

CONSIDERATIONS IN LOCATING AN
INDEPENDENT SUPER MARKET AND THE
SOURCES OF CAPITAL AVAILABLE FOR THE
INDEPENDENT OPERATOR

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David R. Shelby

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CONSIDERATIONS IN LOCATING AN INDEPENDENT
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by

David R. Shelby

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CHAPTER I

INTRODUCTION

Purpose

The purpose of this study is to present some methods and procedures the independent operator can follow in locating and financing a super market. This thesis also provides some sources of information which offer data and help in locating and financing the operator's new market.

In the site analysis section of the study, the general procedure of determining the trading area, the site within the area, population characteristics, area buying power, competitor's volume, and prospective operator's volume have been explained with various methods of determining each factor.

The purpose of this study is not to describe the one ideal procedure which should be used by the independent operators when selecting a location, but rather to set forth a general procedure which may be altered to fit individual needs.

The section on finance in this thesis presents the sources from which the independent operator may secure capital for the new store. This section also provides some suggestions to the independent on how to approach and secure capital through these financial sources.

Need for the Study

There is a need for the independent operator to have procedures and methods to follow in locating a super market. He must perform studies to determine a satisfactory location for his market. Being able to select a good store site is vital to the existence of the independent operator, because he cannot afford the "trial and error" method.

Financing the new market is a prevailing problem with the independent operator and there is a need to discover the capital sources and furnish the independent with the necessary financial assistance.

Sources of Data

The data for this thesis was secured through personal interviews with executives of wholesale and retail food distributors. To this information has been added secondary data from periodicals, personal correspondences, theses, speeches, convention proceedings, government bulletins, and textbooks.

Limitations

The dynamic nature of the food business makes it impossible to present one ideal procedure in locating a super market, for every situation is different in some ways. The scope of the study covers some suggested sources where the independent can secure capital for the financing of his location and also offers some suggestions in securing this capital.

CHAPTER II

PRELIMINARY CONSIDERATIONS

Selecting the Town

Generally, large companies use maps with the trading areas delineated on them and indicate their stores with pins. This makes it easy to ascertain how well the company is represented in various areas; it also shows prospective areas for store location where the company is not represented. The head of the real estate department calls upon his field real estate men to supply him with details on territory being considered for new store location. Any additional data is compiled in the central offices.

The average small independent is rarely in a position to choose a town on the same basis the large company does. He has neither the staff nor the capital to study the merits of possible new store locations. He usually does the natural thing, that is seek a location in his home town where he is known and liked and where he is an active participant in church, civic, and social affairs. Climate and health factors can play a vital role in the choice of a town.

The small operator, in contemplating the location of a store, may feel there is little purpose to making a thorough evaluation of the town and its characteristics;

nevertheless, he should evaluate the town to the best of his ability and limited resources before deciding to open a store. Valuable assistance is available to the small operator who wishes to make a scientific selection of a town in which to locate but who cannot afford the expense of having a complete analysis made. Wholesalers and manufacturer-wholesalers offer assistance in advising the small operator on store location.

This assistance varies, from advice given in the office of one of the executives, to carefully prepared printed location aids and forms on which to record factual information. Such material is then oriented and analyzed by a consultant who works closely with the prospective retailer until a final selection of the site is made.¹

Some assistance is free, but there is a charge for the most complete service.

Competition

The amount and quality of competition is one of the most important factors to consider in selecting a town. It may be unwise to locate in a section when too many good super markets are located there. Conditions may be favorable for a new store if the present stores are not fully meeting the needs of the people. Very few large chains stay out of town because of competition if they can get the right

¹Helen G. Canoyer, Selecting a Store Location, Market Division, Office of Domestic Commerce, Economic Services No. 56 (Washington, D. C.: U. S. Department of Commerce, 1946), p. 3.

location at the right price, but they will study the competition they are to meet.

The competition, the number of retailers in the super market business, and their actual or estimated sales, must be evaluated. In examining the extent of competition, consideration must be given to other types of retail business which handle some of the super market line. For example, if the super market operator plans to include a health and beauty aids display in his establishment, he should consider the competition from variety stores, drug stores, department stores, et cetera. All of these take a portion of the health and beauty aid business. Delicatessen shops, fruit stands, dairy stores, meat and fish stores, and others compete for that consumer food dollar and rate some consideration from the operator in locating a prospective super market.

Even though there may be a sufficient number of super markets in a community, a new outlet may be located there, planning to attract trade from the stores already situated in the community.

The best way to obtain information about the competition is to visit the competing stores.

Population

The size of a city in terms of population is important in choosing a store location and federal census figures covering population can furnish answers to the population

question. There are certain facts regarding population that should be examined carefully. What is the population trend? Is it increasing or decreasing? What proportion of the population of the trading area shops in the community and what is the population of the trading area? What transportation facilities lead into the community? What is the proximity to the nearest large town? Are there any topographical conditions that might influence customer traffic to and from the community? What is the nature of the population? What nationalities are represented? What is the leading religion? Is the community residential or industrial? The small business operator may be interested in a breakdown of the population by race, age, occupation, and income. This could have a bearing on the sales volume.²

Answers to these questions will inform the small businessman on the possible trends of population and the general characteristics of the prospective customers. The answers may be found in source material, such as the official census publication, chamber of commerce or board of trade, and independent observation and study.

Other Important Factors

Questions in addition to those concerning population and competition must be asked and answered before choosing

²Preston Robinson and Norris B. Brisco, Store Organization and Operation (New York: Prentice-Hall Book Company, 1950).

the proper town. They are:

1. Is the town predominantly industrial, agricultural or commercial?
2. If industrial, is it old and well-established or recent and uncertain?
3. Is the predominant activity of the town seasonal or continuous?
4. Is the town wealthy, well-to-do, moderately well-off, or poor?
5. Are civic associations in the town aggressive, moderately active, or inactive?
6. Is there good town spirit; that is, do the residents cooperate on civic projects?
7. Is it a good town to live in with regard to climate, schools, churches, banks, stores, amusements, et cetera?
8. How large a trading area does the town have?³

The presence of some business clubs, whether business bureau or a retail merchants' association, is an indication of a live, energetic, optimistic, aggressive community. These groups may contribute business information.

³Establishing and Operating Your Own Business, Department of Commerce, Series No. 22 (Washington, D. C.: Department of Commerce, 1950), p. 14.

CHAPTER III

RETAIL TRADING AREA

Determining the Trading Area

There are differences of opinion as to just what is implied by the term "retail trading area." In general, it refers to a geographical area from whence retail patronage is derived. I. V. Find, a professor of business at the University of Wisconsin, suggests that a retail trading area should be "that area from which the community receives approximately ninety per cent of its total retail patronage."⁴

One of the methods of delineating a retail trading area is the Law of Retail Gravitation. This method requires relatively little work and was developed by Dr. William J. Reilly of the University of Texas in 1929. The law states:

Two cities attract retail trade from an intermediate city or town in the vicinity of the breaking point approximately in the direct proportion to the square of the distance from these two cities to the intermediate town.⁵

Even though this law applies primarily to shopping goods,

⁴Isadore V. Fine, Retail Trade Area Analysis, School of Commerce, Bureau of Business Research and Service, University of Wisconsin, Vol. 1, No. 1 (January, 1954), p. 11.

⁵Canoyer, op. cit., p. 9.

it may be used to some advantage for the super market. The mobility of the present day consumer makes shopping trips more frequent and thereby makes food buying a part of many shopping trips. The law considers population and distance, but it fails to consider customer habits, motivations, and other factors with regard to where people trade.

A simplified version of this formula is:

$$\text{The distance from B to the breaking point of the retail trade areas between two cities} = 1 + \frac{\text{Distance of A to B} \cdot \text{Population of A}}{\text{Population of B}}$$

An analysis of the automobile license plates is an important tool in retail trade area delineation. Checking the registration of cars in the parking lots of a trading area enables the retailer to obtain names and addresses of shoppers. Their address can be plotted on a map and the trading area as well as volume of traffic from each section determined. Of course, in using this technique, an adequate sample of registration numbers must be secured to give a representative picture of the community.

The analysis of bank clearance data can aid in determining the trading area for a super market. This method⁶ involves the determination of the geographical distribution of the out-of-town trade of the retail stores of the

⁶Fine, op. cit., p. 15.

community as evidenced by the bank checks received in payment for goods. This method assumes that the check transactions fall into the same geographical pattern as the cash transactions.

Application of this method is simplified if the local bankers will permit access to their transit sheet records of checks cleared on out-of-town banks. These check tabulations are then posted to an area map to permit a delineation of an area. This method only reveals the location of the bank customers and provides only generalized information as to where the customer came from.

The local newspaper circulation may indicate, to some extent, the trading area. This can be used with daily or weekly newspapers. The circulation number may be secured from the publisher and the location of the subscribers are plotted on an area map.

This technique is based on the assumption that the newspaper subscribers will be customers of the community in which the newspaper is printed. There are two weaknesses in this technique. (1) In the large cities, newspapers build up circulation in rural areas and these rural people may trade in an intermediate town. (2) The second weakness arises in the study of the trade area of a county seat. Frequently the publisher builds his circulation around interest in the political news of the county. The newspaper may have heavy circulation in remote areas that do little trading at the county seat.

The retailers in the community should have some knowledge as to where their customers are located. For example, a substantial proportion of the retailers in the community may indicate separately on area maps what they believe to be the trading area for their store. From these maps can be determined the trading area which a majority of the retailers agree upon.

