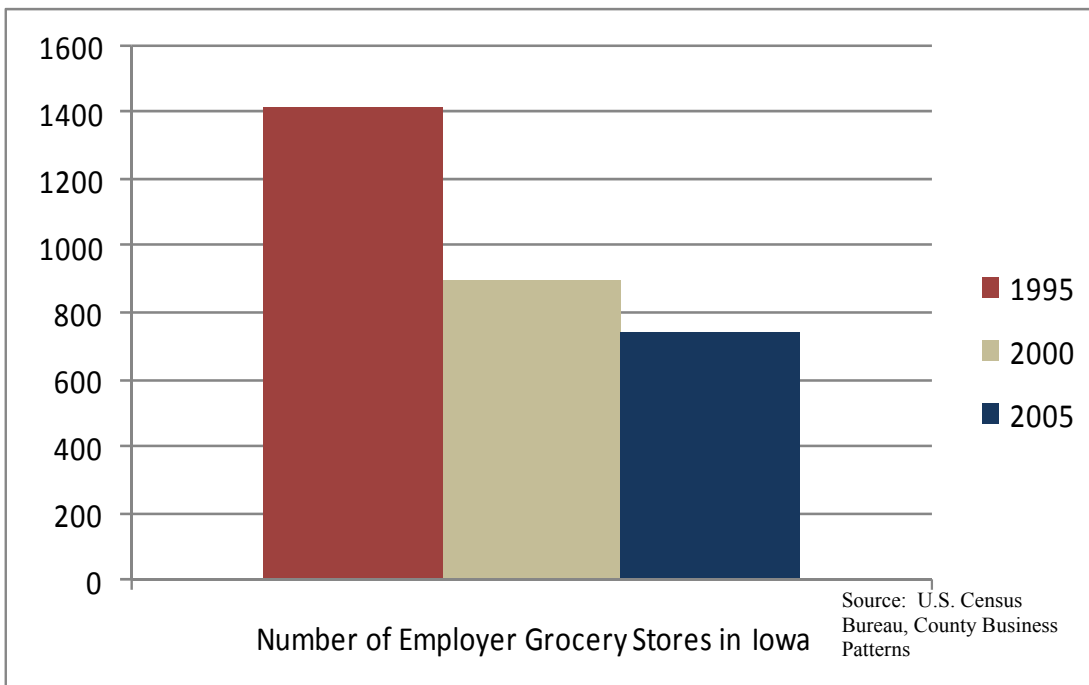
Introduction



Across the state, small communities are losing their grocery stores at a rapid rate. Economic conditions force some stores to shut down and still others try to find potential buyers but are eventually forced to close as well. Small grocers face myriad pressures that make their existence and future tenuous. Small town residents fear the closing of the local grocery store for economic reasons as well as quality of life issues. This report looks at the factors influencing the viability of grocery stores as well as the impacts on communities and residents when the store is lost. Data and analysis are presented with suggestions for communities trying to maintain a grocery store as well as means of coping for towns that have already lost their local grocery.

Facts:

- IN 2005 IOWA HAD 676 LESS EMPLOYER GROCERY STORES THAN IT DID IN 1995.
- THE NUMBER OF GROCERY STORES HAS DECREASED BY NEARLY 53% SINCE THE MID 1990'S ACROSS THE STATE.
- THE NUMBER OF NON EMPLOYER GROCERIES INCREASED ROUGHLY 30% BETWEEN 2000 & 2005.
- AS OF APRIL 2008, WAL-MART HAD 47 SUPERCENTERS IN IOWA.
- IOWA'S TOTAL NUMBER OF SUPERCENTERS AND WAREHOUSE CLUBS INCREASED 175% BETWEEN 2000 & 2005.



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Small Town Groceries in Iowa: What does the future hold?

What factors cause grocery stores to close?

In an increasingly competitive retail environment rural areas and small towns are finding it difficult to maintain traditional retail establishments. A number of factors conspire making it increasingly difficult for a grocery store to remain solvent. For small towns, declining populations exacerbate the decline in retail health. Population threshold levels which describe the critical mass necessary to support an establishment are increasing while the populations of these

towns are decreasing. In 2000, the average population to maintain a grocery store was 2,843 while in 2005 it was 3,252. In Iowa's 20 most rural counties during this same period population levels declined at 4%. As retail leaves small towns, people get in the habit of traveling to shop for general items and then groceries follow suit. On the supply side of the equation, grocers have been facing increases in their minimum order size. Forcing a small grocer to place

larger orders to maintain inventory, cuts into already small profit margins by increasing expenses. Grocers in small towns also face regional competition in the form of larger trade centers, typically within a 20-30 mile radius, that offer a broader selection at lower prices to consumers. Rural communities have been experiencing leakage of their retail dollars for more than a decade leaving many small town residents with no choice but to travel for many of their necessities.

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Trade Centers

The pull factor describes the retail health of a community by describing not the population of a town, but the number of people whose retail dollars are spent in a given community. If a community has a pull factor greater than 1, it sells to more than its residents and if it less than one it is losing sales to other communities.

