Impact of the Wal-Mart Phenomenon on Rural Communities

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Introduction

There is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass merchandisers (sometimes referred to as the Wal-Mart phenomenon) than by any other factors in recent times. Studies in Iowa have shown that some small towns lose up to 47 percent of their retail trade after 10 years of Wal-Mart stores nearby (Stone 1997).

Overview

The discount mass merchandisers are not the only threats that small town retailers have faced. In the more distant past (the late 1800s), mail order catalogs distributed by Montgomery Ward and Sears Roebuck caused quite a stir (Mahoney). The mail order catalogs offered large selections at competitive prices. Coincidentally, a well-established railroad system provided nationwide delivery of mail order goods within a few to several weeks. At its peak, Sears Roebuck offered over 100,000 items through its catalog and captured some sales from local merchants.

The next major threat to rural retailers was the automobile. In the 1920s and 1930s, automobiles and roads developed to the point where rural residents gained considerable mobility and could more easily leave their small home towns and travel to shop at larger towns and cities. However, this trend was slowed in the 1930s because of the Great Depression and in the early 1940s because of World War II and its resultant shortage of goods. The late 1940s was a boom time for retailers in both rural areas and larger cities because of the relative prosperity and the great pent-up demand resulting from the Great Depression and World War II.

Shopping malls began to appear in larger trade centers in the 1950s and 1960s. Rural residents were strongly attracted to the new malls because of their ease of access, large selections, controlled climate, easy and free parking and their extended shopping hours. Shopping malls fundamentally changed the way Americans shopped. They drew shoppers from the downtowns to the shopping center location, typically at the edge of town or in a suburb. Shopping centers caused the demise of downtowns, most of which have never fully recovered.

A new format, called discount department stores, began appearing in the 1960s. In fact, K Mart, Wal-Mart and Target stores all began operations in 1962. These were not the first discount department stores, but they turned out to be the largest chains. The three companies expanded in completely different ways, however. K Mart initially located stores in relatively large communities and spread rapidly across the United States and Canada and, within six or eight years, had become a truly national chain (Discount Store News).

Wal-Mart, on the other hand, initially located its stores in small Southern towns. By opening a relatively large store in a small town, Wal-Mart could quickly become a dominant store (Walton). Furthermore, Wal-Mart's founder, Sam Walton, did not want to outrun his logistical support; namely, his distribution centers. Consequently, Wal-Mart progressed methodically across the United States, always building stores within a day's drive of its distribution centers, and taking over 30 years to become a fully national chain.

Target, owned by Dayton Hudson Company, has selectively looked for markets of opportunity and, after 35 years, is still not located in all the U.S. states. Target will undoubtedly establish stores in every state within a short time.

The 1980s saw a rapid expansion of the discount department stores. In addition, a new store format, called "category killer," began appearing on the scene (Stone 1995). These were large specialty stores that featured nearly complete selections within their narrow category. Quickly, these stores became dominant and, consequently, killed off smaller stores within the category. One of the early category killer stores was Toys R Us, and it remains a dominant toy store today. The buildings materials category was quickly dominated by The Home Depot, but Lowes, Builders Square, Menards and others have also taken substantial market share. The battle within the office supply category is being fought among such stores as Office Max, Office Depot and Staples. Many other categories are being fought over by other category killer stores.

