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THE SMALL TOWN: AN OVERLOOKED  
OPPORTUNITY?

By

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A THESIS

Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of

MASTER OF BUSINESS ADMINISTRATION

Department of Business and Public Service

1962

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## PREFACE

Since the advent of the supermarket a phenomenal growth of a form of mass merchandising never before tried can be seen. The spread of the supermarket throughout the country took place at an accelerated pace. At first little heed was given to location, but as competition grew so did the need for refinement in location theory. Today most large chains have real estate departments which employ all the very latest tools of the modern researcher in locating new sites. With this in mind, two questions come into being: "How can supermarkets fail?" and "How can independents survive and compete in this atmosphere of professionals?" The truth is that supermarkets do fail, and often! As for the independent, this is the question this paper will attempt to solve.

In looking around the country at various chains, one curious fact is seen--supermarkets are in the majority concentrated in large towns and cities, seemingly ignoring small towns. With a little reflection it is seen immediately that this is an important market which might be overlooked. Supermarkets, in this era of rapid expansion, have had an overabundance of large towns and cities in which to expand. With this overabundance they have not had to search for other areas. Too many independents are making the mistake of copying the location methods of the chain. By copying chain



methods the independent is forced into consideration of the large towns and cities where he is at the mercy of the chain and much more severe competition. He has not fully realized the profitable small town in which he could expand without fear of chain competition. By the time the chains have run out of large towns and cities in which to expand and start looking to the small town, the independent can be firmly entrenched and the small town will not be quite as attractive to the chain.

Obvious, now, is the need to point out the importance of the small town to the independent, showing that contrary to current thought, the small town will fit some of the location criteria that are currently in use. By careful application of some of these location criteria, the small town can become a boon to the independents.

Until the independent realizes his abilities in this area, he is going to continue to have to take the "leftovers" of the chains for sites. There is a place for both the chain and the independent but if the independent does not start to realize this very soon, he might face the prospect of severe competition by his chain neighbor. He must select his battleground and prepare for the fierce competition which lies ahead. This battleground for him is the small town.

One further qualification needed here is that much material for this paper is drawn from personal experience gained in working in small midwestern rural towns. For this reason exceptions may be found. However, it is recognized

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that the small town's characteristics are quite similar throughout the United States. To this extent, then, generalizations can be drawn.

#### Acknowledgments

The author wishes to thank Dr. Barnet and Dr. Slate of the Marketing and Transportation Administration Department of Michigan State University for their encouragement and assistance in the writing of this paper. A special acknowledgment is due all my colleagues and friends whose ideas and assistance have greatly aided in making this paper a reality.

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## CHAPTER I

### INTRODUCTION

As the growth of the supermarket industry is studied, on the surface it appears that supermarkets have not missed any opportunities for expansion. Is this true? An attempt will be made to show that, in fact, there are many areas in which a supermarket could be profitable, if run properly, but which are seemingly overlooked.

To many people, it appears that supermarket expansion has been infallible--that opportunities have not been overlooked. This is, unfortunately, not true. The problems and inaccuracies of supermarket site selection are many. This is attested to by the high death rate among supermarkets which exists. It is currently an accepted fact that the life expectancy of a new supermarket averages about ten years.

What has been overlooked by supermarket expansion? It is felt that the small town has, to a great extent, been largely overlooked in the growth of the supermarket. This has been largely a result of the fact of an overabundant supply of sites elsewhere. "The flow of proposals for shopping-centers and solo locations continues unabated. Some chains are receiving as many as a hundred proposals a week."<sup>1</sup>

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<sup>1</sup>"Chains Reveal Rules-of-Thumb for Choosing Store Locations," Chain Store Age, January 1960, p. E33.



With this amount of site offerings it is no wonder the small town is being bypassed.

It must be kept in mind here that these offerings are going to chains, not independents. The independent must still use his own site selection methods. This often involves copying chain store methods for lack of something better and entering the city. By doing this, the independent is brought into considering the same areas in the cities as does the chain. He must compete with large chains for sites, and the majority of times he loses out.

In this era of demanding and severe competition, each competitor must select his own "battleground," so to speak, in order to be able to succeed and compete effectively. It appears that the chain has already selected his in the city. What is left? The small town--which will be shown to be the refuge or overlooked opportunity of the independent.

It is obvious that the saturation point for supermarket expansion is rapidly approaching in many areas. In fact, not too many years ago it was assumed that when supermarket sales reached 70 per cent of total grocery sales the market would be completely saturated.<sup>2</sup> However, there is not full agreement concerning this, for many states have already exceeded this 70 per cent limit. Supermarket sales enjoy over 85 per cent in some states, as is evident in Table 1.

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<sup>2</sup>Christos D. Lillios, "Super Market Site Selection" (unpublished M.A. thesis, Michigan State College, 1953), p. 118.

TABLE 1  
 SUPERMARKET SHARE OF  
 GROCERY SALES

State	Super % of grocery sales
Colorado	93
Nevada	92
Delaware	87
New Jersey	85
South Carolina	84
Utah	84
Florida	83
Washington, D. C.	83
New Mexico	82
Alabama	80
Arizona	78
Virginia	78
Washington	77
Georgia	77
North Carolina	76
Connecticut	75

Source: Super Market Merchandising,  
 May, 1960, p. 70.

Granted this shows only total sales distribution and that under this there comes the breakdown of the chains and the various independent groups. But the fact remains that as this share of grocery sales increases, the proportionate number of available expansion opportunities is bound to decrease. It is obvious that expansion will not have to cease at 70 per cent of total grocery sales, but it is also obvious that this saturation point is nearing rapidly. As this happens, supermarkets are going to be forced into considering more and more areas; one of these areas, it is felt, will be the small town.



The number of families available per store has decreased 59 per cent since 1940. In 1940 there were 5,659 families for every supermarket--in 1959 there were only 2,310. This is another valid indication of our approaching saturation point and is brought out in Table 2.

TABLE 2  
NUMBER OF FAMILIES  
PER SUPERMARKET

Year	No. of families per supermarket
1940	5,659
1950	3,014
1959	2,310

Source: Super Market Merchandising,  
May 1960, p. 70.

Of course, it must be remembered that the tremendous concentration of supermarkets in population centers affects this, but not to the extent that it invalidates the data completely. It is still something which needs attention drawn to it and an awareness made of it.

A previous researcher has determined that it takes from 1,000 to 1,500 regular customers to support a supermarket designed to do a twenty thousand dollar weekly volume.<sup>3</sup> From the table it is seen that this figure is not far from being reached. The startling fact is that a

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<sup>3</sup>Ibid., p. 43.

majority of new supermarkets are designed for well over a twenty thousand dollar a week volume.

It should be obvious from the above discussion that the supermarket operator of today must begin looking for available sites outside large communities and heavily populated suburban areas. It is felt that one of these places to look is the small town. This is the possibility which will be under examination.

### On Definitions

This section will deal with definitions which will make possible the establishment of the vocabulary which will be used in the remainder of the paper.

In beginning to study the supermarket industry, one glaring fact emerges--a complete lack of a standardized vocabulary.

A prime example of this can be found in examining the definition of "super market" itself. There are perhaps as many definitions existing of the term as there are writers on the subject. Some, in fact a majority, base the definition on a yearly sales figure. Anything under this figure is not a supermarket. How ridiculous and unrealistic can a definition be? A figure often used today is the requirement of \$375,000 yearly sales.<sup>4</sup> With just a little reflection, there can be seen many stores doing less than

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<sup>4</sup>"Facts in Grocery Distribution," Progressive Grocer (1961), p. F6.

\$7,200 in sales per week, especially in small towns. In dealing with this for the purpose of this discussion, another definition of a supermarket would explain the actual concept or operation involved more fully. With this in mind, a definition which is far superior and one which will be used throughout the paper will be set down. The definition to be applied is: a supermarket is a self-service type retail outlet which is departmentalized to the extent that it sells groceries, fresh meat, and fresh produce. It also will have some general merchandise and will have varying proportions of all of the former. No restrictions on the amount of sales or type of ownership will be made. It is recognized that this definition does not distinguish between a bantam or superette and a supermarket. For purposes here this is recognized, but it is felt that a supermarket can have equal sales and still be distinguished from a bantam because of a broader and more diversified product line. Each case must be studied and considered separately, but it is felt that the latter definition will suffice here.

The next area of conflict comes when considering a definition for independents and chains. We find that definitions run from the type of buying to the number of outlets involved. Progressive Grocer defines an independent as an organization having ten or less stores, and a chain as one having eleven or more.<sup>5</sup> This is a very limited definition which does not encompass the true meaning of

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<sup>5</sup>Ibid., p. F6.

independence. A definition has also been given which states something to the effect that a chain is under centralized buying and management. If this were taken literally, it can also be seen that an independent is also under centralized buying and management. The question of who is truly independent, in the broad context of the term, in today's supermarket is questionable. There may be a few, but it is feared that severe limitations would be imposed by holding to the broader meaning of the term. As it is thought of today, the concept of independence has changed to a great extent. Perhaps the definition of Mr. Joseph Foy, general manager of Spartan Stores, would suffice. Mr. Foy prefers to define the independent as an "individual operator." This would help solve the problem to a great extent if elaborated upon.

The independent supermarket operator will be defined as an individual who owns and operates his own store or stores on a local basis. By the term "local," reference is made to one area or section of a single state. This definition could perhaps be expanded to include the fact that the individual is also recognized in the community as the owner and operator of his own stores. In this sense, it is said that he has a "local" image. This definition, it is felt, will satisfy purposes to a greater extent in further discussions. It will be used in all cases except where otherwise indicated. It must be realized that all historical data applies different definitions, so whenever



the data encompasses a different definition, it will be noted. There will be no differentiation made between co-operative and voluntary type operators.

The next problem area involves the definition of a chain. Progressive Grocer defines it as an operator of eleven or more supermarkets, as noted earlier. Again, a problem must be considered, for it is quite conceivable that the independent operator, as defined, could own eleven or more stores. The definition must be such that no overlapping exists.

A chain will be defined as an operator of more than one store of which total ownership is not closely held by one or two individuals and whose stores are located on a national or regional basis. By "closely held," reference is made to one or two individuals having a minimum of 51 per cent interest. The term "national" encompasses more than one state and "regional" usually refers to an entire state or a majority of a state. This will again be qualified further by saying ownership is not identifiable to individuals in the community. In this sense, the chain does not have a "local" image. Again, indication will be made when a chain is used in a different sense.

In the discussion, the term "supermarket operator" is often used. When found stated in this manner, it refers to all supermarket operators--both chain and independent.

Supermarket expansion will also be discussed. Expansion concerns building, developing, and operating a

supermarket in a particular area.

From the above discussion it is seen that the criticism of a lack of vocabulary is completely justified. Until the supermarket industry realizes this, it will always be hampered. This difficulty will arise whenever an attempt is made to write on or discuss the topic of the supermarket industry. This is a serious charge to be leveled at any industry. If there is no common vocabulary, how can discussion and comparison of operations, operators or anything else be made? The truth being that it is impossible unless it is quite plain as to the definitions implied. This serious flaw will continue to exist until members of the industry decide to get together and establish the necessary groundwork in a working vocabulary, that is so desperately needed today.

The next definitions can be dealt with more easily. Consider a small town as a town of 5,000 population or less and larger towns and cities as greater than 5,000 population. In most cases the discussion of small towns will involve the rural agriculture type community. However, this will be indicated as such in the discussion.

### Problem

Does the small town hold a hidden potential for profitable expansion of supermarkets? If so, for independents mostly, or also for chains?

### Objectives

To study over-all growth of supermarkets into various areas to discover whether expansion of supermarkets into small towns has been overlooked.

To study the characteristics of the small town market and relate this to the type of data and operation which will be necessary to compete in this particular market.

To discover whether the small town is actually profitable.

To discover whether the small town is better suited for chain or independent expansion.

To urge the consideration of small towns if they do turn out to be profitable.

To construct recommended site selection procedures for adequately measuring the small town.

### Hypothesis

There is an untapped potential for supermarkets in the small towns of America.

### Methods

The methods to be employed are basically historical and descriptive analytical. The first intention will be to study current definitions and to adopt others while pointing out existing fallacies. A study of supermarket expansion will be made from a historical viewpoint, relating it to the chain, independent, and small town.

In making use of the descriptive analytical technique, a questionnaire was employed. This questionnaire was sent to seven of the top fifteen national chains picked at random--three regional chains and one voluntary group. It is hoped that this would give a good representative sample of chain stores. Armed with historical information from independents, fairly valid assumptions can be made. Refer to Appendix A for a fuller treatment of our questionnaire. On the basis of this and the historical data, a study will be made on the growth of supermarkets, differentiating whenever possible the independent and the chain store. A study of both past and current growth into the small town will be included.

