

Rural Grocery Owner Needs & Best Practices Study from Central Nebraska

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**Center for
Rural
Research &
Development**

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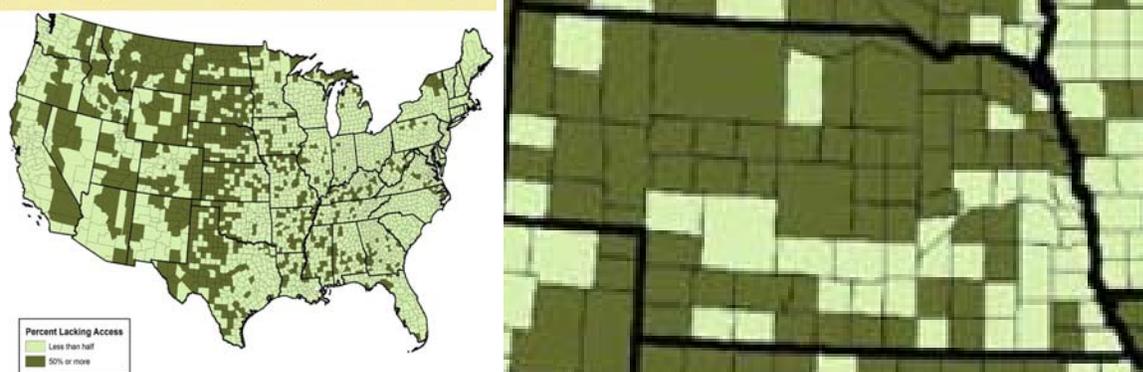
Background & Research Objectives

With the decline in rural population and increase in the number of supercenter stores, the market share for central Nebraska rural grocery store owners has decreased significantly over the last 30 years. This is compounded by increasing operational costs, decreasing labor availability, and new supplier/distributor contract requirements. Grocery stores (e.g. fresh food choices) are vital to rural communities and the loss of this business is correlated with declines in population.

Food Deserts:

Percent Lacking Convenient Access to a Supermarket or Supercenter in U.S. Counties, 2000

Map 1: Percent Lacking Convenient Access to a Supermarket or Supercenter in U.S. Counties, 2000



Starved for Access: *Life in Rural America's Food Deserts* By Lois Wright Morton and Troy C. Blanchard, 2007

In late Summer 2010, Odee Ingersoll, Director of the Nebraska Business Development Center (NBDC) at the University of Nebraska at Kearney (UNK), contacted the Center for Rural Research & Development (CRRD) about conducting a practical study with a focus on rural retailers in Nebraska. After further discussion, it was determined that the general ***purpose of the research*** was to explore best practices for sustaining and increasing market share and profitability and determining the level of understanding and need for business transition (selling a business) services. Specific objectives of the study include:

- (1) Discover the range of challenges faced by rural grocery stores in central Nebraska
- (2) Discover the variety of market and supply environments faced by rural grocery stores in central Nebraska
- (3) Determine the current marketing practices of rural grocers, & detail related best practices used by rural grocery stores in central Nebraska
- (4) Determine the business transition needs and readiness of rural grocery stores in central Nebraska

Methodology

Most of the recent studies and literature related to rural grocery store viability are based on secondary analysis and survey data collected from owners/managers. To build on the existing research and provide a detailed qualitative analysis, the focus group moderation technique was selected. Only grocery store owners/managers located in communities with populations fewer than 3,000 were invited, as these small markets typically face greater challenges related to

sustaining the purchasing volumes required in most common supplier contracts. In addition, a recent study indicated that independent groceries stores have the best chance for viability if they serve trade areas with populations greater than 3,253 (Obrien 2008). Only two of the 26 participating stores served a trade area slightly over this threshold.

Five focus group sessions were held in centralized geographic locations to cover the maximum area possible and reduce drive time/costs for the participant and moderator (Appendix). Table 1 highlights key demographic characteristics of the participating stores and their respective communities. The Kearney NBDC office provided assistance in determining optimal locations using their subscription to the ESRI Business Analyst spatial software. All participant store locations were less than 60 miles from one of the five focus group locations.

