

Rural Grocery Toolkit

Agricultural Marketing Resource Center

Prepared by Farm, Food and
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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.

Module 1 - Rural Grocery Ownership Models

When it comes to rural grocery stores, there are a multitude of ownership options to be considered. From the traditional business models to “outside the box” ideas, each grocery store and each community is unique and thus requires an approach most suited to the individual circumstances. As you might expect, each grocery ownership model comes with its own strengths and weaknesses. In this section, we will explain the common and not-so-common approaches to grocery store ownership, as well as the pros and cons of each. We will begin first with the more traditional approaches, which are Sole Proprietorships, Partnerships, Limited Liability Companies (LLC), S-Corporations, and C-Corporations.

Sole Proprietorship

According to Investopedia a sole proprietorship is “an unincorporated business that has just one owner who pays personal income tax on profits earned from the business” (Twin, 2024). Sole proprietorships are easy to set up and have minimal legal requirements. The tax structure is simplified, given that income earned passes through to the owner and is taxed as personal income. Sole proprietors must pay federal and state (if any) income taxes on profits, plus the employer and employee FICA taxes at 15.3% total. The employer portion of the FICA tax is deductible as a business expense.

Decision-making is also streamlined with sole proprietorships, given that one person has the final say on business direction. The biggest downfall of a sole proprietorship is unlimited liability. In other words, since the business and owner are essentially one entity, all legal liability falls onto the owner. If the business were to be sued, the owner, and even their personal, non-business assets, could be at risk. Additionally, sole proprietors often find it more difficult to raise funds for their business, with banks and other investors viewing them as high risk.

Partnership

A partnership, according to the Internal Revenue Service website, is “the relationship between two or more people to do trade or business. Each person contributes money, property, labor or skill, and shares in the profits and losses of the business” (Tax Information for Partnerships, 2024). As in a sole proprietorship, income passes through to the owners according to the agreement of the partners. The partner’s income is taxed the same as in a sole proprietorship. Another strength of partnerships can be that more resources are available. The resources might be monetary or could be skill or knowledge-based. A good partnership can leverage the strengths of each of the partners to form a stronger business entity.

There are potential downsides to a partnership as well. As with sole proprietorships, there is unlimited personal liability. Beyond that, there is the potential that the partners will not always agree with the direction of the business and the decisions of the other partner(s). Tension created from disagreements can lead to stress on the business and even dissolution of the partnership. It is suggested that a great amount of thought be put into a strong partnership agreement that works through all issues that may arise within the business. There are attorneys who specialize in crafting such partnership agreements.

Limited Liability Company

Another traditional approach to grocery store and small business ownership is a Limited Liability Company (LLC). Investopedia lists an LLC as “a business structure that protects its owners from personal responsibility for debts or liabilities” and “Limited Liability Companies are hybrid entities that combine the characteristics of a corporation with those of a partnership or sole proprietorship.” (Fernando, 2024) As mentioned in the definition above, possibly the largest advantage to an LLC is limited liability. In other words, barring any negligence, the owners’ liability extends only to the amount of equity they have in the business. Their personal assets are shielded. Regarding taxes, the owners have the option to treat earnings as personal income, which simplifies tax filings, and tax calculations are performed similar to sole proprietorships and partnerships.

There are downsides to an LLC as well. They require more paperwork to set up, both at the state level and with the federal government, and more record-keeping on an ongoing basis. More paperwork can result in more costs. Additionally, there is more record keeping that accompanies operating an LLC. It is also possible, maybe even likely, that any financing obtained will require a personal guarantee such as a second mortgage on the borrower’s residence (this can be true regardless of type of business organization).

S Corporation

Somewhat similar to an LLC is an S Corporation. The Internal Revenue Service defines S Corporations as corporations “that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes. Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates.” (S Corporations, 2024) As with an LLC, an S Corporation passes on limited liability to shareholders and profits are taxed as personal income. The one tax benefit S corporations offer is that only the owner’s salary is subject to the full 15.3% employer and employee FICA tax. An owner’s share of profits, above and beyond salary, is subject only to the employee’s 7.65% FICA. The corporation pays the remaining 7.65% and this is deductible as a business expense.

One of the tenets of an S Corporation that may be seen as a downside is that it requires a board of directors and regular meetings, as well as regular filings and fees, to remain in compliance with the IRS. Again, as with an LLC, more paperwork can mean more expense. Another downside can be less management flexibility, given the need for a board of directors.

C Corporation

C Corporations are the last of the five traditional types of grocery business models. According to Investopedia, a C Corporation is “a legal structure for a corporation in which the owners, or shareholders, are taxed separately from the entity. C corporations, the most prevalent of corporations, are also subject to corporate income taxation. The taxing of profits from the business is at both corporate and personal levels, creating a double taxation situation.” (Ancheta, 2024) As with both the LLC and S Corporation, the C Corporation possesses limited liability for the owners. C Corporation regulations tend to make it easier to raise funds, since these corporations can issue an unlimited number of shares and are viewed more favorably by banks and other investors. A C Corporation can also exist in perpetuity. In other words, beyond the lifespan(s) of the business’ founder(s).

Paperwork for a C Corporation can be complex and lengthy, which can lead to additional expenses. Another downside is the management-board of directors’ dynamic can be a challenge when it comes to decision-making and direction of the business. From Investopedia we also learn that “C corporations are mandated to hold annual meetings and have a board of directors that is voted on by shareholders.” (Ancheta, 2024) As with all the traditional approaches listed above, a qualified attorney and accountant should be consulted when deciding among the business models.

Alternative Business Models

To overcome some of the challenges in setting up and operating a grocery store in a rural area, individuals and communities have explored a variety of business models beyond the traditional approaches listed above. Every community is unique and will require a different approach to starting, reviving, or maintaining a grocery store. There are examples of non-profit and public/private partnerships, school-based and city-owned grocery stores, as well as cooperative approaches and community-supported enterprises. We will explore these, with examples, in the paragraphs that follow.

Grocery stores generally must be profitable to survive. That said, subjugating the profit motive for things like community vitality, sustainability of the venture, and providing access to fresh and nutritious food can be a valid strategy. This is a primary reason why most of the non-traditional approaches can be lumped into one of several “non-profit” grocery models.

Cooperatives

Let’s first look at grocery cooperatives as an example. Cooperatives (co-ops) are nothing new in rural areas. Agricultural cooperatives have been a staple in rural communities for quite some time. Grocery cooperatives leverage the same core tenets in that the business is owned primarily by the people who use it. Shares are often sold to the community members. Those shareholders then come together to determine the direction of the grocery co-op. The business may or may not be run by a professional manager, although research seems to suggest those that employ a manager with grocery experience are more successful.

The Illinois Institute for Rural Affairs at Western Illinois University published a report entitled “The Cooperative Model of Grocery Store Ownership”. To paraphrase, the report explains that the very

nature of cooperatives gives them increased odds for success. Since there are many small investors who buy in, there is instantly a group of community members who have a vested interest in the success of the store. These “members” then become regular customers of the store, and become advocates for the store within the community. In most cases the community members who have bought into the cooperative will do what they can to help the store survive and even thrive. (The Cooperative Model of Grocery Store Ownership, 2014)

As an example of the growing interest in grocery cooperatives, several Montana communities have embraced the cooperative model. One of them is the [Community Food Coop](#), in Bozeman, Montana. This store specializes in organic foods and Montana-produced meats and produce.

School-Based

In some communities, schools step in to fill the gap left by a departing, or departed, grocery store. As such, profit is not the primary motive for operating the store. In addition to providing groceries to the surrounding community, students receive real-world experience in such things as customer service, inventory management, and financial decisions. In addition to the real-world experience, the students receive school credit for various classes.

An example of a school-run grocery store can be found in a story by Nebraska Public Media that focuses on the Circle C Market, in Cody, Nebraska. The story starts off by highlighting the real-world experience the students are gaining – from checking produce inventory, to ordering “family-sized turkeys”, to entering data into QuickBooks. Prior to opening the school-run grocery store, the small town of Cody was without a grocery store for about a decade. As for how it works, according to the story, “*A board of community members oversees the non-profit operation. During the school day, students take on tasks at the store as part of different classes, with a paid adult employee and educators on hand to help train and supervise. The rest of the time students are paid to work at Circle C.*” (Tobias, 2016) A school-run grocery store can be a win-win scenario for the students and the larger community.