An attempt will be made to determine the reasons for supermarket expansion seemingly overlooking the small town. In this sense, store location methodology for both the independent and the chain will be studied, as will the availability of sites in relation to expansion, the market structure of the small town, costs of locating in a small town, and any other data which would be pertinent to the discussion.

The next attempt will be to analyze the small town to determine whether it is better suited for chain or independent expansion and to determine whether small town supermarket expansion is profitable. To do this, a comparative profit and loss statement between large city based chains and small town independents will be constructed.

From this comparative profit and loss statement it will be shown that the net profit obtained in small towns is greater than the chain in a large city. It will be seen that the return on capital investment is greater and that competitors are fewer in the small town.

By careful projection of the two sources of data, it will be noted that in the future the importance of the small town market will continue to grow rather than decline. By careful analysis both of existing historical information and the questionnaire, it is hoped to prove to the independent that he has a great many advantages and an unlimited number of available sites in small town areas.

## CHAPTER II

### THE SMALL TOWN--AN OVERLOOKED OPPORTUNITY

When studying the concentration of the supermarket industry by town size, a stumbling block is met: there are very few published figures as to concentration by town size. However, the figures for the year 1941 are available to give an idea of the conditions as they existed then.

The present distribution of supermarkets is as follows: 28.4% in cities of 500,000 and over; 21.4% in cities from 100,000 to 500,000; 22% in cities from 25,000 to 100,000; 12.9% in cities from 10,000 to 25,000; 7.3% in cities from 5,000 to 10,000; 4.7% in cities from 2,500 to 5,000; and 3.3% in cities under 2,500. In 989 cities of 10,000 population and over, we find the greatest supermarket concentration, with 84.7% of the total.<sup>1</sup>

According to this, it can be seen how the supermarket industry as a whole has avoided cities under 5,000 population almost entirely--only 8 per cent of all supermarkets are found in towns under 5,000. One may ask if this information can be applicable to today. It is felt that today this figure of 8 per cent is grossly overstated, for "the total number of grocery stores declined from 444,950 in 1940 to 285,000 in 1958, or about 36 per cent."<sup>2</sup> This can also be

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<sup>1</sup>M. M. Zimmerman, "The Supermarket and the Changing Retail Structure," Journal of Marketing (April 1941), p. 403.

<sup>2</sup>Mueller and Garoian, p. 20.

made more clear by the use of a table showing the amount of population per store.

TABLE 3  
NUMBER OF GROCERY STORES AND U.S. POPULATION

Year	Population (Millions)	Grocery stores (Thousands)	Population per store
1940	132.1	444.9	297
1945	139.9	397.7	352
1950	151.7	400.7	378
1958	175.4	285.0	615

Source: Willard F. Mueller and Leon Garoian, p. 20.

This does not give a true indication of the growth of the supermarket itself for it has to be noted that a large share of this decline can be attributed to the closing of several small stores and the opening of one large one. This was the practice of the majority of people in the grocery business when the era of supermarketing rapidly became a fully accepted practice. The table also gives only grocery stores and not supermarkets. In this sense it is quite limiting.

However, if there were only 8 per cent of the supermarkets in towns under 5,000 population in 1942 and if the total number of grocery stores (which includes small "ma and pa" operations) declined 36 per cent, it would seem likely that this was felt in all areas. A better insight of this matter was gained from the questionnaire.

Of the five national chains replying, representing a total of 3,186 supermarkets, only two had supermarkets in towns under 5,000 population. Among the two chains, these units added up to a total of only 57 supermarkets in these small towns, which only approximated 2 per cent of the total stores owned by all five. This is a very interesting fact: It shows that chains, up to now, have not been tempted to enter small towns.

Three of these chains said that they were planning to close some of the stores in the small towns for lack of profitability. This point will be examined more fully in a later section of this paper. It is interesting to note, however, that among all these chains, the absolute floor they would consider was a population of at least 6,000 people.

In the questionnaire, replies were also received from two regional chains. Of these two, one would consider towns of 3,000 population and the other set a limit at 10,000 population. In the smallest town entered last year by any of the seven national and regional chains which reported, the population was 3,500 and four chains indicated they would definitely not consider a town with under 5,000 population.

The most interesting point in the questionnaire came about from a reply received from a very successful voluntary group. In this reply the group stated it would consider a store in a town with a population under 5,000. In fact, it



would consider a town with as low a population as 1,000. It had entered, and planned to enter towns of this size and larger. It considered towns with population under 5,000 to be highly profitable!

The significant factor here is that the voluntary group is a representative of independents and shows that perhaps the small town is only profitable for the independent. This fact shall be substantiated later.

If chains have not and are not considering small towns for the installation of their own stores, then there is just one other place where they could be building--the larger town.

As an average, the 20 largest chains in 1958 have increased their operations 194 per cent in the 253 largest cities. Table 6 shows this quite vividly. One may note in the table that all chains listed have expanded quite rapidly into these cities since 1942. Only one, A & P, has actually declined in the number of cities operated in. One chain, Weingarten, has increased its operations in these large cities a phenomenal 800 per cent from 1942 to 1957. This certainly points up the fact that the main expansion of the chain has been in the larger cities.

In using percentages for comparison, caution must be taken in order not to inflate actual comparisons. For example, Jewel Tea operated in only one of these cities in 1942. In 1957 they operated in eight. An increase of some 700 per cent, but in actual number only seven more cities

TABLE 4  
OPERATIONS OF THE LARGEST CHAINS IN THE  
258 LARGEST CITIES<sup>a</sup>

Chains	1942	1957	1942 per cent of total cities	1957 per cent of total cities	Per cent change 1942-57
A & P	212	200	82.2	77.5	-5.7
Safeway	75	79	29.1	30.6	5.3
Kroger	73	100	30.2	38.8	28.2
American	32	35	12.4	13.6	9.4
First National	18	18	7.0	7.0	0
National Food	19	58	7.4	22.5	205.3
Colonial	16	37	6.2	14.3	131.3
Jewel Tea	1	8	0.4	3.1	700.0
Grand Union	13	21	5.1	8.1	61.5
Food Fair	18	35	7.0	13.6	94.4
Bohack	4	4	1.6	1.6	0
Loblaw	7	13	2.7	5.0	85.7
Stop & Shop	5	10	1.9	3.9	100.0
Weingarten	1	9	0.4	3.5	800.0
Red Owl	5	14	1.9	5.4	180.0
Winn-Dixie	6	29	2.3	11.2	383.3
Lucky	2	10	0.8	3.9	400.0
ACF-Wrigley	-	14		5.4	
Penn Fruit	1	5	0.4	1.9	400.0
Fitzsimmons	1	4	0.4	1.6	300.0

<sup>a</sup>These cities are the largest in 1942. The smallest of these cities in 1942 had a population of 18,000.

Source: Willard F. Mueller and Leon Garoian, p. 29.

were used. Perhaps it would be better to see just what the average increase in the number of cities operated in was. From the table one can compute this average easily, and we find that the average is 9.45 more large cities operated in by the chains in the period from 1942 to 1957. This still

is quite significant, pointing out that the chain considered the large city his most important growth area. This fact is also borne out by studying Moody's Industrials for the past ten years as to the activities of expansion and contraction engaged in by the chains. From this it can be noted that as a generality the chains have tended to move away from the small town and into the larger city and more heavily populated areas. This might give the independent a clue to the fact that he might be too strong in these areas for the chain to be able to compete successfully.

One other comparison might be important to show and that is the average number of chains in cities of various sizes. This is given in Table 5, comparing 1942 with 1957.

TABLE 5  
AVERAGE NUMBER OF CHAIN RETAIL GROCERY FIRMS  
IN CITIES OF VARIOUS SIZES

Population	No. cities in each group		Average No. chain firms		Average top 20 chains	
	1942	1957	1942	1957	1942	1957
Under 35,000 <sup>a</sup>	33	6	3.2	4.7	1.8	2.2
35,000 - 59,999	52	58	3.0	5.3	1.8	2.5
60,000 - 99,999	45	46	3.4	6.1	1.9	2.6
100,000 - 249,999	42	54	3.3	5.3	1.8	2.7
250,000 - 499,999	17	19	3.1	8.0	1.8	2.8
500,000 and over	11	17	6.4	9.6	2.2	3.1
Total	200	200				

<sup>a</sup>The smallest city in 1942 had a population of 18,000; the smallest in 1957 had a population of 31,000.

Source: Willard F. Mueller and Leon Garoian, p. 32.

From this table it is seen that in the period from 1942 to 1957 in cities of over 500,000 population, the average number of chains operating in these cities increased from 6.4 to 9.6, an increase of 3.2 chains. While in cities under 35,000 population, the smallest of which was 18,000, the number of chains increased only 1.5. The greatest increase was in cities with a population from 250,000 to 499,999. There was an increase of 4.9 chains operating in these cities in 1957 from 1942. This table, along with the others, shows the great importance that the large city holds for chain expansion.

From the data given and what can be inferred from previous readings and studies, one can be quite safe to say that as far as this author has gone, the past movements seem to be for the chains to be leaving the small town and entering the city. As for the independent, it is rather hard to say for there are very few areas in which the independent does not exist and the data is hard to obtain as far as his past movement is concerned. But it must be noted that from pages 14 and 15 in this paper, it would seem that the independent probably has followed this movement of the chain, perhaps to his own detriment. Interestingly enough though, the voluntary group recognizes and promotes the value of the small town to the independent. If this keeps up, the importance of the small town should become more fully realized.

In closing, it might be well to note that prior to World War II, towns under 5,000 population represented only 11 per cent of the total population, maintained 40 per cent of the stores and did 23 per cent of the total business in the United States.<sup>3</sup> It is also interesting to note that during this time, 25 per cent of the nation's food sales were done in towns with population under 5,000.<sup>4</sup> This is the last study of this nature done. In the future this type of study could prove quite valuable to the small town operator.

In the ten years from 1950 to 1960 the population in rural areas declined from 54,478,981 in 1950 to 54,054,425 which is a decline of 424,556 people or approximately 0.8 per cent.<sup>5</sup> This decline is not really too significant since this included areas generally under a population of 2,500, also all rural areas, including farms.

In the 1950 census there were 2,315 towns with a population of 5,000 and under; in the 1960 census this had increased to 2,748 towns.<sup>6</sup> These towns accounted for 4.6 per cent of the population of the United States.<sup>7</sup> It is

<sup>3</sup>Nelson A. Miller, "Small Towns: A Most Important Market," Domestic Commerce (August 1944), p. 3.

<sup>4</sup>Ibid., p. 3.

<sup>5</sup>Bureau of the Census; U. S. Department of Commerce, U. S. Census of Population 1960: U. S. Summary: No. of Inhabitants, pp. 1-5.

<sup>6</sup>Ibid., pp. 1-13.

<sup>7</sup>Ibid., pp. 1-13.

quite evident from these figures that the small town, taken in total, is not on the decline, but rather the reverse. This is very significant for operators wishing to locate stores in small towns.

### Store Location Methodology

Supermarket site selection methods appear to be one of the reasons for supermarket expansion seemingly overlooking the small town. The reasons are many--some supermarkets have already lost out in small towns, while for the most part they limit their choices by the criteria they set down. In examining these criteria the reasons become obvious.

"If the location is in a community of less than 10,000 population, we don't take it," a midwest food executive says. "This is not the result of bad experiences but of the fact that the smaller community represents a greater gamble because the smaller community can more easily be over-stored. The larger communities in our experience, seem less vulnerable."

We are not interested in older communities where buying habits are firmly established.

We would turn down any site served only by a limited access highway, regardless of the traffic it carries.

There must be 40,000 people residing in a radius of two or three miles, and with room for growth.<sup>8</sup>

In the questionnaire done for this paper, it was found that of the food chains answering, 100 per cent considered population as the paramount factor, but they limited this to a population of 6,000 or more on an average. The

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<sup>8</sup>"Chains Reveal Rules-of-Thumb for Choosing Store Locations," Chain Store Age (January, 1960), pp. E33-E34.

consensus of opinion seemed to be that there "was not enough business in a small town to support a supermarket type of operation." Some of the other factors considered were: Number of competitors, growth possibilities, available sites, profit and loss estimate, warehouse distance, accessibility, traffic counts, income of the area, and aerial photos.

"Labor expense is by far the largest single operating expense. Hence, there is always the consideration of available labor supply, pay rates, and union conditions."<sup>9</sup> Yet in the questionnaire 80 per cent of the answering chains gave no consideration to this at all. They seemed to go on the assumption that these were constant factors. Considering that union organizers keep close tab on chain stores, this may very well be true for chains, but an independent should be able to exploit this to the full advantage. Unions are not usually as concerned with a small independent as they are with chains.

