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# **RURAL RETAILING: EMERGING COMMUNITY ISSUES**



**A Multidisciplinary Symposium on  
Access to Goods and Services**

## **Surviving in the New Retail Environment**

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# Surviving in the New Retail Environment<sup>1</sup>

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The period since 1980 has been one of extensive economic restructuring in nonmetropolitan areas of the United States (Leistritz and Hamm 1994). Retail businesses in these areas have been affected substantially by a variety of economic, demographic, and related forces. In addressing my topic, I will first outline some of the major forces affecting the retail environment in nonmetropolitan areas. Then I will offer some thoughts about the implications of these forces for rural retail businesses and hence for those like ourselves who are attempting to assist them.

The rural retail environment of the 1990s is the product of changes that have been occurring over the past several decades. The result of these changes has often been an environment that offers substantial challenges for rural retail businesses. Small town businesses typically have been capturing a declining share of what too often has been a shrinking market (Ayres et al. 1992). Several factors have contributed to the declining market share of the smaller rural trade centers, beginning with improvements in rural roads and highways, followed by school consolidation, television sets in almost every rural home (which increased consumers' exposure to new products and urban shopping centers and now also allow for viewing and purchasing goods from such programs as the "Home Shopping Network"), and more recently the

expansion of urban and suburban malls, shopping centers, discount stores, and mail order catalogues.

Whatever the causes, the effects of declining retail sales volume can be devastating to small towns. The continual loss of retail sales in small towns translates into loss of businesses. The loss of a key business, such as a grocery store, can be a severe blow to a small town because residents may be forced to travel more frequently to larger cities to shop, and sales of the surviving stores may suffer. Business closures also eliminate jobs for local residents and reduce the tax base of local governments.

While it can be argued that the decline of rural businesses and the small towns where they are located is simply the result of the market system at work, some rural residents may experience substantial inconvenience as a result. The elderly, in particular, are sometimes limited in their ability to travel to larger communities to shop, and elderly residents comprise a large and growing segment of the rural population. In addition, persons whose livelihoods are linked to natural resource-based rural industries (e.g., farming) cannot readily relocate to larger communities, but continued decline in the local retail sector may require them to make extensive trips just to obtain convenience items or parts needed for machinery repair.

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Although the pattern of economic stress on rural retailers has been widespread in rural America, there have been some differences among rural areas, depending in part on the nature of their economic base (Bender et al. 1985, Economic Research Service 1995). In general, areas with a very heavy dependence on agriculture or mining enjoyed a period of relative prosperity during the 1970s but have not done well since then (Leistritz and Hamm 1994). Manufacturing has been growing in economic importance in many rural areas, but global competition has also led to employment instability and limited increases in real wage rates in many manufacturing sectors (Barkley 1993). Rural areas that are heavily dependent on tourism-retirement apparently fared better than other rural areas during the 1980s, but careful planning may be needed in order for such areas to manage change effectively (Frederick 1993). Overall, the pattern is one of economic and demographic changes, which business and community leaders must understand in order to be able to develop appropriate response strategies.

To illustrate some of the economic and demographic changes that have contributed to the current rural retail environment, I will use some examples from North Dakota, a state that depends heavily on agriculture and the energy industry for its economic base. During the 1980s, both agriculture and the energy industry experienced substantial economic stress. Of the state's 53 counties, 48 had employment decreases between 1980 and 1992. Four of the five counties with job growth were the state's metro counties. Population changes followed a pattern similar to those of employment changes. Only six counties registered population gains during the

1980s. Statewide, population decreased 2.1 percent during the 1980s, but five counties had population losses of 20 percent or more. Looking at the longer time span of 1950-1990, the state's total population has shown relatively little change, but major shifts have occurred with the farm population decreasing and the urban population growing. Substantial shifts also have occurred in the age distribution of the population, with the percentage of the population age 65 and over increasing significantly. The percentage of the population in the upper age brackets is not evenly distributed; in 26 of the state's 53 counties, 20 percent or more of the population was age 65 or older in 1990 (Hamm et al. 1992).

During the 1980s, North Dakota's rate of net migration was -11.0, meaning that there were 11 net out-migrants per 100 population. This rate was second highest among all states. Nationwide, three states had rates of net out-migration of -10.0 or greater, while 10 more had rates between -5.0 and -9.9. Within North Dakota, the net migration rates for counties ranged from -30.3 to +6.0.

The economic and demographic changes that have occurred in recent years resulted in substantial changes in retail sales. Total taxable sales, adjusted for inflation, decreased from 1980 to 1988 but have increased slowly but steadily since that time. Total taxable sales in 1992 were up 11 percent from 1988 but down 11 percent from 1980 (Leistritz and Wanzek 1993).

For rural retailers, the trend toward concentration of retail sales into a few large regional centers has been at least as problematic as the trends in total sales. In

1980 North Dakota's four major wholesale-retail trade centers accounted for 50 percent of the total taxable sales of \$4.3 billion. By 1991, the share of these four centers had grown to 65 percent of the total sales of \$3.8 billion, adjusted for inflation. Thus, the total sales for the four major centers grew from \$2.15 billion to \$2.47 billion, or 15 percent while the sales of the remaining towns fell from \$2.15 billion to \$1.33 billion or 38 percent.