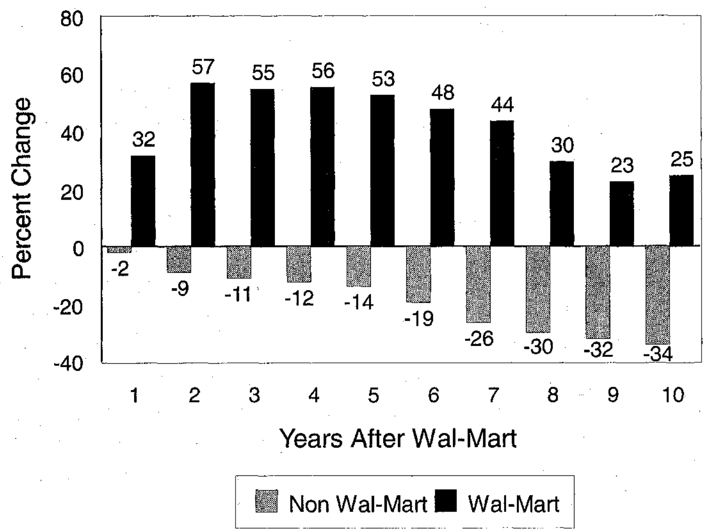
Impacts of Discount Mass Merchandisers

My first study of the impact of Wal-Mart stores was conducted in 1988 to help my clients (Iowa retailers) understand the impacts so that they could better develop strategies to remain competitive (Stone 1991). These studies were updated every two years or so in the 1990s and the results seemed fairly consistent. However, in recent years, it became apparent that the retail situation in Wal-Mart towns was changing. This year, a new study was conducted to determine the situation in Iowa small towns after 10 years of Wal-Mart stores, and those results are reported below (Stone 1997).

The study looked at 34 towns in Iowa that had Wal-Mart stores for at least 10 years. The retail performance of these towns was compared to 15 towns of the same population group that did not have Wal-Mart stores. The population of these towns ranged from 5,000 to 40,000 persons. Results for two-digit Standard Industrial Classification Codes (SIC) are discussed below.

General Merchandise. General merchandise stores are department stores and variety stores, and include stores such as Wal-Mart, K Mart and Target. Figure 1 shows the average change in pull factors (trade area size) for the 10 years following the opening of Wal-Mart stores.

Figure 1. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns General Merchandise - After 10 Years.

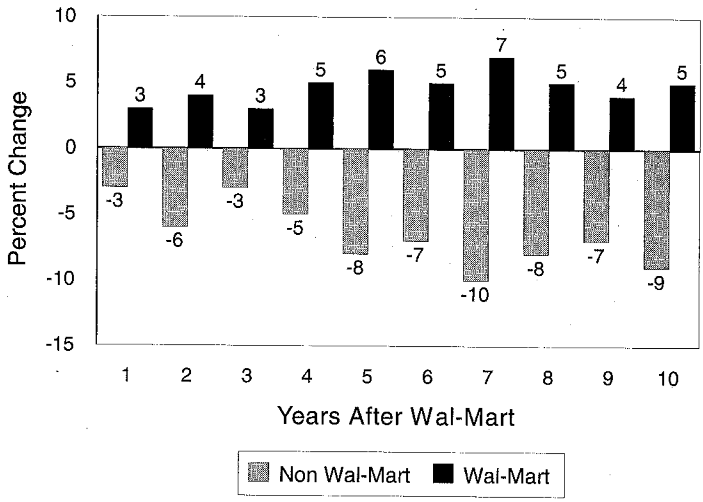


As can be seen, the average growth in general merchandise sales for the Wal-Mart towns was spectacular for the first few years, averaging approximately 50 percent growth (most of which was obviously Wal-Mart's). However, after about five years, sales began declining and, after 10 years, sales were 25 percent higher than before the Wal-Mart store opened. It is believed that this decline in sales occurred because Wal-Mart placed its own stores too close together, causing a predatory effect. At the same time, the build-up of large stores in bigger towns and cities captured some sales from even the Wal-Mart towns.

The general merchandise stores in the non Wal-Mart towns began declining immediately after the Wal-Mart stores opened. Their sales declined by two percent after the first year and continued declining to a cumulative 34 percent after 10 years. A few of these towns had a K Mart store (typically an older, smaller store), and all of them had one or more regional discount stores, such as Pamida, Alco or Place's. It is believed that people in the towns without Wal-mart stores migrated to the towns with Wal-Mart stores to shop for general merchandise.

Eating and Drinking Places. This category includes restaurants of all types and various types of drinking establishments such as taverns and cocktail lounges. Most of the sales occurred in the eating places and they continue to grow. The changes in sales of eating and drinking places are shown in Figure 2.

Figure 2. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Eating & Drinking Places - After 10 Years.

