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IT and E-Commerce Use by Small Food Retailers: Preliminary Findings

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Rural and small-town food retailers face a double-edged sword in what might be described as a battle for survival: declining populations and incomes among their near-by customers; and a challenge to compete in goods and services markets with major food retailers that are more accessible than ever to rural customers. This situation is especially critical for retailers in the full-service grocery business, but similar concerns exist among rural retailers of specialty foods. Such businesses are generally perceived to have two major assets: quality service and high-quality and/or unique food products. Recent discussion has focused on ways to better leverage these assets using information technology to expand market reach or increase supply-chain efficiency. However, much promotion of “advantages” of e-commerce has had little basis—beyond adopter enthusiasm—for strategic recommendations relevant to grocery or specialty food sectors.

This research update builds from our ongoing studies of the marketing of groceries on the Internet and on managers’ use of information technologies (IT) by small rural retailers. It was conducted as part of the project “Rural Food Retailing: Is the Internet a Silver Bullet?” funded by the Southern Rural Development Center (Ernst & Hooker 2005) and the Ohio Agricultural Research and Development Center Seed Grant “Rural Retailers: Profiling Internet Users & Non-Users” (Stoel 2005). This work centers on the development of more in-depth research and on strategies and evaluation tools for rural grocers and specialty food marketers to use in

determining the viability of adopting technology-based management strategies and/or e-commerce.

Methods

In Summer 2005, key informant interviews were conducted with selected rural/independent grocery and direct-market food retailers in Ohio. A database of such grocers and direct marketers in Ohio, Kentucky, and West Virginia was compiled for the purpose of surveying and conducting case studies in Fall 2005. Concurrently, findings from this work are being used with existing data from research we have conducted on larger e-grocers to develop tools for these retailers to use to plan viable online retail enterprises and to evaluate their potential for online marketing and sales.

Key informant interviews with six independent grocers located in rural Ohio counties were designed to elicit information and opinions in several areas:

- use of information technology in the operation and management of the store; potential future uses for Internet-based management practices and retail sales;
- technology aptitude of store management and staff;
- competition issues related to movement of “big box” grocery retailers into the six different markets and the role technology plays in that competition;
- sources of information and consultation for managers of these firms on technology and strategic management issues; and
- service and community responsibilities felt by these firms and their owners and/or managers.

Key informant interviews of additional specialty food retailers are currently being conducted.

Preliminary Analysis

Attitudes of firm operators toward the Internet and its potential to change a nearly 10-percent disap-

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pearance rate for rural businesses has been studied in Ohio and Kentucky by members of our E-Agri-business Working Group. The Internet is a significant part of business-to-business relationships and is used in some manner by 61 percent of rural Ohio businesses responding to earlier work, but it is still not significant as a retail channel. Only 20 percent of rural Ohio retailers responding to our 2004 survey used the Internet as a retail channel, generating only about 3.4 percent of their total revenue. While this earlier study was not specific to the grocery or specialty-food marketing sectors, it does address motivations of rural firms generally—supporting the observation that firm strategies toward information technology are based on individual enthusiasm rather than quantitative economic research.

None of the sampled grocers selected for interviews were involved in online sales of groceries at the time of the interview. One was seriously investigating its application in part of its market region. Four of these retailers are currently providing home delivery to some customers and have existing infrastructure that might be applied to an e-grocery enterprise. Two grocers had a current web presence—one using it strictly as a billboard and one going beyond that to distribute sale information and provide some community services. Five of the six grocer deployed some level of computerized point-of-sale and/or inventory-management system. Level

of adoption within the firm appeared partially based on management attitudes and cost of deployment. Technology cost and ROI for this infrastructure was cited by all as a current and future concern.

Half of the firms faced direct in-town competition from big-box grocery stores. All discussed the impact of such competitors on their business and ways in which they had already or intended to adjust their business to deal with the effect. Those competitors' proficiency with technology, cost/price management, and supply-chain control was cited at some level as a competitive advantage in all cases. The five grocers that have adopted computer technology discussed the challenges of managing IT and training employees to use it effectively.

Applying findings from the earlier study of rural retailers to smaller and geographically challenged food retailers and the findings from key informant interviews offer guidance for the planned research on effective IT adoption and e-commerce strategies for rural grocery and specialty-food marketers. While online marketing and sales will not replace traditional ways of doing business in rural communities, it is rapidly becoming an indispensable part of demand- and supply-chain management throughout the grocery industry and may offer ways to increase effectiveness of operations, expand traditional rural markets, and sustain businesses.