Western Montana Independent Grocers

Report on the Opportunities and Challenges for the Long-term Success of Community Businesses

<u>Mission Mountain Food Enterprise Center</u>
a division of
Lake County Community Development
Ronan, MT

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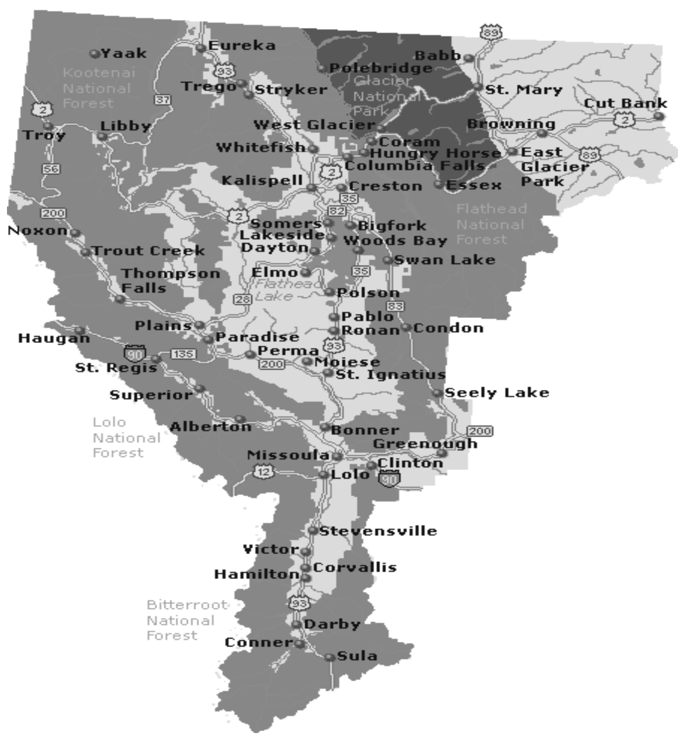
Introduction

This report highlights the results of a western Montana independent grocer survey conducted from December 2010 to February 2011. The survey was modeled after the Kansas State Rural Grocery Store Initiative survey.[1] The survey was conducted by Lake County Community Development Corporation's Mission Mountain Food Enterprise Center (MMFEC), located in Ronan, Montana (see appendix 1 for the western Montana survey questions).

MMFEC obtained a list of western Montana grocery stores from Portland Energy Conservation Inc's Energy Smart Grocer Program. The defining characteristics of the grocery stores on the list are that they are all independently owned and geographically located in western Montana. The researcher added additional grocers to the list based on knowledge of the region. The final list used for this survey consisted of 46 independent[2] grocers in western Montana (Figure 1).

Figure 1

Region Surveyed



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[1] K-State (2010). Rural Grocery Store Survey. Retrieved on October 2010 from http://www.ruralgrocery.org/survey.

[2] Independent is used here to mean the buyer is located in Montana and has independent purchasing authority (i.e. not reliant on corporate purchasing agents).

Methods
The researcher attempted to contact all 46 grocery store managers and/or owners by phone and asked if they would participate in the survey. The protocol was to attempt to contact the store owner/managers three times before discontinuing contact. Upon successful contact and an affirmative response to be surveyed, surveys were conducted immediately or an interview time was scheduled. In addition, if managers and/or owners requested to receive the survey by mail the option was made available. A total of 46 grocers were contacted for the survey. Six declined to participate and 12 did not return phone calls. Twenty eight independent and rural grocery store owners completed the phone interviews for a response rate of 61%. The survey results are from the participating 28 independent and rural grocery store owners and managers in the communities of Eureka, Whitefish, Columbia Falls, Kalispell, Polson, Hot Springs, East Glacier, Thompson Falls, Plains, Charlo, Ronan, St. Ignatius, Arlee, Missoula, Lolo, Florence, Stevensville, Corvallis, Victor, Hamilton and Connor.

Survey Purpose
The purpose of the survey was to:

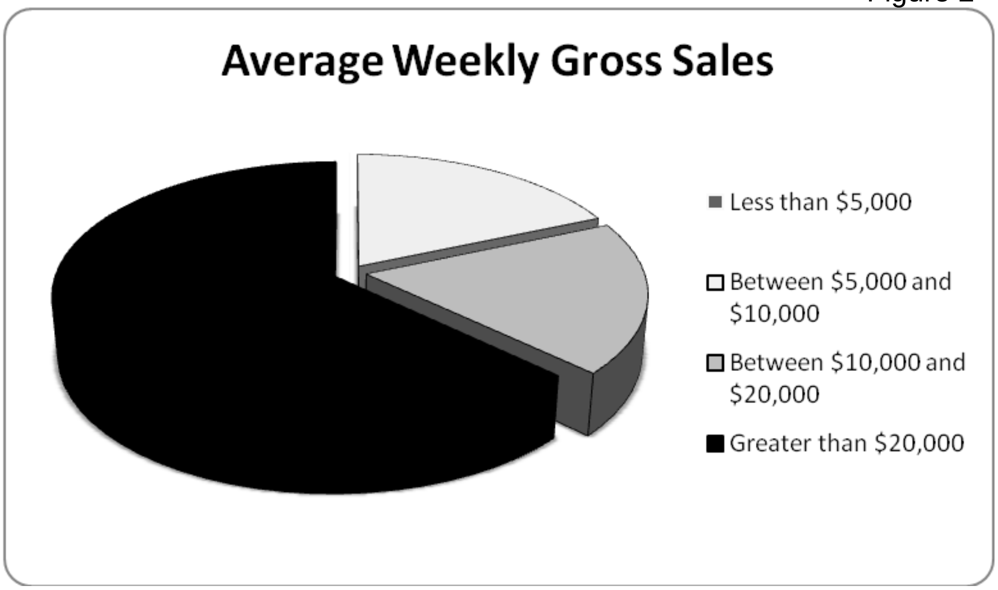
1. Inventory the range of challenges faced by rural grocery stores,
2. Inventory the variety of market and supply environments faced by rural grocers,
3. Identify the current marketing practices of rural grocers,
4. Inventory best practices used by rural grocers,
5. Identify networking opportunities to build capacities to address challenges.

About the Grocers

Demographics of Respondents and their Stores
The respondents in the survey have been in the grocery business for an average of 20 years and the stores they represent have been in existence for an average of 33 years. Approximately 71% of the respondents have only one store location. Nearly 93% of the stores operate in a location near other grocery stores. The average distance to a large supermarket chain store (i.e. Safeway and WalMart) is 26 miles with a range of 90 miles to less than .5 miles. The stores employ a total of 1,051 people, 469 full time and 515 part-time employees.