What are some more of the "scientific measurements" used by supermarkets in determining sites?

At American Stores, for example, C. W. Parkhill, manager of the real-estate department, first checks these factors: Is the road pattern right? Is the site big enough? (For a solo store, American Stores looks for no less than 90,000 to 100,000 square feet so that it can achieve a parking ratio of about 4 to 1.) Does the location now have the needed population within a limited radius?

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<sup>9</sup>William Applebaum, "Evaluating Store Sites and Determining Store Rents," Chain Store Age (March, 1958), p. 226.

A West Coast food chain, Thriftmart, Inc., uses this rule-of-thumb in considering a proposal for a center location: Are there 3500 homes within a radius of a mile?

. . . At Penn Fruit, Christian Brenneman, in charge of real estate, looks for one factor before all others: the competitive situation.

Another Philadelphia food chain, Food Fair, rates the location "must" factors as follows: competition, access, size of population in the trading area, size and physical condition of the site.

Purity Stores, Ltd., 100-store California food chain, must know: presence of required number of families within  $\frac{1}{4}$  mile and  $\frac{1}{2}$  mile, number of residential postal services, estimated sales per person of family, and projected volume based on return on investment.

From the standpoint of competition, if an area is already well fixed with stores we're not interested. In other words, we feel there must be a "real need" for our type of operation for us to be interested.

Competition within an area, particularly from our own stores, is weighed carefully. If the proposed location is within five or six miles of one of our existing stores we automatically say no if it is a comparable store.

Road patterns are important in determining whether we'll look further or drop a proposed location. It must be on at least one major highway, possibly two.

If it is a limited income area, we are not interested. We go back 10 years investigating retail sales in the area and buying trends to determine its desirability.<sup>10</sup>

One other main criteria cited by chain stores was the proximity of their warehouse. If the warehouse was not within a reasonably close radius easily accessible, the site was not considered. This is quite important, but one begins

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<sup>10</sup>"Chains Reveal Rules-of-Thumb for Choosing Store Locations," pp. E33-E34.



to wonder if it is not "putting the cart before the horse." It seems a shame to think of profitable sites being discarded for this reason. This perhaps may be another reason for the small town failing to meet chain store criteria.

It can easily be seen that the independent cannot copy the location methodology of the chains if he wants to consider this volatile market in the small town. Granted, for the chain store type of operation there is little choice, if the chain wants to be successful, but to remain in the city. This is where the chain can compete and compete very effectively, but this is not where the independent belongs.

In fact, in evaluating the success of some of this methodology, it can be questioned if it is of any value whatsoever.

There are several indications of this--one, of course, is the high obsolescence rate of a new supermarket. A current figure for the life of a supermarket is ten years.

Another indication of some of the shortcomings involved in site location research is made clear by Curt Kornblau, research director of the Super Market Institute, who reports that: "Over half, 52 per cent, of the new Super Markets built in 1959 are doing less business than anticipated, and 13 per cent are doing just about as predicted."<sup>11</sup>

The most frequently cited reasons (for this failure) have to do with competitive factors, according to what operators themselves admitted. Such explanations as: saturation with Supers,

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<sup>11</sup>"How Scientific is Location Research?" Super Market Merchandising (May, 1960), p. 61.

difficulty in winning shoppers away from other stores, heavy counter-advertising, and so forth.<sup>12</sup>

However, this probably is more the case of improperly applied methodology, rather than a complete failure of the methodology itself. It is felt that if location methodology is carefully selected and applied that it can become a valuable aid in the location of stores.

One hundred per cent of the supermarket operators interviewed said they would not locate a store in an area saturated with supermarkets just for the sake of gaining a representation in the area. Yet, in almost every case, an example is cited where these very supermarkets did just that. In a private interview with the head of a large national chain's real estate department, it was admitted that this very thing was done. This is borne out further from previous studies which show that "in almost every large city there are areas that are overstored and have too many supermarkets servicing the population of the area to allow a reasonable return on investment for the stores in the area."<sup>13</sup> This is absolutely ridiculous, for instead of a few making a profit they all lose money. Joseph Seitz, former president of Colonial Stores, Inc. (11th largest chain), voices a common complaint: "The way stores have been located in past years has been pure insanity on the part of

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<sup>12</sup>Ibid., p. 61.

<sup>13</sup>Bernard Joseph LaLonde, "Differentials in Supermarket Drawing Power and Per Capita Sales by Store Complex and Store Size" (unpublished Ph.D. dissertation, M.S.U., 1961), p. 139

the chains."<sup>14</sup> No wonder such a high failure rate among supermarkets exists.

Not only is the element of locating for representation contributing to this high failure, but the criteria used to measure areas themselves is also poorly constructed. Nowhere could it be found that a supermarket used an actual statistical sample to survey an area, thus allowing accurate mathematical predictions to be made. Operators have tried to lay down standardized quantitative criteria which will apply generally in all areas, failing to realize that by doing so the validity of results become questionable. Another criticism is that "the selection of a site is frequently a 'take what is available' proposition."<sup>15</sup> This amounts to the fact that most operators use expensive quantitative measures for an area and then make a qualitative decision on their "feel" for the area.

In studying the problem of quantitative analysis, one author stumbled onto something which he felt in some instances overshadowed all benefit received from quantitative research. These were qualitative factors, which may explain the inconsistency of quantitative store site selection. Some of these qualitative factors were seasonal factors, weather, accidental variations, general business conditions, purchasing power of the community, special locational

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<sup>14</sup>Ibid., p. 61.

<sup>15</sup>Christos D. Lillios, "Super Market Site Selection," p. 113.

factors, variations in types of stores, price levels, competition, size of stores, proprietor's standard of living, phone orders, and definition of locations.<sup>16</sup>

It can easily be seen that by trying to generalize, standardize, and copy location methodology of the chains, the independent will not realize that he is better suited for other areas. Also, the ideas which work in one area may not necessarily work in another. Flexibility is a necessity as inflexibility can never succeed in the demanding, competitive economy which exists today. Granted, standards are needed, but so is the ability to recognize and institute change when old standards become outmoded. Flexibility in this sense becomes an important element of success.

It is interesting to note that a previous researcher discovered this very thing in working with another type of retail outlet. He says, "The Younkers operation again illustrates the fact that no matter how excellent an original merchandising idea may be, it must be adapted to the peculiarities of its particular environment, and it must have that balance of ingredients, internal and external, which can assure its commercial survival."<sup>17</sup>

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<sup>16</sup>Kenneth Hutchinson, "Traffic and Trade Correlations: A Technique in Store Location," Journal of Marketing (October, 1940), pp. 140-142.

<sup>17</sup>Edward M. Barnet, "Innovate or Perish" (unpublished digest of Ph.D. dissertation, Columbia University, 1954), p. 18.

### Independent Site Selection

"It should be emphasized that store site selection evaluation or store location research is still more art than science."<sup>18</sup> This is probably due to the effort to standardize and also to inflexibility as mentioned above. This is where the independent should flourish because the often repeated reason for his success is his flexibility. He can adapt to areas, situations, people, etc. This should not prove a stumbling block to him whatsoever. By being able to adjust to surrounding conditions, he should have little trouble in being successful in places where the chain cannot, for instance, the small town. By a few well chosen criteria (which will be developed in Chapter IV) on the use of consumer preference surveys, which can be easily and inexpensively done, the independent should be able to be quite successful in the small town.

In the questionnaire it was found that the successful voluntary group surveyed used this very thing. It did a "complete and thorough consumer research program to determine specific consumer wants along with vulnerability of existing competition." It has "established new techniques for location analysis utilizing consumer research intensely with proven results."

It is interesting to note that this particular group considers towns under a population of 5,000 to be quite

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<sup>18</sup>William Applebaum, p. 241.

profitable; in fact, they consider towns with as low a population as 1,000.

The independent should then stop and re-evaluate his site selection criteria in an effort to determine whether or not he is copying chain methodology. He should determine his assets and then determine the best methods for utilizing those assets. By using the methods proposed, the independent should be able to operate quite successfully in the small town. The chain, by the very nature of its operations, should not and cannot operate in this way. The significant fact is that the independent can operate profitably in this manner.

#### Availability of Sites

In the past, the chief reason for the supermarket avoiding the small town has been the overabundance of better location sites available in larger population centers. In fact, there is some indication that this condition still holds true. It is estimated that some chains receive as many as 100 proposals a week for locations.<sup>19</sup>

The overabundance of sites which supposedly exists today is questioned for several reasons. Most of these reasons were mentioned in the first chapter, but for review they will be mentioned again.

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<sup>19</sup>"Chain's Reveal Rules-of-Thumb for Choosing Store Locations," p. E33.

First, the supermarket has reached a 69 per cent share of total grocery sales. Growth has, and will continue to slow down considerably. The saturation point for supermarkets is rapidly approaching.

Secondly, the number of families available per supermarket has declined 59 per cent since 1940. In 1959 there were only 2,310 families per store with an estimated need of 1,500 to support a \$20,000 weekly volume. The important consideration is that many supermarkets are designed to do well over this volume, sometimes as high as five times greater. This tends to reduce this figure considerably.

Thirdly, with an average of about 3,000 new supermarkets being built yearly, the profit squeeze and fight for sites is upon us.

Fourthly, a Business Week's study disclosed that trading areas have shrunk rapidly and all the supermarkets are now simply fighting each other. They should instead be serving the consumer, which was their original intent.<sup>20</sup>

It seems that an obvious conclusion to be made would be that as the availability of these so called "choice" sites dwindles, the supermarket will be forced to consider the small town if continued expansion is desired. It seems rather ridiculous for them to be forced into consideration of the small town. It has existed all along and, as will be shown later, it is perhaps even more profitable when used correctly.

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<sup>20</sup>"Not Much Room to Grow," Business Week (June 4, 1960), p. 45.

Costs

Costs certainly play a large part in confining most supermarkets in the larger towns and cities. Certainly, in most cases, it is harder and more expensive to advertise in a small town because advertising must be done for one rather than several stores. It is usually more expensive for transportation facilities to and from a small town. However, to be adequate in the discussion differentiation between chain and independent must be made here so that a comparison may be had.

A chain will have higher labor costs, generally speaking, for union organizers tend to follow their expansion activities quite closely. The chain has higher overhead costs in the form of administrative costs. It could also be mentioned that the cost for chain store servicing in the small town probably would be quite prohibitive.

For an independent, the majority of these costs are either non-existent or they are considerably lower than those the chain incurs. For instance, in the majority of cases, the independent does not have union wage scales. However, his cost of goods sold will usually run higher because he does not always enjoy the economies of large scale purchasing available to the chains.

It can be seen that some cost differences may account for the chains of the small town, but it is felt that many of these obstacles of profitability are overstated.



There are many other costs in chain operations which would seem to make small town operation much more prohibitive for chain than for the independent. Some of these are supplies, heat, light, water, refrigeration, and power because of a closer interest and control exhibited by the independent. Administrative overhead, something the independent has not even got in the sense the chain has, is quite important here.

There are several evidences of the lower operating expense of the independent. The independents' published data were studied and it was discovered that the composite operating expense was 12 per cent of total sales in 1956.<sup>21</sup> Chain stores, for the same period, were running around 16 per cent.<sup>22</sup> Currently, it is noticed that operating expenses have risen, but it is felt that through observation this margin of a 4 per cent spread in operating expense advantage is still enjoyed by the independent. Since these are average figures, the range may vary greatly, but it can be quite safely generalized to say the independent enjoys approximately a 4 per cent lower cost advantage over the chain.

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<sup>21</sup>This figure was obtained by combining the reported figures of stores, which could be obtained, during this period and also figures of George E. Kline, Modern Super Markets and Superettes (New York: Progressive Grocer, 1956). When these operating profits were obtained a mean average was then computed.

<sup>22</sup>This figure was obtained by examining three sources primarily: Moody's Industrials, Super Market Industry Speaks (by S.M.I.) and Operating Results of Food Chains (Harvard). It is recognized that this is quite a conglomeration, but by using weighted averages, a reasonably accurate figure has been discovered.

In observing this, it is questioned whether so called "economies of scale" even exist. It can be answered that they do, but not in all areas. For example, a chain has economies of scale in buying, but generally has higher labor costs, higher administrative costs, warehousing costs, etc. It would appear that as chains grow, they reach a point where diseconomies of scale set in. Exactly where this point is would be practically impossible to determine. One way would be to measure costs gained from "scale" versus the costs saved from "scale." When the former outweighs the latter, it is time to do some re-evaluation of goals and objectives.