Three boundaries. One method of defining the trading area for any proposed site is to draw three boundaries around each site. The innermost represents five minutes driving time from the proposed site, the next ten minutes, the last fifteen minutes time. Within each of these boundaries, telephone or personal interviews may be conducted--starting with the smallest--to determine the food stores patronized by residents. Such information provides an accurate picture of shopping patterns within each boundary and these, in turn, can be used as a basis for establishing the trading area.⁷

Consumer surveys can play a major role in delineating a trading area. Fine says, "the most accurate and most desirable of the methods of analyzing retail trade areas are

⁷Alderson and Sessions, Cost and Profit Outlook, Marketing and Management Counsel, Philadelphia, Pennsylvania, IX, No. 7 (July, 1956).

the consumer surveys."⁸ These may be personal interviews or mailed questionnaires. These methods are desirable because one is enabled to not only establish the exact outlines of the retail area of the community, but also to determine from the replies why the consumers do not trade in the trading center conducting the survey.

These methods may build goodwill in the community, for the people may realize the business operator is striving to satisfy the customers' needs and desires.

The personal interview method provides higher accuracy and completeness of findings than the mailed questionnaire, but it also is very expensive. In using questionnaires, the form should be brief and simple. The questionnaires may be mailed to newspaper circulation lists, mailing lists chosen from phone books, or other sources.

Interviews conducted within the newly defined trading area are not only of value in checking the realism of the definition, but also may be of value in determining the share of market a new store might expect. This interview need not be lengthy, and several factors besides residence may be extracted from it: dollar amounts spent on food, where food is bought, by what means and how long it takes to get to the store, and whether or not the respondent thinks he

⁸Fine, op. cit., p. 17.

would buy at the proposed super market. It should be kept in mind that opinions based on this last point may be somewhat unreliable; it is almost impossible to draw conclusions from such an opinion unless very definite characteristics of the proposed store are described.

The basic purpose of defining the trading area for each proposed site is so potential food expenditures can be estimated and so the independent businessman can estimate the share of this potential which his new store may expect to obtain.

Rural trade. In a small town where there is much rural trade along with the town customers; the trading area is determined by assuming it extends as far as the rural mail routes. By making this assumption, the prospective operator may investigate the distance and number of households the post office is servicing and include this territory and population count in the trading area.⁹

Aerial photography. "From your seat a few thousand feet up, you can make a good analysis of where the heaviest concentration of population and traffic is,"¹⁰ says Roger

⁹Personal interview, Mr. Swanson, Grand Rapids Wholesale Grocery, Grand Rapids, Michigan.

¹⁰Super Market News, October 8, 1956, p. 37.

Smith, realty manager of Safeway Stores. Aerial photography can play a role in determining the definite characteristics of a trading area. Aerial photography may provide a perspective as to the barriers, rivers, bridges, mountains, cliffs, et cetera. This photography may show the actual dwelling units in an area and the possibilities for further building of dwelling units. Main highway arteries and flow of traffic may be revealed from this advantageous position. Mr. Roger Laverty, Jr., president of Corbin Development Company, real estate subsidiary of Fitzsimmons Stores, Ltd., states, "We can see many obstacles from the air just a few miles away which serve to divert traffic from the site."¹¹ This aerial approach provides a "birdseye" view of the general trading area.

Selecting an Area Within the Town

In selecting an area for a super market, Helen Canoyer lists several factors to consider:

1. Size of the trading area
2. Type of customers
3. Income of the people in the area
4. Parking facilities
5. Amount and quality of competition
6. Population characteristics
7. Local habits and customs of the people
8. Extent to which the area is a trading center.¹²

¹¹Ibid.

¹²Canoyer, op. cit.

After the boundaries of the trading area are determined, the competitors, population, and buying power of the trading area must be evaluated.

Competition. The geographic location of the competitors within the trading area should be known, as well as their individual strength and effectiveness. In discovering the geographic locations, the competitors' locations should be plotted on a trading area map. Such a map can be readily prepared from information usually available in the advertising department of a local newspaper or by a block to block canvass.

The amount and quality of competition are vital in considering a location in a trading area. Information as to the number of stores and volume of sales can often be obtained from the local civic organizations, such as the chamber of commerce, trade associations and business groups, local real estate companies, and market-research agencies. In studying the competition of the area other information, such as foot frontage, number of checkouts, sales area, whether or not they are chains, and other information are pertinent.¹³

Population. When anticipating the location of a super market in a trade area, the size, trend, and

¹³"How to Measure a Trading Area," Chain Store Age, Vol. 27, No. 1 (January, 1951), p. 168.

characteristics of the population come into focus.

Since all people are consumers, the size of a trading area's population provides an indication of the number of potential customers. If the trading area is the community itself, the population may be found in the decennial census. Other approximations of population may be obtained from city government offices, state government offices, chambers of commerce, or Sales Management's Annual Survey of Buying Power.

Another method of determining the number of people living in the area is to make an actual count of occupied dwelling units. Local newspapers, chambers of commerce, and city planning offices may provide aid in determining the number of dwelling units.

The analytical maps and block statistics of the decennial census offer a dwelling count. It can be assumed that there are three and one-half persons per dwelling, and if the family spends on the average of one thousand dollars a year on food, the potential business of an area can be estimated. Block statistics present the opportunity of dealing with any size area. A check with home delivery vendors of bread and milk can give an estimate of the number of family units in the trading area.

There are some urban communities where population data are available and trading areas can be worked out by employing census tracts and checking the trade boundaries.

These tracts usually have a population between three and six thousand. The areas are established with some regard for uniformity in size, in population characteristics and density, and for natural barriers. The population data of the census tracts include sex, age, race, nativity, citizenship, country of birth, highest grade completed in school, employment status, class of workers, and occupation.¹⁴

Included in the information about housing are occupancy status, tenure, value or monthly rent, type of structure, state of repair of plumbing equipment, size of household, persons per room, radio, refrigeration equipment, and type of heating. All of this information is useful when attempting to estimate the potential of a trading area.

It is equally important to ascertain the trend in a city's population. The size of some areas has remained approximately stable over long periods of years, whereas other areas have experienced pronounced increases or declines. Even though an area with a stable or declining population may offer possibilities for a successful store operation, it is preferable to locate a super market in a growing trading area.¹⁵

¹⁴Canoyer, op. cit., p. 34.

¹⁵Christos Lillios, "Super Market Site Selection" (unpublished Master's thesis, Michigan State University, 1953), p. 50.

In observing the population trend of a trading area, it is important to compare the rate of growth of that area with nearby trading areas. Also the Census of Population may be consulted for growth or decline of population. The trend in population can be estimated by the school population, number of electric meters, and the number of homes to which mail is delivered. The telephone company and electric company can aid in determining the population trend.¹⁶

Still another indicator of trading area growth is the amount and nature of construction in progress. The amount of new construction being done is indicated by the value of construction contracts awarded and the number and value of build permits issued. This information is available in the monthly releases on building construction which is published by the Bureau of Labor Statistics for about two thousand towns over twenty-five hundred in population.¹⁷

The reason for community growth should be analyzed. The retailer should know whether there are sound reasons for growth and future expansion or if population growth has been influenced by artificial factors, such as war plants or military installations, which have a questionable duration.

The characteristics vary considerably among trading areas of the same size as well as unequally populated areas. It is possible to obtain information regarding the composition of the population according to sex, age, race,

¹⁶Ibid.

¹⁷Ibid.

religion, educational level, native or foreign born, permanent or temporary status, and other characteristics.

The composition and occupation of the population are important determinants of buying habits of people. For example, foreign-born population will exhibit very different buying habits from native-born population. Some trading areas may have large groups of a particular race and consideration must be given to this group, like the Negro in the South.

The size of the family has a tremendous influence on buying habits of the family. Naturally, larger families consume more food than small families, causing a larger potential food volume.

When the independent proprietor desires to analyze the population characteristics, he needs to know if the people are old or young. The young married people will accept change more readily than older people.

Industrial workers will differ from office workers in their buying habits. A careful study of the size and composition of the population of an area will help the prospective retailer decide such points as: variety of products, price lines, specific commodity lines, merchandise to display, amount of floor space, store atmosphere, and color schemes.

One of the best ways of obtaining a good, general idea of the characteristics of the people is to walk up and down the street, talking to them in stores, banks, and

on street corners, observe their shopping habits at all hours of the day, and investigate their religious and entertainment activities.

Most of the population information can be obtained from the decennial Census of Population, state government offices, bureaus of business research in local universities, or chambers of commerce.

Buying Power of the Trading Area

Markets have often been called "people with money to spend." In studying and analyzing the trading area, it is necessary to evaluate the trading area's total disposable income, the distribution of that income among the population and the sources of income.

Indices for buying power. The total retail sales of a market may be used as an indication of the buying power, since sales vary with buying power. The Census of Business gives actual figures of entire retail sales of every state, county, and town of over 2,500 population in the nation. Annual sales estimates are also provided by Sales Management magazine and biennial data by Standard Rate and Data Service. The total retail sales of an area may be misleading in terms of buying power since people may go into another area to purchase certain types of merchandise.

The better indexes of buying power usually are those that have been determined on the basis of several selected

factors. There are selected indexes which provide a single index of buying power. The International Magazine Company has an index based on thirty-two different factors. Another is by Sales Management magazine and Business Week magazine which publish quarterly the income indexes for twelve regions.

A buying power index is not foolproof, because the demand for a particular product does not necessarily vary directly with buying power, or total retail sales. Different climates and types of population influence the demand for the product; furthermore, the distribution of income may affect the buying, particularly of nonessentials. Two trading areas may have the same buying power; for instance, one area has more people of the high and low income levels and the other is a middle income area. The high-priced goods may sell better in the first area, but the better market may be the middle income area with the uniform income distribution. It is a well-known principle that the more equal the distribution of income among the population, the higher the standard of living and the level of consumption.

There seems to be a close relationship between the amount that a family spends for rent and their income. To find the general rental value of dwellings, the information may be obtained from the census, from realtors, or by looking over rental advertisements in newspapers. Roughly, "it can be assumed that ten per cent of the family income is

spent for housing."¹⁸ In multiplying the rental values by ten, an estimated family-income level is obtained.