Public-Private Partnership

At times, a city will step in to save or revive a rural grocery store. This is because they see it as a necessity, a public good, and/or a way to retain and attract residents. This was the case in St. Paul, Kansas, population 614. According to a story by the Rural Grocery Initiative at Kansas State University, the town’s grocery store closed in 1985. 20 years later the threat of losing the school prompted the city leaders to act. Rick Giefer, former mayor of St. Paul stated “*I think it was ’05 and St. Paul had been without a grocery store for 20 years. We almost lost our high school and as a committee we realized, in order to draw people to town, we needed a food source other than a convenience store.*” (St. Paul Supermarket, 2020) A zero-interest USDA loan was obtained to build the store, which was to be city-owned. When the business first opened in 2008 the managers (Joe and Sue Renfro) agreed to purchase the inventory and were “owners” of the business.

Five years later the Renfros were ready to retire, and the city assumed complete operation of the store. Since then, the St. Paul Market has been a “municipally owned building” and “full-time employees were city employees with city-funded benefits”. (St. Paul Supermarket, 2020) So, this store initially opened as a public-private partnership, but since 2013 has been 100% city-owned. The store remains open today, and their web page can be found at <https://www.stpaulmarketks.com/>.

One other example of a public-private partnership is the Garden of Eden store in Little River Kansas. In this case, the store and equipment were aging, and the needed repairs were going to be costly. In 2017, the city stepped in and purchased the building and fixtures with the help of a Community Foundation grant. The city was then able to make the necessary repairs and upgrades. The business owners now lease the building from the city but have been relieved of the burden of the expensive upkeep of the building and fixtures. They retain ownership of the business and the inventory.

City-Owned

Sometimes the only way for a rural grocery store to survive is for the municipality to step in and purchase the store, whether it be permanently or until another buyer can be found. There are a few examples of this happening. One such example happens to be in the town of Erie, Kansas, a town of approximately 1,000 residents. As is often the case in a rural setting, the proprietors of Stub's Market in Erie, Kansas were looking to retire. When they put the market up for sale, no one was interested.

In August of 2019, the owners of Stub's approached the Erie City Council to see if they were interested. The City polled the residents and over two-thirds said that the City should purchase the market. At the start of 2021 that is exactly what happened. The City purchased Stub's Market and changed the name to Erie Market. The market is run like a utility. If the enterprise were to be less than profitable, a surcharge would be added to the residents' utility bill. As of September 2022, this has not been needed. A full story detailing the Erie Market's transition can be found here: thehustle.co.

Community-Supported Enterprise

Another approach to saving or reviving rural grocery stores has begun to emerge. This approach is called a community supported enterprise (CSE). Just like it sounds, a community supported enterprise begins with a group of concerned citizens raising money and directly funding an enterprise, in this case, a rural grocery store. CSEs are not a new phenomenon. What has changed, however, is the reason behind forming them. Now it is just as much about saving or providing a business that is integral to a community's well-being, as it is about return on investment for the investors. CSEs are difficult to define due to the multitude of circumstances that exist across the communities that employ them.

Another report by the Rural Grocery Initiative at Kansas State University entitled, "Emergence and Growth of Community Supported Enterprises," highlights some of the more unique approaches to CSEs. According to the report, "*perhaps what distinguishes these new approaches is the direct participation by residents in both the financing and management aspects of the business venture or enterprise*". (Sandoval, 2016) The report also highlights some of the reasons for the rise in CSEs: population declines, slow business startups, and local foods movements and initiatives.

Highlighting this approach is "Community Owned Stores: New Anchors for Older Main Streets" published by the National Trust for Historic Preservation in its May/June 2008 edition of Forum News. According to the story, an early adopter of the CSE approach is Township Grocery in Bonaparte, Iowa. When a major downtown retail center closed in 1986, the community responded. As stated in the article: "Four residents decided to take action. They formed a nonprofit corporation, Township Stores Inc., and raised over \$100,000 in capital by selling \$2,000 shares to

more than 50 local residents. They used the capital to renovate the five 19th-century buildings that (the previous retail center) had occupied and launched several new businesses, including a grocery store and a hardware store.” (Mitchell, 2008) That grocery store still operates today. If not for the community coming together and supporting the enterprise, it is likely that this would not be the case.

Summary

As we have seen, there are a multitude of approaches, both traditional and non-traditional, that exist to address the challenge of keeping or reviving a rural grocery store. This is important, as each community is unique, as are the challenges that face these communities. A thorough examination of all facets of the community, its strengths, and its challenges, should be completed prior to selecting the most appropriate strategy.

Module 2 - Funding Sources Available to Rural Grocery Stores

To get a rural grocery store up and running most entrepreneurs will need to source funding either in the form of loans (mostly) or grants (hopefully). There are a variety of organizations and individuals worth contacting to find out what may be available at any given time. Some of the programs are ongoing while others have specific timeframes in which application must be made. Most grant programs fall into this latter category.

Below we have listed several of the organizations to be contacted, with a brief description of each. As they say, it does not cost anything to ask.

USDA (United States Department of Agriculture)

The USDA has a variety of programs that may be available at any given time and is a great place to start. The Business and Industry (B&I) Loan Guarantee program has been a long-standing option for businesses looking to locate in a rural area. Other programs for business start-ups and expansion will be available through the USDA, but these may have specific timeframes for application and will change from year to year depending upon available funds and economic trends.

<https://www.rd.usda.gov/programs-services/business-programs>

SBDC (Small Business Development Center)

Counselors for the SBDC are generally in the know when it comes to state or local funding programs. With more than 1,000 SBDC Offices operating in all 50 states, this service is available to all Americans. At the SBDC website you can enter your zip code and be connected to the office nearest you. (<https://americassbdc.org/>)

SBA (Small Business Administration)

According to its website, the SBA ‘provides counseling, capital and contracting expertise’ (U.S. Small Business Administration, n.d.) to assist small businesses throughout the US. The SBA can assist an entrepreneur in determining the best organizational setup (sole proprietorship, LLC, etc.). Additionally, the SBA has several loan programs that may assist in startup or expansion if certain criteria are met.

[Small Business Administration \(sba.gov\)](https://www.sba.gov)

State Level Economic Development Agencies

Most, if not all, states have an economic development agency or department which promotes business development within that state. These agencies often have loan and grant programs as well as tax credit programs available. Some of these incentives may be available, and even targeted toward, entrepreneurs wanting to start and/or expand a small rural grocery store. A few Midwestern examples of these agencies are the Iowa Economic Development Authority, the Illinois Department of Commerce and Economic Opportunity, and Kansas Commerce.

Regional Economic Development Agencies

From time-to-time regional development agencies, such as Councils of Governments (COGs) will have funds available for those wanting to start a business. For example, the Region XII Council of Governments based in Carroll, Iowa, manages a revolving loan fund. Those looking to start or expand a grocery store are urged to investigate organizations such as this in their respective area.

Local Contacts

Bankers, City Administration, Chamber of Commerce, and Economic Development professionals may all have insight into local programs that provide loan or grant funds to small businesses.

Summary

Obtaining financing for a rural store often involves a patchwork of funding sources. Ideally, you will be able to partially fund your project with grant money and low interest loans. Opportunities will, however, vary from one locale to the next and from one state to the next. Timing is also a factor as different funding programs come and go over time. Those who are most successful finding financing are those who keep digging. Start with local sources mentioned above and see what is available. Every time you speak to one of these contacts, ask for ideas on other funding options. Move on to the state and regional levels, then federal. If the project is financially viable funding will be available, although it may take some time and effort to bring it all together.

Module 3 – Compliance to Regulations

There are many different permits and licenses that could be required to run a grocery store, depending on what the business plans to sell and what state the business is located in. These permits include (but are not limited to): general business permits, food, alcohol, and tobacco licenses, and a few miscellaneous licenses.

Business Licenses and Permits:

- **Business License:** Obtain a general business license from the city or county where your store is located. This license allows you to operate a business within the jurisdiction.
- **Retail Sales Tax Permits:** Register with your state's Department of Revenue or equivalent agency to obtain a sales tax permit. This allows you to collect and remit sales taxes on taxable items sold in your store.
- **Federal Employer Identification Number (EIN):** If you plan to hire employees, you'll need to obtain an EIN from the Internal Revenue Service (IRS). This number is used for tax purposes and is required to report employee wages and withholdings. Apply online at the IRS website ([irs.gov](https://www.irs.gov)).

Food Licenses:

- **Health Department Permit:** Contact your local health department to obtain a permit for operating a food establishment. They will conduct inspections to ensure compliance with health and safety regulations.
- **PACA License (Perishable Agricultural Commodities Act):** For larger stores this license is required of any person or business who buys or sells more than 2,000 pounds of fresh or frozen fruits and vegetables in any given day. Apply for a PACA license at [USDA.gov](https://www.usda.gov).
- **Food Handler's Permit:** If your store will handle and sell food products, you may need to obtain a food handler's permit or license. This requirement ensures that you and your employees have received appropriate training in food safety and handling.
- **If wanting to accept SNAP funds** stores can contact the SNAP Retailer Service Center Hotline at 877-823-4369.
- **Food Storage License:** May be required to have large quantities of food on hand.