Table 1 - Store/Participant Profile

Regional Focus Group Location	Number of Stores*	Number of Participants (people)**	Population Range of municipalities / Total of Zip Code populations***	Full Time Equivalent Labor (est) Range/Avg	Owner Experience Range (est)/ Total years
Albion	4	5	400-2,300 8,100	4-8	1-40 118
Atkinson	3	4	400-600 2,700	3-5	10-40 70
Broken Bow	6	7	500-2,300 11,200	2-11	1-30 121
Geneva	6	8	300-2,300 7,500	2-9	2-40 120
Holdrege	7	6	200-1,800 10,000	2-6	3-35 118
Total or Average	26	30	40,000-trade area population	115 5-avg	547

**One participant owned two stores; a few others were partner-type owners in others*

***Four stores had a spouse or key family member present as co-owners/partners/managers; one non-relation manager accompanied an owner*

****The Zip Code may serve as a proxy for the primary trade area population, although many stores serve several zip codes/communities, while other zip code trade areas were diluted by nearby supercenters; Data source: U.S. Census American Fact Finder rounded to nearest 100 to protect confidentiality*

All sessions were held during the month of January 2011, and each lasted approximately one and a half hours. All facilities were located in public locations but held in closed-door session to protect the confidentiality of comments provided by participants. All sessions were digitally recorded with modern audio-visual equipment for detailed content analysis of the data. The CRRD Assistant also recorded detailed notes during these sessions.

The UNK Library subscribes to an electronic Dunn & Bradstreet database of companies. This database was queried by central Nebraska county name and the North American Industry Classification System number 445110-Supermarkets and other grocery (except convenience) stores. This list was cross referenced with current names through local Chambers of Commerce, business associations, and other local economic development offices whenever possible. An invitation letter to participate in the regional focus group sessions was mailed to this list in mid-December, 2010 (Appendix). A screening worksheet guided the CRRD Director and Assistant as they called each owner to confirm their ability and willingness to participate (Appendix). All participants were reimbursed the greater of \$40 or the round trip IRS mileage rate between their store and the focus group location.

The CRRD Director drafted a focus group discussion guide that was reviewed by Mr. Ingersoll and Dr. Tim Burkink, who has produced several peer reviewed publications in this industry on related topics. The CRRD Director forwarded the research objectives, confidentiality protections, discussion guide, and telephone screener to the UNK Institutional Review Board. The project was determined to be exempt based on the participant protections outlined in the application.

Three of the 26 stores represented were located in a municipality with a competing store, but no groups included same-community competitors. Grocery store owners within the cities of Broken Bow and Holdrege were not invited because their population exceeds 3,000. Although all current owners of stores in Albion, Atkinson, and Geneva were invited to participate, this does not mean that these communities had stores represented in the group discussion in that location.

Twenty-three of the 26 stores represented were served directly or indirectly through Affiliated Foods Midwest as their primary supplier. Two were served indirectly through a larger store or wholesale distributor. The three stores supplied by Nash Finch were located in the eastern portion of the study area.

Most group participants had a family history of experience in the industry. Several new owners under the age of 40 returned to their hometown and purchased stores with financial support from their parents. The majority of these younger-generation owners attained degrees in secondary education and gained experience outside the community before returning to their community.

Limitations

An initial analysis was primarily based on detailed notes taken “in-session” by the moderator and administrative assistant. Further review of the audio-visual recordings using content analysis techniques revealed additional key themes, but this method is subject to typical human error and therefore may not have retained every insight expressed by participants.

As with all focus groups conducted in rural areas and among industry peers in nearby communities, participants may not trust each other enough to share their most profitable ideas or best practices. Additionally, they may not share perceptions about specific reasons that may lead to market share decline in order to avoid spreading negative assumptions about themselves or

their colleagues. This is a typical concern of retail business owners in small communities because rumors, or community perceptions, both true and unfounded, can lead to a lack of loyalty or patronage.