Some buying power indexes can be based on the trading area conditions, such as:

- a. The total estimated community income
- b. Number of people employed and approximate wage levels
- c. Major types of employment (industries)
- d. Value of agricultural commodities produced in the area
- e. Natural resources in the area (developed and undeveloped)
- f. The industrial trend (expanding or declining)
- g. Regularity and seasonality of production and employment.¹⁹

Consideration of these conditions will aid in formulating opinions regarding the nature of the income, its stability during adverse conditions and future trends.

In considering income sources, a trading area in which a large proportion of the population is dependent upon a particular industry is less desirable than one in which the income originates from diversified industries. A single industry or an individual company is more apt to be influenced by seasonal or climatic variations.

The prospective super market operator may determine the income level of a trading area by consulting census

¹⁸U. S. Department of Labor, Bureau of Labor Statistics, Family Income, Expenditures and Savings in 1950, Bulletin No. 1097 (Washington, D. C.: Government Printing Office, June, 1953).

¹⁹Robinson and Brisco, op. cit., p. 104.

publications, local newspapers, and market sources. The Consumer Market Data Handbook, published by the United States Department of Commerce, furnishes income data and census tract rent data. This material may aid in estimating the total income of an area.

By determining the income level of a trading area, the small business operator can judge the potential volume of business available. One source of information reveals the above average income level families (above \$5,000) spend \$23.19 a week for food; the average income level families (\$3,000-\$4,999) spend \$20.00 a week for food; and the below average income families (below \$3,000) spend \$13.81 a week for food.²⁰

Thus, this source supported by other surveys conducted by newspapers and government agencies reveals the average weekly expenditure for food is twenty to twenty-five dollars per family. Data, revealing the percentage of income spent by families for commodities, are obtainable from the Bureau of Labor Statistics, United States Department of Labor, and the Bureau of Human Nutrition and Home Economics of the United States Department of Agriculture.

Potential Food Volume of the Area

By estimating the number of families in the various income levels, it is possible to estimate the total food

²⁰Harry Beckner, "Market Research Applied to Food Chains" (unpublished Master's thesis, Michigan State College, 1951), pp. 15-16.

volume of the trading area according to the following method:

1. The number of families times per cent of families in each of the three income groups = the number of families in each income group.
2. Number of families in each income group times dollars spent per family per week by the group for food = total dollars spent per week for each group.
3. Add the total expenditure for each group to obtain the total food expenditure for the area.²¹

Summary

Locating a super market requires a scientific approach to supply the experienced super market operator the facts needed to make store location decisions.

The inexperienced independent operator needs much counseling and advice from helpful wholesalers, manufacturers, and other experienced super market persons in store location.

Three major factors in locating a store are defining the trading area, evaluating the characteristics of the competition, population, buying power, and estimating the prospective operator's volume for the area.

²¹Ibid., p. 91.

CHAPTER IV

CONSIDERATIONS IN SELECTING THE SITE

Introduction

In selecting the site, the prospective operator frequently encounters the problem of whether to locate on the site available or wait for a more advantageous opening later. This is true for the small independent as well as the chain operator. Occasionally an independent operator will establish himself at a mediocre location because he failed to use the scientific approach to site analysis. If the site available does not fulfill the major characteristics for a successful location, the independent should save his money and effort; for one mistake of this nature would have him working for someone else.

When the anticipated super market is situated away from a central shopping district and has no complementary stores nearby, whether or not the market can attract the necessary traffic becomes a pertinent question.

In central and secondary shopping districts, site selection can be of principal significance. Because of the substantial number and diverse character of existing stores and other business, professional, and entertainment facilities, there is in such a location a large amount of traffic that is not dependent upon the drawing power of individual

stores or very small clusters of them.²² Two sites only a block apart may vary tremendously with respect to profit-making possibilities.

There are certain very definite hazards which should be avoided and certain favorable factors which should be used in selecting a site. A check list may be employed to advantage, especially when used with an occupancy map. Such a map is obtainable from the city, a real estate company, or the operator may prepare one himself. These maps show each store by name, frontage, rent, length of lease, et cetera. Helen Conoyer provides the check list shown on the following page for guiding the businessman in discovering the advantages and hazards of a site in a trading area.

Traffic Flow

The idea of counting the number of persons passing a given point during the day and classifying them according to characteristics has been used in site selection for many years. The opinion was once widely held that the total volume of traffic passing a site was the most significant factor determining its value for merchandising purposes.²³

²²Paul Brown and William Davidson, Retailing (New York: The Ronald Press Company, 1953), p. 85.

²³Ibid., p. 87.

TABLE I
CHECK LIST FOR GUIDANCE IN SELECTING A SITE¹

(For each of the points below make a check mark in the rating column showing how it reflects your appraisal of the answer in the first column.)

Points Upon Which Site Is Chosen	Check Yes or No, Numerical or Qualitative Answer	Excellent	Good	Fair	Poor
<p>A. Competition:</p> <p>Number of independent stores of same kind</p> <p>Same block</p> <p>Same side of street</p> <p>Number of chain stores</p> <p>Same block</p> <p>Same side of street</p> <p>Across the street</p> <p>Kind of stores next door</p> <p>Number of vacancies</p> <p>Same side of street</p> <p>Across the street</p> <p>Next door</p> <p>Dollar sales of nearest competitor</p>					
<p>B. Traffic flow:</p> <p>Sex of pedestrians</p> <p>Age of pedestrians</p> <p>Destination of pedestrians</p> <p>Automobile traffic count</p> <p>Peak hours of traffic flow</p>					

¹Helen Canoyer, Selecting a Store Location, Department of Commerce, Bureau of Foreign and Domestic Commerce, No. 56 (Washington, D.C.: Government Printing Office, 1946).

CHECK LIST FOR GUIDANCE IN SELECTING A SITE--Continued

Points Upon Which Site Is Chosen	Check Yes or No, Numerical or Qualitative Answer	Excellent	Good	Fair	Poor
Percent location of site 100 percent 90 percent 80 percent 60 percent Other					
C. Transportation Transfer point Highway Kind (streetcar, bus, subway)					
D. Parking facilities: Large enough and convenient Large enough but not convenient Convenient but too small Inadequate in all respects					
E. Side of street					
F. Plant: Frontage (in feet) Depth (in feet) Shape of building (must permit efficient operation) Condition Heat (type) Light Display space					

CHECK LIST FOR GUIDANCE IN SELECTING A SITE--Continued

Points Upon Which Site Is Chosen	Check Yes or No, Numerical or Qualitative Answer	Excellent	Good	Fair	Poor
Back entrance Front entrance Display windows					
G. Rent and lease					
H. Corner location, if not, what is it					
I. Unfavorable site characteristics: Fire hazards Cemetery Hospital Industry Relief office Undertaking establishment Vacant lot - unless it can be used for parking Garages Playground Smoke, dust, disagreeable odors Poor sidewalks and pavement Old and wornout neighboring structures					
J. Number of professional men in block Medical doctors Dentists					

CHECK LIST FOR GUIDANCE IN SELECTING A SITE--Continued

Points Upon Which Site Is Chosen	Check Yes or No, Numerical or Qualitative Answer	Excellent	Good	Fair	Poor
Lawyers Veterinarians Others					
K. History					

Department of Commerce studies have revealed that there is no dependable relationship between the quantity of pedestrian traffic and the value of a site as measured by retail sales.²⁴

Far more important are the qualitative characteristics of the traffic. The analyses of the quality and composition of passing traffic are highly significant.

To use the traffic count technique to greater advantage, the pedestrians should be counted at intervals during the day, for periods of fifteen minutes, from ten to twelve in the morning, and from two to four in the afternoon. The count should be made during hours that are of particular importance to the super market. In some instances men are included in the count and, in others, only women.

In addition to providing a basis for comparing the relative desirability of alternative sites, traffic counts are used as a means of roughly estimating the probable sales volume of a location. The following chart is helpful in determining the amount of pedestrian and automobile traffic. Roughly estimating the probable sales volume of a location has been used by some chain store organizations. A calculation of this kind is possible when the following information is known:²⁵

²⁴Ibid., p. 87.

²⁵Ibid.

TABLE II
PEDESTRIAN TRAFFIC AT SITE¹

Date:
Day of Week:
Weather Conditions:
Temperature:
Time: (Indicate the beginning and the ends of the periods. Use a separate sheet for each period.)

	OLDER				YOUNGER				CHILDREN			
	Passers by	Cus- tomers	Don't Know	Total	Passers by	Cus- tomers	Don't Know	Total	Passers by	Cus- tomers	Don't Know	Total
Male												
Female												
Total												

Date:
Date of Week:
Weather Conditions:
Temperature:
Time: (Use a separate sheet for each period.)

AUTOMOBILE TRAFFIC AT A CORNER SITE

Type	North Bound				South Bound				East Bound				West Bound			
	Num- bers	Esti- mated	passen- gers	Total	Num- bers	Esti- mated	passen- gers	Total	Num- bers	Esti- mated	passen- gers	Total	Num- bers	Esti- mated	passen- gers	Total
Auto																
Street- cars																
Bus																
Total *																

¹Helen G. Canoyer, Selecting a Store Location, Market Division, Office of Domestic Commerce, Economic Services No. 56 (Washington, D.C.: U. S. Dept. of Commerce, 1946), p.35.

1. The types of persons most likely to be customers of the store.
2. The number of such persons passing the site during the day. (Obtained from traffic count.)
3. The percentage of such persons likely to enter the store (based upon experience in other comparable situations).
4. The percentage of those entering who will buy (based upon experience in other comparable situations).
5. The amount of the average sale (based upon trade experience).

Estimates derived in this manner must be adjusted with the volume variations that occur at different times in the week and seasons of the year. These estimates are usually crude approximations but they may be sufficiently revealing to indicate whether or not there is a probability of a profitable volume of business on the site. The independent operator can approximate this approach by assuming the number of persons likely to enter which can be estimated by traffic checks of other super markets near the prospective site. Estimates of other needed information may be obtained from other merchants, associations, or suppliers in the same trade.