It is quite obvious, therefore, that strictly from a cost viewpoint, the independent would be particularly suited for the small town. The main reason is that although one cannot expect the same volume in a small town as in a city, the same volume is not necessary with lower costs and correspondingly higher net income. For example, a small town independent with a sales volume of \$10,000 a week at a 4 per cent profit margin is not inferior to his big city neighbor chain with sales of \$40,000 a week at 1 per cent. It is easy to see that the independent is just as well off--at one-fourth the volume!

### CHAPTER III

#### CHARACTERISTICS OF THE SMALL TOWN

"The small town and rural market constitutes a challenge to the marketing man for its size and quality make it something to be reckoned with."<sup>1</sup> When examining the market structure of the small town, one can see that here there exists many reasons for chains to avoid the small town.

As noted previously, the size of the small town is certainly a formidable obstacle for the supermarket to overcome. It certainly would not be profitable to put a 25,000 square foot supermarket in a town of 2,000 people. Conversely, though, it seems that in the past many chains have even underestimated the potential of a small town with disastrous results. A large Midwest chain was finally convinced to enter a small town. For fear of their "risky" investment, they built a store so small that business has had to be turned away.

The most important consideration for the supermarket operator going into small towns (or anywhere) is the measurement of the desires of consumers. Here the small town differs widely from its larger city counterpart. This

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<sup>1</sup>Nelson A. Miller, "Small Towns: A Most Important Market," Domestic Commerce (August, 1944), p. 3.

point will necessitate a discussion of social psychology.<sup>2</sup>

It seems that in small towns the people consider themselves members of one group much more than their large city neighbors. "There are two conditions under which two or more people constitute a group. First, a group includes only persons who share norms. The second condition is that a group contains persons whose social roles closely interlock.<sup>3</sup> The factors affecting this sharing of norms and interlocking of social roles can be loosely classed under one heading--group interaction or intermingling. In this sense this factor exists much more strongly in a small town than in the larger city.

Almost all of rural life receives its justification on the basis of the direct and personal and human feelings that guide people's relations with each other. No one, not even a stranger, is a stranger to the circumambience of the community. It is as if the people in a deeply felt communion bring themselves together for the purposes of mutual self help and protection. To this end the community is organized for friendliness and neighborliness, so much so that the terms "friends" and "neighbors" almost stand as synonyms for folk."<sup>4</sup>

There is not as rigid a class division in the small towns as in the larger city; people mingle and share experiences, thoughts, and goals. Generally speaking, it

<sup>2</sup>For this discussion much material is drawn from Theodore E. Newcomb, Social Psychology (New York: The Dryden Press, 1950), pp. 436-664.

<sup>3</sup>Ibid., p. 492.

<sup>4</sup>Arthur J. Vicich and Joseph Bensman, Small Town In Mass Society (Garden City, New York: Doubleday & Company, Inc., 1958), p. 34.

has been found that in most small towns there exists usually not much over two class levels as opposed to five or six in the larger city. In most small rural towns this generally means the elimination of the two upper groups and the lower group, or some other combination. Evidence of this very fact was gathered by two sociologists studying a small (population 2,500) town in upstate New York.<sup>5</sup> In this study they found that the middle class, which they divided into two parts, contained 79 per cent of the population. The rest was the "old aristocracy, 1 per cent; traditional farmers, 10 per cent; and shack people, 10 per cent. So it can be seen that in two, subdivided, middle classes we have 79 per cent of the total population.

For these reasons it appears that in many small towns there is a tendency to view wealth, position, and size with suspicion. There is a great attraction for the "local" merchant. For some strange reason (probably the one mentioned in the first paragraph) there seems to exist a strong "belongingness and cohesiveness" in the small town. "Outsiders" are resented to a very great extent.

It might be interesting here to note what the people of the small town in New York think of themselves. Above all they considered themselves "plain folk" or "average" people. They tend to feel sorry for "city people" who have overlooked the advantages of small town life. "To be one of the folks requires neither money, status, family background,

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<sup>5</sup>Ibid., p. 52.

learning, nor refined manners. It is, in short, a way of referring to the equalitarianism of rural life."<sup>6</sup> People go out of their way to be friendly and resent those who do not.

People in small towns appear to vary more from town to town than people vary from city to city. From experience, it has been found that certain merchandise and merchandising techniques are highly successful in one small town while in another 30 miles away they fail miserably. The reason usually lies in the make-up of the town. As noted earlier, a small town generally had only two class distinctions. The assumption was made that these were the lower middle and the upper lower classes. This may not hold true in all cases, for a community may have either upper middle and lower middle, or upper lower and lower lower (or perhaps another combination). At most there would exist perhaps three divisions.

This is the reason the small town is so difficult to serve. Without proper analysis, the classes that do exist are not known. In a large city where all five or six social class distinctions exist (upper upper, upper lower, upper middle, lower middle, upper lower, and lower lower), an operator has only to be lucky enough to locate in the proximity of an area containing the class of people to which his particular store appeals.

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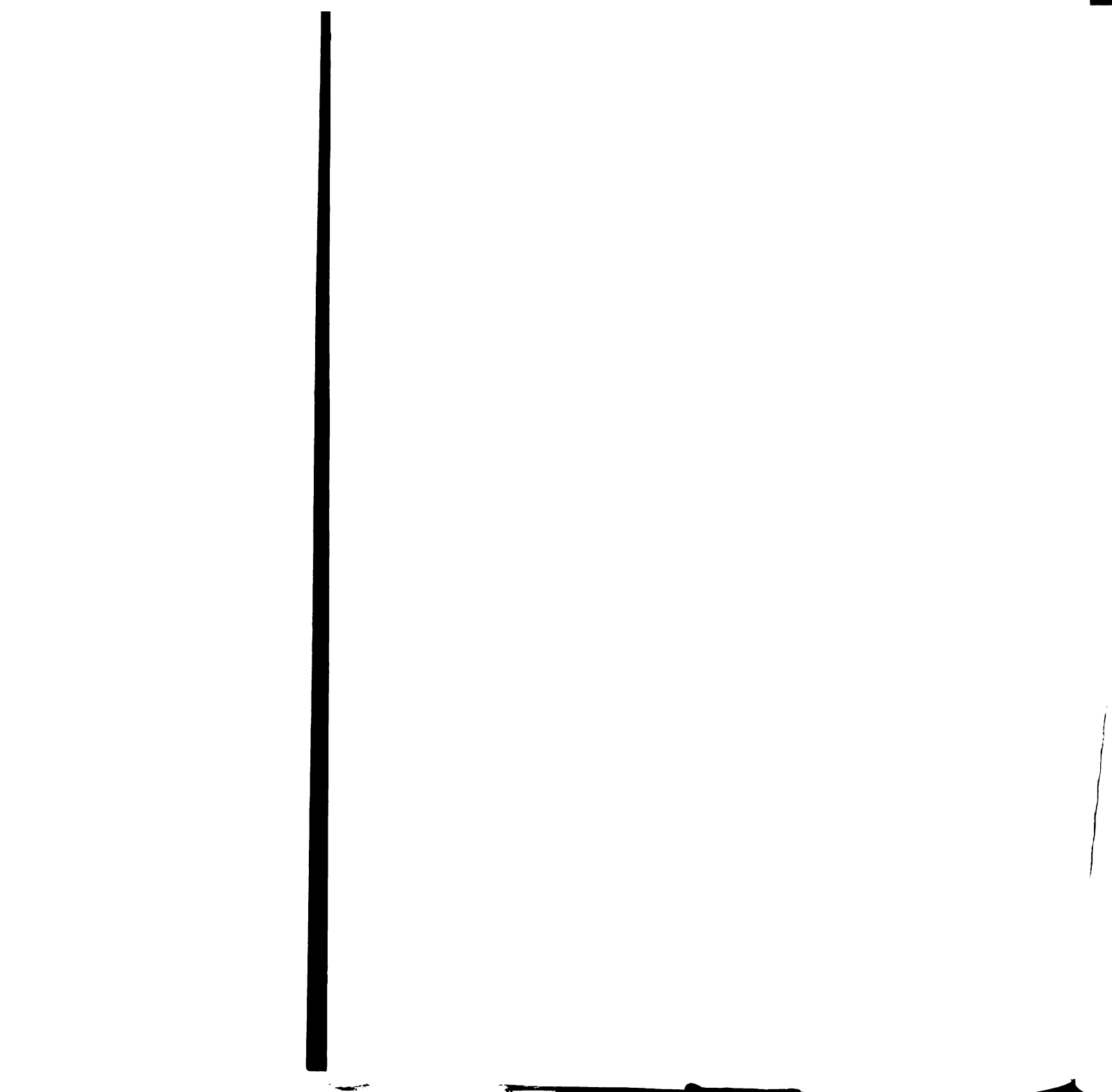
<sup>6</sup>Ibid., p. 31.

This, however, is not true for the small town where, generally, only two classes are in existence. For example, suppose a supermarket with a lower middle class appeal located in a small town which had upper lower and lower lower class distinctions. The results would probably be quite disastrous, as can be noted in many past histories.

Therefore, another main reason for supermarket failure in small towns can be surmised: failure to determine what class distinctions existed and matching the store with them.

It is easy to see that for this reason, flexibility is one of the main keys to small town success. The prevalent class distinction must be determined and the store matched to them. As in the larger city, there can be no dependence on the fact that all classes exist and that the store will match one of them. It appears that consumer research would be more important in the small town than the city for this reason. The only way to determine class distinctions in a town and the particular class "image" the store holds is through accurate consumer research.

To compete successfully in a small town, the store must match as closely as possible to the predominate social class existing. Since this two-class social structure exists, it may be necessary to design the store in such a fashion that attention will be drawn equally well from both classes. In this sense the store may have to have a two-class appeal rather than one (or whatever the situation was before).





The group "belongingness and cohesiveness" in the small town tend to make the people very sensitive to each other and to the community as a whole. The supermarket operator must be extremely careful of mistreatment and changes for this reason. He also must be a member of this group in order for his store to "belong" in the community.

Let us examine the attitudes of the people of the small New York town as an example of the type of store and manager required. Just what type of person fits into a small town such as this? It is the person who:

'forgives and forgets . . . lets bygones be bygones . . . never dredges up the past . . . lets you know that he isn't going to hold it against you.'

'is always doing something for the good of the town . . . gives willingly of his time and money . . . supports community projects . . . never shirks when there's work to be done.'

'gets along with everybody . . . always has a good word . . . goes out of his way to do a good turn . . . never tries to hurt anybody . . . always has a smile for everybody.'

'is just a natural person . . . even if you know he's better than you, he never lets you know it . . . never tries to impress anybody just because he has a little more money . . . acts like an ordinary person.'

'always waits his turn . . . is modest . . . will work along with everybody else . . . isn't out for his own glory . . . takes a job and does it well without making a lot of noise.'

'worked hard for what he's got . . . deserves every penny he has . . . doesn't come around to collect the first day of the month . . . you know he could be a lot richer.'



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'stands on his word . . . never has to have it in writing . . . does what he says . . . if he can't do it he says so and if he can he does it . . . always does it on time.'<sup>7</sup>

It is easy to see that after the above discussion the independent is truly suited for the small town. He is much more capable of fitting into and adjusting to this type of atmosphere. If this could be realized, rather than trying to fight chain store competition in cities, existence could be happy and profitable for quite some time. It appears that it will be a while before a reorientation in chain store thinking will come about allowing them to compete successfully in the small town.

The independent cannot afford to standardize his stores from town to town. He must realize that the store will have to suit the characteristics and class structures of each individual town. These are, naturally, going to vary from town to town. For instance, if you were building in a town without any dry goods stores, it would be wise to adjust your store to this and merchandise these things. Likewise, shoes, hardware, and many other such items could be included. You might have to become a "miniature discount house" in the town. Flexibility seems to be the key word here. Perhaps as the town grows and adds more of these stores of its own, the independent may show his "good neighborliness" by dropping the corresponding lines of merchandise and concentrate on other merchandising ideas.

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<sup>7</sup>Ibid., pp. 38-39.

The independent has to be very careful that he does not hurt anyone. Ruthless, all-out competition will be resented by town people and other businessmen in a small town.

### Who Best Qualifies?

It is hoped that by this point in the discussion, the independent has been able to see the advantages he has in small town locations. He has always had the flexibility and adaptability needed. The independent must realize that the small town affords a quiet refuge from the war of competition waged in the city.