Key Findings & Recommendations

- (1) Discover the range of challenges faced by rural grocery stores in central Nebraska
 - a. It was the moderator's expectation that much of the conversation surrounding this issue would relate to outshopping at the nearest regional supercenter or supplier price disincentives for not meeting minimum purchasing volumes. While these issues were often mentioned with some importance, **a larger portion of the discussion time related to broader causes of community decline correlated to a decreasing customer base and sales volume.** Nearly all group discussions described the situation as a declining customer base primarily being the result of the community's declining population, which they perceive is mostly a function of the lack of quality employment in the community. The irony in that is many reported that finding reliable labor is a challenge because the quality workforce pool is already gainfully employed in full-time positions with benefits at above the median county wage. Many preferred not to hire high school students due to the challenges of scheduling around school activities such as sports and their declining math skills due to increased reliance on technology. **To combat population and overall customer base decline, many participants suggested local economic development strategies related to recruitment of high school alumni back to the community and improving the availability of quality housing for these alumni.**
 - b. To stay competitive and keep margins low, most owners work six days per week and nearly all shifts. In addition, nearly all owners stated that they were heavily involved on local volunteer boards and committees. This practice is "business as usual" in order to maintain a loyal customer base. **With this strain on their time and very little income or wealth expected in return, several of the smallest stores were skeptical about the future of the store upon their departure. One of the smallest stores represented reported operating with slight losses that were acceptable by debtors in order to keep the essential products in the community.**
 - c. **Low sales volume due to related factors including outshopping, lack of community support, or competition from supercenters** was a common theme among the stores within 50 miles of a supercenter. Suggested **strategies to combat outshopping include local media campaigns that educate consumers on the cost of fuel related to outshopping excursions and "interrelatedness"**

of local business revenue/jobs. Specific examples included Chamber/economic development organization led LB840 local newspaper campaigns comparing the cost fuel driving from that small town to the nearest supercenter with same shopping list.

- d. **Labor, Utilities,** and other operational costs were also tied to the low profit margins mentioned by the smallest stores. Reducing labor costs results in a lack of quality customer service that most participants specifically mentioned as critical to maintaining a loyal customer based. About half of the owners mentioned accessing federal programs to replace equipment with new, high efficiency, coolers to save on utility costs. However, half of these also mentioned they would be unlikely to use the programs again due to the large amount of time involved with processing the paperwork relative to the small amount of grant funds, if they were successful in getting a competitive award.
 - e. **The smallest stores rarely or infrequently receive visits or communication from their distributor,** as opposed to quarterly visits in earlier decades. This communication is essential for staying up to date on cost saving strategies such as new sale products and technology. Veteran owners suggested creating “peer” groups to advocate on owner’s issues such as communication and mandatory service charge increases related to corporate expansion decisions.
- (2) Discover the variety of market and supply environments faced by rural grocery stores in central Nebraska
- a. Most stores represented were supplied by Affiliated Foods and the majority of these owners reported a satisfactory relationship with the distributor. **Many commented positively about the variety of services and assistance available, but the issues of having the time to learn about the benefits related to the new cost saving technology and software were more of a challenge.**
 - b. **Two of the three stores supplied by Nash Finch would have preferred to be an Affiliated member, but could not afford the price disincentives for not meeting the minimum purchase level. Several of the smaller Affiliated members combined orders and truck delivery schedules with partner/owners of neighboring stores to avoid these surcharges.**
- (3) Determine the current marketing practices of rural grocers, & detail related best practices used by rural grocery stores in central Nebraska
- a. **Adding value to the shopping experience through a variety of product services** was often discussed as an important marketing strategy to retain market share. Specifically mentioned best practices included custom meat packaging,

wild game processing, smoked meats/sausages, sidewalk deli's and other fully cooked meal packages, food and beverage tasting events/demonstrations, new services such as hair salons, photo processing/printing, and catering. Liquor sales were frequently mentioned as having low profit margins, but effective in drawing customers into the building. Delivering groceries to the elderly, including loading their water softeners with heavy salt bags, was a frequently mentioned value added service.

- b. Affiliated and Nash Finch member stores all took advantage of promotional corporate advertising packages and placed them in local papers if one existed in their community. Better utilization of Affiliated Food's *Access* software to more accurately order inventory that better reflects the customer's need and achieve the best sale price.
 - c. **Building a reputation for strong customer service is essential to maintaining and increasing market share.** One store located in a community of under 400 people reported relatively large sales volumes. Participants perceived this was due to capturing market share/customers from a nearby larger community's store that participants reported as having a poor reputation for customer service.
 - d. Due to small profit margins and a stagnant customer base, **the larger-more progressive stores, reported regularly expanding their product and service variety to increase total sales volume.** They admitted this was a challenge for newer owners that often lack the capital necessary to expand their facility to accommodate the larger variety of products and services.
 - e. **Creatively "buying" products from distributors in partnership with other stores** can help avoid minimum purchases surcharges. Some owners ordered products in partnership with convenience stores, meat lockers, or neighboring grocery stores.
- (4) Determine the business transition needs and readiness of rural grocery stores in central Nebraska
- a. None of the participants mentioned having or using a business plan or anything related to a business transition plan.
 - b. None of the participants mentioned NBDC when the question was posed about who they would recommend to colleagues interested in preparing to buy or sell their business. **When the NBDC was mentioned near the end of the group discussion, none of the participants were aware of the organization or their services.**