Studies of traffic flow usually reveal that one side of the street is definitely more valuable than the other. In trading areas where there is an extended warm season, this is generally the side that is shaded in the afternoon. This side, which enhances pleasant shopping by the customers, is cooler and permits more effective window display.

Corner locations are valuable because two distinct traffic streams can be tapped and more people can see the

window displays and store interior. However, super market operators are more interested in parking space and ease of access by car rather than pedestrian traffic. Pedestrians stop on corners for traffic control lights and, when so stopped, they will be inclined to enter an attractive store if they desire to purchase some convenience items which were forgotten. There are always a limited number of corners and sometimes the rent charged is out of proportion to their relative value especially for a food store.

Accessibility

The importance of accessibility of the site under consideration is a vital factor to the success of the business. There are several major considerations involved in the accessibility of a site. They are the following:²⁶

1. Distance of the proposed store from residences of potential customers.
2. Amount of traffic congestion prevailing in the district and the variations in this congestion during hours of the day and days of week.
3. Parking facilities available within convenient walking distance of the proposed store.
4. Side of the street upon which the site is located.
5. Width of the street, so that potential customers are not discouraged from visiting the store because of being jostled or by a slow flow of street traffic. Streets with marked inclines and dead ends are also desirable.
6. The part of the block in which the site is located, i.e., whether it is a corner location or an inside location.

²⁶ Delbert J. Duncan and Charles F. Phillips, Retailing (Chicago: Richard D. Irwin, Inc., 1951), p. 133.

In addition to the above accessibility considerations public transportation is to be considered, although in many areas a small per cent of the super market customers arrive by public transportation. Consequently, public transportation is not necessarily an important factor.

Driving time is a very important factor that many location planners overlook--they often draw a circle on a map, and consider everything within the circle as trading area.²⁷ Quite often, however, local traffic conditions make it easier--and quicker--for a shopper to drive to another trading area that is actually further away.

Parking Facilities

The prospective retailer will want to estimate the amount of parking space necessary for his market operation. As more and more customers use automobiles, parking space becomes increasingly essential, and especially for the super market where the bundles and packages of groceries are too heavy and awkward to carry on public transportation vehicles. Adequate space for parking is one of the most important factors to consider in a site for a super market.

There are several ways to determine parking space for a store's vehicular customers. The first method is to buy whatever ground is available, construct a building and leave

²⁷Joseph J. Trout, "How to Locate and Finance a New Market," Progressive Grocer, Vol. 21, No. 8 (November, 1955), p. 40.

the remaining vacant area for parking. This is a haphazard method and is not conducive to providing adequate parking.

Another method uses a ratio of parking space to the sales space of the store. The amount of parking space for a particular super market will vary according to the proportion of customers arriving by automobile. A four to one ratio is desirable when one hundred per cent of the customers arrive by automobile. When this method is used, the per cent of trade arriving by automobile must be determined. The following table is based on the assumption that all potential store customers arrive by car and can be accommodated by a four to one parking ratio.

TABLE III
RATIO OF PARKING SPACE TO SALES SPACE OF STORE¹

Percentage of Trade Arriving by Automobile	Ratio of Parking Space to Sales Space
100%	4 to 1
90%	3-1/2 to 1
75%	3 to 1
60%	2-1/2 to 1
50%	2 to 1
40%	1-1/2 to 1
25%	1 to 1

¹"Here's Help in Deciding Space Needed for Parking," National Grocers Bulletin, Vol. 39, No. 2 (February, 1952), p. 60.

Possibly, the chief weakness of the ratio method lies in the varying space requirements of different parking lots.

A car covers approximately 140 square feet of ground, but by the time aisles, drives, and wider parking stalls are provided, the area allotted to a car may be 400 square feet. Therefore, the number of automobiles that can be accommodated in a given area will depend on the parking angle, the width of the parking spaces, width of the aisles, and shape of the lot.²⁸

The Urban Land Institute recommends that "a minimum of 10 car spaces be provided for every 1,000 square feet of sales space."²⁹ Parking turnover varies with the type of merchandise offered. If the store has a line of soft goods, housewares, and health and beauty aids, besides the produce, meat and canned goods department, the customer will usually require more shopping time; therefore, her car remains in the parking lot longer, decreasing the car turnover rate.

Another variable is the difference between peak load and average load. The peak load may be the number of cars parked on Saturday before Christmas, but realistically the lot may be designed to accommodate the largest influx of cars on Friday afternoon or Saturday, whichever is the busiest period.

²⁸"Here's Help in Deciding Space Needed for Parking," National Grocers Bulletin, Vol. 39, No. 2 (February, 1952), p. 60.

²⁹Ibid., p. 61.

A department store situated close to a super market can present a parking turnover problem. The department store customer requires more shopping time than the super market customer due to the types of merchandise, therefore, her car remains in the shopping center parking area a longer period of time and decreases the parking turnover which decreases the parking space available for food store customers. In another situation, the department store and super market may be close together but not in a shopping center. The customer may use the super market parking lot while shopping in the store; then go to the department store leaving her car near the super market. This decreases parking turnover.

While the operator is planning the parking area, he should consider the distance the customer must walk from the parked car to the market. This would be no problem for a small market operator with a small parking lot; but if the store is located in a shopping center having a large parking lot which is crowded with cars preventing the customer from parking near the market and requiring her to walk a sizable distance, which she may be reluctant to do, she may drive to another store which offers more convenient parking. People usually walk parallel to traffic and not across a line of parked cars. Parking facilities should be close to the market to provide short walking distances for the customer. Parking is a customer convenience and should be made just that.

Although there is adequate land for the actual building and most of the location characteristics are favorable, the operator may not desire to establish his store on a designated plot of land if there is insufficient parking area. With insufficient parking area he may lose customers and he would have no room for further expansion in the future, providing his business merited it. The following chart provides a form for compiling store and parking lot information.

TABLE IV
SITE INFORMATION¹

1.	Business block located at	_____
2.	Location of available site	_____
3.	Lot size	_____ x _____
4.	Alley	_____
5.	Size of existing building (if any)	_____ x _____
6.	Size of store possible	_____ x _____
7.	Size of parking lot possible	_____ x _____
8.	Number of cars	_____
9.	Street parking: Angle _____ Parallel _____ Meters _____	
10.	Comments:	_____

¹Christos Lillios, "Super Market Site Selection" (unpublished Master's thesis, Michigan State University, 1953), p. 64.

Negative Factors to be Avoided

There are certain factors generally considered as detrimental characteristics to a store location. Vacant buildings adjacent to or in the immediate vicinity of a site are considered as bad neighbors, because they do not

attract trade to the vicinity of the location and they detract from the appearance of the area. This may be somewhat alleviated if the new store's signs can be displayed on the vacant building's windows. This may increase sales and give the super market the appearance of being larger.

Another factor, which may be detrimental to a new store location is a tall building neighboring the prospective location that may overshadow the building preventing customers from seeing the market from a distance. The super market usually maintains an outdoor sign advertising the store. Unobstructed visibility is essential to attract customers to the super market. A sign is effective only if it can be seen from a distance.

Sometimes the direction of prevailing winds may be detrimental in creating wind pockets resulting in dirt and trash on the sidewalks and at entrances. Other disagreeable factors, such as smoke, unpleasant odors, and noise from nearby factories or shops will reduce the value of locations. Poor sidewalks and proximity to automobile repair garages, hospitals, factories, cemeteries, and funeral parlors will discourage pedestrian traffic. Railroad yards have disagreeable noises and should not be close neighbors.

Estimated Volume of Business

By estimating the potential volume of the prospective super market, the operator determines whether the particular location offers sufficient volume to provide an adequate

return on the investment. Knowing the potential volume helps the prospective operator determine how large a building should be erected for the proposed super market.

Before estimating the sales potential of a proposed store, the total sales potential for the entire trading area must be determined. The question is how much of the area potential could be obtained by the new store. In coping with this question of the new store's prospective sales, the sales volume of the competitors, their weaknesses such as an inadequate parking lot, poor merchandising techniques, bad customer relations, obtaining trade from the people shopping in another trading area, attracting people living in another trading area who are willing to shop at this new store need to be considered in the estimating of sales volume for a new market.

Evaluation of Competition

Competition will determine, to some degree, the amount of business a new store will be able to obtain, so the prospective operator must be familiar with some techniques of evaluating competition. He is interested in their sales volume to give him some measurement of their business strength. Still another vital factor is to discover the acceptance and coverage of the competition within the trading area. By inspecting the store and estimating the store traffic count of competitive markets, their effectiveness can be evaluated. Very often, some prominent businessmen

in the area can provide evaluations of the competition. Discussions can supply some information on the effectiveness of competition; while some organizations secure information by talking to the store manager of the competitive market. Occasionally a sales representative of some manufacturer can inform the new operator as to the effectiveness of a competitive market. A businessman can observe the activities of the competitors either by walking through the store or observing activities from the exterior. Usually, if the store traffic count is high, the assumption is that the competitor must be successful.

Analyzing competitor's cash register tapes. There are several ways of estimating the competitor's sales volume. One voluntary group has developed a unique method.³⁰ The cash register in the competitor's store must be the type which prints on the tape not only the dollar total of each individual customer's purchase but also a cumulative figure showing the number of customers for the day or for several days. Then this company's representative makes the first and last purchase of the day. By assuming an average based on the company's experience per sale, total sales of the competitor can be estimated.

Personal interview method. Another technique used not only to estimate the sales of stores but also to form an

³⁰Canoyer, op. cit., p. 34.

idea of the trading area size is the personal interview method. Interviewers canvass the area to find out where the people buy their food and why. This method is reliable when carried out by a group of experienced interviewers.

Counting the number of check outs. One of the most commonly used methods is that of counting the number of check out counters and estimating the sales per cash register. The weekly sales per register varies according to the type of check out facilities, speed of cashier, amount of store traffic, and assistance given by bag boys. According to a survey of the opinions of some food operators, "the conventional type of check out averages between \$3,500 and \$5,000 a week; while the motorized check out facilities average \$6,500 to \$8,000 weekly."³¹ Even though there are exceptional situations, average sales per cash register can be used as one of the correlations in estimating store volume.