The chains have wisely chosen to compete in the city, an area where they are best suited. They are not equipped for the small town. This seems to have been borne out in a discussion with the real estate director of a large national chain. In this discussion the director was questioned as to why they were not in a small town. Many superfluous reasons were given, but when pinned down, the answer was, "We are just not equipped to handle the small town. We have standard store sizes of 15,000 square feet and merchandising techniques developed for the larger city." This also was a standard reply on the questionnaire which was sent out to the chain stores.

Just what can the independent do to better avail himself of the small town opportunities will be discussed in the next chapter.

## CHAPTER IV

### SMALL TOWN MEASUREMENT CRITERIA

Considering small town supermarket expansion, one great site selection difficulty is immediately solved--that of locating a site within the town itself. In most small towns the business district is spread along one principal "main street" so the only problem is to find a site somewhere along this business district. Generally this is not too difficult, for, in many cases, there are older retailers quite willing to sell out. If extremely fortunate, there may be empty lots available. There is the possibility, also, of locating the store off this main street one block or so, on a side street. In many growing communities today this is the practice since the "main street" no longer offers available real estate. Caution should be used in selecting such a site, however. Be sure that the town exhibits the growth and expansion in this direction before attempting such a move.

#### Specific Criteria

The site selection process for small town expansion comes down to the measurement of almost only one variable, which is the determination of a town to enter. To determine



this, there are many criteria which can be used. In this first section only specific necessary criteria will be discussed.

The first thing needing consideration is the over-all potential of the town. The easiest measurement is to survey the town personally, watching for building taking place. Study the business district and the stores--are they modern? Check population data--has the town grown? Since it is a rural town, drive around and observe the farms--are they run down or modern with new buildings? Talk with people on the street; gas station attendants can be very cooperative in this respect. Question farmers; they love to talk and generally have a good deal of information concerning the town which, if weighed carefully, can prove to be quite valuable. Determine what industry is in the town, if any. What are the prospects for new industry, or are people hostile toward industry?

In this sense census tracts can be valuable to the person selecting the site in that he can compare previous ones to see trends, increases in population, and also in building.<sup>1</sup> These will help also to determine just how the population is concentrated and the feasibility of the venture. However, it must be remembered that a census tract retail trade area does not represent areas in which people trade.<sup>2</sup> One further complication is that areas are mere

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<sup>1</sup>Benjamin Felsten, "Census Tract Data in Locations Work," Chain Store Age (December, 1957), pp. 211+.

<sup>2</sup>Ross M. Cunningham, "Evaluation of Census Tracts," Journal of Marketing (April 1951), pp. 463-470.

geographical groupings, laid out to follow census tract boundaries and specific good trade areas.<sup>3</sup>

Other considerations are the transportation facilities in the town. Such things as railroads, buses, good main highways and secondary roads, etc. Other good items worth checking are recreational facilities, such as bowling alleys, parks, swimming pools, golf courses, movie theaters, and fairgrounds. The latter is a good indicator; the county fair ground in the rural area is, in many cases, located in the most progressive town. Also worth checking is whether the town would happen to be a county seat. This is sometimes a good indication of a leading town. Schools and churches should be observed for newness and size.

All of the above preliminary checks should enable the supermarket operator to obtain a "feel" for the town and its people. It should help him to judge whether the town is growing or dying and whether or not he would like to become part of the community.

One other observation would be the proximity of this town to other towns and cities. Recall that in Chapter III, it was discussed that a large city apparently does not draw people from a smaller town for food purchases. With clever promotion and advertising campaigns, the small town supermarket may even realize a nice market from the city. As was mentioned, this very thing has been observed.

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<sup>3</sup>Ibid., pp. 463-470.



Check for a newspaper in the town. This appears to be a very important factor for "it was found that approximately 2/3 of the consumers did most of their shopping in towns whose papers they read."<sup>4</sup>

Perhaps the small independent should not consider too rapidly growing and progressive small towns. In a few years he will be faced with added competition in the form of both more independents and chain stores. Unless he feels quite secure in his competence to compete, this is a factor to be weighed very heavily. It might be better for such an independent to find a small town, or towns, which are experiencing a reasonable growth rate and one in which he would not have to fear further competition for years to come. All the while he can enjoy a reasonable, profitable, and steady growth along with the community.

The second thing to consider is the factor of competition. Competition in the town under scrutiny needs to be evaluated carefully. This is done easily by visiting the town and the competitors yourself. From experience the person should be able to size up competitors quite accurately. Their stores should be checked for service, courtesy, cleanliness, width of product line, and above all, their perishable departments (i.e., meat and produce) should have careful evaluation. If ever a supermarket will be vulnerable to competition this is a main area. Their volume can be

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<sup>4</sup>Austin S. Bratcher, "Methods of Delineating Retail Trade Zones," Journal of Marketing (January, 1939), p. 262.

estimated by allowing between \$2.50 and \$3.00 sales per square foot. This seems to be a very standard figure which was brought out in the answers on the questionnaire. Check for saturation in the town by estimating volume of all the stores and then determine total food sales in the town by taking the population times \$323.<sup>5</sup> If the stores do not appear vulnerable and the town seems to be saturated from pre-estimates, it is useless to continue any further. One word of caution, since the small town has such a great drawing power, supermarkets within a five to ten mile radius would be worth examining.

Generally, the small town will have no other supermarket besides the "run of the mill, ma and pa" type stores. In this case the competition will be extremely vulnerable to an independent supermarket. As hypothesized before, it might be well to examine these competitors for a possible manager. In many cases the small town will have a very capable individual who has never had the capital backing to build a small town supermarket. It may be possible to offer a share to this operator (e.g., let him build and own the building) and train him to manage the store. In such a case an independent identity would be quickly established and an immediate customer following could be had.

Upon deciding that competition would be vulnerable from the above overview, a closer study is needed. This

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<sup>5</sup>This was per capita food sales in 1960 determined by "Facts in Grocery Distribution," Progressive Grocer (1961), Inside cover.

involves consumer research to a great extent. It is necessary to take a sample of the population and interview people through the means of questionnaires. Since a small town has a great drawing power, it would probably be wise to also include surrounding farms when selecting the sample of the population to be interviewed. Discover competitors' strengths and weaknesses, how loyal his customers are, ascertain consumer wants, dislikes, desires, and preferences in a supermarket. Determine shopping patterns and where people shop. Where would they like a supermarket located? What would they like in it? Upon obtaining this, a store needs to be built to the tastes and preferences of the area--not the owner. This needs to be re-evaluated constantly and changed with time; for this there are also many means available.

In some cases it might be best to use a general questionnaire which would not identify the purpose or the sponsor of the survey. By not doing so people will not realize who it is done for and, therefore, will not form preconceived negative attitudes toward your new store. This will be left to the discretion of the individual. Every case will be different and the survey adjusted accordingly.

It must be emphasized, in light of the discussion of Chapters III and IV, that the necessity of consumer measurement in a small town is vital to success. Because of the market structure existing, the supermarket has to be built conforming to the class image and bending to the desires

of the people. The supermarket also has to build and maintain the "image of independency," for without these two factors any degree of successful expansion into the small town will be nearly impossible.

Upon completing the survey and deciding to build a supermarket, the next factor for consideration is a sales estimate. This can be obtained from data obtained in the previous survey. After preferences have been established, "the analyst should then make an estimate, block by block, of the percentage of business that would go to a new facility, based upon an analysis of all these factors, including the circulation patterns of the people in the trading area."<sup>6</sup>

Upon estimating sales potential, the size of the store needed can be approximated by allowing a \$3.50 to \$3.00 sales per square foot.

The expenses need to be studied and evaluated separately and estimates made separately for each one. Since labor is the major expense, the labor market and also the cost needs to be studied most thoroughly. Check for available employees, unions, and the going wage rates. From here the remaining expenses may be estimated.

"The evaluation of any location, therefore, should include a study of not only the prospective sales but also the profit opportunities of a new unit."<sup>7</sup> The profit

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<sup>6</sup>Richard L. Nelson, The Selection of Retail Locations (New York: F. W. Dodge Corporation, 1958), p. 162.

<sup>7</sup>Christos D. Lillios, p. 113.

potential of a store must (then) be related to return on capital investment."<sup>8</sup>

With the above information reliably and accurately obtained, the supermarket operator should be able to maintain a successful expansion program into small towns. However, there are some general and miscellaneous criteria to consider. In most cases the small independent cannot afford the techniques employed by chains and for this reason the above discussion contained what is considered to be a minimum of criteria needed for small town expansion.

#### Other Measurements Which May Be Employed

The first of the "other" criteria is the use of aerial photographs. This gives a good indication of population concentration, type of farms, quality of farms, highways, and other transportation facilities.

The more wealthy entrepreneur may hire professional real estate and market research experts to come into the area to survey the land. They can adapt a broader and more specific knowledge to an analysis of the trading area. In view of costs, and accuracy of estimates in the first place, this would seem quite prohibitive.

It is possible also to obtain the number of telephones in existence, the number of farms having electricity and running water. The postal service can be evaluated. Traffic

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<sup>8</sup>William Applebaum, "Evaluating Store Sites and Determining Store Rents," Chain Store Age (March, 1958), p. 226.

counts by the proposed site can be taken and compared with other sites. Extra parking facilities in the town should be located.

More of these "other" criteria were already given and can be found in Chapter II on the discussion of site selection methodology. The above discussion should, however, give the supermarket operator a good idea of the many tools available if he should choose to use them.<sup>9</sup>

### Further Considerations

Again the fact of drawing power needs to be urged when considering a small town. This and market adaptation are two of the most important factors to consider.

A past researcher has reached other interesting conclusions bearing mention at this time:

On the basis of the research the following general conclusions can be drawn: (1) Store complex is an important influence in determining the drawing power and per capita sales of the supermarket. (2) Store size is not an important variable in determining the drawing power and per capita sales of the supermarket. (3) There exist distinct and significant patterns of drawing power and per capita sales which can be isolated and quantitatively analyzed as a basis for future location decision.<sup>10</sup>

In areas with tourist trade and seasonal employment, this "floating population" must be taken into consideration

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<sup>9</sup> If the reader is interested in investigating even further in retail site selection methodology, consult the book by Richard L. Nelson, The Selection of Retail Location (New York: F. W. Dodge Corporation, 1958).

<sup>10</sup> Bernard Joseph LaLonde, p. 4.

when determining market potential.<sup>11</sup>

There are many such considerations, too numerous and too important to go into at any great length here. It is felt that if the original specific criteria are followed closely, with an attempt to achieve a reasonable degree of accuracy, the supermarket operator of today should be able to expand into the untapped market of the small town with remarkable success.

After a store is in operation for a while, there are many ways to continue to fit your store to the town you serve. Of course, the success of the store initially is a good indication to this.

Another valuable area would be an analysis of operating data. This again can be used to a twofold purpose of giving us future information and a measure of effectiveness of the fact. The next section goes into the latter area more extensively. This will concern itself with only the prediction aspects.

The operating data that can be particularly useful are:

1. Sales per product
2. Sales per department
3. Sales per hour of labor
4. Sales per customer
5. Total store sales

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<sup>11</sup>Reinhold P. Wolff, "Estimating the Market Potential of a Floating Population," Journal of Marketing (July, 1954), p. 12.

6. Store profit
7. Various other miscellaneous measurements, such as observation of competition, profit and loss statements, etc.

If these were broken down into days and weeks, it would be possible to predict trends and determine much valuable information about the market served. For example, by sales per product we may determine that Kosher products move very well and one can realize that a predominately Jewish area is being served and, therefore, merchandise accordingly. The sales figures tell peak traffic times, when the largest orders are bought, and when you should therefore advertise and what you should advertise. It is felt that many more uses can be gathered to determine more about the market area and its characteristics. This, in turn, will make merchandising more effective.

Another good method which can be used is comparison figures of operating data between stores. One word of caution here is that accounting methods vary greatly; be sure that the system used for recording is the same before comparing. Also recall, areas differ. One other word of caution, and that is on sales per customer. If located in an area close to a school with children buying a large quantity of candy and gum, this may invalidate sales per customer.

There are some direct means available for obtaining valuable market information and this is through employees, customers, salesmen, and personal observation. It is felt



that employees and salesmen are particularly valuable because they are usually well acquainted with the area and its peculiar characteristics.