- c. Many owners stated they would initially contact nearby grocery store owners, or their supplier, about their interest in acquiring an additional store. Most participants reported consulting local lenders concerning financial issues. **In order to increase awareness about resources available, most participants recommend that regional economic development service providers should connect with rural lenders, local Chambers of Commerce, business associations, and other local economic development organizations if present.**
- d. When discussing the rural grocery store ownership opportunity to prospective entrepreneurs outside the industry, the conversation should focus on the “way/quality of life” rather than the financial outcomes of the business venture.
- e. **Internal financing for existing full-time employees** was a common method used by participants, and the most sustainable method recommended by more than half of the owners. Employees and existing owners should be contacted with related services using the strategies mentioned in the preceding paragraph.
- f. **Connection to professional internship programs** for access to local youth or recent college graduates interested in rural entrepreneurship.

Conclusions & Additional Research Suggestions

The general consensus among the central Nebraska grocery store owners and managers participating in the five focus group sessions is that rural retail business sustainability is a challenge, but can be rewarding. Several creative “value added” service and product suggestions were made by the focus group participants. Positive customer and wholesaler relationships and “group/volume” product ordering from suppliers continue to be key factors in maintaining profitability (Burkink 1997). Although the sample size in this qualitative study is small, there is strong evidence to show that rural Midwestern grocery stores can be profitable in trade areas of less than 3,200 people.

Business succession to employees and family is the most common and sustainable transition method reported, but selling to a trusted neighboring owner was another suggested alternative. Business transition services are poorly understood and seriously needed, but questions remain as to the best methods of exposing entrepreneurs to these services and effectively delivering this education across large rural areas, especially in villages without formal local business organizations (i.e. Chamber’s of Commerce or Economic Development). Regional and state-wide economic development service organizations should coordinate with local lenders if no formal business organizations exist in the community. Further, regional service providers could establish relationships with industry wholesaler/distributor representatives to inform them about the support available to their clients.

The key findings and recommendations of this study generally align with research literature cited in the references below in regards to rural Midwest grocery store viability (Bailey 2010, O'Brien 2008, Henning 1998). However, more research is needed as to the specific measures that have the highest correlation of rural retail venture success or failure. For example, a spatial analysis of store size, and location, in relation to the nearest grocery supercenter and total expected sales volume may be useful in determining the potential success of a new store or transition.