Weekly Sales
Approximately 59% of the stores reported weekly sales greater than $20,000; 17% reported weekly sales of $10,000-$20,000, and 17% reported weekly sales of $5,000-$10,000 (Figure 2).

Figure 2



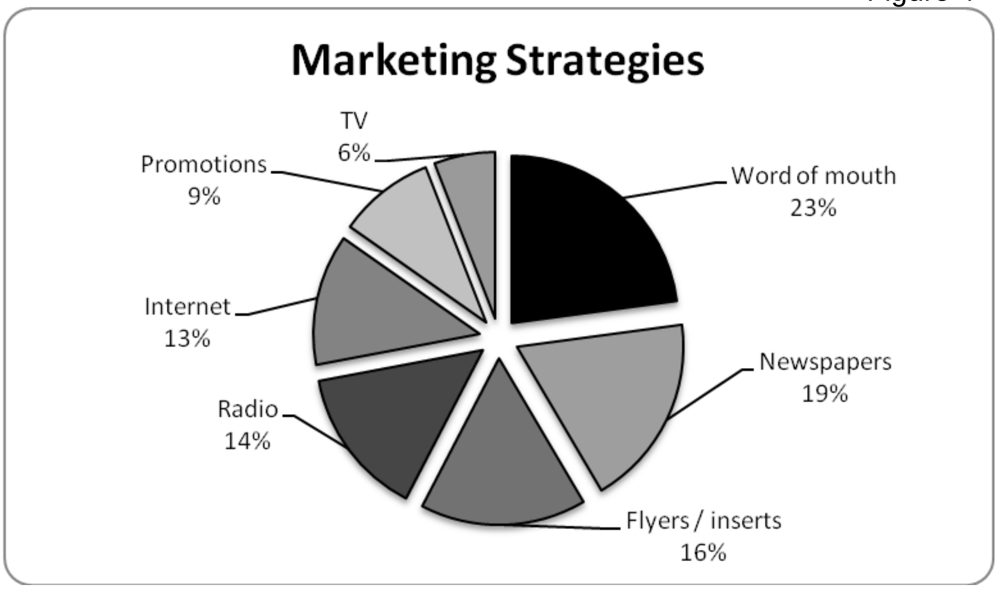
Products
All of the grocers offer groceries and nearly all of the grocers offer a pre-packaged snack (Figure 3).

Figure 3

Suppliers
United Retail Merchants is the primary supplier for about 52% of the stores in this survey. Associated Foods was the second most common supplier.

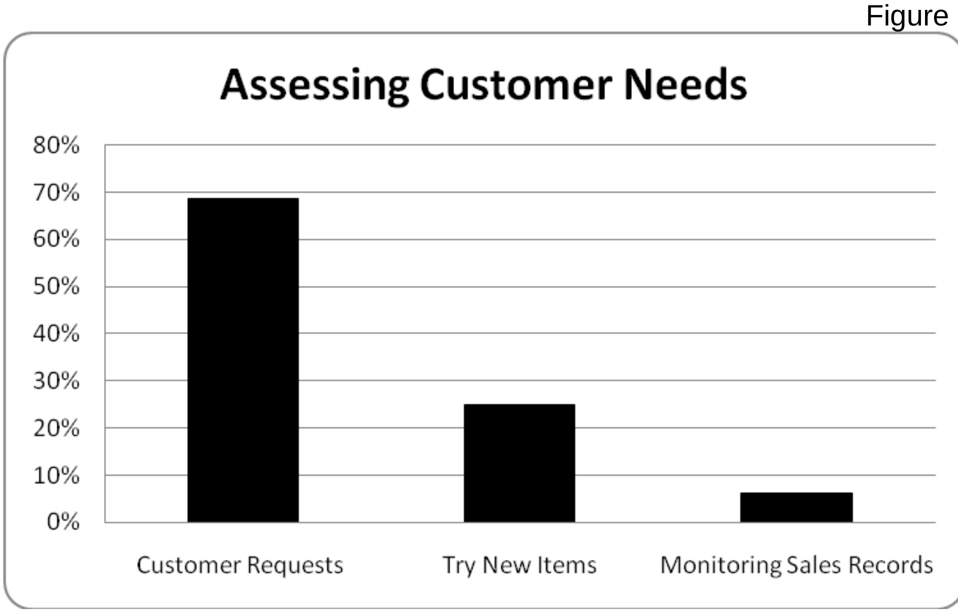
Marketing Strategies and Assessing Customer Needs
Respondents were asked what marketing tools they use to draw in customers (Figure 4).

Figure 4



The primary marketing method for the respondents is word of mouth. In a follow up question respondents were asked how they assess what products to offer to their customers. Overwhelmingly, respondents identified customer requests either through casual conversations or more formal surveys and request forms as the primary methods to identify items to offer in their stores (Figure 5). The marketing strategies and product selection appear to be customer centered.

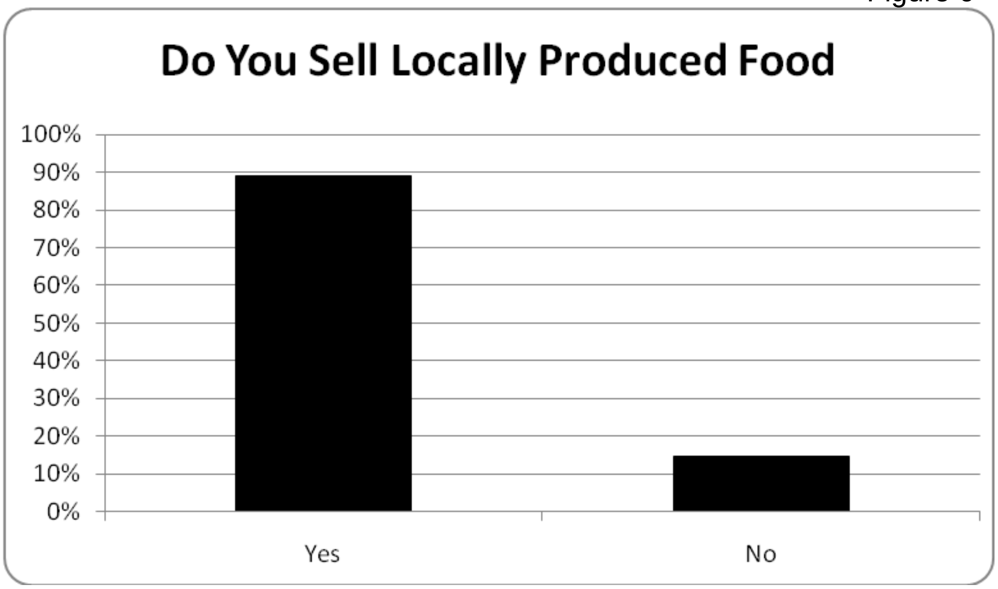
Figure 5



Local Food Sales

Approximately 89% of the grocers reported selling locally produced food (Figure 6). Local food sales include squash, potatoes, corn, lettuce, apples, bison, yak, elk, beef, eggs, milk, cheese, spices, sauces, flour, grains, beer, honey, jam, bread, and gluten free products. Of the stores who feature local food all said they sell/have more produce in the summer.