Alcohol Licensing:

- If you plan to sell alcoholic beverages, you'll need to obtain a license from your state's liquor control board or similar authority. The requirements and types of licenses vary by state.

Tobacco Licensing:

- **Tobacco Retailer's License:** Many states require a tobacco retailer's license or permit to sell cigarettes and other tobacco products. This license is usually issued by the state's Department of Revenue or similar agency. The application process may involve background checks and a fee.
- **Tobacco Tax Stamp:** Depending on your state, you may be required to affix tax stamps or other indicators to cigarette packages to demonstrate that the appropriate taxes have been paid. These stamps can be obtained through your state's Department of Revenue or taxation agency.
- **Compliance with Federal Regulations:** The sale of cigarettes also falls under federal regulations. Retailers must comply with the Prevent All Cigarette Trafficking (PACT) Act, which includes requirements related to shipping, reporting, and record-keeping for interstate cigarette sales.
- **Display and Advertising Restrictions:** Familiarize yourself with any local or state regulations regarding the display and advertising of tobacco products. Some jurisdictions have restrictions on how cigarettes can be displayed or advertised within the store.
- **FDA Registration:** If you plan to sell other tobacco products, such as cigars, pipe tobacco, or electronic cigarettes/vaping products, you may need to register your store with the U.S. Food and Drug Administration (FDA) as a tobacco retailer.

Miscellaneous Licenses:

- Lottery License: An application to sell lottery tickets must be submitted and approved prior to selling tickets in your store.
- Household hazardous material retailer permit: This may be needed if your business is going to be selling any materials deemed “hazardous.” Examples include motor oil, degreasers, solvents, paints, caustic household cleaners, fertilizer, pesticides, etc. Requirements may vary, consult state authorities for additional information and requirements.
- Pharmacy license: Requirements for a pharmacy permit vary by state, but many permit applications ask for:
 - Business entity information
 - The type of pharmacy (Retail, Hospital, Sterile Compounding, Nuclear, etc.)
 - Pharmacist-in-charge information, including license number
 - Articles of incorporation/formation
 - A list of officers and owners of the business
- Fire safety regulations: The local fire department may require you to obtain a permit to ensure your store meets fire safety regulations. This might involve inspections of fire exits, extinguishers, and other safety measures.
- Building and Zoning Permits: if you're constructing or renovating a building for your grocery store, you'll likely need building and zoning permits to ensure compliance with local building codes and land-use regulations.
- Sign Permit: Check with your local zoning or planning department to see if you need a sign permit for any signage you plan to display on your store's exterior.

Insurance Considerations:

- Workers' Compensation Insurance: Required for all businesses, this covers medical costs and disability benefits if an employee is injured or becomes ill on the job.
- Unemployment Insurance: Also required, this provides benefits to workers after a loss of job through no personal fault.
- General Liability Insurance: This coverage protects against financial loss as the result of bodily injury, property damage, medical expenses, libel, slander, defending lawsuits, and settlement bonds or judgments.
- Product Liability Insurance: This coverage protects against financial loss as a result of a defective product that causes injury or bodily harm.
- Professional Liability Insurance: This coverage protects against financial loss as a result of malpractice, errors, and negligence.
- Commercial Property Insurance: This coverage protects your business against loss and damage of company property due to a wide variety of events such as fire, smoke, wind and hail storms, civil disobedience and vandalism.
- This list is not exhaustive - needs will vary from business to business and state to state.

Module 4 - Locating Your Grocery Business

In the discussion of location, we generally assume the community in which the store will be located has already been chosen. However, if this decision has not been made, the prospective store owner will first need to consider the general geographic area of interest. This may be an entire

state, a region within a state, or a county, for example. To begin to narrow the search even more, the entrepreneur will typically want to look for communities where there is no grocery store. If the state has a grocers' association or a retailers' association, these organizations should be able to help identify such locales. Other possible sources could be University Extension offices or state, regional, or county economic development officials.

Once we have narrowed our search to a specific community, the first order of business will likely be to search for possible locations within the community. The location and availability of suitable properties will help determine if a new store is feasible. In addition, the status of the property or properties identified will have a significant impact on total project cost. Below we consider the possible alternatives when determining location.

To begin the search, it may be helpful to have local assistance to identify suitable properties. This help could come from a variety of sources, such as a commercial realtor, city administrator, elected official, or a chamber director. While small communities may not have their own economic development staff person, the county or state may also be able to assist.

Locating Within the Chosen Community

As described in the sections below, location of the store may be pre-determined by the existence of a structure that was previously used as a grocery store. It is also possible the location could be influenced by the availability of another suitable building that was not necessarily a grocery. Ideally, any building considered will be located in a visible, high-traffic area. If the building is in good condition and is in a good location, it will make sense to use the existing structure.

If, however, no suitable building exists, or if it is determined that the building(s) available are in poor locations, a prospective owner will need to choose where to locate a new building. If the community has a "downtown" retail area, and has available real estate, this might be a good location with good traffic. Or, most rural communities have an access road that is either a highway or a paved county road. Locating on this route is another option that has been successful in some instances. Very simply, the ideal location will be one where there is good visibility, plenty of foot or vehicle traffic, and sufficient parking nearby.

Below is a summary of options to consider.

Purchase an Existing Grocery Business

For those looking to buy and operate a rural store, the simplest and fastest way to get into business is to purchase an existing store. This purchase may or may not include the building and property. Pricing of an existing store can vary widely, depending primarily on past financial performance, expected future performance, and whether the real estate is included in the purchase price.

Unfortunately, many store owners do not do the necessary planning as they prepare to exit the business, meaning the store may close before a new owner can be found. But owner(s) who plan ahead and sell the business rather than close and liquidate will reap a financial benefit. In addition, the entire community will benefit as the store remains open.

Purchase a Closed Store

In some instances, it may be possible to buy a store that has closed but remains largely intact. Fixtures and equipment are still in place and are largely functional. It is possible that certain pieces

of equipment may need repaired or replaced. Other updates may be necessary, and the store may need a new look. But with an existing structure in place the new owners can gradually make upgrades and repairs as finances allow. As with purchase of an existing grocery, the building and property may or may not be included in purchase price and otherwise will be leased.

In most instances, buying a closed store will be an easier transition than starting with no building or with an empty building. Inclusion of the equipment and fixtures may increase the price, but in most cases this option would be expected to save the new owners time and money as compared to starting with an empty building.

Purchase an Empty Building

When a store closes, it is fairly common for the outgoing owners to sell everything in the store, including the equipment and fixtures. What is left is essentially a building shell, although walls and partitions are left in place. If the building is in good condition, purchasing this location would offer several advantages over building new. First, the time and expense of new building construction would be avoided. Next, it may be possible to rent such a building since owners may be anxious to realize revenue from this asset. This too can help new owners keep costs down. A third advantage would be the familiarity of the location, as residents are accustomed to buying groceries here.

Of course, empty buildings are not limited to former grocery stores. It is possible that other suitable locations may exist. If such a building is available, is in an attractive location, is of appropriate size, and is in good condition, the same potential advantages would be possible.

Build New

When no suitable building for a store exists, the obvious solution is to build. While this is likely the most expensive option, there are some advantages to this alternative. Starting new allows owners to choose their preferred location. They can design the building to their specifications for size and shape. The building will have a fresh and modern look, as compared to an older building. While a new building will add cost, the business should save on repairs and maintenance. If good used equipment and fixtures can be located, additional savings are possible.

Summary

Regardless of the situation in the town where the store will be located, options exist to build a new store, buy an existing but empty building, or buy a building that is already outfitted for grocery use (either open or closed). Costs will vary depending on the situation and potential owners should analyze the financial situation carefully to make sure a store is financially feasible. For a simplified analysis of potential revenue and expense for your business venture try our Rural Grocery Profit Simulator at this link: isuindicators.shinyapps.io/RuralGroceryShiny/

Module 5 - Start-Up Costs

By definition, start-up costs are those incurred by a business prior to opening doors to the public. According to the IRS, “Start-up costs are amounts the business paid or incurred for creating an active trade or business or investigating the creation or acquisition of an active trade or business.” (Internal Revenue Service, 2021) In other words, costs to prepare for entry into business are considered start-up costs, but not ongoing costs of doing business. Typically, depreciable assets will not be considered start-up costs since these will be depreciated over a period of time based on

their useful life. But qualifying expenses that are typically not depreciable can be lumped together as start-up costs.