A measure of a community's success in capturing the potential purchasing power of residents in its trade area is the pull factor. Pull factors greater than 1.0 indicate that a community's sales are greater than the purchasing power of its trade area residents; hence, it must be "pulling" customers from outside its normal trade area (Leistritz and Wanzek 1993). Conversely, a pull factor of less than 1.0 suggests that a town is not capturing all of the purchasing power of its trade area residents. Changes in the pull factor over time indicate an improvement or decline in a community's "pulling power". When pull factors were computed for North Dakota's trade centers for 1991 and for 1980, we learned that the 1991 pull factor for the four wholesale-retail centers averaged 1.14. For the other classes of trade centers, the corresponding values were

Complete Shopping Centers (7 towns)	0.88
Partial Shopping Centers (11 towns)	0.72
Full Convenience Centers (17 towns)	0.66
Minimum Convenience Centers (62 towns)	0.55

Thus, the amount of outshopping (or "leakage" of purchasing power) was greater for the smaller towns.

Comparing the 1991 pull factor values with those for 1980, the average pull factor for

the wholesale-retail centers increased 12 percent, indicating that the largest trade centers were increasing their ability to capture purchasing power from outside their main trade areas. The other classes of trade centers all experienced decreases in their average pull factors, and these ranged from -22 percent to -39 percent.

Three recent studies provide some insights about how retail businesses (and small towns) can survive in the new retail environment:

1. Ken Stone's study of the impact of Wal-Mart stores measured changes in sales of different types of products in Wal-Mart site towns and in nearby towns in Iowa (Stone 1989). He suggested several "strategies for coexisting in a Wal-Mart environment":
  - a. Merchandise mix -- try not to handle identical merchandise, rather handle merchandise that complements the Wal-Mart line. Also seek niches (voids in Wal-Mart's inventory).
  - b. Marketing practices -- consider extended opening hours and a liberalized returns policy. Also examine pricing policy.
  - c. Service -- the smaller, independent retailer can achieve differentiation through expert technical advice, delivery and installation capability, on-site repair, and special order capability.
2. A three-state study, conducted in Indiana, Iowa, and North Dakota and sponsored by the North Central

Regional Center for Rural Development, sought to identify successful strategies employed by rural communities and individual retailers to maintain and enhance retail sales (Ayres et al. 1992). Some key findings of this study included the overriding importance of concerted community action to build a more diversified economic base, the widespread perception of a need for business management training and technical assistance, the perceived need for financing mechanisms for new businesses or to facilitate ownership transfers, and the potential for assisting rural communities in dealing with change and planning for the future.

3. The Cooperative Regional Research Project, NC-192 "Rural Retailing: Impact of Change on Consumer and Community" is dealing with many aspects of rural retailing. Some of the findings of this study are being reported by other speakers at this conference. I would just like to mention here that one product of the study is a handbook on financial analysis for rural retailers (Sternquist et al. 1995). Based on a detailed financial survey of more than 400 retail firms in 12 states, the report provides both benchmarks on financial standards and explanations of how the various financial measures can be used in assessing an individual firm's situation.

These studies and others provide insights concerning tools and techniques that are widely applicable for analyzing retail business issues. I will just touch on a few of the most widely applicable of these methods:

**Trade area surveys** – can be an important early step in analyzing a community's retail sector. Such surveys can provide important insights regarding (a) extent of the trade area, (b) which goods are most commonly purchased in our town and conversely which are most subject to outshopping, (c) which competing trade centers are patronized by local residents, and (d) what media sources are used to obtain retail information.

**Pull factor analysis** – provides an indication of the relative success of the town's retail sector in attracting business. A pull factor greater than 1.0 indicates that local sales are greater than would be anticipated based on local population and income levels, which would indicate that the community is "pulling" retail customers from outside its boundaries. On the other hand, a pull factor of less than 1.0 indicates that the community is not capturing all of the purchasing power of its residents, but rather is losing sales to competing trade centers. Pull factors can be computed for different points in time to determine the trend in local retail performance.

**Threshold analysis** – provides an indication of the minimum population base required to support businesses of different types (Schuler and Leistritz 1990). In many rural communities, a major economic development issue is the desire to encourage the development of new types of retail businesses, either to replace a business that has ceased operation or to "round out" the town's goods and services mix. Threshold analysis can offer a preliminary indication of the adequacy of the local market to support a given business type.

**Demographic analysis** – information concerning a community's present population and the composition (age, gender, ethnic, etc.) of that population, as well as past trends and projections for future change, can be useful in assessing the retail sector.

**Community economic analysis** – information regarding an area's economic base and its income and employment levels and composition, as well as past trends and projections for future change, can also be very useful in evaluating the current status and outlook for its retail sector.

**Financial ratio analysis** – can help an owner/manager determine how his/her business is doing. Ratios can also be used to make projections for new businesses. A recent report from the NC-192 regional research project provides descriptions of widely used measures of profitability, liquidity, efficiency, and expense or operating ratios, as well as benchmark values for each measure, derived from a 12-state survey of rural retail firms (Sternquist et al. 1995).

These are some tools and methods that you can use in assisting retail businesses in your area. For more explanation of these tools and their uses, see Bangsund et al. (1995), Shaffer (1989), and Leistritz and Murdock (1981).

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