Number of store employees. Still another method of estimating competitor's volume is to count the number of employees in the store and estimate sales on the bases of an assumed average per employee. Sales in food chains and super market organizations approximate twenty-five dollars per man hour; therefore, this figure is used in estimating

³¹Lillios, op. cit., pp. 93-95.

the sales of competitive super markets. "Twenty-five dollars per man hour is an overall store average, for this figure does vary in the different departments."³²

Square footage of the store. Another technique is determining the square footage of the store and estimating sales on an assumed average of \$2.50 to \$3.25 per square foot of selling area.³³ The efficiency of the operator can affect the volume per square foot in a store, so the above figures provides another estimate. Several methods of estimating sales should be used to provide a more reliable figure.

Number of customers. A more elaborate method is to count the number of customers coming out of the store and take cash register readings at frequent intervals, such as every fifteen minutes for a given period. This technique will provide a reasonably accurate estimate of the average sale per customer and, when multiplied by the number of customers for a given period, the sales for the week can be determined by consulting company records as to the proportion of weekly business done for the specified period. Generally, such a technique is employed for two peak days.³⁴

³²Personal interview with Mr. Swanson, Grand Rapids Wholesale Grocery, Grand Rapids, Michigan.

³³Lillios, op. cit., p. 95.

³⁴Ibid., p. 96.

Sometimes the estimate is obtained by counting the number of people entering the store and estimating the sales on the basis of an assumed average purchase per person. Using this method makes it difficult to determine which people entering the store actually made a purchase.

In estimating the per cent of business which may be attracted to the new store, some operators may rely on experience received in other locations and the judgment drawn from these experiences. In a survey taken of several chains, they commonly conceived that an "estimate of twenty to thirty-five per cent of the total food sales of an area is expected by a new super market."³⁵ Of course, the experience of these chains has resulted in these opinions.

State sales tax. In some states where there is a state sales tax, the prospective operator may obtain sales tax reports of the various retail establishments in his area over the period of a year, especially those of his potential competitors; and he may derive from these sales tax figures the estimated volume of the competitors. After the total volume of all the competitors is determined, this figure can be compared with the total potential food sales for the area, thus revealing the possible sales for the new store.³⁶ A reason this method is not always workable is

³⁵Ibid., p. 43.

³⁶Personal interview with Jack Brewer, Jewel Tea Company representative.

that the data is released by company figures rather than individual store figures and frequently covers a territory larger than the trading area. A form for evaluating the characteristics of competition will aid the investigator in his evaluation (see page 47).

Estimating the Prospective Sales for the New Operation

After the various factors, such as the number of families, the average family income, the potential food volume in the area, and the competitors and their volume are given consideration, the potential sales of a new super market can be estimated.

Rule of thumb method. One method used for estimating the potential volume of a prospective super market is the following:

$$\frac{\text{number of people in the area}}{4} \times \$7.00 = \text{Weekly Sales}$$

The figure four in the formula is the expected proportion, twenty-five per cent, of the business available within the area. The seven dollar figure represents the average food expenditure per person per week. When the number of people in the trading area is multiplied by the average amount spent per person per week for food and then divided by the expected proportion of business in the area, the estimated weekly volume of a prospective super market is determinable.

TABLE V
SUPER MARKET REPORT¹

Store _____ Address _____ City _____
 (indicate the nearest cross street)

Dimension of building _____ Area _____

Dimensions of sales room _____ Area _____

Basement _____ Yes (_____ same size as building,
 _____ No _____ 3/4 size, _____ 1/2 size,
 _____ 1/4 size.)

Number of spaces in lot _____ Number of check stands _____

Other parking nearby _____

Store hours _____

Type of fresh meat operation:
 _____ self service, _____ butcher service,
 _____ combination of both

Type of fish and poultry operation:
 _____ self service, _____ butcher, _____ both

Special departments, features and facilities _____

Description of exterior _____

Description of interior _____

Description of immediate neighborhood or shopping center,
 if any _____

General impressions _____

On the reverse side make rough outline sketch of building, salesroom and parking lot, showing approximate dimensions, and location of entrances to store and lot. Show street names, and indicate type buildings adjacent to this store.

¹Christos Lillios, "Super Market Site Selection" (unpublished Master's thesis, Michigan State University, 1953), p. 94.

Where a new unit will be located in close proximity with another super market, another rule of thumb method has been used. In general, where there was one store and now there are two stores, both stores will do one hundred and forty per cent of what was done by the former store.³⁷

Estimates by other experienced people. The independent operator, inexperienced in estimating the possible sales volume, may enlist the advice of other operators in different communities and get their estimates. The prospective operator tends to stay on the conservative side. "Their reasoning is that it is better to figure on a smaller volume of business and build the store to meet this volume than to plan on a larger volume that does not materialize."³⁸

Highway location. Estimating the prospective sales of a highway site is very difficult. According to one study,³⁹ a highway site which 2,000 to 2,500 automobiles pass per day is a good location for a super market solely dependent on transient traffic. This study indicates that five to ten per cent of all transient vehicular traffic that

³⁷Samuel C. A. Hanna, "Analysis of a Location for a Supermarket" (unpublished B.B.A., Massachusetts Institute of Technology, Cambridge, Massachusetts, 1948), p. 44.

³⁸Robert Formann, "Store Location and Trading Area Analysis," Seminar Report, p. 7.

³⁹Hanna, op. cit., p. 46.

passes the considered site each day will stop to shop. On the assumption that five per cent of the traffic would patronize the prospective location, the following formula is devised to estimate the prospective sales for a highway location:

$$\begin{aligned}
 & .05 \times 10,000 \text{ (number of automobiles passing the} \\
 & \quad \text{location during the store hours for an} \\
 & \quad \text{entire week)} \\
 & \times \$20.00 \text{ (average food expenditure per week)} \\
 & = \$10,000 \text{ (weekly sales expected from transient traffic)}
 \end{aligned}$$

In estimating the sales for a highway location, consideration should be given to the type of traffic passing and the hourly distribution of traffic along with the number of potential customers passing the location.

One chain operation determines the prospective sales for a new market by making a count of homes within a one, two, and three mile radius of the site, and assuming one family lives in each home and each family has an average food expenditure. The volume of the store is usually anticipated by a "rule of thumb" method based on about twenty dollars per week per family (assuming location is in a section that would average four persons to a family). This method measures the food volume within a reasonable trading area of the site and the number of food stores in the area have a considerable effect on the percentage of food business available for a new store. Generally speaking, considering competition already established, it is reasonable to expect

about twenty-five per cent of the total food sales within a three mile radius.⁴⁰

The formula for calculating the prospective sales is:

$$\frac{\text{number of families in the area}}{4} \times \$20.00 = \text{anticipated weekly sales}$$

One cannot emphasize too strongly the importance of traffic flow, accessibility, and parking facilities to a prospective store location. If the traffic flow is toward the center of the trading area, the store should be located in the position to catch this incoming traffic. Many people patronize a store because of its accessibility, therefore, this factor ranks high on the site evaluation list. Mr. New Fleming, president of the Fleming Company, says, "We believe if a super market is located where it is easily accessible to consumers, particularly by automobile, the ultimate success of the store will depend upon its management."⁴¹

Several wholesalers throughout the country provide store engineering service to assist the independent retailer in store site selection, building, and layout. Some wholesalers will purchase the land, finance the construction of the building, and lease it to the retailer. Not only will

⁴⁰Robert Harkins, "Store Location," Seminar Report, pp. 16-17.

⁴¹Interview with New Fleming, President, The Fleming Company.

they perform these services, but they will install the fixtures and arrange the stock in the display cases, on the shelves, and on gondolas.

Summary

A parking lot has become an essential factor in attracting customers to the super market, since a majority of the super market customers shop by car. Provisions must be made for parking facilities near a market location or Mrs. Consumer will drive to the place where such facilities are available.

In estimating the prospective sales for a new super market, the exact volume figure of the competition is not imperative, but approximate figures may aid the new operator in deciding on the amount of potential food volume in the trading area. There is always the possibility that the new market may draw customers from other trading areas. The new operator's estimated volume will determine the size of his building, size of his parking lot, and total land area needed. On the following page is a retail food survey form which summarizes the important factors in evaluating and locating a super market.

TABLE VI

RETAIL FOOD SURVEY¹

Name			Date		
Town	State		Shopping center		
Population			Town		
Rural population			Area population		
Total population			Square blocks or miles		
Spartan store in town or area					
Name					
Number of supers and superettes in town					
Store Breakdown:					
Name of Store	Appearance	Frontage	Depth	Sq.Ft.	Total
					Number of Checkouts
					Parking Facilities
					Est. Weekly Volume
Total weekly volume					
General Characteristics of Area:					
Type	Nature		Shoppers		
{ } Built up solid	{ } 1 and 2 family residents		{ } Well developed		
{ } Open area	{ } Apartments		{ } Isolated little stores		
{ } New housing			{ } Planned centers		
Vitality	Industry		Income		
{ } Deteriorating	{ } Resort area		{ } Average		
{ } Stable	{ } Farming community		{ } Above		
{ } Growing	{ } Factories		{ } Below		
Comments					

¹Grand Rapids Wholesale Grocery, Grand Rapids, Michigan.

CHAPTER V

FINANCING THE SUPER MARKET

Determining the Amount of Capital Needed

Now that the prospective sales volume of the proposed food store has been estimated, the next important step is to decide how much capital the prospective operator needs to buy the land, construct and equip the building, purchase the inventory, surface the parking lot, and maintain a working capital.

Assuming the anticipated store volume would be \$20,000 per week, the area size of the building site plus the parking lot can be figured. According to a recent figure released by the National Association of Food Chains, the average sales per square foot per week of selling area in the chain stores is \$3.25.⁴² This figure is also used by a prominent wholesale distributor in the food industry. Assuming \$3.25 to be the average sales per square foot of selling space and \$20,000 to be the anticipated volume, the formula is:

anticipated volume divided by average sales
per square foot = sales area of prospective building

⁴²Super Market News, October 15, 1956, p. 41.