For Tax and Income Statement purposes these costs are often capitalized and amortized over an extended period of time, usually 15 years. By capitalized, we mean that these costs are treated as an asset, and 1/15th of the total asset amount is charged against income each year. The asset balance is typically reduced by this same amount until depleted. These costs are handled in this manner so that the expense, which can be significant at times, is not all charged in the first year but instead is spread over a period of time.

When planning a rural grocery store, start-up costs incurred will be dependent on the situation inherited by the owners. Some examples of start-up costs a grocery store may incur would be employee wages during training or store preparation, travel, licenses and permits, advertising, rent, telephone, utilities, and repairs. As you can imagine, these costs can add up, again depending on the situation.

If an existing store is available for purchase, that is the simplest transition, and start-up costs may be minimal. If the new owners are reopening a store that was previously closed, or are leasing or purchasing an empty building, or are building new, start-up costs will increase.

Leasing a building rather than buying will require less cash to start, but the operator does not build equity and only controls the property for the period of the lease. Purchasing a store or building, or building new, will require more up-front cash, but the owner will build equity and will not have to worry about potential lease issues. When purchasing or building new, most business owners will find it advantageous to set up a separate company to own the real estate. The owner of the property then will essentially rent the building from themselves. A qualified attorney and accountant should be involved throughout the process.

If considering building a store, owners will need to determine the cost of doing so. An internet search for current (2023) construction costs returned a range of \$200 to \$400 per square foot. This is in comparison to a 2018 feasibility study from Autaugaville, Alabama (referenced below) where construction costs came in at \$132.01 per square foot. (Southeast Research, 2018) The more current numbers reflect the price increases we have seen in recent years, and the wide range of costs are at least partially due to regional differences. Potential owners will need to research current costs in their own area prior to beginning construction.

Fixtures, equipment, and refrigeration are also integral when planning a grocery store and analyzing costs. While these are not “start-up costs” as defined by the IRS, they are necessary expenditures that must occur prior to opening of the store. Customer desires, store layout decisions, and current technologies will all impact the decisions around these items. We include more detailed information on store layout in the section entitled Departments and Layout.

Overall sales volume and the inventory needed to support that volume will dictate space needs and equipment capacities. To reduce the initial cash outlay some companies will lease equipment when possible. In addition, in many instances it is possible to buy used fixtures, equipment, and refrigeration. There are numerous internet auction sites that specifically sell these items used. The used fixtures, equipment, and refrigeration can often be purchased at substantial cost savings,

even after factoring in delivery charges. One thing to consider however is that in most cases used equipment will not be warrantied.

The cost of real estate, construction, fixtures, equipment, and refrigeration can all vary considerably based on size, features, and geographic location. It is therefore not possible to reasonably estimate costs for specific locations around the country. The list below includes many of the items to be considered when opening a new rural store. Owners should estimate costs associated with these and other start-up costs as they calculate initial working capital needs.

- Land Acquisition
- Construction Costs
- Parking Lot
- Heating/Cooling System
- Equipment and Refrigeration
 - Shelving, displays, pallet jack(s), shopping carts, scales, etc.
 - Walk-in coolers, freezers, display coolers
- Lighting/signage
- Point-of-sale system
- Office FF&E
- Security System
- Initial Inventory
- Phone/computer system
- Licenses, Permits
- Insurance
- Website/Social Media Setup
- Professional Fees (Accountant, Attorney, etc.)
- Packaging Supplies
- Upfront cash – to pay salaries/vendors until revenue generation is sufficient

The categories above consider the construction of a new building. If one is buying an existing building, or leasing a building from a separate entity, certain of these costs would be reduced or eliminated. Beyond that, this listing should prove helpful in laying out the expense associated with preparing to open a rural grocery store.

Module 6 - Departments and Layout in a Rural Grocery Store

To help ensure profitability, every small rural grocery store needs to determine the optimal product mix for their customer base. The product mix could be impacted by several factors, such as the proximity of a dollar store, local and regional diet preferences, and population demographics. Sometimes the easiest way to make decisions regarding inventory is to ask the people that may be shopping in the store. To that end, a brief discussion of market analysis can be found below.

In addition to product mix, there are other factors that can determine store layout. If moving into an existing structure the size and layout of the building may influence the outcome. Availability of funding can also be a limiting factor, as equipment such as refrigeration can be costly.

With that said, the following narrative will explore the most popular departments and typical layout that should be considered as plans are being made for a small rural grocery store. For help with this, we will reference three publications on this topic. They are the “Rural Grocery Store Start-Up and Operations Guide” published by Western Illinois University’s Illinois Institute for Rural Affairs; a “Feasibility Study and Business Plan for a Grocery Store in Autaugaville, Alabama” published by Southeast Research in Montgomery, Alabama; and “10 Steps to Successful Online Grocery” by Naveo Commerce.

According to a study measuring sales from 2010 to 2012, the top six departments account for almost 90% of grocery store sales. The departments, and the percentage of sales, break down as follows:

Table 1. Percent of Sales Per Department

Sales distribution by department	All companies 2010 (%)	All companies 2011 (%)	All Companies 2012 (%)
Grocery	42.37	38.61	39.67
Meat	16.56	18.45	18.26
Produce	8.96	9.87	9.78
Dairy	9.70	10.63	9.51
Deli	6.24	6.53	6.90
Frozen	5.74	5.57	5.70

Figure 1 (Roerink, Anne-Marie, Dennis Lindsay, Bob Graybill, and Shelley Bosler 2014)

It bears mentioning as we compare statistics from one source to another, there will be some differences in how departments are combined, and the number of departments included. It is also important to note there has been turmoil in the grocery industry since the above study was completed, mostly due to the Covid-19 Pandemic. We saw an increase in groceries purchased for home consumption, as well as a focus on frozen food due to longer shelf life and emphasis on ready-to-eat meals. If anything, the Pandemic has solidified the importance of these departments in any grocery store. So, while the percentages may have shifted somewhat, we believe that the overall importance of these six areas remains unchanged.

Five of the six top departments listed above are required in any grocery store. Grocery, Meat, Produce, Dairy, and Frozen include the basic staples customers will expect to find in a store. The deli department is one that can sometimes be considered optional if space is tight and if market demand is perceived to be weak. However, in the “Grocery Trends” section of this report we discuss that ready-to-eat meals and meal solutions are in demand. These trends may be justification for a deli department as customers look for quick and easy meal alternatives.

Market Analysis

Several times in this discussion of grocery departments we refer to a market analysis. To make best use of space that is often scarce, it is important to evaluate which products will be most in demand and will create the greatest margins. The analysis can be formal, such as a community survey conducted by a third party, a less formal survey conducted by store management, or an informal analysis of the local retail environment. For example, if a dollar store is located nearby and is selling discounted paper goods, the grocer may choose to allocate only a small amount of space to

these products. Or if there are few restaurant options in the area, the store may want to make sure to offer ready-to-eat meal alternatives.

Deli Department

A deli department can be a major profit center for a rural grocery store, especially if there are no other meal options available nearby. The deli can be as simple as a self-service grab-and-go counter with a hot and cold case. On the flip side is a full-service counter with a variety of products and an employee available to serve customers. A common practice is to have a daily hot meal special that is available for lunch or dinner or both. According to the article from Naveo Commerce, Deli sales on average account for 5% of a store's total sales with a profit margin of 40%. (Naveo Commerce, 2023) A discussion of margins will be covered in-depth in module 8.

If possible, many stores will include a seating area for deli customers. This not only encourages customers to sit and enjoy meals in the store but will often serve as a gathering place where customers can interact. Rural grocery stores that can become more than just a place to shop, but instead become community institutions, will have a better chance at long-term survival.

Typically, a deli counter will be located toward the back of the store so customers will have to walk through the store and may pick up additional items along the way. However, if the deli will be more of a grab-and-go, the area may be located near the front of the store for customer convenience.

Grocery Department

The grocery department consists of the core items on most grocery lists, outside of fresh and/or refrigerated items. It should come as no surprise that grocery items will account for the biggest percentage of a store's sales. For example, the Autaugaville study referenced above put grocery sales at roughly 40% of overall sales with a margin of 24%. (Southeast Research, 2018) The profit margin for the grocery department tends to be lower than that of the perimeter departments. However, the volume of items sold more than makes up the difference.

Canned fruits and vegetables, snack items and bread are a few of the items found in the Grocery Department. Others are baking items (flour and sugar), cereal, paper goods, and ethnic foods. Another category that is often included under the grocery department is Health & Beauty Care (HBC) and general merchandise items. Depending on the size of the store and the products desired by the market, this can be very basic or more expansive. HBC items consist of personal care, pain relievers and cold remedies, among other things. General merchandise can consist of items such as kitchen and cooking utensils, foil pans, office supplies, and candles.

