RURAL RETAIL BUSINESS SURVIVAL: IMPLICATIONS FOR COMMUNITY DEVELOPERS

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ABSTRACT

The loss of retail businesses and sales in rural areas has been accelerating for many years. This study was conducted in 37 rural communities in Indiana, Iowa, and North Dakota that appeared to have better-than-average retail sales. The purpose of the study was to identify strategies, if any, that were employed by communities and individual businesses which contributed to viable retail districts.

This study suggests several possible actions for community development practitioners involved in efforts to improve and sustain rural retail business communities. These actions include: the need to assist rural communities build a more diversified economic base; provide business management training and technical assistance, establish mechanisms to transfer established business operations to new owners, develop financing mechanisms for new or aspiring businesses, and assist rural communities to deal with change and plan for their futures.

INTRODUCTION

Small towns in the Midwest have been losing retail trade for many years (Stone, 1988; Leistritz et al., 1990; Johnson & Young, 1987). For example, in North Dakota taxable sales adjusted for inflation decreased 17.9 percent from 1980 to 1987. The share of total sales captured by towns with less than 10,000 population fell from 36.4 percent in 1980 to 29.8 percent in 1987 (Leistritz et al., 1989a). However, some small towns have been able to maintain a more viable retail sector than others. This study examined 37 of the more “successful” towns in three midwestern states to identify common char-
acteristics that contribute to a viable business district. These towns were identified as those that had better-than-average retail sales, had a relatively stable business occupancy rate, and were perceived by the community leaders as “doing well.” The results of this study provide insights into strategies which community development practitioners can initiate to help maintain rural retail communities.

The relative decline of the rural retail sector can be traced back several decades. For example, in a study conducted for the White House Conference on Small Business, Stone (1980) found that rural counties in Iowa, Kansas, Missouri, and Nebraska experienced a retail “leakage” (the loss of retail dollars out of a community) of about 5 percent during the 1950s, 10 percent in the 1960s, and 15 percent in the 1970s. The leakage in the 1980s averaged well over 20 percent for rural counties in Iowa.

A number of factors have contributed to the decline of the smaller rural trade centers, beginning with improvements in rural roads and highways. School consolidation led to decreased traffic to the towns that lost their schools. Television sets in almost every rural home increased consumers’ exposure to new products and urban shopping centers. More recently, the expansion of urban and suburban malls, shopping centers, and discount stores are increasingly luring customers out of the rural areas (Leistritz et al., 1987, 1989b).

Whatever the causes, the effects of declining retail sales volume can be devastating to small towns. In Iowa, during the period 1980–1988, towns with 500 to 1,000 residents had an average decrease in deflated taxable sales of 51.9 percent, and towns of 1,500 to 2,500 had a decrease of 32.9 percent, compared to a statewide decrease of 13.7 percent. The continual loss of retail sales in small towns translates into loss of businesses. For example, Iowa has experienced a net loss of 605 grocery stores (33 percent) in the last 10 years—most in towns of less than 1,000 population. 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 towns to shop, and sales of the surviving local stores may suffer. Business closures also eliminate jobs for local residents and reduce the tax base of local governments. Declining employment opportunities may lead to out-migration of local residents, which further erodes the clientele base for main street businesses. Thus, the whole process can become a vicious cycle with economic, demographic, and public sector decline reinforcing each other (Ekstrom & Leistritz, 1988).

This study was conducted to better understand the dynamics of retailing in the rural Midwest and to determine whether it is possible to develop strategies for successful small town retailing. The overall goal of the effort was to provide information to enhance rural retail businesses. Specific objectives included determining the recent changes and current status of rural retail communities in Iowa, North Dakota, and Indiana, communities which represent the diversity of the rural Midwest; identifying successful community organizational techniques; identifying innovative and effective business funding techniques; determining the extent and success of new business recruiting techniques; identifying successful promotional campaigns based on local resources or factors; and determining the most critical needs common to business communities.

METHODS

The study was aimed at identifying successful strategies employed by communities and individual businesses in rural communities. A three-step approach was used to gather the data.