Regional trade centers have pull factors greater than 1, while small communities and rural areas typically have pull factors around .5. Between 1978 and 2007, only three types of communities had increases in their pull factors and they all had populations greater than 10,000. For communities with populations under 10,000

pull factors declined between 1% and 49%. The decline in rural retail health was due to the evolution of trade centers and the increasing number of retail options their populations would justify. As this trend continues, you see vacant downtown retail districts in many small towns that once were vibrant.

Superstores and Wal-Mart: Impacts on Small Grocers

According to Plunkett's Retail Industry Almanac Wal-Mart alone accounted for 17% of all food and beverage sales in the U.S. in 2006. Obviously, this type of market share poses a huge threat to smaller grocery stores. Already this year due to economic retraction, Wal-Mart is increasing sales and

gaining greater market share. A 2006 SETA study by Ken Stone and Georgeanne Artz, showed that Wal-Mart's entry into non-metropolitan markets reduced growth of grocery store sales by 17% within two years of entry. Wal-Mart currently has 47 superstores in Iowa and other

major retailers have followed suit with superstores of their own. Target has expanded to 8 superstores in the state in suburban or metropolitan areas. The savings and convenience they offer tend to draw consumers from around 30 minutes away for shopping, making it difficult for small grocers to compete.

More considerations for grocery store survival

Fuel Prices and the Overall Economy

Iowa's enjoyed very low fuel prices until recent years, and the relatively inexpensive cost of traveling for shopping contributed to changing our shopping patterns, moving more trade to large trade centers. Now there is a delicate balance for rural areas and small towns as fuel prices make it more expensive to shop further away, and disposable incomes are dropping due to recessionary pressures and energy costs. Some analysts have argued this will rejuvenate retail in small towns however, this outlook ignores the fact that many towns have already lost their retail and the economic environment is not conducive to obtaining credit to open new ventures. For those towns without retail options, travel is the only option for their shopping needs and this will further cut into family budgets requiring people to

make trade-offs and substitute for less expensive goods. Often times, travel is consolidated so that instead of making two trips a week a family stocks up in one trip. This works to the benefit of warehouse clubs like Sam's Club as well as Superstores, offering consumers large savings and one-stop convenience. For towns who still have some retail, perhaps a general merchandise store and a grocery, the rise in fuel prices may stem the tide in the short term. However, it is important to remember that those fuel costs affect small town grocer's inventory costs as well and most likely that will translate into an increase in grocery prices to keep profit margins positive. People may shop locally at first, but as prices rise the savings offered by larger grocery chains will compensate them for

increased travel costs of shopping outside of their hometown. Another consideration is that in rural communities and towns with populations under 2,500 the incidence of out-commuting increased 72% between the 1990 and 2000 Decennial Census. With residents commuting to larger trade centers for work it makes sense they would shop where they work, and only use local stores for last minute items. According to a May 2008 survey in Supermarket News, 56% of consumers with incomes under \$35,000 are having difficulty buying the groceries they need. Since rural areas and small towns have lower incomes than the state average those figures suggest it will be increasingly difficult for people to not only buy locally in small towns, but perhaps to even remain living there.



A 2007 Nielson Co. study says that 85% of consumers choose their grocery store based on whether they think it "provides good value for the money." After good value, only 23% cite proximity to their home as a factor in where they shop.

Impacts on the Elderly

Iowa's rural communities and small towns are aging. Across the state the elderly demographic is higher as a percentage of population in rural areas. The impact of not having a grocery store on the elderly is severe. For many elderly residents, driving is not an option and if they cannot shop locally than they are either forced to move or rely on others for their care. In either case the

result is a reduction in their standard of living. The days of being able to "age in place" are narrowing for many Iowa elderly and for future generations. For the elderly who can drive, high fuel costs reduce what they can spend on groceries and this effect is more pronounced due to having to live on a fixed income. This results in poorer food choices by the elderly, and again a

decline in quality of life and their longer term health prospects. The positive side is for towns that still have a grocery store and also have a large elderly population, the older demographic tends to have more loyalty in where they shop than other demographics and prefer to shop locally. Convenience and historical shopping habits contribute to this, as does inability to travel.

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What can be done?

How can grocery stores adapt to survive?

Given the difficulties facing rural groceries, for those still in business to survive they must be proactive. The first step needs to be open dialogue within the community about the effects of not supporting the local grocery store. Our shopping patterns are pervasive despite our nostalgia for having a thriving community grocery, and that will require considerable effort to change. The more open discussion and stake in the survival of a grocery store the community feels, the greater the likelihood of sustainability.

Beyond community awareness rural and small grocery stores will have to change how they do business. It is impossible to compete with the large chains on selection and therefore other strengths must be highlighted. One would be promoting community involvement of the grocery store. Another is to compete on service, by offering a number of non-grocery services in addition to customer service highlights like delivery, loading groceries into vehicles, and tailoring the selection to customer's requests when economically feasible. Additionally, some stores have enjoyed success by adding alcohol sales and selling more general merchandise items. An additional comparative advantage as well as a way

to reduce the impact of fuel costs on prices, would be to cooperate with local growers, farmers, and craft people to doubly promote the buy local atmosphere. This will help the grocery store's bottom line, while promoting community pride and awareness about where their food is coming from. Large superstores are starting to buy more local produce, so it is a must that locally owned stores follow suit in order to compete. Another customer service feature is to adjust the store hours to meet customer's schedules. With more people commuting, stores need to offer longer evening hours and weekend hours to avoid losing sales to superstores. Because this increases overhead, it may simply require that the store simply open one hour later so that it can stay open an extra hour.