Figure 6



Stores that feature local food identified purchasing through *farm direct relationships* as well as through the Western Montana Growers Cooperative, a producer owned cooperative.

Store owners expressed a desire to feature *more* and *broader selection* of local foods. Some responses included:

- "Interested in featuring more local foods if they were able to be delivered."
- "I'm very interested in featuring local foods. Farm and dairy especially."
- As much local as possible of produce, breads, meat, and eggs, whatever is made in the valley. "We are a nation that has really screwed ourselves - outsourcing to China."

Price and *availability* were expressed concerns of the 15% of grocers who reported that they do not sell locally produced food.

- "People think roadside stands are cheaper. We can't compete with roadside stands even if we sell for the same or cheaper."
- "None available."
- There are no large producing farms in the area. We have no local produce. Only eggs."

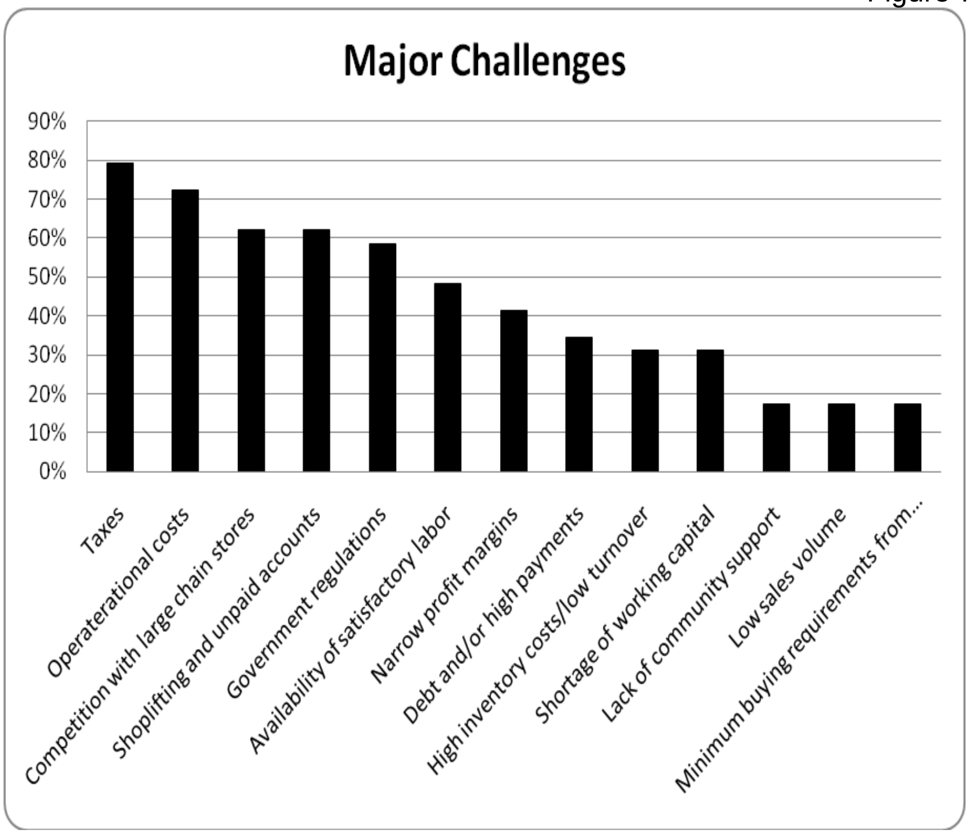
Food safety regulations also emerged as concerns for both the stores currently carrying local food as well as those who do not sell local food:

- “Produce in the summer if it's product liability certified.”
- “We can get local eggs but standards keep them from being allowed in the store.”

Challenges and Values

The biggest common challenges facing independent grocers in this survey are taxes, operating costs, competition with chain stores, and theft or unpaid debts (Figure 7).

Figure 7



Respondents were asked to elaborate on the challenges they face in store operations. . Responses included the lack of skilled and/or reliable labor, competition, high utilities and taxes, accessing additional capital, rising workmen’s compensation and insurance rates, regulatory requirements, and shoplifting. The following are a selection of responses:

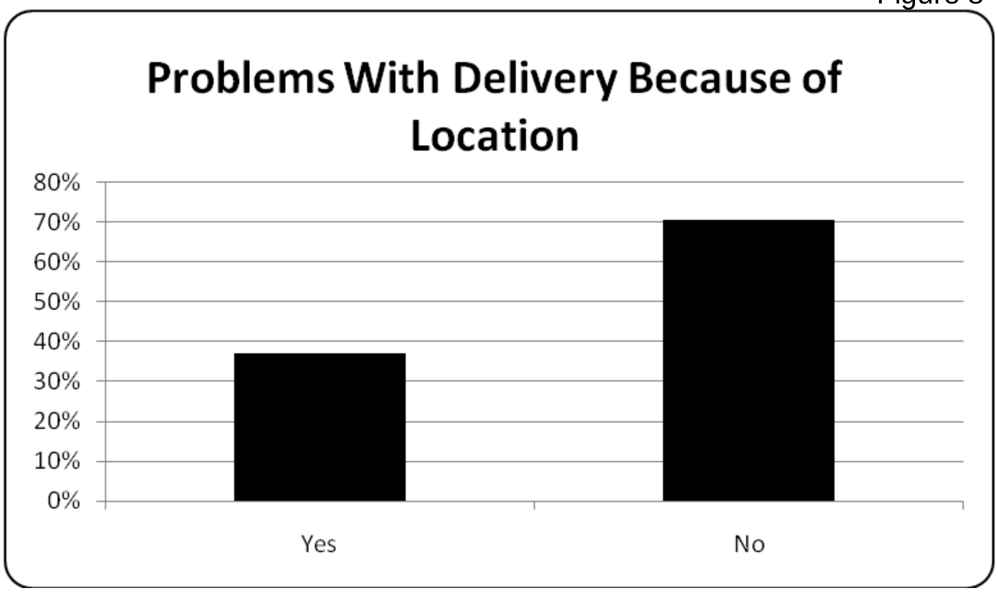
- “Finding quality workers who are good to the customers is a significant challenge. We are a small area, with a limited job pool and working capital.”
- “Satisfactory labor: It is a hard job but it is not a living wage.”
- “The electric bill. Utilities.”