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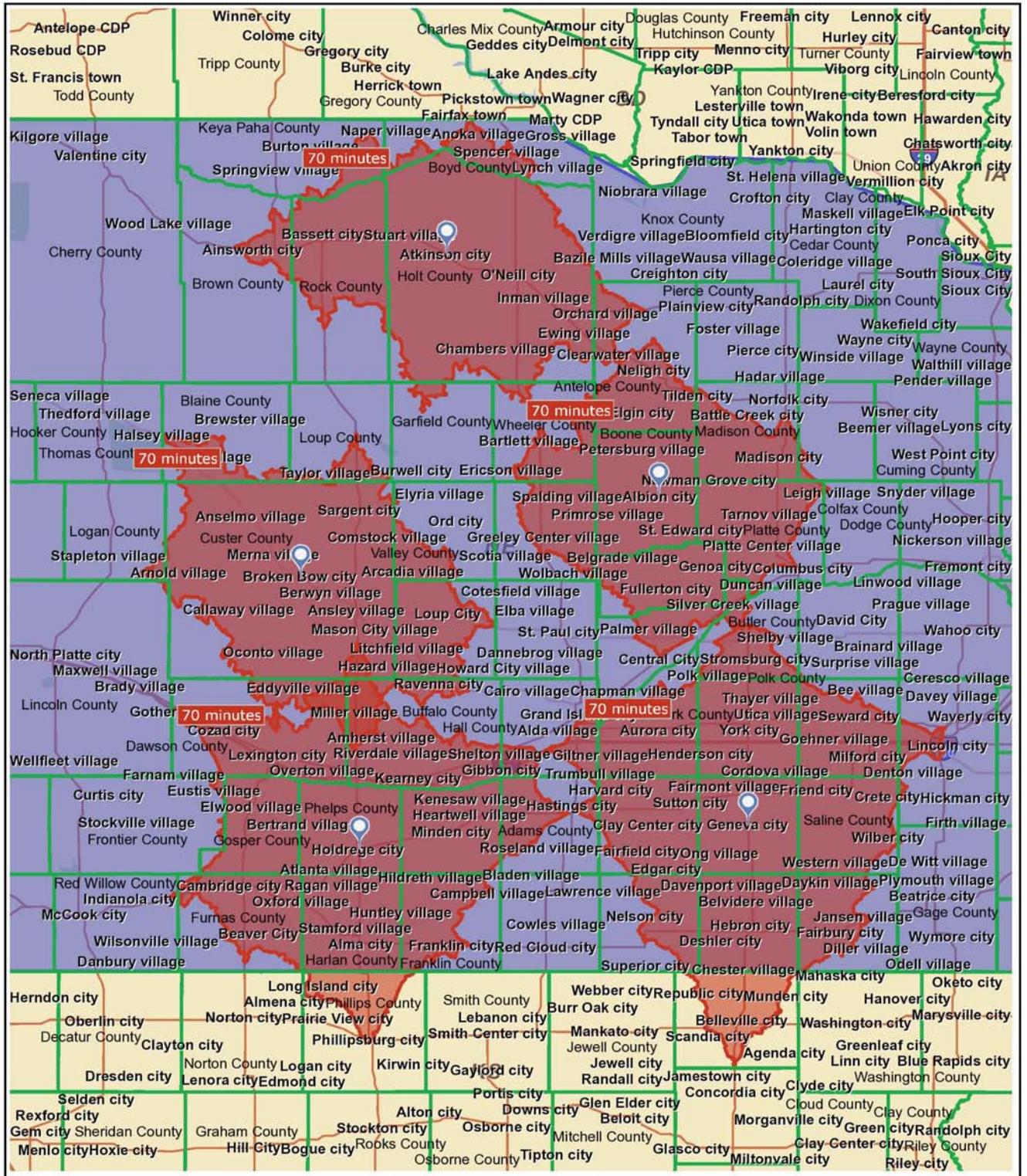
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Appendix



Rural Grocery Store Focus Group Locations Jan 2011



SAMPLE COVER LETTER

DATE

STORE NAME
OWNER NAME
STORE ADDRESS

Dear OWNER:

With the decline in rural population and increase in the number of supercenter stores, the market share for central Nebraska rural grocery store owners has decreased significantly over the last 30 years. This is compounded by increasing operational costs, decreasing labor availability, and new supplier/distributor contract requirements. Grocery stores (e.g. fresh food choices) are vital to rural communities and the loss of this business is correlated with declines in population.

The Nebraska Business Development Center (Kearney Office) has contracted with UNK CRRD to identify the needs of rural grocery store owners. We intend to **explore best practices for sustaining and increasing market share and profitability**, and determine the level of **understanding and need for business transition** (selling your business).

In order to conduct this research, I need input from experienced grocery store owners/managers located in communities with populations under 3,000. I would like to invite you to attend a short focus group session with 8-10 rural owner/managers from your region.

If you choose to participate, you will be adding to the knowledge base and the free information available to rural grocers and retailers around the world. In addition, you will be reimbursed a minimum of \$40 for your time OR the round trip IRS mileage rate between your store and the focus group site, whichever is greater. Following the focus group, you will be mailed a check from the University. Receipt of payment requires that you **complete the 3 enclosed forms: W-9, Attestation of U.S. Citizenship, and the Agreement Letter. Please bring these forms to the focus group session (date and location listed below).**

Also enclosed for your reference is the Respondents' Bill of Rights (found on the back of the Agreement Letter). This ensures that your comments will be kept confidential and all records and information will be destroyed at the completion of the aggregated report.