The first step was to identify communities that had been relatively successful in maintaining or expanding their retail sector. Two major data sources were used in this first phase. One source was secondary data collection from state sales tax records, the Survey of Buying Power, and the 1982 and 1987 Censuses of Retail Trade. State sales tax records (available in Iowa and North Dakota) offer a means of gauging overall changes in retail sales volume for rural communities. In North Dakota, taxable sales were examined for communities in three different population size groups (500–999, 1,000–2,500, 2,500–5,000). Within each group, the communities’ taxable retail sales for 1980 and 1987 and the change in sales from 1980 to 1987 were calculated. “Successful” communities all had above average sales per capita and an above average percent change in sales, relative to the group average. A similar procedure was used in Indiana using the 1982 and 1987 Retail Census data on a county basis. Sales tax data are not available in Indiana.

The second data source used to identify communities was a survey of town clerks in all towns between 500 and 5,000 population in Iowa and Indiana. In North Dakota, the mayors and Chamber of Commerce presidents were surveyed instead of town clerks. Because of the size of communities in North Dakota, communities in the 300–500 population range were also included in the study. Participants completed a questionnaire about the number of vacant stores, the number of business losses, the dominant stores, and a number of other questions relating to the community’s retail business sector. The response to the survey ranged from 71 percent in Indiana to 92 percent in North Dakota.
After analyzing the secondary data and the survey results, 12 towns in Indiana (of 221 total communities), 12 towns in Iowa (of 380 communities) and 13 towns in North Dakota (of 72 communities) were chosen as among the more "successful" small retail communities; that is, having "better than average" retail sales, a relative stable business occupancy rate, and perceived by community leaders as being "successful." Twelve communities were between 500–999 population size; 15 were between 1,000–2,499 population; and 10 were between 2,500–5,000 population.

The third phase was an in-depth study in the 37 communities. In Indiana and North Dakota, county extension agents were asked to identify appropriate persons to interview. The town clerks in Iowa were asked to suggest key people who should be interviewed in each selected Iowa community. In general, local elected officials, bankers, retail business people, and local civic leaders were suggested with an average of 10 interviews in each town.

A questionnaire was developed for the interviews. The questionnaire was based on previously conducted retail surveys (Ayres, 1979, 1981) and adapted to focus on the objectives of the survey. The same questionnaires were used in the three states. The interviews were conducted May–August 1988 in North Dakota; September–November 1988 in Indiana; and winter 1988–1989 in Iowa.

**FINDINGS**

**Characteristics of the Study Communities**

There was great diversity among the small towns included in the survey. In Indiana all of the communities were located on a federal highway and all but one community were within 30 miles of an urban area of 50,000 or more population. In contrast, one community in North Dakota was 113 miles from a city of over 10,000 population and 25 miles from a federal highway. Communities highly dependent upon the energy industry and considered "atypical" were not included in the North Dakota sample. The communities were geographically distributed across each of the states and represented a variety of economic bases. Communities in Indiana were more dependent on manufacturing industries as a source of employment and income, while Iowa and North Dakota communities were more dependent on agriculture.

Fifteen of the 37 communities were county seat towns and derived some benefit from this additional traffic. Some of the communities had special tourist attractions such as the Grotto, a religious shrine in West Bend, Iowa, and Amish Acres, an educational Amish farm in Nappanee, Indiana.

**General Findings**

Three general findings resulted from the study. First, constant change is occurring in small rural communities. While small communities may appear as if little change is occurring, the research found a great deal of turnover and change. From the time the initial mail questionnaire was sent to the communities until the in-depth interviews were conducted, some retail businesses closed while others new businesses opened. Rural communities are dynamic. One of the struggles for local leaders is dealing with this constant change.

A second discovery was that there is no "ideal" community. While better-than-average retail communities were chosen for this study, they still confront many problems. Some communities had a relatively strong retail sector yet were struggling to diversify the economic base or were threatened with the loss of their elementary schools. Even within the retail sector, while some businesses were doing well, others were near the point of closing. Some communities had an active business organization, but did not have available financing for new businesses. No communities exhibited outstanding efforts in all aspects of the community. Most were struggling to do the best they could with available resources. This reality of small town life reflects the constant change in the community, the dependency on volunteer leadership to deal with the change, and the limited availability of human and financial resources to assist in community efforts.

The third general finding was the similarity of the issues. The researchers were expecting to find different issues regarding the retail community due to the differences in economic base and degree of urbanization in the three states. However, the concerns and issues expressed in the communities were almost identical. These findings are discussed below.