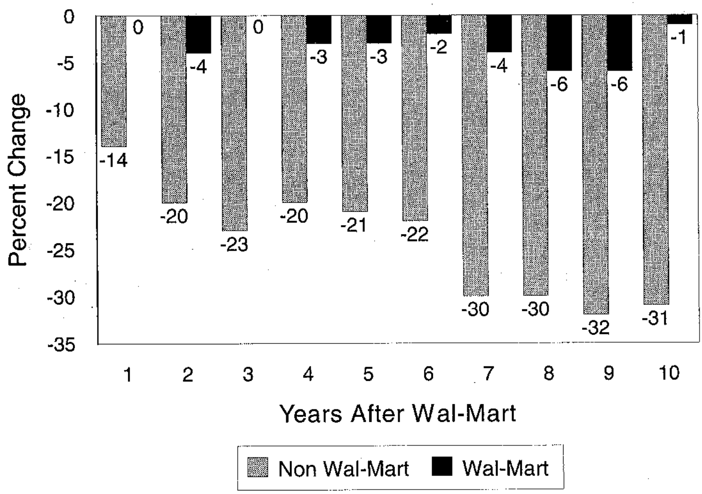


As can be seen, the sales of eating and drinking establishments increased from three to seven percent over the state-wide average for the Wal-Mart towns. Conversely, the sales of eating and drinking places in the non Wal-Mart towns immediately declined and, after 10 years, were still nine percent below the state-wide average. These results indicate that people leave the non Wal-Mart towns to shop in the Wal-Mart towns and while there, they patronize the eating and drinking places.

Home Furnishings. Home furnishings stores consist of furniture stores, major appliance stores, drapery stores, etc. Early studies in Iowa showed that these types of stores benefitted from having a Wal-Mart store in town with its large drawing power. Figure 3 shows the 10 year results.

The initial spill-over benefit enjoyed by home furnishings stores in the Wal-Mart towns eventually eroded somewhat as several later towns had stores so weak that they could not capture this trade. As can be seen in Figure 3, however, home furnishings sales in the Wal-Mart towns declined only slightly, compared to the sales in the non Wal-Mart towns, which ended up declining by 31 percent after 10 years. It is believed that when consumers leave the non Wal-Mart towns to out-

Figure 3. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Home Furnishings - After 10 Years.



shop for one or more items, they probably also use these occasions to shop for home furnishings.

Building Materials. The building materials category consists of lumber yards, home improvement centers, hardware stores, and paint and glass stores. Figure 4 shows the changes in sales after 10 years of Wal-Mart stores.

Figure 4 shows that building materials stores in both Wal-Mart and non Wal-Mart towns experienced immediate and moderate losses of sales for the first few years after the opening of the Wal-Mart stores. The situation grew progressively worse, especially in the Wal-Mart towns which showed a 20 percent decline after seven years. However, starting in about year eight, the sales of building materials stores started improving rapidly and 10 years after the fact, sales were four percent above the pre-Wal-Mart level. Anecdotal evidence indicated that a few of the category killer building materials stores located in some of the Wal-Mart towns, thus improving these towns' sales, while causing the non Wal-Mart towns to experience a decline of 25 percent after 10 years.

Specialty Stores. This category includes several types of stores, such as sporting goods, jewelry, card and gift, druggists, florists, etc. Many of these stores sell merchandise that is competing directly with the discount mass merchandiser and consequently suffer losses of sales. Figure 5 shows the change in sales for specialty stores in the 10 years following the opening of a Wal-Mart store.

Figure 4. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Building Materials Stores - After 10 Years.