Produce Department

As the name implies, the Produce Department consists of fruits and vegetables. Given the desire of consumers to buy local, every effort should be made to procure local produce when possible. Here again, attention needs to be paid to the needs and desires of the surrounding community. Key items such as apples, oranges, bananas, potatoes, and lettuce need to be stocked. Not all items necessarily require refrigeration. However, doing so can extend the shelf life of these fresh items. From the Naveo article above, we see that produce sales average 10% of store sales with a margin of 40% to 45%. (Naveo Commerce, 2023)

Dairy Department

A case could be made that the dairy department is one of the most important departments in the store. Items such as milk and eggs are staples in most refrigerators. Beyond these, other items that are found in the dairy department are sour cream and dips, shredded and block cheese, and yogurt. Here again, there may be local alternatives that should be explored if possible. Sales for this department can average in the 10% range with a margin of around 25% to 30%. (Naveo Commerce, 2023)

Frozen Food Department

The first thing that often comes to mind in a frozen food department, is ice cream and ice cream treats. Breakfast items and frozen vegetables are also included in this department. Keeping in mind the trend toward ready-to-eat meals, the rural grocery store should include frozen meals as well as frozen pizzas. Again, with local in mind, some small rural grocery stores have “take and bake” local pies in their freezer case. The frozen food department has a margin similar to that of the dairy department at 25% to 30%. (Naveo Commerce, 2023)

Meat Department

The meat department is another key department for the small rural grocery store. This can be a challenge for smaller grocery stores, given the fresh nature of the product and potential for shrinkage (items being thrown out due to spoilage). However, quality fresh meat can be a major differentiator and drive business. Some smaller stores leverage a local producer (or producers) for their needs, while others use a regional or national supplier (see more in the Suppliers section). Just as in the previous sections, the grocer needs to balance the potential of sourcing local to increase sales as well as costs.

A discussion of the meat department wouldn't be complete without discussing packaged meat. Items like lunch meat, snack items and ready to eat alternatives are enjoying growth in the sector and can present a higher profit margin.

The two studies we have used for reference vary considerably in sales statistics but are similar in terms of profit margin. The Naveo article puts meat sales at 9% of total, whereas the Autaugaville study estimates this will be closer to 30%. It is likely this difference is caused largely by variations in products included in the total. Both studies have margins in a similar range at 27% to 30%. (Naveo Commerce, 2023) (Southeast Research, 2018)

Other Departments

Other products a rural grocery store may consider are alcohol, tobacco, floral, bakery, general merchandise, and pet care. The addition of each can be a draw to customers as well as a positive impact on the bottom line. These advantages must be measured against the additional associated costs, whether they be space requirements or additional equipment/utilities needed. Again, it is extremely important to do a market analysis to determine the most effective and profitable product and department mix. Grocery stores competing with a dollar store across the street may find an emphasis on fresh foods is a more successful strategy than trying to compete on non-food items.

Store Layout

When creating the store layout there are competing priorities that must be considered. First, it is important to give consumers a pleasant shopping experience. Customers stopping in for just a few things want to be able to find the items they need and be on their way. On the other hand, store management wants to keep customers in the store as long as possible to maximize sales and

profit. A reasonable balance must be struck between these two objectives. According to an article at realsimple.com “Every aspect of a grocery store's layout—from the produce display near the entrance, to the dairy case in the back, to the candy at the register—is designed to stimulate shopping”. (Srinivasan, 2023)

While product mix will differ somewhat, there are standard themes when it comes to store layout. Often the first department a customer sees when they enter a grocery store, beyond the shopping carts and baskets, is the produce department. Here the focus should be on fresh, quality fruits and vegetables. This is the opportunity for the store to set the tone with the customer. If the produce selection is of lower quality, the customer may have that same expectation for the rest of the store and will be likely to purchase fewer groceries.

If the store includes a bakery department, it will typically follow produce. Again, freshness is key. As the previously mentioned Grocery Store Start-Up and Operations Guide states, “the smell of fresh baked goods and desserts...helps encourage the customer to ‘shop hungry’.” (Illinois Institute for Rural Affairs at Western Illinois University, 2014) And, of course, a hungry customer tends to spend more on their groceries.

As we progress around the perimeter of the store, next will often be the meat department – or in a small store, a meat case. Based on the outcomes of the market analysis, the meat case will be a combination of packaged fresh meats and lunchmeats. Some stores, especially those that have their own processing, may have an actual meat counter. Other stores may rely on a local, licensed meat locker to source their selection. As was mentioned earlier, freshness matters – and can be a differentiator in the minds of consumers.

Given the cost of refrigeration it makes sense to keep the “cold” departments close together, which is why the dairy case usually is next, and often on the perimeter as well. Given the popularity of items like eggs and milk, the dairy case will often be in the corner of the store opposite the main entrance. This is so customers looking for such items walk past other more impulse, and high-profit items. Frozen foods are sometimes displayed on the perimeter as well, although it is also common for these to be included in stand-alone freezer cases that are more on the interior of the store.

The center of the store will consist of dry grocery items. Thought needs to be put into layout of these items as well. An effort should be made to put higher profit items at eye level. Bigger, bulkier items that are easily seen should reside on the bottom shelves. Specialty items that don't require a lot of inventory and space can be placed on the top shelf. If there are items that appeal to children, consideration should be given to putting those items at ‘child height’. End caps and stand-alone displays are opportunities to put high-impulse, high-profit items front and center. According to the aforementioned Rural Grocery and Start Up Operations Guide, the dry grocery area should account for roughly 60% of the store. (Illinois Institute for Rural Affairs at Western Illinois University, 2014)

If space and budget allow, and a good market analysis shows there is demand, other departments can be included. If alcohol and/or tobacco are to be sold, they should be in an area close to the checkouts so that they can be monitored as closely as possible. These are high-theft items and, as such, can negatively affect the bottom line if they don't find their way through the checkouts.

While we are talking about the checkouts, they should be located just inside the front doors and should encompass roughly 25% of the store square footage. High impulse items should be readily available. These include such items as candy, soda, magazines and so on. These high impulse items are also high profit items, with margins ranging from 35%-100%. (Illinois Institute for Rural Affairs at Western Illinois University, 2014)

One area we have not yet addressed is the storage and receiving area. When planning for these, it is important to remember that, while important, these areas are not directly generating profits and should be kept to a minimum. The Grocery Store Start-up and Operations Guide from Kansas State University recommends approximately 10 percent of the store should be allotted for storage and receiving. (Illinois Institute for Rural Affairs at Western Illinois University, 2014) Also, if possible, the receiving area should be located adjacent to the coolers so perishable product can be quickly transferred from truck to refrigeration.

Another department that might be considered is a floral and gift area. These items tend to be high margin, as they are usually impulse buys. If this is included, it should be near the front as the customer enters and exits. Like the produce department, the floral and gift area helps set a fresh and welcoming tone for the customers as they enter the store. For these non-essential departments such as bakery, deli, and floral, consideration should rely on the market analysis.

Below, a sample store layout is described, including recommended square footage by department. Overall square footage is 5000 square feet. As mentioned above, each store and surrounding market demand is unique. (Note: This was generated using Microsoft CoPilot on 5/29/2024)

Sample Grocery Store Layout (5000 Square Feet)

- 1. Entrance and Checkout Area:**
 - The entrance should be inviting and well-lit.
 - Allocate approximately **300 square feet** for the entrance and checkout counters.
- 2. Fresh Produce Department:**
 - Fresh fruits, vegetables, and herbs.
 - Arrange produce in attractive displays.
 - Allocate approximately **800 square feet** for fresh produce.
- 3. Deli and Prepared Foods Department:**
 - Deli meats, cheeses, salads, sandwiches, and ready-to-eat meals.
 - Include a deli counter.
 - Allocate approximately **600 square feet** for deli and prepared foods.
- 4. Bakery Department:**
 - Freshly baked bread, pastries, cakes, and cookies.
 - Display near the entrance for enticing aromas.
 - Allocate approximately **400 square feet** for the bakery.
- 5. Meat and Seafood Department:**
 - Fresh cuts of meat, poultry, and seafood.
 - Include a butcher counter.
 - Allocate approximately **600 square feet** for meat and seafood.
- 6. Dairy and Frozen Foods Department:**
 - Milk, cheese, yogurt, ice cream, and frozen meals.
 - Keep dairy and frozen items together.