- "Current property taxes are $8,000/year."
- "The biggest challenge is to encourage folks to shop locally."
- "Getting additional capital. We need to upgrade our gas pumps and can't afford it."
- "Unemployment tax quadrupled in 1 year. Worker's compensation increased 35%. These expenses take money from everything else."
- "Government regulations. We pay the same money to have a liquor license as Costco."

Delivery Services

Approximately 37% of the grocers surveyed said they have problems with getting products delivered because of location (Figure 8).

Figure 8



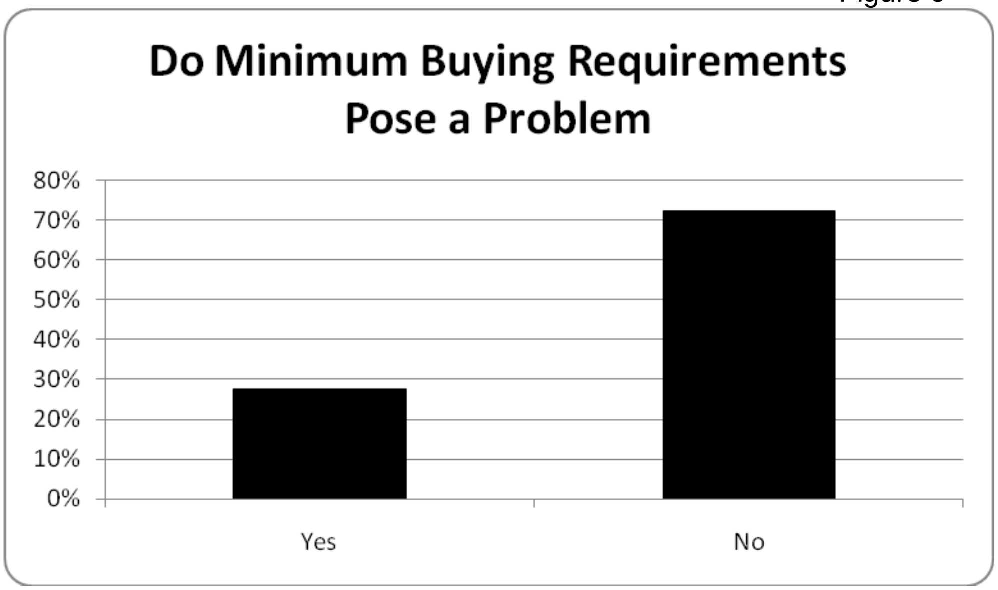
Some of the respondents' concerns included:

- "Small town. Sometimes a produce company wouldn't deliver to my door and they'd ask me to go to Super 1 to pick up my order. But I made them deliver and now they do."
- "Absolutely, every week. We get 2 deliveries a week. It's hard to get an item back quickly. It's all based on mileage and weight. It is more difficult to get an item back in quickly."
- "Some of the manufacturers don't feel they need to come up here."
- "Weather driven."
- "We're just off the beaten path. We used to have to drive to Missoula to pick up orders. It's getting better now though."

Minimum Purchasing Requirements

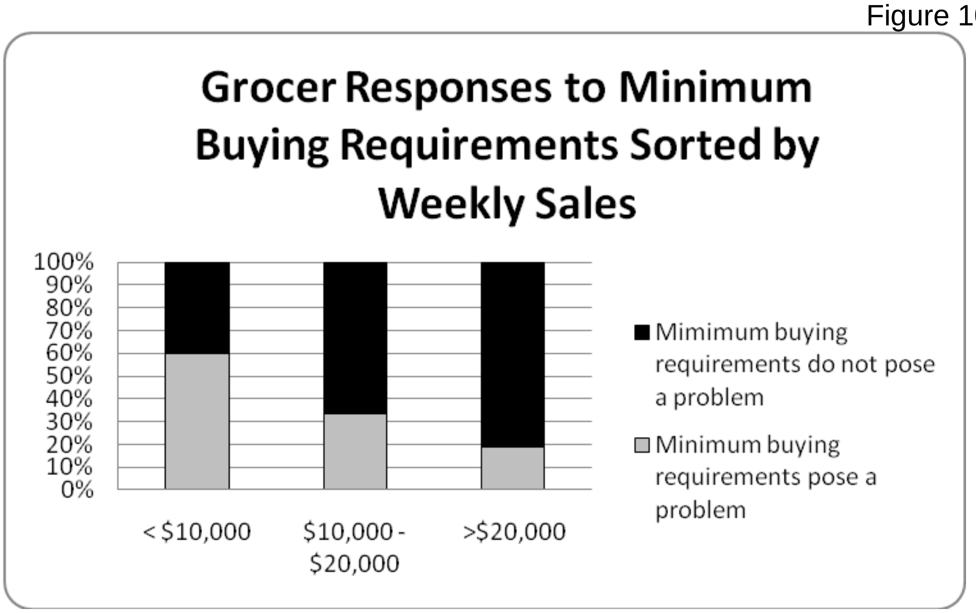
Approximately 28% of grocers said minimum buying requirements from suppliers pose a problem (Figure 9).

Figure 9



In order to understand if there was a correlation between sales volume and the challenges of minimum buying requirements, grocer responses were sorted by sales volume. The survey results show that as sales volume decreases the prevalence of barriers associated with minimum buying requirements increases (Figure 10).

Figure 10



Store owners who identified minimum buying requirements as posing a problem offered the following explanations for their concerns:

- "It is because of our size. We are too small to meet minimums. You either buy too much or have to hold off."
- "When you only need one thing and you have to do a $100.00 order."
- "We address the issues and don't do business with minimum requirement vendors."
- "During winter, volume of sales drops."