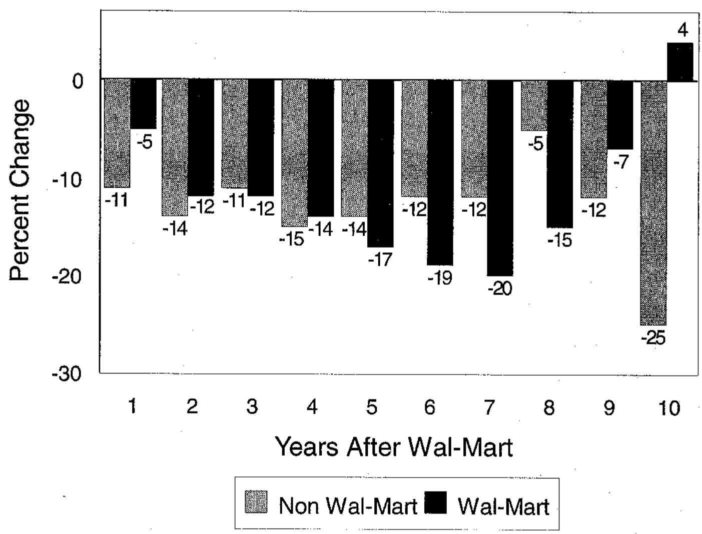
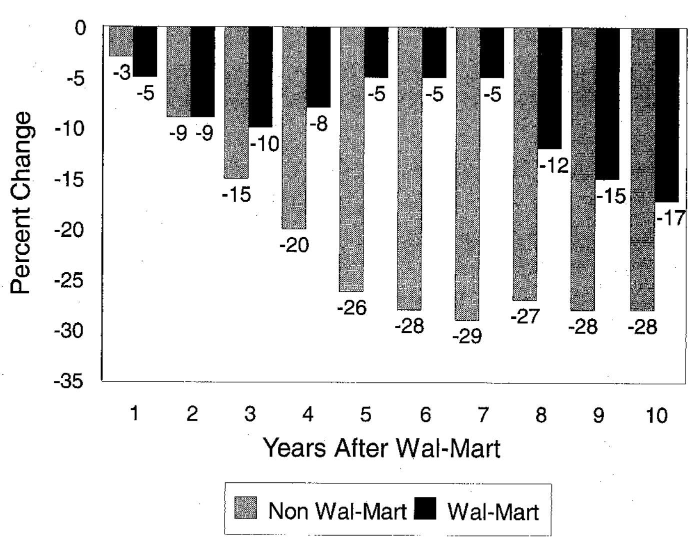


Figure 5. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Specialty Stores - After 10 Years.



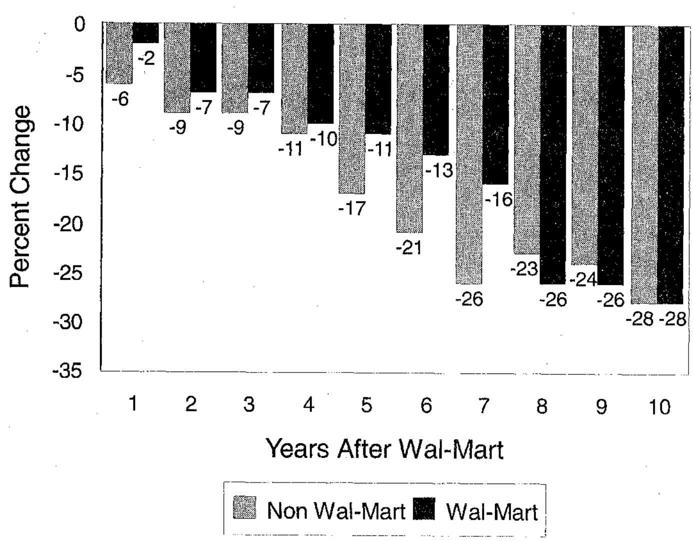
Specialty store sales in the Wal-Mart towns declined by 10 percent after three years of a Wal-Mart store. The situation improved to only a 5 percent decline until year eight when the decline became 12 percent. Sales further declined to 17 percent by the end of year 10. This illustrates that stores selling the same merchandise as a Wal-Mart store will most probably lose sales after a Wal-Mart store opens in their town.

In the non Wal-Mart towns, specialty store sales steadily declined after the introduction of Wal-Mart stores in nearby towns to a low of 29 percent by the end of year 7. This level of sales held fairly steady and year 10 showed a cumulative 28 percent decline, compared to the year before the Wal-Mart store opened. It seems obvious that residents of the Wal-Mart towns were leaving their towns to shop either in the Wal-Mart towns or other larger trade centers.

Apparel Stores. Apparel stores include clothing stores for men, women and children plus shoe stores. Figure 6 shows the changes in apparel stores in Iowa towns after the introduction of Wal-Mart stores.

Apparel store sales dropped fairly steadily in the Wal-Mart towns in the years following the opening of a Wal-Mart store, ending at 28 percent below the pre-Wal-Mart level after 10 years. This probably means that these losses were suffered primarily by the stores selling low-end apparel that competed directly with the apparel sold at a Wal-Mart store.