- Allocate approximately **600 square feet** for dairy and frozen foods.
- 7. **Grocery Department:**
 - Non-perishable items like canned goods, pasta, cereal, and snacks.
 - Organize shelves logically.
 - Allocate approximately **800 square feet** for groceries.
- 8. **Beverages Department:**
 - Soft drinks, juices, water, and alcoholic beverages.
 - Include a beverage cooler.
 - Allocate approximately **400 square feet** for beverages.
- 9. **Household and General Merchandise:**
 - Cleaning supplies, paper products, and household essentials.
 - Place near the checkout area.
 - Allocate approximately **300 square feet** for household items.
- 10. **Health and Beauty Department:**
 - Personal care products, cosmetics, and toiletries.
 - Include a pharmacy section if desired.
 - Allocate approximately **400 square feet** for health and beauty.
- 11. **Storage and Stockroom:**
 - Store excess inventory, supplies, and equipment.
 - Allocate approximately **500 square feet** for storage.

Module 7 - Grocery Suppliers

There are several factors to consider when sourcing inventory for the small rural grocery store. The suppliers required are directly related to the type and variety of products intended for sale in the store. Many stores rely primarily on wholesale distributors who can supply a wide variety of products. The store can then supplement with other products sourced from local producers or regional distributors.

We will discuss these in detail below, beginning with the wholesale suppliers.

Wholesale Distributors

In most instances rural stores will be able to find one or more grocery wholesalers who will be available to service their store. These companies carry a wide range of products that include so-called “store brands” as well as national brands. These suppliers can offer the small stores the benefits of economies of scale, something the individual store cannot attain alone. These large companies move much greater volume and can therefore command lower prices from their suppliers. This means a retailer can purchase at a lower price and can then be more competitive when setting prices to be charged in their store.

Since these wholesale companies carry so much product variety, they can serve as something of a one-stop-shop. Rather than dealing with many suppliers for products throughout the store, these distributors can help a small grocer simplify things a bit. Associated Wholesale Grocers (AWG) based in Kansas City, Kansas is an example of such a supplier. AWG provides groceries to independent grocers in 28 states. Additionally, they can provide products for the following departments: Bakery, Meat, Deli, Grocery, Dairy, Frozen, and Produce. Numerous other wholesalers serve stores throughout the United States.

There are almost always up-front costs when partnering with these larger suppliers. For example, Associated Wholesale Grocers requires that member stores buy shares. In 2023, the amount required to buy into the program is \$23,250. If the grocer should exit the business or decide to switch suppliers, they are able to sell the shares back to AWG at the present value at that time.

Other benefits to consider when dealing with larger regional or national suppliers are the additional services they may offer. These larger wholesalers have data and expertise generally not available to your average rural store. They can provide category management, helping the independent grocer determine which products to carry. They may also provide shelf assistance, helping to determine how and where to position items, sometimes referred to as a plan-o-gram. These services can help a less-experienced grocer decide what to carry and where to place it in the store. These distributors will often be able to suggest pricing strategies, if desired by the store management. These ancillary services can be extremely helpful when it comes to minimizing cost and maximizing revenue. Should the retailer decide to use these other services (real estate assistance, plan-o-grams, etc.) there may be an additional charge associated with doing so.

An example of the types of support offered by a wholesale supplier can be found in Associated Wholesale Grocers' 2021 Member Support Booklet. The booklet can be found in the appendix of this report as Exhibit 2.

National & Regional Suppliers

National and regional suppliers can usually be located relatively easily, due to their large footprint, web presence, and sales force. These suppliers would typically handle things like chips, snacks, and cookies, sodas and beer. Companies in this category include Frito Lay, Nabisco, Pepsi, and Budweiser. While these are national brands, they are often distributed through regional intermediaries, and not all products in these categories are national in scope. Regional and local brands are frequently available to compete with the "name" brands that all stores typically carry. In some cases (Nabisco products, for example), these are available through the wholesaler. In other cases (national soda brands, for example), the product is distributed through a regional company who will typically provide in-store service such as keeping shelves stocked, setting up displays, and so on.

Local Suppliers

Many customers want to support local businesses and local producers when shopping. This can sometimes pose a challenge for the grocer, since managing many small suppliers is more difficult than dealing with only a few large distributors. In addition, it can become more difficult to source those products since the smaller suppliers do not have the presence or notoriety of the larger ones. On the other hand, carrying local products can create goodwill in the community, and often will result in higher margins for the grocer. The "buy local" movement is discussed in greater detail in Module 12 Grocery Trends.

Since in many instances the store owners or management are from the area, they may already have knowledge of at least some of the local producers. If however the owners are having difficulty locating local items to stock their shelves, there are a few different ways to find producers from their area. Some large suppliers (like US Foods) have very large networks, which means they already have connections to local suppliers across the country. The first step in finding local suppliers may be contacting one of these large suppliers.

Another avenue to pursue if looking for local producers or craftspeople is an online search. For example, a Google search for city, state, and “produce” for example, will likely return a number of websites (often Facebook pages) of producers in the area, even for small towns. Other possible search results could include websites who maintain listings of local businesses or producers. For example, a website called foodmarketmaker.com lists nearly 12,000 farms, and eatWILD.com has a directory of over 1,400. (Eatwild's Directory of U.S., Canadian and International Farms & Ranches, 2023) Other ideas for local sourcing include reaching out to business leaders in the area, contacting the chamber of commerce, or other government officials. Finally, the National Grocers Association has many resources for new and developing grocery stores, which can be accessed through the link provided below.

Other Considerations

When dealing with suppliers, there are several things to consider beyond the types of products they supply. One very important thing is the payment terms they offer. Many will be cash-on-delivery at first as the supplier develops a trusting relationship with a new customer. Managers should keep this in mind when planning the need for operating capital. After this initial period, terms can vary widely, from net-7 days (seven days to pay the total amount) to net-30 days (30 days to pay the total amount). Smaller suppliers will sometimes offer an incentive for cash payment. Others may offer a small discount for paying within a set number of days (1% off if paid within 10 days for example).

Another thing to consider is that some suppliers will require a minimum order amount. This is important because a small retailer may not wish to order large quantities as they cannot turn the inventory quickly. Excess product can clog an already small storage area, and inventory sitting on a shelf in the backroom is not making money. Unsold products can reach their “sell by” date and will need to be removed from the shelves. A small grocery store does not have much leverage, however, when it comes to negotiating minimum orders and other terms.

Below we list two of the major associations a grocer may wish to use as a resource or join as a member. Following that we have listed names, contact information, and a brief description of several national grocery distributors.

Grocery Trade Associations

- National Grocers Association
 - Website: www.nationalgrocers.org
 - Telephone: (202) 938-2570

- National Retail Federation
 - Website: www.nrf.com
 - Telephone: (800) 673-4692

National Grocery Suppliers and Their Products

- U.S. Foods
 - Company Product Description:
 - According to their website, US Foods has “over 350,000 products to choose from and over 300,000 US Foods customers.” (U.S. Foods, n.d.) They have a large variety

of products to offer, from produce, meat, and dairy, to baked goods and even freshly prepared meals and salads.

- KeHE Distributors
 - Company Product Description:
 - “With more than 6,800 employee-owners and a 18-distribution center network across North America, KeHE is one of the largest and most respected pure-play grocery and natural distributors in the nation.” (About KeHe, n.d.)

- UNFI
 - Company Product Description:
 - “Discover one of the most comprehensive private label programs available today. With over 5,000 products across 200 categories throughout the store, we believe we have what today’s consumer is seeking from national brand equivalents to opening price points to gourmet, specialty and organic offerings.” (UNFI Private Brands Portfolio, 2024)

- SpartanNash
 - Company Product Description:
 - Our distribution segment provides a selection dry groceries, produce, dairy, meat, deli, bakery, frozen food, seafood, floral, general merchandise, pharmacy and health and beauty care items.” (Spartan Nash, n.d.)

- Core-Mark Holding Co. Inc
 - Company Description:
 - “Core-Mark has 45 distribution centers strategically located across North America. Each of our distribution centers use state-of-the-art logistics and supply chain management to deliver the products and services demanded by the over 50,000 retail locations we serve in the U.S. and Canada.” (Core Mark, 2024) Core-Mark delivers to convenience stores across the country. Products include meat, seafood, produce, and bakery items, among other things.