**Common Issues**

**Community Organizational Techniques.** All of the successful retail towns had some type of organization devoted to furthering the good of the retail sector. The smaller towns usually had a business group without any paid employees. Most of these groups had officers and/or a board of directors. The larger towns and a few of the intermediate size towns had a Chamber of Commerce. An active Chamber of Commerce was the point of community promotion activities. Twelve of the 37 communities hired a part-time or full-time
person to coordinate Chamber and economic development activities. The presence of a Chamber executive or development coordinator seemed to be a key factor contributing to the community's success. The employment of a development coordinator appeared to be a definite trend among the larger towns (2,500-5,000 population). Several comments indicated that a part-time or full-time person was instrumental in bringing the business community together, keeping people informed, developing promotions, and in recruiting needed business to town. It is difficult for volunteers to spend the necessary time to carry out these activities in addition to their full-time businesses.

In the “successful” communities interviewed, the organizations worked together in a spirit of cooperation and strong commitment. For example, in Sunman, Indiana, 95 percent of the businesses belonged to the Chamber of Commerce and were active in it. There appeared to be strong ties between city and county governments, the Chamber of Commerce, and other community groups such as the Jaycees and the Kiwanis. There were close communication linkages between the organizations.

Several communities demonstrated examples of cooperation between county and city governments which appears to offer opportunities for the future. The county and city combine their resources to hire a full-time development coordinator. One city and county in North Dakota had joined with two other counties and several other cities to fund a tri-county development office. These efforts made possible the position for a full-time person who could assist in business recruitment, community promotion, and marketing. Although such cooperation is ideal, especially in more remote rural areas, there is concern that the larger, more dominant towns will receive the most benefits and that the smaller towns will lose out. County officials were sometimes reluctant to help fund such development efforts because of possible inequities. This research discovered the beginning phases of multi-community collaboration efforts. Although it holds promise for pooling scarce resources in rural communities, it is too early to determine its success. The possibility exists that as some of these multi-community units develop, they could raise funds through public and private sources to offer low-cost loans to retail businesses.

**Business Financing.** The availability of adequate financing is often seen as the key to rural economic development (Daniels & Crockett, 1988). Substantial evidence was found in all three states that "successful" established business people had little or no problem financing the business with operating capital. However, arranging long-term debt and equity capital as well as operating capital for new or aspiring business people was identified as a problem. Respondents from the financial institutions were more precise in defining the problem. The financiers indicated that most of the new or aspiring business people were undercapitalized, and many had little or no experience in running a business. Apparently remembering their experiences from the farm debt crisis in the early 1980s, most bankers viewed loans to undercapitalized, inexperienced business people as risky and imprudent. Some financiers indicated that they sometimes made these types of loans when Small Business Administration loan guarantees could be secured.

Respondents from several towns indicated that the town had sought state or federal grants or financial help on behalf of businesses in the community. However, at both the state and federal levels, grant programs have been significantly reduced from their 1980 levels, or have been eliminated altogether. At the state level, loans and grants are being awarded very judiciously because of the inability to resolve problems of equity connected with such programs.

In some communities, limited partnerships have been used to provide capital for an entrepreneur with the ability, but without the capital. “Silent partners” provide a share of the capital in return for a pro-rated share of the returns. A few communities have established a revolving loan fund earmarked for new businesses. In at least one case in Iowa, the initial loan pool was obtained through a grant from the federal government.

There were several cases of long-time businesses being sold through owner financing. This method of buying “on contract” can be beneficial to both the seller and the buyer in certain cases. However, in cases where the seller is selling a “run down” store and the buyer is too inexperienced to realize it, the result can be disastrous.

**Business Recruitment.** Officials from nearly all of the more successful towns directed some effort toward recruiting new business and industry. More emphasis was placed on attracting industries, however, than retail businesses. The leaders in the community worked together to develop a strategy, to promote the community, and to actively recruit businesses or to assist local businesses in expanding. Several of the communities had some successes. For example, Guthrie Center, Iowa, attracted Illinois Tool Works and Rose Acres, a large egg production facility. Other towns benefited from successful “home grown” businesses, such as Agri-drain Company in Adair, Iowa.

Industry and jobs, however, do not guarantee the success of the retail sector. There are many examples in all three states where towns have strong industrial sectors, but the retail sector is so weak that most of the money earned in the towns is spent somewhere else.
Consumers have choices in where to shop. The type of retail businesses in the community, the selection and cost of merchandise, and service offered by the merchants affect where people shop (Ayres, 1979, 1981). This situation negates one of the supposed benefits of having industry, the multiplier effect.