Other sources available to you are various government reports and various commercial firms, such as Super Market Institute. It is felt that it would be particularly valuable to list a few of these sources for those not familiar with them:

1. Survey of Current Business  
Monthly publication of the U. S. Department of Commerce. Price is \$3 per year. Order from Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.
2. Supplement to the Survey of Current Business  
Monthly publication of the U. S. Department of Commerce. Price is \$3 per year. Order from Superintendent of Documents, U. S. Government Printing Office, Washington 25, D.C.
3. Monthly Labor Review  
Published by the Bureau of Labor Statistics of the U. S. Department of Labor. \$3.50 per year. Order from Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.
4. Editor and Publisher Market Guide  
Editor and Publisher Co., Inc., Times Tower, New York 18, New York. \$5 per copy.
5. Survey of Buying Power  
Sales Management, Inc., 386 4th Avenue, New York 16, New York. \$3 per copy.
6. Dun's Review  
Dun & Bradstreet, Inc., 290 Broadway, New York 8, New York. \$4 per year.
7. The Conference Board Management Record  
National Industrial Conference Board, Inc., 247 Park Avenue, New York 17, New York. \$7.50 per year.

8. U. S. Government Printing Office  
Division of Public Documents  
Washington 25, D. C.  
By writing, a list of various selected government publications will be sent which may be ordered for a nominal fee.

9. Census Data  
This can be purchased from the Government Printing Office or be borrowed at most libraries.

This by no means professes to be an exhaustive list, but it should give a good indication as to the type of data which is available. Supplementing this with personal information should help tremendously in obtaining needed market information.

Before leaving this area of market information entirely, mention should perhaps be made of two of the most valuable sources of information that exist. These are trade publications and newspapers. These should be followed for trends, operating policies, merchandising methods, and various other important market information.

## CHAPTER V

### CAN SMALL TOWN EXPANSION BE PROFITABLE FOR THE INDEPENDENT?

Can volume and profitable operations be had in a small town? For the answer to this question the small town independent will speak for himself:

With all these new features of speed and efficiency we expect to do well over one-half million dollars a year in 36000 square feet of selling space.<sup>1</sup> (Author's note: This store is located in Coachella, California, a town of 2,755 population, is not close to any large city.)

Our expansion developed the store from a 70 by 110 ft. operation with a 5100 sq. ft. selling floor to a 110 by 110 ft. super with 8700 sq. ft. of selling space. Weekly sales have increased approximately 25% following the enlargement and we hope to reach \$1,000,000 in sales by the end of '959.<sup>2</sup> (Author's note: This store is located in Oak Harbor, Washington, a town of 1,193 population, not close to any large city.)

In less than 10 years Ken Fox and Verne Comben have developed their Fenton, Mich. location from a 30 by 50 ft. operation into a 16,000 sq. ft. supermarket hitting over \$2,000,000 annually. They did it in a series of steps, typical of the small, but dynamic

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<sup>1</sup>James D. Wiltshire, "New Management, New Equipment Quintuple Sales in Two Years," Progressive Grocer (May, 1959), p. 236.

<sup>2</sup>Robert Blain, "Operator 'Pushed' Into Successful Remodeling," Progressive Grocer (May, 1959), p. 145.

independent bursting his seams every few years."<sup>3</sup>  
 (Author's note: Fenton, Michigan, is a town with a 4,226 population, 15 miles south of Flint, Michigan.)

Many people in the food business in our area thought we were wrong in putting so much money in a food store in such a small town. Well, we can't hope to do as large a volume in the town of 1,640 people as we could have in a larger town. But it doesn't cost as much to operate as in the city, either. Our volume has averaged a little over \$6,000 per week since our grand opening, we love living in the country; and we are happy with our store.<sup>4</sup>

There are many more examples from all over the country. In Norton, Massachusetts, a town with a population of 4,000 people, Joe Fernandes has a 15,000 square feet supermarket which does a very respectable volume of \$35,000 per week.<sup>5</sup> In Sunderland, Massachusetts, there is a 2,200 square feet Red and White store owned by John McGrath which does \$3,900 per week in volume in a town of 905 people.<sup>6</sup> Good's Market, owned by Russel Good in Marion, Kansas, a town of 850 population, with 1,680 square feet does a \$2,000 per week volume.<sup>7</sup> In Herington, Kansas, with a population of 4,000, Richard Klema's 3,720 square feet supermarket does a \$7,000 per week volume.<sup>8</sup> Arthur Wolf's Food Center in Versailles, Ohio (population of 2,500), a store with 3,420

<sup>3</sup>"Large-Scale \$200,000 Expansion Results in 21% Hike in Sales," Progressive Grocer (May, 1959), p. 54.

<sup>4</sup>Bob Martin, "Small Town Superette Shows Steady Growth," Progressive Grocer (May, 1959), p. 143.

<sup>5</sup>George E. Kline, Modern Super Markets and Superettes (New York: Progressive Grocer, 1956), p. 42.

<sup>6</sup>Ibid., p. 84.

<sup>7</sup>Ibid., p. 91.

<sup>8</sup>Ibid., p. 92.

square feet does \$6,000 per week in total volume.<sup>9</sup> Reese's Market in St. Mary's, Kansas (population of 1,201), does \$2,500 per week in a 1,170 square feet store.<sup>10</sup>

We move to Berrien Springs, Michigan (1,761 people), where Kenneth Sink and Louise King are doing \$7,000 per week in a 3,420 square feet store with a 5.64 per cent profit margin after taxes.<sup>11</sup> Lastly, Ray Honsaker is getting a 5.25 per cent profit margin after taxes and is doing \$5,000 per week in a 26,660 square feet store.<sup>12</sup>

This testimony from all over the country should prove that a small town independent supermarket can be highly successful. Examples like the above can be found all over the United States wherever independent operators have realized the value of the small town.

A criticism may be that of giving only testimony of successful independents, but it should be sufficient to state that the successful operator is the only one in which this paper is interested. Unsuccessful operators are usually failures not because of the town in which they located, but because of other factors. Examples would be: supermarket saturation, inaccurate class matchings, wrong size store, poor location, etc. These are errors of the operator and they would be prevalent whether he entered a

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<sup>9</sup>Ibid., p. 96.

<sup>10</sup>Ibid., p. 105.

<sup>11</sup>Ibid., p. 100.

<sup>12</sup>Ibid., p. 102.

large city or a small town. It is not, generally, the fault of the town but the operator.

### Reasons

The reasons for the exceptional success the independent can enjoy in the small town are many, but certainly at the top of this list would be the competitive factor. "The wide deviation between the small town and other store types can probably be explained by the lack of competition in the small town."<sup>13</sup>

The lack of competition in the small town is evidenced in a study done by a former researcher. This researcher studied three urban strips, three urban clusters, three small towns, three neighborhood shopping centers, two community shopping centers, and two regional shopping centers. In this study he determined the number of competitive supermarkets by distance interval and survey store. This is seen in Table 6.

From the table it can be seen that two of the small towns have only one competitive store within a two-mile radius while the other does not have any. In the case of the other areas considered, there is an average of nine competitive supermarkets within a two-mile radius.

Many small towns have several small "ma and pa" type operations, but very few have the supermarket type operation.

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<sup>13</sup>Bernard Joseph LaLonde, "Differentials in Supermarket Drawing Power and Per Capita Sales by Complex and Store Size" (unpublished Ph.D. dissertation, Michigan State University, 1961), p. 123.

TABLE 6

NUMBER OF COMPETITIVE SUPERMARKETS BY DISTANCE  
INTERVAL AND SURVEY STORE

Survey Store	Distance Interval			
	$\frac{1}{2}$ Mile	$1\frac{1}{4}$ Mile	2 Mile	Total
Urban strip-1	1	3	6	10
Urban strip-2	1	6	4	11
Urban strip-3	0	5	5	10
Urban cluster-1	2	3	6	11
Urban cluster-2	2	1	12	15
Urban cluster-3	0	4	6	10
Small town-1	1	0	0	1
Small town-2	1	0	0	1
Small town-3	0	0	0	0
Neighborhood. Shopping Center-1	0	3	1	4
Neighborhood. Shopping Center-2	1	3	2	6
Community Shopping Center-1	1	0	5	6
Community Shopping Center-2	2	2	6	10
Regional Shopping Center-1	1	0	7	8
Regional Shopping Center-2	0	2	5	7

Source: Bernard Joseph LaLonde, "Differentials in Supermarket Drawing Power and Per Capita Sales by Store Complex and Store Size" (unpublished Ph.D. dissertation, Michigan State University, 1961), p. 118.

A good independent with a proper analysis of a town can become quite successful with little competition. As for the ethics involved in squeezing out a small competitor, it is actually rather doubtful that he will be squeezed out of business. The good independent, when entering a new area with a store he does not want to manage personally, would be smart to examine some of the "ma and pa" operations. Many times a very good manager can be found in these stores and with some additional training he would make an exceptional manager. He also would bring his old customers

with him and give the store the proper identification that is so important in a small town operation.

Again briefly, wage scales are lower in the small town. With wages being the major operating cost, this is a very important matter to take into consideration.

With a small town a lower initial investment can be had. The reason being that the store does not have to be as large. Where normally a 15,000 square foot store would be built, an 8,000 square foot store will now suffice. Again a caution, do not underestimate the potential of a small town. Recall the example in Chapter I in which this happened and customers were turned away. Included in lower investment will be lower real estate costs and cheaper property taxes. The lower the investment is kept, the better the return.

"Supermarkets in smaller cities and towns often have a greater drawing power for they draw a considerable portion of their business from 'out of town.'" <sup>14</sup> This perhaps is why a good many supermarket operators underestimate the potential a small town offers. One independent store does 50 per cent of the total grocery business of the county within which it is located. The drawing power of the small town supermarket is illustrated in many more ways. A good reason for this is that usually a well chosen small town supermarket location will afford the only supermarket facilities for miles around. Therefore, the small town

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<sup>14</sup>Christos D. Lillios, "Super Market Site Selections) Unpublished M.A. thesis, Michigan State College, 1953), p. 32.



operator can actually enjoy a monopoly of sorts.

A researcher, previously mentioned, also studied this factor in his report. He determined the customers by distance interval correlated with the store type. It is interesting to note in Table 9 that his findings entirely support the larger drawing power theory of the small town.

TABLE 7  
CUSTOMERS BY DISTANCE INTERVAL  
BY STORE TYPE

Distance Interval (Miles)	Unplanned			Planned		
	Urban Strip %	Urban Cluster %	Small Town %	Neighbhd. Shopping Center %	Community Shopping Center %	Regional Shopping Center %
$\frac{1}{2}$	51.4	46.7	34.6	20.1	16.8	2.4
1	30.7	26.8	16.3	29.4	27.3	9.0
$1\frac{1}{2}$	6.1	12.6	9.1	19.0	17.6	14.7
2	2.9	5.8	5.8	14.5	12.4	11.2
$2\frac{1}{2}$	2.6	2.9	7.7	5.6	7.7	10.8
3	1.5	1.3	4.4	3.1	5.3	9.9
$3\frac{1}{2}$	1.3	0.8	5.0	1.9	4.3	8.4
$3\frac{1}{2}$ -over	3.5	3.1	17.1	6.4	8.6	33.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bernard Joseph LaLonde, p. 86.

From the above table the reader's attention is called to the fact that 40 per cent of the small town supermarket's customers come from a distance of two miles or greater! This can be compared with a regional shopping center with an acknowledged large distance drawing factor and which, in this case, draws 73.9 per cent of its trade from two miles

out and beyond. It is quite evident from the table that the small town is second only to the regional shopping center as far as the distance interval is concerned.

Dr. LaLonde states that, "A small town relatively isolated from any other city demonstrates drawing power patterns similar to the medium sized shopping center."<sup>15</sup>

The drawing power that the small town supermarket exhibits should prove very beneficial in aiding the supermarket operator in obtaining small town sites. Almost every small progressive community is searching for ways and means to bring additional people into their town to shop. Armed with this type of drawing power, the supermarket operator should quite easily be able to convince the business and community leaders of the need for a supermarket. Once these people are convinced he should receive unlimited cooperation selecting a site and building his store. The small town that cannot see this will be quite sorry in the near future.

For those operators who fear "Reilly's Law of Retail Gravitation" in locating in a small town next to a larger city, let it be said that this law was developed for shopping goods only.<sup>16</sup> In fact, from experience it seems that this law might even work in reverse for a well promoted

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<sup>15</sup>Bernard Joseph LaLonde, p. 121.

<sup>16</sup>Reilly's Law simply attempts to show how trade between two trading areas will be divided for shopping goods. The formula simply says that people will normally be attracted to the nearest and largest shopping facility. E. Jerome McCarthy, Basic Marketing: A Managerial Approach (Homewood, Illinois: Richard D. Irwin, Inc., 1960), p. 379.

small town supermarket. Because of lower costs, a good operator can advertise a low overhead, lower price appeal, and attract customers away from even a larger city. This has been witnessed by the author to be a fact in a Mid-western community.