- Dot Foods Inc.
 - Company Product Description:
 - “We can redistribute 42,000 stocked products from more than 1,500 suppliers... Our special-order items make up the remainder of our 123,000-product catalog.” (Dot Foods, 2024)

- AMCON Distributing Company
 - Company Product Description:
 - “AMCON and our strategic subsidiaries Team Sledd LLC and Henry’s Foods, Inc. collectively represent one of the largest wholesale distributors in the United States offering over 20,000 different consumer products to approximately 7,000 retail

outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shop.” (AMCON, 2024)

- Associated Wholesale Grocers
 - Company Description:
 - “Associated Wholesale Grocers, Inc. (AWG) is the nation’s largest cooperative food wholesaler to independently owned supermarkets, serving 1,100 member companies and more than 3,300 locations throughout 33 states from 9 wholesale divisions. Consolidated sales for AWG in 2023 were \$12.4 billion. In addition to its cooperative wholesale operations, the company also operates subsidiary companies which provide certain real estate and supermarket development services, health and beauty care, general merchandise, pharmaceutical products, specialty foods, and natural and organic products.” (Associated Wholesale Grocers, 2024)
 - Products Description:
 - “AWG prides itself on having an optimized assortment of products for all different types of grocery stores. From fresh departments to health, beauty, and wellness and all areas in between, AWG category management teams work hard to provide breadth and depth within categories while ensuring product performs well at the register. With more than 127,000 SKUs carried, member retailers can be assured they will find products to suit the needs of all different kinds of consumers.” (Associated Wholesale Grocers, 2024)

Module 8 - Margins and Pricing in the Rural Grocery Store

Profitability is key to keeping a rural grocery store open. Sales are one measure of success, but the rural grocer needs to make money on those sales. Correct pricing can help ensure profitability.

So, how do you determine the correct price? In large part, pricing is determined by establishing a desired gross margin for each department or each individual item. To correctly calculate desired gross margin and price, you must first be able to define gross profit and gross margin. Gross profit is the difference between sales price and cost, in dollars and cents. Gross margin goes a step further and translates gross profit into a percentage. According to The Grocery Store Guy, “margin is the percentage of your sales price that is profit”. (Campbell, 2019) Next, we must understand the math and be able to correctly calculate gross margin and sales price.

Let’s look at a simple example. Suppose the wholesale cost of a particular item is \$1.50 and it is sold for \$2.00. We will first calculate gross profit in dollars and cents by finding the difference in sales price and cost ($\$2.00 - \$1.50 = \$0.50$). We then divide the Gross Profit of \$0.50 by the retail price of \$2.00. That gives us our 25% Gross Margin. Another way to show this is as follows:

Sales Price	\$2.00
Cost	\$1.50
Gross Profit (\$)	$\$2.00 - \$1.50 = \$0.50$
Gross Margin (%)	$\frac{\$0.50}{\$2.00} = 25\%$

If the target margin and item cost is known, we can quickly and easily determine a price. This is done by taking the cost and dividing by the margin (converted to a decimal) subtracted from 1.0. Under the above scenario with a unit cost of \$1.50 and a margin of 25%, we would determine our price by performing the following calculation: $\$1.50 / (1.0 - 0.25)$ or $\$1.50 / 0.75$. Therefore, the retail price would be \$2.00. Here are those calculations:

Cost	\$1.50	
Gross Margin (decimal)	0.25	
Cost/(1 - Gross Margin)		$\frac{\$1.50}{1-0.25} = \frac{\$1.50}{0.75} = \$2.00$

Now that we have described how to calculate a price based on the desired margin, we must decide where to set our margins for each department and product. There are no hard and fast answers for this issue, just some general guidelines that can be followed. From the article “10 Steps to Successful Online Grocery” from NaveoCommerce.com, we find these suggested margins:

Grocery	25%
Frozen Foods	30%
Dairy	30%
Produce	40-45%
Meat	28-30%
Deli	40%
Bakery	55%

Figure 2 (10 Steps to Successful Online Grocery – Chapter 2: Assortment and pricing, 2024)

As you can see, the desired margin for each department will be different. For example, the produce department margin will need to be higher than dry groceries, primarily due to the amount of shrink (number of items thrown out due to spoilage). Although we may establish a target margin for each department, we may still have some products in that department that carry a different margin. As an example, you might want to keep prices of certain basic staples (bread, milk, etc.) as low as possible to draw customers into the store. Or your store may choose to price so-called “store brand” canned goods more aggressively than national brands.

The aggregate of all the margins of the respective departments result in what is called a blended margin. Typically, grocery stores will strive for a blended margin of at least 25%. In a small store, target margins may be a little higher to make up for the lower volume. To calculate the blended margin the department margins are weighted based on the percentage of sales each department is projected to produce. You will first have to calculate or estimate the percentage of sales for each department. Then multiply this number by the margin for that department to get the “Contribution to Margin”. Add the “Contribution to Margin” percentages together to get the overall blended margin.

For example, using just four departments to keep it relatively simple, here is how we would calculate a blended margin:

<u>Product</u>	<u>Sales</u>	<u>% of Sales</u>	<u>Margin</u>	<u>Contribution to Margin</u>
Meat	310,000	31%	27%	8.37%
Grocery	450,000	45%	24%	10.80%
Produce	130,000	13%	34%	4.42%
Dairy	110,000	11%	25%	2.75%
Total	1,000,000			26.34%

Of course, each store is unique. Stores that have little to no competition may be able to have a larger margin across the board. However, these stores need to be sensitive to being viewed as too expensive or exploitive. Stores with competition, especially dollar store competition, will need to be more sensitive to pricing. Customers are willing to buy and support local, but only to a point. Pricing of products should be seen as an attempt to get the most out of the product up to the point where people still feel like they are getting value for the price paid. Once the price surpasses this point sales, and subsequent profit, will stagnate and may even decline.

As another point of reference, we can look at margins that were recommended in the feasibility study that was done on a potential grocery store in Autaugaville, Alabama by Southeast Research. These are similar to, but different from, the recommended margins we saw above. For the four key departments, the recommendations were as follows:

- Grocery and General Merchandise 24%
 - Meat 27%
 - Produce 34%
 - Dairy 25%
-
- Blended 25.96%

(Southeast Research, 2018)

In cases where there is competition, smaller rural grocery stores may need to employ “loss leaders”. These can be popular items (ketchup, eggs, milk, bread, etc.) or sought-after items (in season produce items, such as sweet corn) that are sold at a loss. The idea behind this strategy is to bring people into the store in the hopes that they will purchase other, higher-margin items.

Margins and pricing can be tricky. The key to success is finding and maintaining the appropriate balance that will maximize profit while maintaining sales volume.

Module 9 – Rural Grocery Operations

There are many different functions needed for the successful operation of a grocery store. There are staff to hire, a storefront to maintain, marketing and promotions, accounting and bookkeeping, and more. Some of the key tasks are described below. This is not meant to be an all-inclusive list, but an introduction to the management process. The rural grocery store owner must be a jack-of-all trades and a problem solver extraordinaire. This section will give store owners insight into subject areas they must consider when operating a store.

Staffing

Staffing is a high priority for all businesses, grocery stores included. Basic duties staff must complete involve following the product through the store. As product arrives, staff will unload and check in deliveries, then move stock to the shelves and coolers. As customers make selections the product makes its way to the front of the store, where staff will help to ring up sales and bag the groceries. Depending on store policy and services offered, employees may take groceries to the customer's car, or deliver to homes or to a designated drop-off spot.

Staff are also needed to keep the store clean, from the parking lot to the back room. Depending on the size of store and division of duties, other tasks to be completed are advertising and marketing, product orders, and merchandising. When looking for employees, the rural grocery store should focus on local, friendly, and customer-oriented individuals. Employees with local knowledge and local connections build on one of the advantages of a small rural grocery store, which is a sense of community. Those with local knowledge may also be able to assist with determining products to stock for specific local preferences. Employees should be outgoing and greet everyone who comes into the store, by name if possible. If the store owner/manager is not experienced with hiring and managing staff, a management class is recommended. Such a class could help the owners understand the interview process and how to determine which candidates are right for the job.

Training

Once staff are hired, they will need training on the operations of the store. All employees should understand the importance of customer service, and depending on the level of responsibility they are given, they will need additional training in a variety of areas. For example, many employees will need to be trained on operation of the point-of-sale system. Others will need to understand how and when to replenish goods on shelves throughout the store. As part of the training process, the owner should identify at least one person to be trained in store management functions.

Unfortunately, in many cases the store owner handles most of the key operational duties, and the necessary procedures are stored only in the owner's head. While this can be efficient under normal conditions, it can also create issues in the event of an emergency. If the store owner should need to be away for an extended period, this could result in disrupted operations or temporary or permanent store closure. It is important that business procedures and operations are documented and readily available, and that appropriate training has been completed.

There are, of course, many different training resources for both store owners and employees. The U.S. Small Business Administration (learn.sba.gov) has a learning center with courses that include operations training. In addition, the National Grocer's Association (nationalgrocers.org) is one of many organizations with online training. Places like these are great resources for both new and established stores to get training for themselves and their employees.