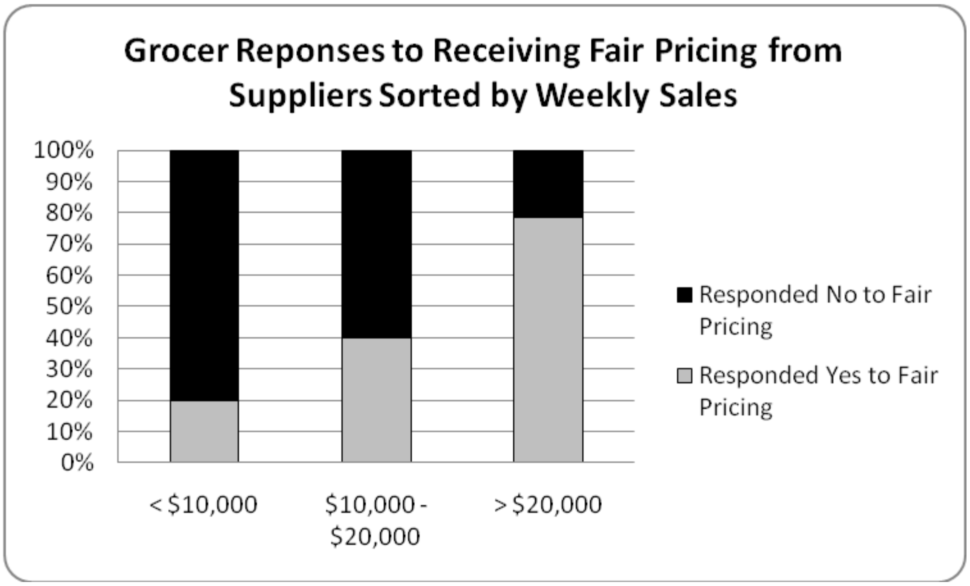
Fair Pricing from Suppliers

Approximately 52% of grocers surveyed feel they are getting fair pricing from suppliers in comparison to chain stores (Figure 11).

Figure 11

In order to understand if there was a correlation between sales volume and fair pricing, grocer responses were sorted by sales volume category. The sample reveals that the majority of stores representing the $20,000 sales volume reported receiving fair pricing from suppliers while stores in the $20,000 and under categories did not believe they receive fair pricing (Figure 12).

Figure 12



The comments concerning fair pricing confirm that purchasing volume is a critical barrier faced by low weekly sales volume grocery stores:

- “It's not about fairness-but a volume issue. It's a competition issue with larger corporations who set the standard. But we do get fair pricing from URM.”
- “I am only one so I cannot compete with chain stores.”
- “We don’t get the discounts of the bigger stores because of the quantity.”
- “We need to purchase larger quantities to get discounts. Due to volume, it can’t be done.”
- “It is a big challenge. Not sure what others pay. It's volume issue because of our size.”
- “Large companies like Coke and Pepsi give good deals to chain stores. It would be good to change regulations and do buying power.”
- “We don't have minimums. We can't get as good of pricing as WalMart or Costco.”
- “We have only one store, no volume buys.”
- “It is a room and space issue.”
- “It just drives small stores down.”

Strategies for Success

Respondents were asked to rank factors they consider when operating their store. Respondents ranked quality of food, customer service and availability of food as the most important factors (Figure 13).

Figure 13

Respondents were asked to evaluate how their store performs at delivering services to their customers (Figure 14). Quality of food, customer service and availability of food were the main areas of strength.

Figure 14

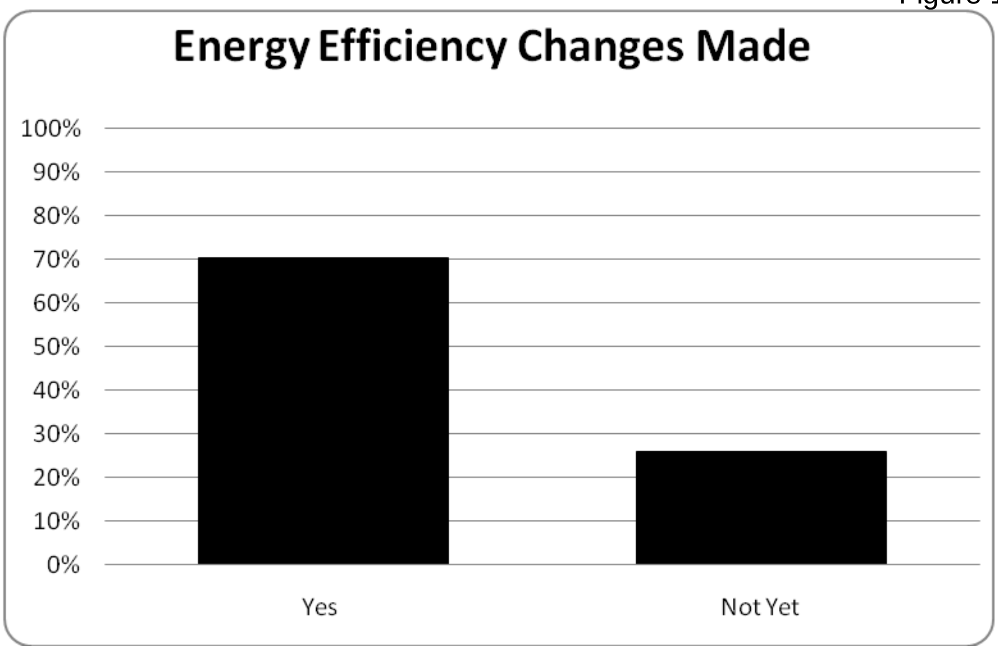
Ideas and Solutions

Operational costs prove to be significant challenges for independent grocers in this survey. In order to address rising costs store managers and owners shared strategies they currently employ and could develop to reduce marketing, distribution and energy costs.

Energy Saving Upgrades

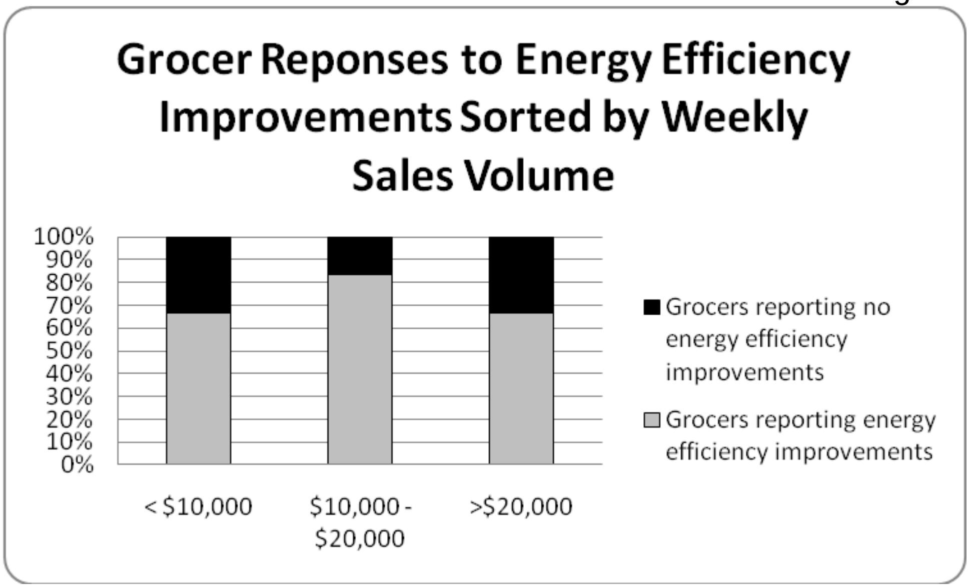
Approximately 70% of respondents reported making energy efficiency changes to reduce operational costs (Figure 15).