However, to put minds at ease, this very factor has been studied. It was a study conducted in Laurel, Maryland, a small town of 3,000 people in 1944, located between Baltimore and Washington, D. C. The purpose of the study was to determine the extent to which Laurel residents shopped in Baltimore, Washington, both, or perhaps neither. The study was broken down into commodities or types of goods bought. It is significant to note that 85 per cent of all drugs and toilet articles, 94 per cent of all groceries, and 95 per cent of all meats were all bought within Laurel.<sup>17</sup> This study attests to the fact of the drawing power and also the holding power of the small town supermarket. It would seem almost wise for the operator to locate near a large city and attempt to draw extra trade from it.

The life of a small town supermarket will generally be found much longer than that of their big city counterparts. This fact has again been observed by experience and is readily backed up by the reasons outlined previously for the high failure rate among supermarkets.

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<sup>17</sup>Victor W. Bennett, "Consumer Buying Habits in a Small Town Located Between Two Large Cities," The Journal of Marketing (April, 1944), pp. 405-516.

Research along these lines has shown that one class of factors involved has to do with changes in the trading area. Changes in population, in income groups represented in the trading area, and in the nature of competition squeeze the volume and profit margins of the store either in absolute terms or in a relative sense that the opportunity cost of the investment is so much greater than elsewhere that a move or abandonment becomes desirable.<sup>18</sup>

The factor of low competition in the small town completely eliminates one of the failure factors given above. It has been noted previously that changes in the population of a small town are relatively infrequent and the profit margin is generally higher to discount the reasons cited for the high death and turnover rate in supermarkets in other areas.

A wise investment in a small town supermarket should actually increase with age rather than decline as is so very prevalent in other locations. The reason for this is that a good supermarket operator should increase and grow right along with the town enjoying a profitable, relatively safe investment.

Per capita sales have been found to be quite large in the small town when compared to other areas. The reason can perhaps be attributed to the fact that the small town supermarket does draw its customers from greater distances and would, therefore, have larger per capita sales at greater distances than a large city supermarket which depends on

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<sup>18</sup>Donald E. Stout, "Research and Control in a Modern Supermarket," The Journal of Industrial Economics (December, 1954), p. 69.

shoppers in the immediate vicinity. Also, there are substantially fewer alternative outlets from which to choose.

In Dr. LaLonde's study, he found that per capita sales in the small town were significantly larger than in any of the other areas studied. The following table brings this fact out clearly.

TABLE 8  
PER CAPITA SALES BY STORE TYPE  
AT  $\frac{1}{2}$ ,  $1\frac{1}{4}$ , AND 2 MILE INTERVALS

Survey Store	Per Capita Sales				
	$\frac{1}{2}$ Mile Interval	$1\frac{1}{4}$ Mile		2 Mile	
		Interval	Cumulative	Interval	Cumulative
Urban strip	\$1.55	\$.21	\$.44	\$.02	\$.20
Urban strip	1.89	.28	.56	.06	.27
Neighborhood Shopping Center	1.70	.71	.89	.23	.43
Community Shopping Center	1.53	.62	.76	.20	.44
Regional Shopping Center	.45	.27	.29	.16	.21

Source: Bernard Joseph LaLonde, p. 102.

In the preceding table it is seen that in the  $\frac{1}{2}$  mile interval the small town has approximately  $1\frac{1}{2}$  times greater per capita sales than its nearest competitor, the urban cluster. In the  $1\frac{1}{4}$  mile interval it has almost a four times greater advantage in per capita sales over the neighborhood shopping center and in moving to the 2 mile interval, it is

seen that the small town is out in front in per capita sales by eight times over the neighborhood shopping center.

Considering the cumulative effects, it can be seen that the small town has outdistanced the nearest rival by a factor of five to one in per capita sales. This is a most significant factor of which to be aware and one that could play an important role in small town location.

In studying return on investment, a very important measure, it was found from the questionnaire that the large city supermarket and the small town supermarket enjoy relatively the same percentage return. It must be recognized that these figures, per se, mean very little unless the accounting methodology applied is known.

In considering return on investment on the basis of turnover times net profit, it would again have to be said that the small town supermarket should receive the same percentage return as the large city supermarket. The basis for this claim can easily be seen in a hypothetical example, recognizing the fact that a small town supermarket will have fewer stock turnovers on the basis of lower sales, but higher net operating profit on the basis of lower costs. Suppose, then, a small town operator received a 2 per cent net profit while a larger city operator received a 1 per cent net profit. However, if the large city operator had a turnover of twelve compared to half that of the small town operator at six, it appears that by figuring return as net profit times turnover, both operators receive a 12 per cent return.

This equal proportionate return on a lower turnover is another strong appeal and selling point for small town supermarket location. It means that an operator in a small town will probably not have to maintain the hours, nor the degree of promotion as that of a big city operator and yet he can receive the same return. This is definitely an important and significant factor to take into consideration.

### Profit and Loss Comparison

As further proof of a small town's profitability, comparative profit and loss statements have been figured for an average small town supermarket and a large city chain-type supermarket. The reader can easily recognize the difficulty of such a task and the figures involved will not be completely accurate. However, it is felt that they are representative and that they will give some comparative base.

Since it is impossible to obtain a complete profit and loss statement from larger chains which are located in large cities, it was necessary to resort to other available means. These other means were obtained from Wilber B.

### England's Operating Results of Food Chains in 1959.

Realizing that this represents quite a conglomeration, it is felt that by choosing the results of chains in the \$100 million (or more a year volume) bracket, a reasonably close approximation to the average large city chain's operating results could be obtained. To compare with this, published

historical material of the same period has been gathered which reports small town independent operating results. These figures were then averaged to arrive at a "typical" profit and loss statement.

When attempting to deal with such an average conglomeration of statements, an immediate problem arose--the inconsistency in accounting and reporting figures. There are no means available to know who includes what. For this reason the reader is urged to pay less attention to total figures. These profit and loss statements are as representative as the source from which they were obtained.

Lastly, the limitation of doing this must be re-emphasized, especially the labeling of the results as "typical," but it is felt that from a comparative and relative standpoint the figures will remain entirely accurate enough for these purposes.

In examining operating costs it becomes quite obvious that the independent has certain advantages and can operate quite efficiently on the lower volume which is obtained in a small town.

In turning now to the independent, his Profit and Loss Statement for the same period, using average figures, is presented in Table 10.



TABLE 9

PROFIT AND LOSS STATEMENT  
FOR TYPICAL LARGE CHAIN

(\$100 million + sales/year + average  
sales/stores = \$1,123,000 per year)  
(Average over 1958 and 1959)

Average sales		100.00%
Cost of goods sold		<u>79.03%</u>
Gross margin		20.97%
Expenses:		
Payroll	10.22%	
Real Estate	1.89	
Fixtures and equipment	1.40	
Heat, light, water, refrigeration, and power	.70	
Supplies	1.15	
Service purchased	.30	
Advertising	1.90	
Traveling	.10	
Indusrance	.14	
Taxes	.56	
Miscellaneous	.60	
Interest	<u>.26</u>	
Total expenses		<u>19.12%</u>
Net operating gain		1.85%
Total other income		<u>1.15</u>
Total income		3.00%
Total taxes		<u>1.50</u>
Total net profit		1.50%

Source: Wilber B. England, Operating Results of Food Chains in 1959 (Cambridge: Harvard University Press, 1960), p. 6.

TABLE 10

PROFIT AND LOSS STATEMENT FOR TYPICAL  
SMALL TOWN INDEPENDENT  
(average town population = 4,041)  
\$616,000 Yearly Sales  
Average over 1958 and 1959

Average sales		100.00%
Cost of goods sold		<u>84.24</u>
Gross margin		15.76%
Expenses:		
Payroll (includes owner's salary)	7.01%	
Real estate	1.41	
Fixtures and equipment	--	
Heat, light, water, refrigeration, and power	.41	
Supplies	.56	
Service purchased	.37	
Advertising	.77	
Traveling	--	
Insurance	.22	
Taxes	.36	
Miscellaneous	.16	
Interest	<u>.20</u>	
Total expense		<u>11.47%</u>
Net operating gain		4.29%
Total other income		<u>--</u>
Total income		<u>4.29%</u>
Total taxes		<u>1.00</u>
Total net profit		3.29%

Sources: George E. Kline, Modern Super Markets and Superettes (New York: Progressive Grocer, 1956), 203 pp. Thomas Calak, Outstanding New Supermarkets (New York: Progressive Grocer, 1961), 200 pp. Credit also must be given to the magazine Progressive Grocer whose issues were used to obtain much valuable reported data on small town super-markets.

From the two Profit and Loss Statements, the advantage of the small town independent supermarket is readily recognized. The average small town independent operator in this instance has over twice the proportionate net profit of a large city based chain. His average yearly sales are about one-half that of the average chain store, but with the larger operating profit he is just as well off as pointed out earlier in this chapter.

The prediction of lower wage costs is borne out, for the independent enjoys a 3.21 per cent cost savings here over the chain. The next two obvious categories of savings are in supplies and advertising. Here the independent has about one-half the expense of the chain. In the case of the former, it is felt that this is because the independent owner takes a greater interest in his store than does the chain manager; he strives to keep this expense down as much as possible. In the latter case of advertising, this can be attributed to just not advertising as much. Whether or not this last expense should be kept this low is questionable, but it would involve too lengthy an argument for this paper.

In practically all cases the independent shows a cost savings in the expenses; the reason it appears, as stated before, is nothing more than the greater interest and closer watch that the independent takes in his store. The chain manager has, in most cases, little incentive for holding expenses down. For the independent, this is quite the

contrary, for every cent he saves adds to his own income directly.

## CHAPTER VI

### FUTURE

In considering the future of small town supermarket expansion, it appears as if the opportunity is unlimited, especially in areas in the Middlewest and West where population density and supermarket saturation have not reached the proportions as in the East. We saw earlier that the number of small towns of population 5,000 and under has actually increased in the last ten years. There seems to be no reason for the discontinuation of this in the future. Furthermore, the availability of progressive small towns is far too numerous to attempt mentioning in the scope of this paper.

With the population explosion expected in the years ahead (in fact, being realized now), the growth of a progressive small town seems inevitable. With this growth comes potential, and with potential comes industrial consideration. It is quite evident that large industries are becoming more and more interested in the small town for expansion purposes. The reason for this interest, of course, is the reasonable real estate offers given them by the town. As this happens and industry moves in, the established supermarket should enjoy a business boom beyond its former consideration.

It may be wise for the independent to select towns which show a reasonable rate of growth rather than one which is growing by leaps and bounds. The latter will become vulnerable to chain competition much faster than the former and, of course, will not remain a small town for as long a time.

The expansion must be done in the manner outlined in previous chapters or the failure rate is going to be fantastic.

The "small town is a segment of the national business which rates major attention."<sup>1</sup> It is nothing to be considered a secondary market, rather an affluent and challenging one. It requires more skill in management than even perhaps the larger city store.

It can be seen that nothing short of a small earthquake will jar orthodox chain management into thinking in such "leftist" terms, thereby leaving the small town market wide open for independent exploitation.

In the first place, it requires absolutely no re-orientation of thinking for the independent to consider and apply methodology proposed in this paper. He has been thinking along these lines for years--even if they were never presented in such a formal manner, it is something he recognizes.

The independent fears the ruthless chain store

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<sup>1</sup>Nelson A. Miller, p. 3.

competition to an even greater extent today. The chain is making damaging inroads into former exclusive independent territory. The independent must also be jarred to the extent that he will re-evaluate his assets, liabilities, advantages, disadvantages, and limitations. From here he must realize that in order to succeed he will have to expand into areas for which he is best suited--that area is the small town. If he does so he will be an established competitor when chains finally do re-orient themselves, making the small town less lucrative, if not impossible, for their consideration.

From Chapter II it was seen that the growth and expansion of the supermarket industry continues unabated. The saturation point is narrowing and as it does the location sites become harder and harder to obtain. As this happens, perhaps there will be a reorientation of chain store thinking. Very likely they will begin to look to the small town to expand further. Granted they cannot do this profitably, nor would it be wise for them to do this now. They have enough profitable sites where they are, but what about the future? This unabated flow of city location proposals will not continue forever--then what? This is something very important for the independent to consider, and consider today!

## CHAPTER VII

### SUMMARY AND CONCLUSIONS

It has been shown in this paper that small town supermarket expansion can be profitable. It was also shown that the small town is no ordinary market. It is one which deserves special attention and consideration. This must be done by an application of unorthodox methodology which, when applied properly, can lead to a very profitable market.

It was noticed that through many limitations in site selection methodology, standardized operating procedures, and costs, the small town has remained in relative obscurity as supermarket expansion blazed spectacular success stories in the larger cities. This will no longer be the case as saturation approaches--that day for the small town supermarket expansion is nearing rapidly.