If you would like to participate, **please call** Carrie Stithem (my Office Assistant), **to confirm your attendance at 308-865-8199**. In order to moderate the session effectively, I must limit participation to the first 10 owners/managers who call us back. We will provide a reminder call the day prior to the session. In the case of inclement weather (defined as school closings in your region) we will reschedule for another date.

LOCATION
DAY and DATE
TIME

Light refreshments will be provided. I look forward to hearing from you soon.

Happy Holidays,

Shawn Kaskie - Director

Encl: Forms W-9, Citizenship Attestation,
Agreement Letter with Respondents' Bill of Rights

SCREENING CORRESPONDENCE (TELEPHONE)

Hello, this is Shawn Kaskie from the Center for Rural Research and Development. We are not selling anything. We are an outreach department at the University of Nebraska at Kearney. Our primary roles include entrepreneurship education, primary market research, and economic development technical assistance. Through our membership in the Nebraska Economic Developer's Association I contacted a local economic development service provider, _____. He/she gave us your name and phone number as someone who might be interested in participating in a focus group session related to your experience in the rural grocery store industry (challenges & factors leading to profitable best practices).

As a focus group participant, you may be asked to share your opinions with other rural grocery store owners/managers in order to better understand your business needs. You will be offered a modest financial incentive for your time (\$40 OR IRS MILEAGE-WHICHEVER IS MORE).

I would like to get some background information about you and your business for our files.

FOR DATA ENTRY ----- PLEASE PRINT CLEARLY

FIRST NAME: _____ LAST NAME: _____

STREET ADDRESS: _____ CITY: _____ ZIP: _____

EMAIL ADDRESS: _____ PHONE: _____

WHAT YEAR WERE YOU BORN: 19__

HOW MANY YEARS HAVE YOU OWNED OR MANAGED GROCERY STORE(S): ____

DO YOU MAKE THE MAJORITY OF THE BUSINESS MANAGEMENT DECISIONS AT THE CURRENT STORE? _____

If selected as a focus group participant,

WHAT REGIONAL LOCATION WOULD YOU PREFER? _____, _____, _____, _____

WHAT 1.5 HR TIME BLOCK AND DAY OF THE WEEK WOULD YOU PREFER? EX. Thursday Jan 6, FROM 10-1130

_____, _____, _____

If you are selected, a representative from our office will be contacting you with the time, date, and other necessary information within a week. (FIRST NAME), I really appreciate your time and consideration on this project. I hope to have a chance to meet you in the near future. Have a great day, good bye.

Discussion Guide based on exploring PERCEPTION sample

I. Warm up (10 minutes)

- a. Moderator shares about “rural ties” & UNK department mission
 - i. Reminder of benefits to participation
 1. Contributing to the knowledge base in their field
 2. Increased awareness of resources available
 3. Increased capacity for identifying existing or potential business
 - a. Challenges to sustaining your business
 - b. Opportunities for improvement
- b. Logistics:
 - i. Meeting structure overview,
 1. technology/cell phone use,
 2. restroom expectations, drink availability
 3. Expected behavior for differences of opinion - (stick to facts)
- c. Ask Name, Name of Store, tell us about your family

II. Current Usage, Attitude, & Habits (10-15 minutes)

- a. “how did the grocery store ownership opportunity develop for you, or how did get to be in this business and in your community”
- b. *Supplier relationship* - How would describe your ...
 - i. *Challenges:*
 1. *Minimums order requirements,*

2. *Delivery Frequency*

ii. *Strengths-Best Practices*

c. Store Operations:

i. Costs-Foresee as the key costs in running the store day to day?

1. Labor availability-

a. # of employees

III. **Evaluation of Experience** (10-15 minutes) Ideals relationships

a. Describe the ideal supplier relationship

b. Describe the ideal community relationship

i. In what ways are you and your employees involved?

1. Do think this helps sales, how much/so?

IV. **Concept Evaluation (15-20 minutes) Management Decisions**

a. Strategies for making business decisions....

i. Strategies for cutting costs and increasing profits (*avoid pricing and product selection*)

1. How did you develop these strategies

a. Who helped you the most and what did they do that was unique

2. How can they be enhanced further?

b. Service Providers

i. Tell me more about assistance you requested or received in the past