Figure 15



In relating sales volume to energy efficiency improvements, results show no direct correlation to weekly sales. Responses show that stores across all the sales categories pursued energy efficiency improvements to reduce their operating costs (Figure 16).

Figure 16



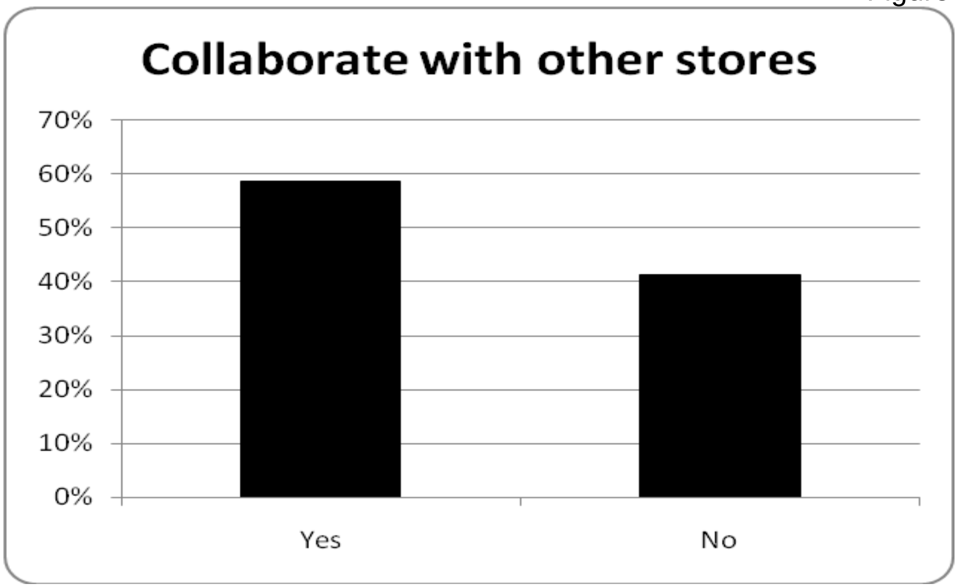
Grocers who have made energy efficient changes expressed support and enthusiasm for programs and rebates available to those who have chosen to take action in energy savings. For those who have not made energy efficiency improvements, the majority expressed an interest in doing so and some were actively looking into taking the first steps. Energy efficiency improvements consisted of installation of energy efficient lighting in the store and cooler / freezer units, auto closers for walk-in freezers, CFL's for walk-in coolers and freezers, gaskets for cooler doors, new evaporation motors, new energy efficient compressor units, and upgraded insulation R-value. A number of respondents reported receiving cost share and technical assistance for the energy improvements through their local energy cooperative and Northwestern Energy.[3] One respondent commented, "We recycle everything."

[3] Portland Energy Conservation Inc, http://www.peci.org, is delivering a technical assistance and cost share program to grocers in western Montana and the greater northwest. Contact PECI's Montana Field Representative, Lagan Todd, ltodd@peci.org or (406) 210-5062, to learn more about the Energy Smart Grocer Program

Collaboration

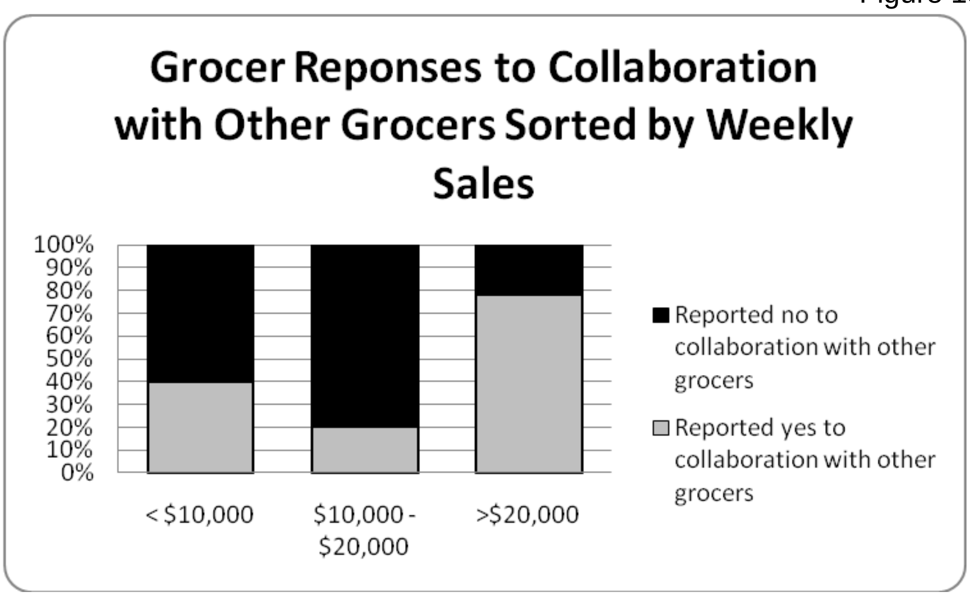
Approximately 59% of respondents reported collaborating with other independently owned stores (Figure 17).

Figure 17



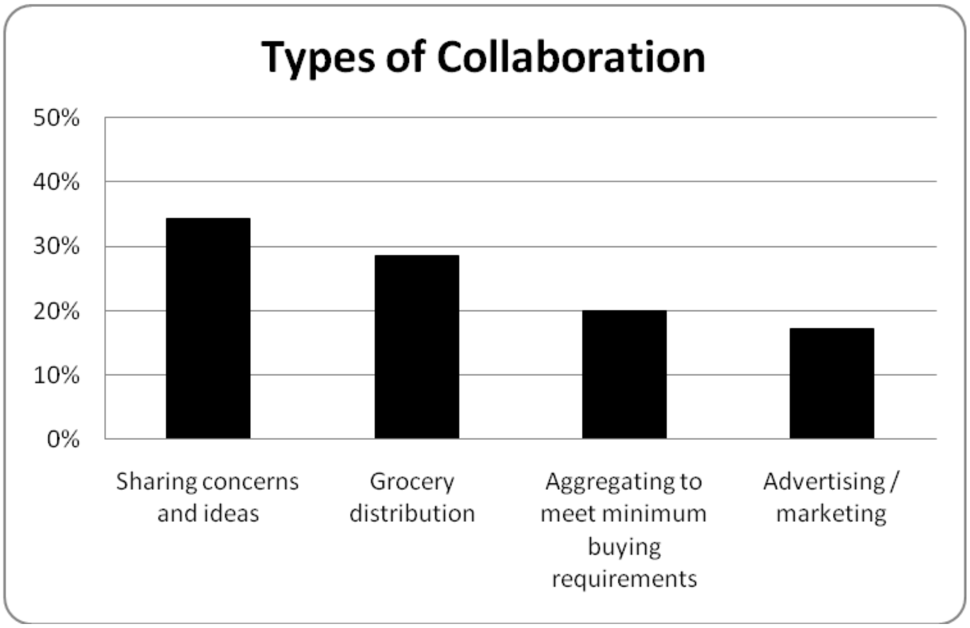
In order to understand if there was a correlation between sales volume and collaboration, stores responses were sorted by sales volume category. Stores in the >$20,000 weekly sales category collaborate with other stores far more often than stores that reported <$20,000 in weekly sales (Figure 18).