The size of the selling area is figured with the estimated weekly sales volume (\$20,000) divided by the anticipated average sales per square foot of selling area. Using this method results in approximately 6,000 square feet of sales area. Assuming the building to be divided into seventy per cent sales area and thirty per cent stock, preparation and cooler rooms, which are the percentages some food store operators use, the total area size of the prospective building, in round numbers, is 8,500 square feet.

Land and building. There is difficulty in arriving at an exact figure on land and building costs, since these costs will vary slightly according to location of the property and type of building erected. A safe estimate of building costs would range from \$7.50 to \$10.00 per square foot. In determining the building cost per square foot, some operators may include refrigeration-heating facilities, basement, upstairs, et cetera; therefore, when comparing building cost, the operator must determine whether the figures are comparable. Thus, a conservative estimate on 8,500 square foot building may be \$63,750. This estimate was obtained during a personal interview with Mr. Swanson, Director of Store Improvement Service for Grand Rapids Wholesale Grocers of Grand Rapids, Michigan. He has had considerable experience in working with independent operators on their store locating and building problems.⁴³.

⁴³Swanson, loc. cit.

A fair estimate of land cost for a super market with 6,000 square feet of selling area and a parking lot of 24,000 square feet, assuming a four to one parking ratio, would be \$17,200. This land estimate is based on the average land costs as reported by Chain Store Age and presented in a pamphlet published by the National Association of Food Chains in connection with their September 1953 convention.⁴⁴

Basic building and land costs of a market 8,500 square feet on a plot of ground 32,500 square feet and based on the above estimates would then run in the neighborhood of \$80,950. If air-conditioning were added, this would increase the cost.

Equipment. The estimate submitted on equipment cost is based on the opinion of a person who has had years of experience in aiding independent operators establish new stores or remodel old stores. This figure was also compared with similar stores with the same volume.

It is estimated that equipment for a super market of the size considered would be \$36,000. This figure includes all the necessary selling equipment and backroom equipment. As a point of reference on actual expenditures of equipment item for item, see "A Case Study in the Development of A Supermarket" by Donald Rubens. Presented in this study are

⁴⁴"What Does It Take To Maintain Food Chain Leadership in Stores?," National Association of Food Chains, September, 1953.

the actual equipment expenditures by the Hart Food Stores, Incorporated, Rochester, New York, in equipping one of their new 10,000 square foot markets in 1951.⁴⁵

Inventory. The opening inventory estimate, including produce, meat, frozen foods, some non-foods, and dry groceries is \$42,000, the costs of goods for one store with an expected volume of \$20,000 per week.

Leading super markets today consider twenty times per year average turnover to be reasonable although outstanding operations have been known to attain a turnover rate, taking all departments into consideration, of thirty-six times per year. At the same time, many successful large volume stores do well on an average turnover of eighteen.

The above estimated inventory figure of \$42,000 per store might be broken down still further by estimating the inventory for the meat department at \$11,130, the produce department at \$3,990, and the grocery department at \$26,880. The initial opening inventory is estimated from typical relationships between inventory and sales. If the gross profit is nineteen per cent, using the figure in the following operating statement, then the cost of sales is eighty-one per cent of sales. On the basis of a \$20,000 weekly volume and \$1,040,000 yearly volume, the cost of

⁴⁵Donald B. Rubens, "A Case Study in the Development of a Supermarket" (unpublished Master's thesis, Michigan State College, 1951), p. 31.

goods for the year is \$842,400. A typical rate of turnover is twenty times per year. This means that sales are twenty times the average inventory investment. When the cost of sales (\$842,400) is divided by the turnover rate, twenty, the cost value of the average stock is approximately \$42,000. The percentages used in calculating the cost of goods by department is based on a \$15,000-\$20,000 weekly sales, which is presented in "Facts in Grocery Distribution," by Progressive Grocer.⁴⁶ For a food store operating statement of this size store, see the following page.

Parking lot. The estimated cost of the parking lot (24,000 square feet) is \$13,200. This estimate includes the cost of black topping after grading has been completed, and is based on an average cost of fifty-five cents per square foot.⁴⁷ The amount of parking area will vary with the number of vehicular customers.

Cash. Generally speaking, cash on hand equal to ten to twenty per cent of the total current assets is sufficient for a retail grocery store. This amount should be enough to meet daily needs and to provide some reserve for

⁴⁶"Facts About Grocery Distribution," Progressive Grocer, Twenty-third Annual Survey, 1956 Edition, p. 19.

⁴⁷"What Does It Take to Maintain Food Chain Leadership in Stores?," op. cit.

TABLE VII
FOOD STORE OPERATING STATEMENT¹

Average Weekly Sales \$15,000-\$20,000	
Sales	
Groceries	63.88%
Meat	26.55%
Produce	9.56%
Total Sales	<u>100.00%</u>
Gross Profit	
Groceries	16.34%
Meat	21.90%
Produce	26.69%
Total Gross Profit	<u>19.09%</u>
Expenses	
Accounting	.10%
Advertising	.96%
Delivery expense	.03%
Depreciation and leasehold	.63%
Dues and subscriptions	.03%
Freight	.86%
Fuel	.08%
Garbage disposal	.05%
Insurance expense	.15%
Interest expense	.15%
Laundry	.09%
Light, power, water	.54%
Rent/building expense	.82%
Repairs	.13%
Salary--Grocery	2.89%
Meat	2.01%
Produce	.99%
Service fee--Grocery	1.02%
Meat	.21%
Supplies	.81%
Sundry	.31%
Taxes--Payroll	.18%
Personal property	.11%
Trading stamps	2.02%
Telephone	.04%
Total expenses	<u>15.03%</u>
Operating Profit	4.06%
Owner's Salary	1.09%
NET PROFIT	<u>2.97%</u>

¹"Facts About Grocery Distribution," Progressive Grocer, Twenty-third Annual Survey, 1956 Edition, p. 19.

emergencies. Carrying a larger cash balance would not be profitable since idle cash is not producing a return and cash turnover is just as vital to good operations as inventory turnover.⁴⁸ The cash required for this \$20,000 weekly volume store is estimated to be \$5,000.

TABLE VIII
SUMMARY OF THE REQUIREMENTS

Item	Amount
Land	\$ 63,750
Building	17,200
Equipment	36,000
Inventory	42,000
Parking lot	13,200
Cash	5,000
	<u>\$177,150</u>

Sources and Type of Capital

Naturally, after the prospective super market operator has projected his capital requirements for the establishment of the market, he desires to know where or by what means he can obtain the capital. A very usual and logical question a prospective retailer will ask is, "How much money must I have and how do I go about obtaining the financial aid I may need?"⁴⁹ After determining the necessary amount of

⁴⁸Nelson A. Miller, Harvey W. Huegy, and Associates, "Establishing and Operating a Grocery Store," United States Department of Commerce, Series No. 21 (Washington, D. C.: Government Printing Office, 1950), p. 72.

⁴⁹"Financing Your New Super Market," Bulletin prepared by the National Association of Retail Grocers.

money the prospective owner must secure the capital.

The prospective grocer's sources of financing are as follows:

1. Sale of stock--common and preferred.
2. Issuance of bonds secured or debentures.
3. Loan from private investors.
4. Loan from a financial institution.
5. Aid through wholesalers.
6. Sale--leaseback.

Sale of stock. The prospective super market operator may want to finance part of his new store site by selling stock. The selling of stock by a new operator, who is a stranger in the trading area, may be almost an impossibility because he has no reputation in the area. This problem may not exist with a prospective businessman who has been active in civic and social activities and is known.

The prospective super market operator may form a corporation by selling common and/or preferred stock. Mr. Ned Fleming says,

A prospective super market operator may form a corporation by selling sufficient common stock to make a twenty-five per cent down payment on fixtures and a cash payment for the opening inventory; then the corporation may borrow the additional capital.⁵⁰

J. K. Lasser suggests four reasons for the small businessman seeking capital through stock:⁵¹

⁵⁰Fleming, op. cit.

⁵¹J. K. Lasser, How to Run a Small Business (New York: McGraw-Hill Book Company, 1955), p. 100.

1. If you want to avoid debts,
2. If the economy is heading for a period of deflation,
3. If the maturity date or the fixed charges will be a burden that cannot be met,
4. If your capital position and credit are weak.

Issuance of bonds or debentures. There are people who do not want to assume the risk involved in ownership participation, but these people may be willing to extend the use of their capital to any business, provided there is not too great a risk. To secure the capital through a bond issue, the company will pledge its property.

To illustrate the financing of a store by debentures, the following actually happened to Scott C. Detrick and Joseph A. Raible, co-owners, Scotty's Markets:⁵²

In arranging the financing for our new store which opened last December, we discovered we were short about \$30,000 of the capital we needed. But we did not want to delay locating in this particular community.

Where was \$30,000 available? Careful study of the situation resulted in the idea of issuing debentures.

Debentures are sold mostly on faith. This was true of ours. Any person entering a community new or unknown would find it difficult to finance in this way. People must see a business in operation to have faith in it. However, we have been in business for about six years, so customers were able to judge the type of business we operated, and this justified their faith in our future plans.

A debenture has last call. Should a business fail, the bank would secure its money before the debenture holder. The wholesaler would get his money. Then

⁵²"They Sold Debentures to Finance Their New Store," Bulletin prepared by National Association of Retail Grocers, p. 11.

what is left would be available for division among the holders of the debentures.

We sold in units of \$500, with 5 shares of common stock at \$10 a share. Thus each package cost \$550. To launch them, we suggested them to customers something like this: "Mr. Jones, we are offering \$500 debentures on a 10 year basis, at 6% interest. If we can pay these out in 3 years, or 5, we reserve the privilege of calling them in sooner. You are familiar with our business operation . . ."