Figure 6. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Apparel Stores - After 10 Years.



The apparel stores in non Wal-Mart towns also suffered a steady decline in sales in the years after a nearby Wal-Mart opening, ending year 10 at the same 28 percent level as apparel stores in Wal-Mart towns. Again, it is assumed that most of these sales losses were from stores that handled competing low-end apparel.

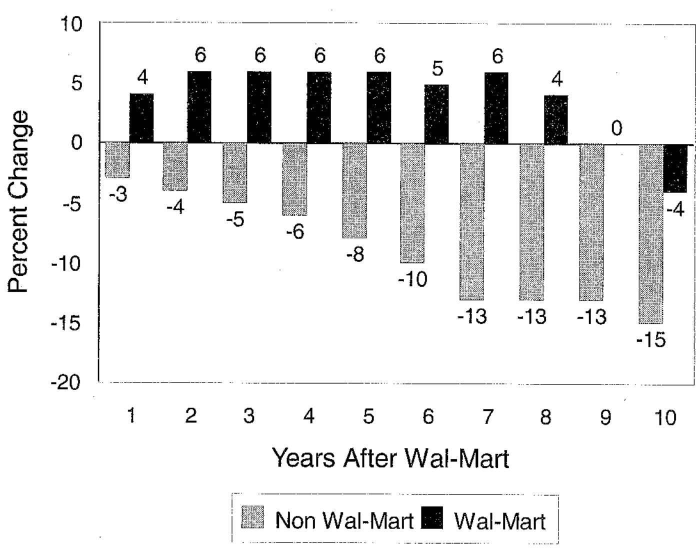
Total Sales. Figure 7 shows the change in total retail sales for the 10 years following the opening of a Wal-Mart store.

Total sales for Wal-Mart towns increased by six percent by the second year and held nearly steady through year seven. However, by year eight, a decline began and by year 10, sales were four percent below the pre-Wal-Mart level. This probably reflects the opening of several mass merchandiser stores in the major trade centers in the last few years that, in turn, captured trade from outlying areas, including Wal-Mart towns.

The non Wal-Mart towns, however, suffered a worse fate than the Wal-Mart towns as their total sales continually decreased over the 10-year period, ultimately ending up 15 percent lower than the pre-Wal-Mart level.

Small Town Losses. It is clear that among the mid-size towns discussed above, the Wal-Mart towns fared somewhat better than the non Wal-Mart towns. But, what was the impact of the mass merchandiser stores on the hundreds of towns with

Figure 7. Iowa Non Wal-Mart Towns vs. Wal-Mart Towns Total Sales - After 10 Years.



populations of less than 5,000? Figure 8 shows the percent change in sales of these towns from 1983 (the first year that Wal-Mart stores opened in Iowa) through 1996. It becomes clear that towns under 5,000 population bear the brunt of the discount mass merchandisers. In most cases, these towns do not have the critical mass of retail stores needed to keep customers at home to shop once newer and larger stores locate nearby.

Figure 8. Percent Change in Sales of Iowa Small Towns 1983-1996.

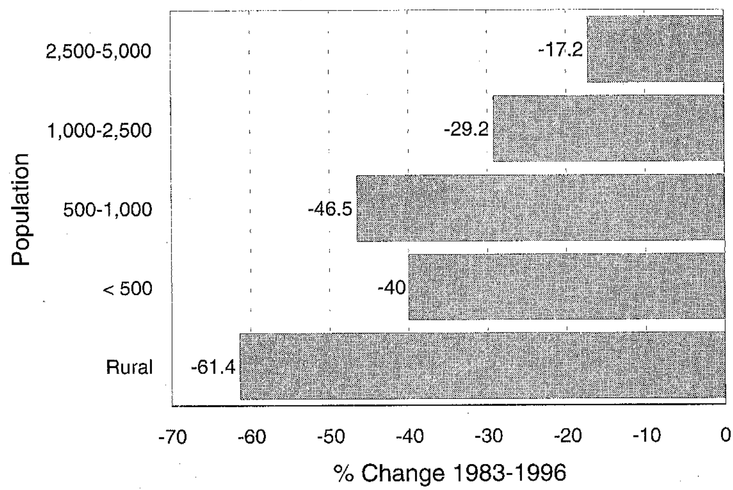


Figure 9 shows the approximate dollar loss of retail sales for these towns from 1983 to 1996. Sales for businesses in rural areas (outside of towns) declined by $742.8 million from 1983-1996. Towns of 1,000 to 2,500 population suffered sales losses of $596 million during this period. In total, towns below 5,000 population, plus the rural businesses, lost retail sales of $2.46 billion during this 13-year period.

