

Executive Summary

When making a decision to go into the grocery business, particularly in a rural area, there is much to consider and a great deal of work to be done. To help walk through the process we are providing two tools that potential store owners may find useful. First, we have identified what we believe are many of the key success factors in the rural grocery business and organized them into 12 subject areas. Interested individuals can read through all of the subject areas by scrolling through this document or can return to the top of the page and choose the topics of most interest.

The second tool is a Rural Grocery Profit Simulator that allows users to enter certain key data from their particular situation, and then view a hypothetical financial result. Market area and market population are incorporated into the analysis, as are shopping habits, sales margins, and expense management. While the program requires the potential business owner to make a number of estimates and assumptions, financial results can be calculated and will be displayed as a simplified Income Statement. Users can experiment by revising inputs and reviewing results based on various scenarios.

Subject Areas

We begin our review of the grocery business by considering *Rural Grocery Ownership Models*. Potential store owners should understand relevant options and consider all possibilities to determine a model that is best for their situation. We then go on to look at possible *Funding Sources for a Rural Grocery*, realizing that in most cases outside funding will be necessary to get a store up and running. Prospective store owners will also want to consider *Compliance to Regulations* (including licenses and permits) that will be required of their store. While realizing that these requirements can vary from one locale to another, we have included a listing of those most commonly required.

As the old saying goes, successful businesses depend on location, location, location. Our section on *Locating Your Grocery Business* looks at this topic and factors to consider, whether buying an existing building, leasing a structure, or building new. We then look at *Start-Up Costs* typical when starting or acquiring a store. Again, we discuss the differences between building new or moving into an existing location and compare buying and leasing. A detailed “real-life” listing of start-up costs is included.

Other factors to be considered early in the planning process are the *Departments and Layout in a Rural Grocery Store*, along with the products to be carried. Store layout may be the most critical of these, since once complete it can be difficult and costly to change. On the other hand, products that are not selling well can be switched out rather easily, although we hope there will not be many of these. Once we have made the decisions on layout, departments, and products we then must determine how we will source each item. In many instances rural stores will rely on one of the grocery wholesalers for most products, but there will still be a number of local suppliers to be lined up. These issues are discussed in the module entitled *Grocery Suppliers*.

In the next section we take a look at the difference between margin and mark-up and how to calculate each. We also consider margins by department and suggested minimum margin for several of the key departments. This section is called *Margins and Pricing in the Rural Grocery Store*.

Another key factor in the success of the store will be the ability to hire, train, and retain quality employees. This subject, along with others, is discussed in a module called *Rural Grocery Operations*. Finding good employees in a small community can sometimes be very challenging if competition for employees is strong. On the other hand, sometimes there are few businesses in town and a job at the

local grocery could be coveted. As discussed in several sections of this document, one of the key advantages of the small-town store is the friendly neighborhood feel that one experiences in a well-run store. Reinforcing a professional, friendly culture on a daily basis, and accepting nothing less, is critical. Of course, employees must also be productive and trustworthy. Finally, it is important that at least one employee has been trained in each of the management functions so these can be handled in the event of an emergency or other absence of the owner or manager.

In the next module we discuss *Marketing for Rural Grocery Stores*. This is where innovation and creativity come into play as marketing can be so much more than a weekly ad and a Facebook page. While opportunities are almost endless and creativity at the local level is encouraged, we provide some thoughts on traditional marketing as well as special events that have been successful. Hand in hand with the Marketing module is the module called *Grocery Innovations and Ideas*. We have described a number of innovative promotions and activities and encourage other small-town stores to shamelessly copy these ideas or adapt to make them your own.

Carrying local products in a small-town store is becoming more common, and with good reason. Consumers are more interested in where their food originated, how it was treated and processed, and how fresh it is. This became more of a factor after COVID. In addition, suppliers of goods to the local store have an inherent interest in the store and are more likely to shop local. Friends and relatives of these suppliers may also be more likely to visit the local store. The shop local movement, as described in the module entitled *Grocery Trends*, is just one of many trends in the grocery business. In this module we review several other trends that potential store owners should be aware of.

Introduction

With declining rural population across much of rural America, it is surely a difficult time for small rural grocery stores. However, with the right business organization (Module 1), the right location (Module 4), an appropriate marketing strategy (Module 10), and an outside-the-box mentality, some store owners are making a go of it and finding success. In the pages that follow, we will outline what we believe to be some of the more important considerations for a new grocery store owner.

The status of the industry as a whole remains mixed. The most recent IBISWorld Industry Report for Supermarkets and Grocery Stores (October 2023) reports that collectively Profit Margins have risen from 1.7% of sales in 2018 to 1.9% in 2023. This increase is not insignificant and arguably can be credited at least in part to changing spending habits with an increased emphasis on convenience foods that tend to carry higher profit margins, and inflation in the food sector that has driven food prices up relative to overhead costs. Going forward IBISWorld projects that total revenue will grow at an average annual rate of 0.1% over the five-year period ending in 2028. The same report projects that the industry will continue to contract, with total stores declining from 63,385 currently to 61,980 in 2028. This decline represents an annual reduction of 0.4% of total stores.

IBISWorld also identified several “Key Success Factors” for the industry. While these are not necessarily meant for rural stores, most can apply to stores small or large:

- Ability to quickly adopt new technology in security (fewer losses) and point of sale processing (labor efficiency)
- Proximity to key markets
- Clear signage, easy access, ample parking

- Managing inventory to ensure products are not out of stock
- Be prepared to adapt to consumers increasing demand for convenience

IBISWorld points out that new supermarkets and grocery stores do face significant obstacles as they go into business. Primary among these are the significant start-up costs associated with building and equipment and difficulty finding and retaining staff. Price sensitivity is also mentioned as a key issue and is one that is sometimes difficult for small-town stores to overcome. This is why it is so important to creatively cultivate a sense of community and customer loyalty, as discussed several times in the modules that follow.