A super market which opened July 30, 1956 at Fort Wayne, Indiana, owned by an independent operator, Mr. Henry J. Eavey, required an investment of two and a half million dollars. Mr. Eavey had a credit standing and reputation in the grocery industry that justified the financing of this super market. He is the president of a wholesale grocery house at Richmond, Indiana, which has operated for many years and this operation serves a voluntary group of independent grocers in the territory.

Mr. Eavey decided to build a super market in Fort Wayne, Indiana and received financial assistance from his bank. His banker works closely with the Continental Illinois National Bank and Trust Company of Chicago. Mr. Eavey's local bank was not permitted to lend him enough money to open this market because of the legal limits on that particular bank's maximum lending authority, so the Chicago bank aided in the financing of this great market.⁵³

Insurance companies as debenture lenders. Life insurance companies are a source of long term debenture loans.

⁵³Personal communication with Gordon Cook, Sr., Operation, Incorporated.

The insurance company, in making long term loans, has no depositors and no danger of a sudden demand for money as does a bank. Insurance companies do make long term loans, since much of their business includes long-term commitments.

Investment bankers and debenture money. Investment bankers are chiefly middlemen. The investment house merely assists the prospective borrower to decide on the type and terms of his proposed loan, and then markets the security for a fee. The investment house may sell the bonds to the public or one of several large institutional investors, such as, insurance companies, educational foundations, pension funds, investment trusts, and the like. The expert can size up the borrower's situation and present his application to the best source for the funds. He can advise what rate to pay, what features to include in the indenture and what requirements and policies the respective money sources operate under.⁵⁴ The expert knows what leading institutions are ready to make loans, their prejudices and preferences and he may save the borrower money and time. Sometimes the investment banker's own prestige can help the prospective operator get a loan.

Loan from private investors. Another plan for securing capital is to find a contractor with some money and

⁵⁴Arthur Richland, "How to Raise Cash and Influence Bankers," Super Market Merchandising, Vol. 21, No. 8 (August, 1956), p. 46.

get him to build a super market, which the super market operator leases. The next step is to arrange with equipment manufacturers for financing of equipment, which is a standard practice. Under this plan, all operator has to do is pay for his opening stock and he may get temporary credit on this from his sponsoring wholesaler.

Sometimes a local investor who believes in the community and is convinced of the future of a new super market will make a loan without security, or with less than a loan institution would require.⁵⁵ A small concern may get a loan this way when a bank does not want to grant it. Sometimes a local inventor will endorse the bank loan, agreeing to pay if the maker of the note is unable to pay.

Loan from a financial institution. The twelve regional Federal reserve banks are authorized to lend directly to business enterprises when they cannot get money from the usual sources on reasonable terms. These loans are at present limited to five years or less and are for working capital purposes only. The loans are available only to established businesses, so new concerns cannot be accommodated.⁵⁶

⁵⁵United States Department of Commerce, The Small Businessman and Sources of Loans, Economic (Small Business) Series No. 69 (Washington, D. C.: Government Printing Office, 1948), p. 19.

⁵⁶Lasser, op. cit., p. 118.

The Small Business Administration makes regular loans up to \$250,000 maximum and limited loans up to \$15,000. For someone already in business and doing over two million dollars volume, Small Business Administration makes no loans. The following is a telegram from Wendell B. Barnes, Small Business Administrator, to Super Market Merchandising:

Grocery stores and Super Markets in small business category are applying for and receiving SBA loans. 82 such loans totaling \$2,688,000 already approved. All applications from eligible concerns given fair and impartial consideration. Super Markets with \$2,000,000 or less annual gross are regarded as small business. The act under which we operate specifies no government loan funds be advanced unless credit not otherwise available from private sources at reasonable rates and that all loans be of such sound value or so secured as reasonably to assure repayment.⁵⁷

Financing through wholesaler. Many independent operators are affiliated with either a voluntary group or a co-operative group. Many of the groups have set up separate finance corporations to help finance good, young retailers open new, large super markets. Many of the groups are actively and aggressively seeking good, young retailers or especially competent super market managers so as to help them get started in business.

Some wholesalers make connections with banks and insurance companies, which, in turn, supply the retailer

⁵⁷Wendall B. Barnes, "What Can You Get From SBA?," Super Market Merchandising, Vol. 21, No. 8 (August, 1956), p. 54.

with the necessary funds. The wholesaler often guarantees the repayment of part of the loan and sometimes the entire amount. In either case, a reserve fund is set up by the wholesaler to cover any loss which might occur.⁵⁸ One wholesaler said the importance and the need of a financing program is indicated by the fact that forty per cent of their cost-plus accounts had received assistance from the wholesaler.

There is a thesis entitled, "A Proposal for the Financing of Independent Super Markets by Wholesale Grocers," by Erwin Lee Feller which proposes an excellent plan for financing the construction and location of super markets for the independent operator. This thesis is suggested to anyone who is further interested in financing super markets by means of wholesalers.⁵⁹

Construction of a building with a sale and leaseback agreement. Just what is a leaseback? Sidney Barton, who is reputed to be the largest individual holder of leaseback real estate in the country, says, "It is a holding purchased for the complete price, which the owner has invested in building and land, and then leased back on a specified long term lease and rental."⁶⁰

⁵⁹Erwin Lee Feller, "A Proposal for the Financing of Independent Super Markets by Wholesale Grocers" (unpublished Master's thesis, Michigan State University, 1954).

⁶⁰"Barton on Leaseback," Super Market Merchandising, Vol. 21, No. 8 (August, 1956), p. 53.

The leasee receives several advantages from this transaction:⁶¹

1. He gets a market made to his own liking and specifications.
2. Capital is freed for expansion purposes.
3. There may be faster turnover on money.
4. The rental which runs anywhere from 0.7 percent to 2.0 percent of total sales is a legitimate deduction. If the operator is in the 52 percent tax bracket, his rental cost is cut in half.
5. Since a typical lease would run from 15 to 25 years and allows for a number of five or ten year options, in many instances a lessee could control the land and building for up to ten years. If the site is no longer suitable for a super market, it may be satisfactory for another business. In that case the lessee not only works out a re-lease but may realize a profit for himself through this re-lease.
6. Most leases contain negotiation clauses which permit the lessee to withdraw from his contract if the location proves to be a "dud."

Barton thinks anyone can qualify for leaseback, providing he has good credit and his company's net worth is at least \$500,000. The potential purchaser generally considers credit, net worth, and the real estate price as the most important factors.

There seems to be a difference of opinion on the sale-leaseback financing for Albert F. Donohue of Kidder, Peabody, and Company, an investment firm, says that it (sale-leaseback) most certainly is not the magical "eat-your-cake-and-have-it-to" technique that some may think.⁶² A sale and leaseback

⁶¹Ibid., p. 53.

⁶²Albert F. Donohue, "Eight Questions and Answers on Financial Growth," Super Market Merchandising, Vol. 21, No. 8 (August, 1956), p. 52.

of a property means the seller disposes of his property, probably never regains title to it, bears all of the expenses of the property just as if he continued to own it, yet repays the purchaser every dollar of the purchase price during the primary term of the lease. The interest rate contained in the lease-rental figure ordinarily is higher than the rate on an unsecured long-term borrowing transaction.

This topic cannot be delved into thoroughly in this thesis, but the differences in opinions reveal the fact that the prospective operator should consider, ponder, and discuss with experienced men, and have a thorough knowledge of the sale-leaseback method before utilizing it.

The following chart classifies all the types of loans and capital generally available to commercial businesses and shows the sources from which such funds generally emanate.

Working with the banker. Three kinds of money are available:

Loan--For temporary use only--must be returned.

Invested Capital--Permanent money--use as desired;
it is the operators.

Borrowed Capital--Substitute for invested capital
under certain conditions--use only
as directed.

Some people think of banks as institutions that loan money to individuals or companies who do not need capital. These individuals think that the bank never loans them

TABLE IX
THE LINE UP¹

Type	Source
Unsecured loans	
Short term:	Commercial banks.
Long term (debentures):	Commercial banks, insurance companies.
Secured loans	
Real estate mortgage:	Commercial banks, savings banks, building and loan associations, insurance companies, real estate, mortgage bankers, investment trusts, pension trusts, universities, U. S. government corporations, investment bankers.
Equipment (chattel) mortgage:	Finance companies, factors, investment bankers, commercial banks, insurance companies.
Accounts receivable:	Finance companies, commercial banks, U. S. government corporations, factors.
Inventory:	Commercial banks, factors, finance companies.
Invested capital	
Capital stock: (common, preferred)	Investment bankers (or their own account or through the proceeds of sale securities to public), insurance companies, investment trusts, pension trusts, etc.
Private capital:	Individuals or investment groups and syndicates.
Borrowed capital	Factors, finance companies.

^p

¹Albert F. Onohue, "Eight Questions and Answers on Financial Growth," Super Market Merchandising, Vol. 21, No. 8 (August, 1956), p. 54.

money when they need it. These operators should analyze the reason for not receiving their loan.

The kind of service a retailer gets from his bank depends upon the working relationship he has with the bank. The retailer should have an understanding of the banking loan system. He should make the bank president an advisor or counselor to his business by informing the president of financial incidents that occur in the business. If the operator expects to purchase some equipment or fixtures, he may ask the bank president's advice on the transaction, whether the operator follows the advice or not. This way, he will develop a friendship which may be of value in securing loans later.

When the retailer is planning to construct a supermarket, he may want to show the bank president how the location was chosen by showing the means of determining the trading area and the characteristics of the population trends, buying power, estimated potential food volume in the area, and the anticipated volume of the prospective operator's business. The retailer may show the banker how the store size and parking lot were determined along with other important store information. Presenting to the president of the bank complete site location information may win his confidence in the prospective operator, and thus the banker is more readily agreeable to making a loan. The banker will be interested in the prospective operating

statement, budget, and future plans of the new businessman's enterprise. "When a climate of confidence exists, the banker will try to figure out how he can make the loan rather than to give reasons why he cannot."⁶³ There is one important point to remember. In presenting the information, the operator should always be receptive to suggestions the banker may offer, since the banker has varied experiences in business transactions.