Figure 18



The following are types of collaborative efforts that respondents identified. They are ranked in order of response (Figure 19).

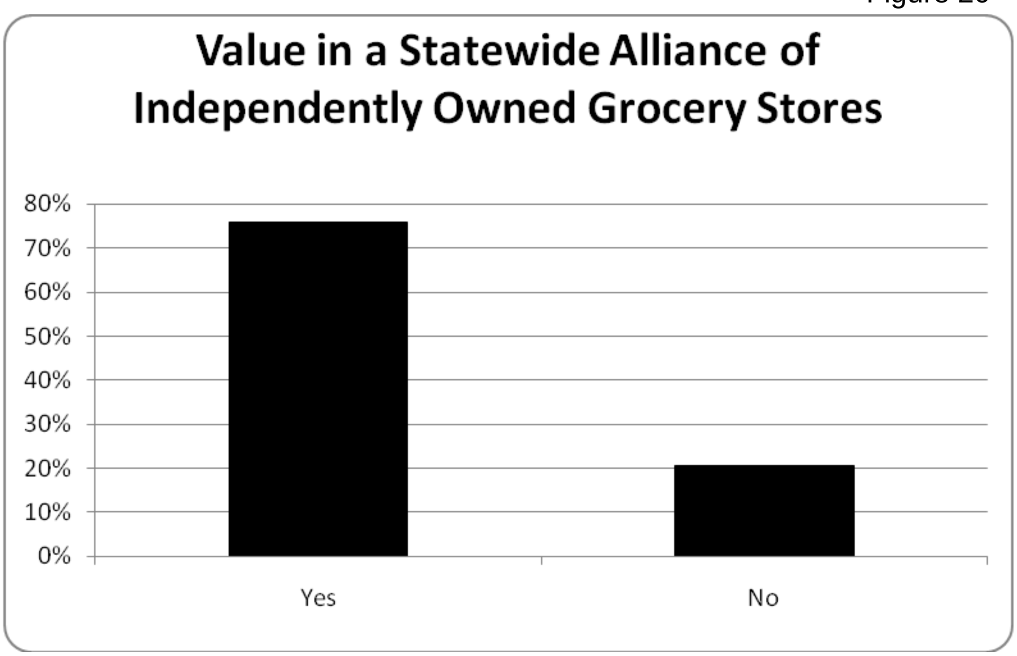
Figure 19



Potential Alliance

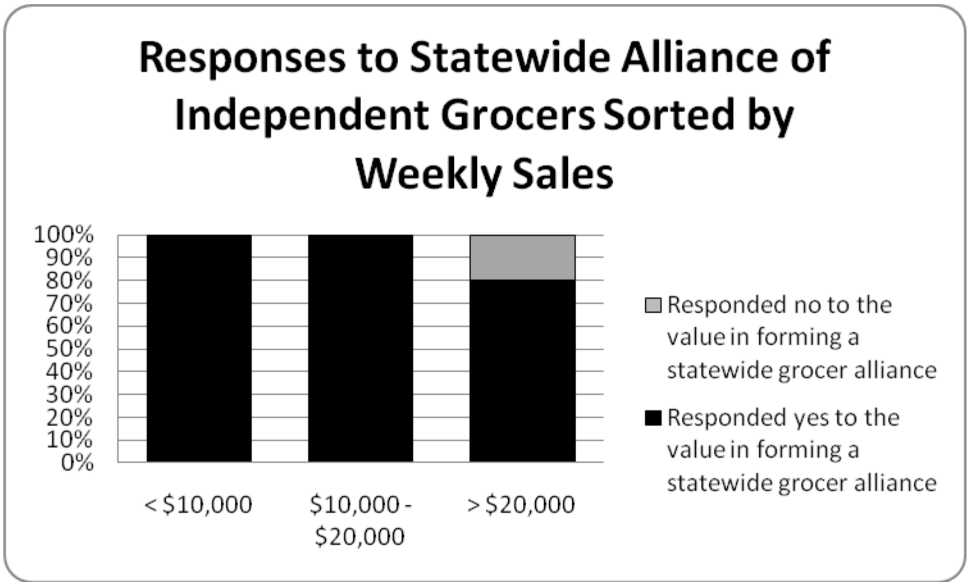
Approximately 76% (23 out of 28) of the respondents stated that a statewide alliance of independently owned grocery stores would be beneficial (Figure 20).

Figure 20



In relating weekly sales to the interest in creating a statewide grocer alliance, the only grocers who answered no were those reporting >$20,000 weekly sales. All of the grocers who reported sales <$20,000 expressed positive interest in a statewide grocer alliance (Figure 21).

Figure 21



Grocers shared ideas and suggestions about the value of a statewide alliance of independently owned grocery stores. Statements ranged from cost buying power for merchandise, health insurance and workmen's compensation, a formalized structure to share ideas and a collective voice to lobby the state legislature. The following are a collection of responses from respondents in support of a statewide alliance:

- "Cost-buying power."
- "Cooperative buying with other likeminded businesses and linking with other health food stores."
- "We could pool our resources for unemployment insurance."
- "We could create a purchasing group together."
- "Montana Food Distributors Association: health insurance, workmen's comp. Distribution purposes."
- "Volume deals for ordering. Regional Help. Sharing information on products. For example, top 5 best selling chocolates, snacks, bulk items."

- “It would give us an opportunity to share ideas. It helps to know others are having the same problems.”
- “Getting us all on the same page. There’s a lot we could learn together. Creating a purchasing group could be beneficial.”
- “It could bring the cost down for ordering and get better deals.”
- “Collaborate and brainstorm for improving the workforce.”
- “Lobby: if everyone is on the same page.”