It is shown that the small town takes the "unorthodox methodology of independent operation" in order for any degree of success to be obtained. It was also conceived that the independent operator of today is the only person capable of proper small town operation. The chain store will not be able to succeed in this market under present operating methods; nor should it want to--it is successful where it is.

The site methodology that has been laid out in this paper in all consideration appears to be the only way to



measure and enter a small town successfully. It is hoped that the methodology given will be given serious thought and consideration.

The small town market is there and with the seemingly insane competition and site location policies existing in the cities of today, it appears on the surface that the small town should offer a peaceful and profitable haven. If selected properly and carefully the supermarket can enjoy a long and constant growth in the small town. The potential is there, all that is needed is someone who knows how to tap it.

Growth in any industry requires the person who is unafraid of the different. He is a person who can adapt to changing conditions rapidly. He has the ability to foresee and change. Two key words--awareness and alertness--are the keys to growth. These keys are for the taking--a form of it offered in this paper. Will it be the chain or the independent who will seize the opportunity?

In closing, a quote from a previous author who seems to sum it up quite well: "The mass merchandiser must be prepared to experiment, test, adapt and test again--or lose his competitive status and ultimately perish."<sup>1</sup>

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<sup>1</sup>Edward M. Barnett, p. 56.

APPENDIX A

### Questionnaire Methodology

In conducting the questionnaire the first fifteen chain stores listed in "Facts in Grocery Distribution," Progressive Grocer (1961), p. F19, were written down and numbered as follows:

- 01 A & P
- 02 Safeway
- 03 Kroger
- 04 American Stores
- 05 National Tea
- 06 Food Fair
- 07 Winn-Dixie
- 08 Grand Union
- 09 First National Food Stores
- 10 Jewel Tea
- 11 Colonial Stores
- 12 Dominion
- 13 ACF-Wrigley, Inc.
- 14 Stop and Shop
- 15 Red Owl Stores

Feeling that this list comprised the majority of the largest national chains in existence today, it was decided that a random sample from these would be quite representative.

From this list a sample of seven chains was selected randomly as follows: Going to the Chemical Rubber Company's 12th Edition of the Standard Math Tables, a page in the table of random numbers was selected. On this page an arbitrary starting place was chosen and then the first and third integer of the numbers listed were considered. Doing this, it is felt, gave a representative sample of the chain stores listed. The actual names of the chains selected will have to remain anonymous.

Answers were received from five of the seven chain stores, representing a respectable 71 per cent return. The chain stores returning questionnaires represented 3,186 stores.

Questionnaires were also sent to three regional (within a state) chains which were arbitrarily selected in an attempt to cover three different sections of the country. Two of the three returned questionnaires representing 52 stores in two states.

Lastly a questionnaire was sent to a leading voluntary group in an effort to obtain representative and progressive independent thinking. Recognizing that this was, perhaps, not the best method, it was felt that their experience and knowledge gained from dealing with hundreds of independent supermarkets was much more vast and representative than what could be obtained from mailing hundreds of questionnaires.

The main purpose of the questionnaire was to determine

past, present, and future thinking towards small town supermarket expansion. The answers, of course, are only as representative of the industry as a whole as the sample taken is representative.

An attempt was made in the questionnaire to determine some current site selection processes and to see if they were in any way restricting the consideration of small towns for expansion.

The questionnaire which was used for the study follows on the next four pages.

Supermarket Store LocationQuestionnaire

Please base all replies on the assumption that you are locating an average size store of your particular chain.

1. List the number of store you have in the following size towns.

(Listed by population)

Under 2,500 \_\_\_\_\_

2,500 - 5,000 \_\_\_\_\_

5,000 - 7,500 \_\_\_\_\_

7,500 - 10,000 \_\_\_\_\_

Over 10,000 \_\_\_\_\_

2. Are you considering closing any of your stores in small towns? Why?

3. Are you planning to build new stores and enter towns of any of the following populations?

Under 2,500 \_\_\_\_\_

2,500 - 5,000 \_\_\_\_\_

5,000 - 7,500 \_\_\_\_\_

7,500 - 10,000 \_\_\_\_\_

Over 10,000 \_\_\_\_\_

4. What is the smallest town (by population) that you would consider for a site?

5. What is the smallest town (by population) that you entered last year?

6. Check all of the following that you use in your site selection process.

<input type="checkbox"/> population of town	<input type="checkbox"/> accessibility
<input type="checkbox"/> population of area	<input type="checkbox"/> traffic counts
<input type="checkbox"/> number of competitors	<input type="checkbox"/> income of area
<input type="checkbox"/> available sites	<input type="checkbox"/> aerial photos
<input type="checkbox"/> growth possibilities	<input type="checkbox"/> sales forecast
<input type="checkbox"/> profit and loss statement (estimated)	<input type="checkbox"/> area building costs, costs, taxes, etc.
<input type="checkbox"/> labor situation	<input type="checkbox"/> area pay scale
<input type="checkbox"/> warehouse accessibility	

List any others:

7. Would you go into an area which is seemingly saturated with supermarkets just to gain representation in the area?

☐ Yes ☐ No

8. Do you differentiate between a strong independent and chain competitors when deciding on a certain site?

<input type="checkbox"/> Yes	<input type="checkbox"/> No	Check reasons	Chain	Independent
		a) because of greater strength in	<input type="checkbox"/>	<input type="checkbox"/>
		b) harder to break into area with strong	<input type="checkbox"/>	<input type="checkbox"/>
		c) compete more successfully with	<input type="checkbox"/>	<input type="checkbox"/>

9. What do you consider to be the population necessary for every square foot of store?

<input type="checkbox"/> one	<input type="checkbox"/> more--give figure <input type="text"/>
<input type="checkbox"/> two	<input type="checkbox"/> less--give figure <input type="text"/>
<input type="checkbox"/> three	

10. What is your average net investment for a new store?

11. What is the percentage return you receive on your capital investment?

What percentage would you like?

12. What is the average size of your stores?

13. What are your labor costs for an average store, expressed as a percentage of sales?

14. What weekly volume would you desire per sq. ft. of store?

\_\_\_ \$.50 - 1.00

\_\_\_ \$2.00 - 2.50

\_\_\_ \$1.00 - 1.50

\_\_\_ \$2.50 - 3.00

\_\_\_ \$1.50 - 2.00

\_\_\_ List any other

15. What is your realized volume per sq. ft.?

16. What is your estimate of the average number of competitors you have within a one-mile square radius?

\_\_\_ 1 - 2

\_\_\_ 4 - 5

\_\_\_ 7 - 8

\_\_\_ 2 - 3

\_\_\_ 5 - 6

\_\_\_ More--how many \_\_\_\_\_

\_\_\_ 3 - 4

\_\_\_ 6 - 7

\_\_\_ Less--how many \_\_\_\_\_

17. If you have not already done so, check your major objections to entering a small town of under 5,000 population.

\_\_\_ strong independents

\_\_\_ not populated enough

\_\_\_ operation not geared to small town

\_\_\_ not enough potential

\_\_\_ warehouse facilities too far away to handle it properly

\_\_\_ too large an operation to adjust to small town

\_\_\_ not profitable enough

\_\_\_ not flexible enough

List others



18. What is the size of an average store in your chain?
19. What is the radius of the normal area you consider for your main drawing power?
- ☐ 0 -  $\frac{1}{2}$  mile      ☐ 1 -  $1\frac{1}{2}$  miles      ☐ 2 -  $2\frac{1}{2}$  miles  
☐  $\frac{1}{2}$  - 1 mile      ☐  $1\frac{1}{2}$  - 2 miles      ☐  $2\frac{1}{2}$  - 3 miles  
☐ More--please indicate
20. What population do you consider necessary in this area?
- ☐ 500 - 2,500      ☐ 7,500 - 10,000  
☐ 2,500 - 5,000      ☐ More--please indicate  
☐ 5,000 - 7,500

An attempt to tabulate the answers to the questions as best possible was made in the tables below. The questions will be referred to by number and answers will be separated by national chain, regional chain, and independent voluntary group.

TABLE 11  
QUESTIONNAIRE ANSWER TABULATION

Question Number	National Chain	Regional Chain	Independent Voluntary Group
1	2% of total stores in towns under 5,000 population	30% of total stores in towns under 5,000 population	An unknown, but numerous quantity of stores in towns under 5,000
2	80% yes for profit reasons	100% no	No
3	20% were going ahead in towns under 5,000 population (one chain)	50% were going into towns under 5,000 population	In favor of towns under 5,000 population
4	6,000 population (average)	6,500 population (average)	1,000 population
5	5,000 population (average)	None	1,200 population
6	Generally all but labor situation and pay scale	Majority	All + consumer research
7	100% No	100% No	No
8	80% No	100% No	Yes, independent is harder to unseat than chain. Checked all three items.

TABLE 11--Continued

Question Number	National Chain	Regional Chain	Independent Voluntary Group
9	Not considered	Not considered	Not considered
10	\$290,000	\$350,000	Varies
11	15% (average)	16% (average)	Unknown
12	14,600 sq. ft.	13,000 sq. ft.	Unknown
13	7.7% (average)	6.5% (average)	7% (average)
14	\$2.50-\$3.00	\$2.50-\$3.00	\$2.50-\$3.00
15	\$2.24	\$2.50-\$3.00	\$2.50-\$3.00
16	2-3	4½-5½ (average)	2-4
17	Operation not geared, not profitable, not enough potential	Not answered	No objections
18	Same as 12	Same as 12	Same as 12
19	1½-2 miles (average)	1-3 or more miles (average)	Not known
20	Varies	Varies	Varies

It is the hope and intention that this questionnaire will give the reader some insight as to the thinking currently going on concerning the small town and location methodology. This by no means can be claimed to be all the thinking, but it is a representative sample which does give some insight to the small town question.

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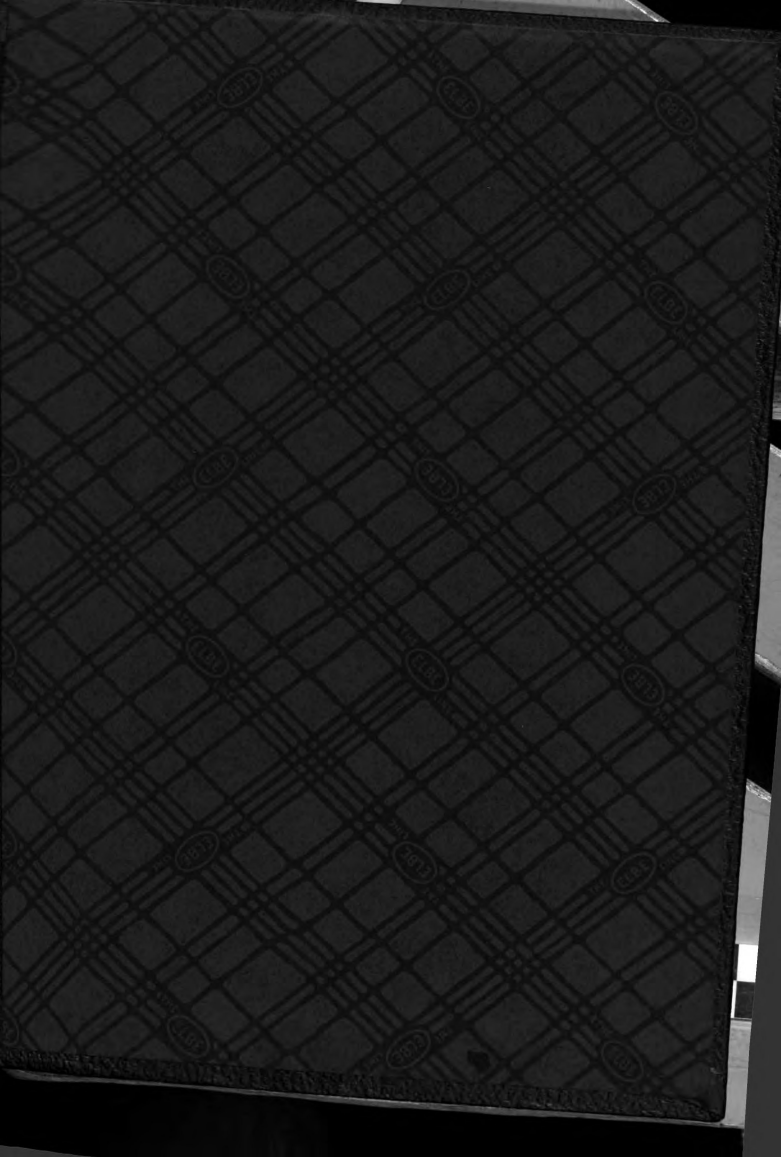
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