It is very important for businesses of all types, not just grocery stores, to listen to their customers wants and needs. Comments and suggestions should be welcomed, and encouraged. This dialogue builds customer loyalty as well as helping the grocery store owner determine what services or items he or she could be offering to increase competitiveness.

Another consideration for small or rural grocery stores is cooperation with other

community grocery stores. Thinking regionally in terms of cooperation could help save some stores by minimizing expenses. Forming some type of cooperative between community grocery stores could allow stores to meet minimum delivery standards where they previously couldn't be met, reducing costs and allowing some stores to survive that may have been on the margin. Additionally, through communication, strategies for success can be discussed and each owner will benefit from the other's experiences and knowledge. It is important to remember that small grocery stores are not in competition with each other, they are in competition with superstores and larger trade centers. A network of grocery store owners could also form a small supply chain of their own to increase profitability and reduce reliance on other suppliers as fuel increases costs.

Organizations like the Independent Grocer's Association (IGA) may also provide opportunities for small grocers to maintain their business. Any alliance with an organization whether formal or informal, can help to counterbalance the negative pressures on the small town grocery store owner.



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What can be done?

Cooperative Grocery Stores in an Uncooperative Environment

An option for communities that are facing the closing of a grocery store is to form a cooperative. In this scenario, a community can buy shares of the cooperative and additional money can be raised by loans and donations to get the store opened. Typically, a shareholder in this arrangement will not get a pecuniary return on their investment but will reap the benefits of keeping the grocery store. The cooperative grocery store can be seen here in Iowa in towns as small as Fontanelle, with a population of roughly 700. Recently the cooperative hit its two year anniversary, despite competing with a Fareway in Greenfield and a Wal-Mart in Creston. The market has experienced growing pains citing inventory as “an ongoing learning curve.” Managing inventory is difficult for all small stores and the problem is exacerbated by minimum order sizes, and minimum quantities. Forming a partnership with other cooperatives and grocery stores could lessen some of these impacts. With fuel costs increasing, minimum order sizes are only going to rise so that suppliers can maximize their profit.

Not all cooperatives will survive however, and careful

consideration needs to be given in a community before taking this approach. The first step would be to look at all neighboring competition and the spatial proximity to the community. If people can drive less than 20 minutes for more selection and lower prices, this may make the likelihood of success less. Another potential problem is a novelty factor. People may support the grocery store with excitement in the beginning due to the fervor, but then revert to old shopping patterns as the excitement wears off. Additional considerations are the town's population when compared to population threshold levels and the pull factor of the community. These indicators can serve as a benchmark to determine the likelihood of success. What the numbers won't tell a community is how community pride and activism will affect the likelihood of success. Only members of the community know how much effort and support they are willing to put into supporting a local store. Sometimes this will require sacrifice on their part, and will require local knowledge of shopping patterns and public opinion.

Research at the University of Wisconsin suggests that there are some factors that increase the likelihood of a cooperative's success. Some

of the most important factors cited were in management and organization. The study found that commitment to innovation, change and growth was vital and dedicated organizers willing to provide leadership and volunteer were crucial to success. Reasonable competition was another factor, with successful cooperatives being located between 20-30 miles from their competition. Obviously, member, community and industry support was a huge factor in success although it is not easily measured.

The same study noted some pitfalls for cooperatives including high employee turnover, poor location, lack of rigorous financial analysis, too many collateral goals and failure to respond to change quickly.

Small business statistics suggest that the survival rate in the first two years is 65% but four years out it is 40%. Grocery stores are not the typical small business and it would seem reasonable that cooperatives may have a lesser success rate than this due to the emotions involved for a community. Because community pride is an overwhelming force in the establishment of a cooperative, there must be rigorous and objective financial feasibility to promote a positive outcome.



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For More Information please
contact the author, Meghan
O'Brien

ReCAP, Iowa State University
Department of Economics
171 Heady Hall, Ames, IA
50011

Phone: 515-294-4095
mcobrien@iastate.edu
www.recap.iastate.edu

Much of the analysis in this paper was previously published in retail trade reports and threshold analysis the author published earlier this year which can be found on our website. Additional data sources these reports:

*"Taking stock: rural food cooperative case studies reveal critical retail success factors";
University of Wisconsin Center for Cooperatives, www.rurdev.usda.gov/rbs.pub/newpub.htm*

*"Analyzing the Impact of Wal-Mart Supercenters on Local Food Store Sales"; Artz and
Stone, Iowa State University.*

Websites of interest:

www.census.gov

www.usda.gov

www.ruralgrocery.org (Kansas State University)

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