Changes in Shopping Habits

After discount mass merchandisers operate in an area for an extended period of time, people gravitate to these stores and, consequently, cause losses of sales to smaller competing stores. Figure 10 shows changes in the buying habits of Iowa consumers for selected stores.

The average Iowa consumer spent 42 percent more money in department stores (primarily discount stores) in 1996 than he or she did in 1983. At the other extreme, on average, consumers spent 59 percent less in men's and boys' clothing stores. This resulted in the loss of over 60 percent of these stores during this period.

Figure 9. Dollar Change in Sales of Iowa Small Towns 1983-1996.

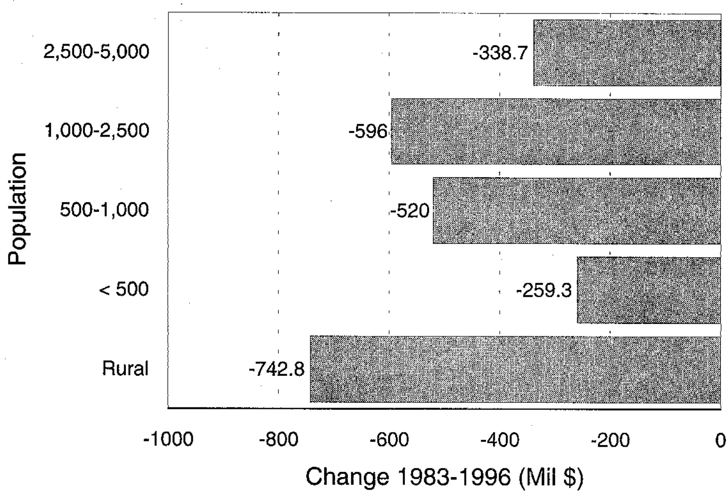


Figure 10. Percent Change in Sales of Iowa Stores 1983-1996.

Public Policy Implications

Public officials often get involved in regulations and statutes concerning the establishment of new mass merchandiser stores. At the state level, Vermont officials attempted to keep the Wal-Mart Company from establishing stores in that state. The policy was well intended and was meant to protect the predominantly small merchants in a small state. However, as time went on, it soon became obvious that the ban was having the opposite effect. As Wal-Mart built stores on the New Hampshire (a no sales tax state) border and on the New York border, it soon began to suck the trade out of Vermont. It is not possible to put fences around a state to keep residents from out-shopping.

Organizations within many municipalities have attempted to prevent mass merchandisers from locating in their areas. Most often, this resistance is organized and supported by local merchants who fear the competition. However, in more and more cases, people who are genuinely concerned about preservation of historic sites and natural resources organize the resistance. Complicating factors in these local debates are growth-oriented local officials such as mayors, city administrators, city council members, county council members, etc. Quite often, they look at the short-term benefits of more employment, and at an increased tax base. But, in the long term, the situation often results in the loss of local businesses—which reduces employment and the tax base. In more and more cases, local officials are actively recruiting the mass merchandisers to their communities and offering attractive incentives. Representatives from the outlying smaller towns have the least representation in this decision making process and, consequently, they suffer the greatest losses.

Conclusions and Recommendations

Rural communities have been losing retail sales to larger towns ever since Montgomery Ward and Sears Roebuck started their mail order businesses. However, the leakage of retail trade from small towns has accelerated in the last two decades with the rapid proliferation of discount mass merchandiser stores in the larger towns and cities. Studies in Iowa have shown that some towns below 5,000 population have lost nearly half their retail trade in the last 13 years. Public officials are placed in difficult situations as they decide whether to recruit and/or approve the establishment of new mass merchandiser stores. There is a need for an educational program aimed at public officials, to help them make better decisions regarding this problem.

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