Choosing a bank. Not all prospective retailers may be selective in choosing a bank, for there may be only one bank in their small community. But if there are several banks, consideration should be given the service each bank has to offer before selecting the bank to patronize. A bank should be chosen that is progressive and willing to take risks on new businesses in the community. There may be a bank in the community that makes a practice of loaning money to super markets and is willing to advance a loan to the prospective operator.

"Strict regulation of banking practice by government agencies plays an important role in determining not only how much a banker can loan, but to whom he can offer it."⁶⁴

⁶³"Financing Your New Super Market," op. cit.

⁶⁴"Financing the Food Store," op. cit., p. 5.

The bank may be convinced of the prospective operator's business ability, but government banking regulations may limit his loaning capacities. The amount that the bank can loan is related to the bank's capital and surplus. The operator may use the local bank for small loans and acquire larger loans from a metropolitan bank.

Stay close to home. Convenience is a big asset in dealing with a nearby bank. When borrowing from a big bank in another city, the first question they will ask is why didn't he use his local bank. He must have a legitimate answer ready because in their investigation they will phone his "logical" near-home bank. Bankers exchange information freely so the impression made on the first banker may influence the entire borrowing history. The banker must have confidence in the borrower's ability and can trust the borrower's statements.

Here are some points to remember in presenting the story to the bank:

1. Establish a sound credit reputation.
 - a. Pay all wholesaler bills promptly.
 - b. Keep bank accounts in good order.
 - c. Pay all loans promptly.
2. Keep business records in good shape.
3. Make yourself known to bank officials.
 - a. Ask them for business advice.
 - b. Make follow-up visits to show them improvements.
4. Make a thorough study of potential trading area, its development possibilities.
5. Present a sound, well-developed picture of your need for financing to the bank.

6. Present all the facts, all the documentation you can.
7. Don't let one bank's turndown deter you.⁶⁵

Net Fleming of the Fleming Company, a voluntary sponsor, suggests these qualifications to the operator going into business for himself:

1. He must have proven himself to be a sound operator either by reason of the fact that he successfully managed a super market for a chain or successfully operated a retail grocery store of his own even though it might be a superette.
2. The ability to develop and train personnel and to delegate authority.
3. An open mind to improvements and a desire to grow.
4. The ability not only to makemoney, but to save it, as a basis for future growth.
5. "Free Capital" sufficient to make a seventy-five percent down payment on fixtures, and cash payment for the opening inventory. Preferable, too, would be sufficient additional cash for working capital, although this, in instances of well-qualified operators, might well be waived.⁶⁶

The prospective operator should know his needs before actually receiving the necessary funds to finance a market. The prospective retailer must make a thorough study of the amount of money needed to establish his business and should get advice from the banker, wholesaler, and other market operators before drawing any conclusions as to his needs.

To keep the business "above water," the operator should ask for sufficient capital or loans to keep the

⁶⁵Joseph Trout, "How to Locate and Finance a New Market," Progressive Grocer, Vol. 34, No. 11 (November, 1955), p. ⁴⁵.

⁶⁶Fleming, op. cit.

business operating effectively and must anticipate his ability to repay these loans without "strangling" the business.

Wholesalers are becoming more and more concerned over the financial assistance of retail operators, and frequently they will support a prospective operator in a loan or buy the land, build the market, and lease to the operator. Mr. Gordon Cook, Sr., Operation, Incorporated, says, "If the super market operator is really worthwhile, he'll get financial help in some manner from his chief source of supply."⁶⁷

⁶⁷Cook, Sr., op. cit.

CHAPTER VI

SUMMARY AND CONCLUSIONS

Summary

This thesis presents methods and procedures the independent operator can follow in locating and financing a super market. This thesis also provides sources of information which offer data and help in locating and financing the operator's new market.

The site analysis section of the study reveals that certain factors are more important in one type of location than in another. This study also suggests factors that the independent operator should consider in selecting a location.

The locating of a super market includes three main problems: the selection of the trading area, the particular site within the specified area, and the anticipated sales for the considered site.

Several methods are used to determine the trading area; namely, Editor and Publisher Market Guide, local newspaper circulation map or figures listing license numbers of parked automobiles, interviewing merchants and professional men, tabulation of out-of-town checks, Reilly's Law of Retail Gravitation, rural mail deliveries, and aerial photographs. One or a combination of several methods may

aid in determining the trading area, depending on the situation.

After the trading area is determined, the size, trend, and characteristics of the population are vital information. All people are consumers, so the trading area's population provides an indication of the number of potential customers in the area. A population analysis reveals the trends of growth in the area which is of basic importance in locating a market. Characteristics of the population to be considered include sex, age, race, religion, educational level, native or foreign born, permanent or transient status, and others. These traits indicate the buying habits which affect the potential volume for the trading area.

Decennial Census of Population, block statistics, and local sources of market information provide material on trading area population. The Decennial Census may be untimely in many instances because of its decennial publishing time.

The buying power of a trading area is determined by a number of indicators, such as total retail sales, general rental value, and income level of the population. Income data can be obtained from census publications, local newspapers, and market information.

To find the potential food sales volume of the trading area, the operator multiplies the number of people in the area by the average food expenditure per person per

week. This gives the potential food sales volume of the trading area for a week. Another method is to determine the number of families in the area multiplied by the average weekly food expenditure per family.

The prospective operator should estimate his competitors' volume after the potential food sales for the trading area have been determined. The sales volume of existing stores can be obtained by the number and type of check out units, the number of employees, the square footage, customer counts, cash register tapes, sales tax, and other methods. These methods may furnish a reasonably accurate estimate of the competitors' volume.

The operator may determine his prospective sales volume by comparing the total competitors' sales volume figure with the potential food sales volume for the trading area, which means more volume, or the store may draw people from the competition. "Rule of thumb" methods are used to calculate the portion of business a new operator may expect. A new operator may anticipate twenty to twenty-five per cent of the food sales in the area, if competition is limited and the new store provides additional drawing power. Another method is to multiply the number of people in the area by average weekly food expenditure per person, then multiply by the anticipated per cent of the total volume the store is expected to draw. This gives the anticipated sales volume for the new store.

Where a new supermarket is located in close proximity to a competing super market, the combined volume of the two may be as much as one hundred and forty per cent of the former store volume.

Some other considerations for a new location are parking facilities, accessibility, and traffic flow. Parking facilities are a customer convenience and every convenience possible should be provided. The parking lot area is figured in proportion to the anticipated number of vehicular customers and the store sales area.

There are negative factors, such as wrong side of the street, rivers, cemeteries, industrial plants, poor sidewalks, hospitals, smoke, and other factors that may be detrimental, and may detract customers from the location.

Knowing the prospective sales volume may help the operator determine the amount of land needed, building area, equipment, opening inventory, and working capital. When these facts are known, the super market operator may know the amount of capital needed to establish his store.

After the prospective operator determines the amount of capital he needs, he must find some means of securing this money. He is usually limited in the sources available to finance the business. The main sources are, namely, his own capital, relatives' money, a financial institution, and/or a wholesaler.

The sale of stock to finance a new business may be impossible for the independent super market operator, since

his business ability is not known. The large established operator of a well-known corporation may be able to market common and/or preferred stock.

The issuance of bonds may be a way of securing capital from those who do not want to assume the risks involved in ownership participation. This method may be used only by incorporated businesses.

Insurance companies and investment bankers may be sources of securing loans and assistance in obtaining loans.

Some contractors will build the building to the operator's specifications and lease it to him. The equipment manufacturers may finance the equipment and the operator may pay for his opening stock or get temporary credit from his sponsoring wholesaler.

The Small Business Administration makes regular loans to a \$250,000 maximum and limited loans to \$15,000. Small Business Administration loans are not available to a business having a volume of over two million dollars per year.

Many voluntary or cooperative groups are actively seeking good, young retailers and are helping to finance them. Some wholesalers may aid the retailer in securing necessary funds from banks and insurance companies.

The sale-leaseback method is used by many super market operators. They buy the land and construct the building and as soon as the store is in operation, sell the land and building and lease it back.

Banks can be helpful to super market operators seeking capital. The independent owner should have a working knowledge of the banking loan systems. He should make the bank president an advisor to his business and keep him informed on financial incidents that occur in the business. The retailer may wish to discuss the complete site analysis with the banker and should be receptive to suggestions that the banker may offer.

In choosing a bank, the retailer should patronize a bank that is progressive, offers the most service, and is willing to take risks on new businesses. The retailer should stay close to home in his banking so that the banker can observe his operation and give advice and assistance.

Conclusions

Independent super market operators are at a disadvantage compared to chain operators in expanding their business. The independent is inexperienced and is prone to depend upon his knowledge instead of employing the services of experts. Furthermore, he is successful in his present super market and believes in his business ability and judgment. The chain operator has on his staff specialists and experts to survey the trading area, select the site, plan the store, and do the financing. The chain operators are aggressively seeking new locations to satisfy planned expansion.

The independent operator, to avoid losing out in the expansion race, must aggressively plan expansion. That is, as a group through voluntary or co-operative associations, the independent must seek out new locations and find means of financing new store construction in the same manner the chain operator does.

The voluntary or co-operative group wholesaler offers services to the members in the form of site selection, store engineering, and financing. New super markets are planned and built. Upon completion the super market is leased to a member, thereby putting aggressive planned expansion into the independent field.

Techniques for selecting super market location have changed from selecting by guess to selecting by scientific processes. Chain super market operators developed the techniques which have proven successful. Today, the independent super market operator with the cooperation of the voluntary or co-operative group wholesaler uses these scientific techniques.

The independent super market operator has available assistance to enable him to compete successfully in the highly competitive area of new store development.

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