Summary

The Western Montana independent grocer survey presents a snapshot of the challenges, strengths and opportunities facing rural independent grocers in western Montana. A core theme throughout the survey appears to be relationships with customers and with other grocers. Respondents appear to de-emphasize the price of food as a foundational business practice. Instead, the survey respondents emphasize freshness, customer service and availability of food as the important business practices they strive for. Grocers rely on a full toolbox of marketing strategies but maintaining a good relationship with returning customers seems to be number one.

Grocers are addressing their operational costs through improved energy efficiency as well as cooperative purchasing. Collaboration between stores primarily occurs between grocers with weekly sales greater than $20,000. Yet, 100% of the grocers reporting weekly sales < $20,000 expressed a value in a statewide grocer alliance. Grocers identified a statewide independent grocer alliance as a potential business group that could organize grocers to lower workmen’s compensation, health insurance and purchasing and distribution costs through collective power. In addition, the collaborative network could act as a vehicle to stimulate new ideas to address business challenges.

Nearly all of the respondents reported selling local food although how much volume, from what distributors and producers and in what frequency is beyond the scope of this survey. Local food purchasing can be improved through connecting grocers to distributors and producers, ensuring producers meet regulatory requirements and educating grocers on what regulatory requirements are being met by local producers. Local food could be a point of differentiation for independent grocers from chain stores, and it appears from survey responses that grocers would like to purchase more locally grown food. What this survey does not answer is if the customers value local food and would they support and / or ask for more local food. The customer perspective is an area requiring further research. A customer survey could serve to develop a clearer understanding of the buyers' perceptions of prices, availability and quality of products at small grocers in comparison to supermarkets. It could also identify educational opportunities to better inform rural residents as to the economic and social importance of rural, independent grocers to the greater community.

Next Steps:

Several next steps opportunities arose to the surface as a result of the survey:

1. Further research could be conducted on the consumer perception and knowledge about their community grocers as well as their shopping habits in order to inform grocer marketing and business decisions.
2. Grocers could be convened to share best practices as well as generate potential collaborative opportunities in the creation of a statewide independent grocers alliance.
3. Networking opportunities between grocers and local / regional producers could be convened to open new and/or expand market opportunities for small and mid-scale Montana producers.

Appendix 1

Survey Instrument

1. What major products and services does your store offer? *Check all that apply.*

____ ATM/ Bank

____ books/cards/gifts

____ café/restaurant

____ catering

____ delicatessen

____ fuel

____ groceries

____ hunting/fishing/camping supplies

____ institutional supply (school, hospital)

____ pharmacy

____ photo development

____ pre-packaged snacks

____ self-serve snacks/drinks

____ video rental

____ other (specify) ____

2. Who is/are your primary grocery supplier(s)?

____

3. What products do your secondary suppliers supply?

____

4. Do minimum (purchasing/ordering) buying requirements create a problem for your grocery store?

____ yes ____ no

If yes, how?

5. If minimum buying requirements are a problem, what solutions might you suggest?

6. As an independent grocer, do you feel you are getting fair pricing from your suppliers compared to chain stores?

_____ yes _____ no

Comments:

7. Have you had problems getting products delivered because of your location?

_____ yes _____ no

Comments:

8. Do you sell locally produced food in your store?

_____ yes _____ no

If yes, what products?

9. Which of the following are major challenges for your store? *Check all that apply.*

____ availability of satisfactory labor

____ competition with large chain grocery stores

____ debt and/or high payments

____ government regulations

____ high inventory costs/ low turnover

____ shortage of working capital

____ high operating costs (utilities, building lease, repairs/maintenance, etc)

____ lack of community support

____ low sales volume

____ narrow profit margins

____ required minimum buying requirements from vendors

____ shoplifting/bad checks/internal theft/unpaid accounts

____ taxes

____ other (specify) ________________________

Which of the above do you feel is the most significant for you and your store?

____

10. Do you collaborate with other small independently owned stores?

____ yes ____ no

If yes, for which purposes? *Check all that apply.*

____ cooperative advertising/marketing

____ grocery distribution purposes

____ sharing concerns and/or ideas

____ to achieve minimum buying requirements

____ other ____

If no, would you be interested in doing this?

____ yes ____ no

Why or why not?

11. Do you feel that a statewide alliance of small, independently owned grocery store owners may have value?

____ yes ____ no

If yes, how could it help?

12. What marketing strategies have you used in your grocery stores that have been effective in drawing in customers?

Advertising

Newspapers _____

Radio _____

TV _____

Flyers/inserts _____

Internet/WWW _____

Promotions _____

Word of mouth _____

OTHER: Please identify____

How does your store do at providing the following to customers? Rate your store by circling the number that best fits your response.

	Not Very Well				Very Well
1. Quality of food	1	2	3	4	5
Comments:					
2. Availability of food (variety, brand choices)	1	2	3	4	5
Comments:					
3. Prices of items offered	1	2	3	4	5
Comments:					
4. Customer service	1	2	3	4	5
Comments:					
5. Business hours	1	2	3	4	5
Comments:					
6. Buying locally.	1	2	3	4	5
Comments:					

When running a grocery store, how important is it to you to offer each of the following? Rate the importance of each by circling the number that best fits your response.

	Not Very Important				Very Important
1. Quality of food	1	2	3	4	5
Comments:					
2. Availability of food (variety, brand choices)	1	2	3	4	5
Comments:					
3. Prices of items offered	1	2	3	4	5
Comments:					
4. Customer service	1	2	3	4	5
Comments:					
5. Business hours	1	2	3	4	5
Comments:					
6. Buying locally.	1	2	3	4	5
Comments:					

Which of the above do you feel is the most significant for you and your store?

____

Which of the above do you feel is the most significant for you and your store?

____

How do you assess the buying needs of your customer?

Is your stocking of products responsive to customer requests?

What other concerns or comments do you have?

Tell us about your store:

How long have you been in the grocery business as an owner? __________

How long has there been a grocery store at your current location? __________

Do you have more than one location? _____ How many? _____

What are your hours of operation?

Mon _____ to _____

Tues _____ to _____

Wed _____ to _____

Thur _____ to _____

Fri _____ to _____

Sat _____ to _____

Sun _____ to _____

Are you open on the major holidays (Christmas, New Years, Thanksgiving, etc.)? _____

Are there other grocery outlets in your community?

_____ a 'quick shop'

_____ another full service grocery

How far is it to the nearest discount grocery (Wal-Mart, etc?) _____

How many employees do you have, not counting yourself?

_____full-time (40 hrs/week minimum) _____ part-time (less than 40hrs/week)

What are your average weekly gross sales?

_____Less than $5,000

_____Between $5,000 and $10,000

_____Between $10,000 and $20,000

_____Greater than $20,000