Theoretically, money earned in a community could turn over five or six times in the community thereby approximately doubling the original economic activity. But, when wage earners in a town spend their money elsewhere, this benefit is lost. Keeping the money at home was a struggle for nearly all of the communities, even the more successful communities.

Most of the respondents in the successful communities recognized that their town was in need of additional retail businesses and varying degrees of recruiting activity were cited. In the simplest case, officials encouraged local people to buy stores that were going out of business. In other cases, vigorous recruiting was aimed at bringing needed businesses to town. One of the more successful efforts of this type was accomplished by Bancroft, Iowa, after it lost its grocery store several years ago. The leadership of the community banded together to develop a strategy on how to recruit a grocery store to the community. After obtaining some cost/benefit analysis and other information from Iowa State University, they actively contacted a number of grocery store chains. By offering an incentive of reduced rent for a period of time, they were successful.

Promotional Campaigns. Nearly every successful town had some type of promotional campaign. In the smaller towns, farmer appreciation days seemed to be popular and effective. Some towns had annual events that attracted national audiences, such as Dyersville, Iowa, with its National Farm Toy Show and Ida Grove, Iowa, with its Aviation Expo. Still other towns capitalized on local attractions. For example, West Bend, Iowa, attracts visitors with its Grotto, and Nappanee, Indiana, has developed Amish Acres, a working Amish farm.

Some towns sponsored events that combined a fun time with shopping promotions. Examples of these are Jesse James Days (Adair, Iowa), Hog Wild Days, the Window Walk, and many other promotions that were identified in all three states.

In North Dakota, most of the communities had a monthly or biweekly advertising pamphlet with information from a number of local businesses. A variation of this theme was found in Hettinger, North Dakota, where advertising materials from a number of businesses were distributed monthly in a plastic "mailbag."

The towns in Indiana had success with direct mailings to customers three to four times a year.

Several towns sponsored "shop locally" campaigns. These featured slogans that were promoted in newspapers, radio, and other media. Most respondents indicated some success with these efforts and felt that a home-owned newspaper is a major asset to a community.

**Implications for Community Development**

A number of critical needs were identified in the study which have implications for community development practitioners as they work to improve and sustain the rural retail community. They include:

**Strong Economic Base**

Most all of the communities in the three states were attempting to diversify and strengthen their economic base. This was viewed by the community leaders as being a critical component to a viable retail district. The communities that were successful in attracting new businesses had a long-term commitment to the effort and had established an effective coordinated effort among the community’s business and civic leaders. The leaders of these communities were also aware of available outside resources and had pursued them. The presence of a paid development coordinator or Chamber executive seemed to be a critical factor in assuring continuity of community efforts. However, smaller towns may not be able to afford the services of such an individual. A county- or region-wide economic development office may be a partial solution in such cases.

**Business Management Training**

A second lesson learned was the importance of technical assistance for rural businesses. Both business proprietors and community leaders indicated a high level of interest in technical assistance. Areas frequently mentioned included financial management, developing business plans, merchandising, inventory management, personnel management, and customer relations. Many of these topics are currently offered as extension programs through colleges and universities. A surprise to the researchers was the general lack of knowledge about available programs. It was also learned that many of the businesses which are part of a national chain have access to technical information, while the locally owned stores do not have such assistance avail-
Mechanisms to Transfer Business Operations

Many small town merchants are older people who have operated a store that has been in the family for many years. The study found that even in successful communities, the transfer of business operations is a problem. When business people approach retirement age, most have not made provisions for transferring the operation to someone else. Consequently, the business is closed and gone forever. A community development practitioner could work with business operators to develop creative mechanisms to transfer the operation of the business to capable new owners before the business closes.

Innovative Financing Mechanisms for New or Aspiring Businesses

This study found a pervasive problem in obtaining both debt and equity financing for new ventures. Local lenders are reluctant to supply funds to new enterprises because they perceive as high risk loans. Improved access to technical assistance in developing a business plan and making key financial management decisions could aid some potential entrepreneurs in gaining approval of their loans. Community development practitioners could help rural communities establish financial mechanisms such as revolving loan pools, cooperative financing, limited partnerships, and others.

Planning for the Future

Perhaps the most important single lesson from the interviews with community leaders is the need for both individual businesses and communities to adopt a strategic approach in planning their future. This approach anticipates the future and reflects a readiness to make the most of opportunities arising from change as well as acts to forestall potential threats. Assisting the community in a strategic planning process may be the most significant contribution a community development practitioner can make in small rural communities.