Customer Service

Smaller local stores are often known for providing excellent customer service. The level of service provided can be a key difference-maker and can keep some shoppers coming back to shop local. It is also another reason why hiring friendly and customer-oriented staff is critical to success.

Outstanding service can help to attract and retain customers. Research shows that a customer is four times more likely to switch to a competitor if their issue is service related, as opposed to product or price related. Conversely, 86% of consumers say a good customer experience can turn

them from a one-time buyer to a loyal customer, and loyal customers will help to grow the business. (Short, 2022) Repeat customers tend to spend more money than new customers and they are a great source of referrals, which is important for any small business.

There are many ways for companies to set themselves apart with customer service. This is one area where small town stores have an advantage as they can spend more time getting to know their customers. Learning about the lives of individual customers and creating relationships can build the desired long-term loyalty. These local customers become very familiar with the store, its owners, its employees, and the items that are in stock. This can form a stronger bond than the simple brand recognition that large stores may have.

Another way to improve the customer experience is for staff to be visible and available to help customers. While all employees will not know the location of each product, it is important to at least have general knowledge about the layout of the store. All employees are viewed as ambassadors for the store and all need to understand that customer satisfaction is everyone's job. Customers will ask questions of any available employee, so it is important that all staff possess strong communication skills and treat each customer with care.

Going the extra mile for a customer can solidify a long-term relationship critical to the small stores. Stores can, for example, provide free delivery to certain elderly or disabled customers, or for orders above a certain amount. Staff can also help customers bag their groceries and take them to the car. As discussed in Module 11, Innovations, management should look for additional opportunities to serve customers in creative ways.

Accounting

Accounting and Bookkeeping are another necessary function that must be managed by grocery store owners. Some small business owners use software like QuickBooks to maintain their records. Even so, unless business owners or staff have experience in bookkeeping, it may be more effective to outsource this task. In most cases the rural stores do not have the knowledge to accurately process the variety of accounting transactions that a store would encounter. A bookkeeping or accounting firm would be able to handle not only the transactions themselves, but could also handle payroll and payroll reporting, new employee paperwork, and file tax reports quarterly and at year-end. Utilizing an accounting firm would ensure that all these items are managed properly, as well as allow a business owner to focus on the other tasks that need to be done to run a store effectively.

Technology

As in the larger economy, technology continues to evolve in the grocery business. There are some basic technologies that most grocery stores will use, and many others that are optional. Basics include things like point-of-sale terminals, self-checkout stations, office equipment, and telecommunications.

As stated above, one technology almost all stores will use is a point-of-sale (POS) system. The three main functions of a POS system are: it enables the cashier to enter items and calculate the total cost for each customer, it tracks inventory, pricing, and customer data, and it is used by employees working in different departments (e.g., produce) who need access to a wider variety of information about products that customers see at checkout. There are multiple systems to choose from: Retail Data Systems NCR ISS45, IBM SurePOS 700, TRUNO POS System, and IT Retail POS System, among others.

One technology that can reduce staffing needs is self-checkout. In locations where finding staff to hire is difficult, the use of self-checkout can be a partial solution. Self-checkout lanes are an investment. According to Storewise.com the average price for one self-checkout is currently about \$25,000. Costs can vary greatly depending on features and there is some evidence that prices are generally falling as the technology becomes common. Self-checkout provides two primary benefits to the store. They save on labor costs as self-checkout lanes are operated by machines, not people. Also, customers typically spend as much as 30% more per transaction because of convenience and speed. (Storewise, 2021)

There are many different considerations when thinking about installing self-checkouts. Variations in size and features should be researched and understood. Self-checkout lanes can take up to six feet of space per lane, so be sure you have enough room for them. Some systems accept both cash and credit, some do not. Self-checkout machines can be expensive to maintain, as the manufacturers or installers will charge a fee for repair and upkeep. Another drawback of self-checkout are the customers who have difficulty operating the self-checkout stations. Such frustration could cause the customer to shop elsewhere next time and negate the positive feelings generated by shopping in the friendly local store.

One new pricing technology is grocery automation software (GAS). Grocery automation software is technology that integrates with a grocery store's POS system to automate manual pricing and give analysis across your entire store. There are six main features of GAS. One, it eliminates potential inventory and pricing errors. Two, it gives you the ability to change prices easily and increase your competitiveness and/or margin. Three, it automates manual tasks typically done in spreadsheets. Four, it helps manage your temporary price reduction (TPR) program. Five, it helps report on store sales data & provide insight and education to improve daily store operations. Six, it helps you reduce your in-store losses and theft. Storewise is one company that sells this software to clients to improve processes.

Next are inventory management systems, a software used by grocery stores and retailers to manage their in-store products. When they have low inventory on the shelves or in the back of the store, they can assign someone to restock it. Inventory management systems have multiple different benefits. They can automatically reorder out-of-stock items. They can give low inventory alerts. They can help with stock room management by showing what's on the shelves in each aisle. The process will track individual products by tagging the barcode of the product. The system can perform "inventory forecasting", which predicts what products need to be reordered at specific dates based on purchase history. Lastly, it can save customer analytics and order data for review.

Barcode scanners are an important technology related to inventory management. These tools are faster and less error prone than manually entering product numbers by hand. It might not be an exaggeration to say that without scanners, customers might refuse to shop at a store. Paired with an Inventory Management System, they also can track inventory in real time.

Stores can benefit by gathering contact information for their customers (email and phone, if possible), and using the information for personalized communications. While not necessarily new technology, stores have had some marketing success by sending personalized ads or coupons based on past purchases. Store websites have also commonly been in use for some time now. More recently, some store websites have begun offering online ordering. Particularly since COVID, many stores now offer grocery delivery, whether the order comes in through the store website, over the telephone, or through a third-party app like Instacart. Whatever medium is used, remote order and delivery are becoming more widespread in a world where convenience is in high demand.

There are a few different reasons why grocery stores choose to use an eCommerce Platform. Consumers can shop at the store 24 hours a day, 365 days a year, and are not limited to store hours. In addition, if the store offers it, consumers can order ready-to-eat meals just as they would from a pizza place or restaurant. Grocery stores that use eCommerce and/or delivery can help meet the needs of those who find it difficult to make it to the store in person.

A few other newer technologies are also worth a brief mention, with the understanding that these are currently being utilized primarily by larger stores. Scan and go checkout is in use in some stores, offering customers the ability to scan their purchases with their phones as they place them in their cart or basket. Along the same lines, smart carts are likely coming soon to a store near you. These are similar to scan and go, but these carts automatically scan products as they are placed in the cart. They can even weigh produce. Smart carts can also help customers locate the products they are looking for. Talking shelves can also now be used to draw customer attention to a new product, a coupon, or sale item. These and other innovations will no doubt become more common with time, and if proven to be successful could appear in some smaller stores.

Again, small local grocers should use caution when evaluating the adoption of new technology. First, given the costs involved, will the technology increase sales and/or reduce costs enough to positively impact the bottom line? Second, will the implementation of technological solutions reduce customer interaction and the customer service advantages enjoyed by the small-town merchants? Introducing technological changes one step at a time may ease the transition for both customers and for store management and employees.

Store Maintenance

Store managers also need to make sure they maintain a clean and welcoming environment. A trash-free parking lot, clean floors, and tidy displays all help to create a positive impression. Employees should understand that a clean store is everyone's responsibility, and all are expected to take the initiative to clean up any messes they see.

In addition, management should ensure all aspects of the store are in good condition and look fresh and clean. It is advised that a detailed review of store condition be performed regularly, and ideally should be performed by different people from time to time. Having an outside party, who is not an employee, complete the review on occasion can bring a different perspective and a fresh pair of eyes. A checklist of items to note should be used and could start with these, for example:

- Cleanliness of parking lot and exterior of store
- Signage is in good order, lighting works properly
- Store doors are clean, work properly
- Entry area is clean
- Carts are clean, trash-free, roll freely
- Continue throughout the store...

Planning Ahead

Finally, it is never too early to begin planning for a business transition. With proper planning and training it is possible for the store to continue operations after the owner departs. Having staff who can run the store in the owner's absence means the store has greater value when the owner is ready to sell. If there is no logical successor, it could be possible for an employee group to

purchase and operate the store. Individuals who have been trained in management operations could also be potential successors. Well documented procedures that a new owner can rely on are also important to the transition.

In addition to planning for continuing operations, the finances of a business must be considered when preparing to sell. Often, in a typical year business owners will maximize deductions and expenses to lower their taxable income. When preparing to sell, however, a business would want to maximize profits to show potential buyers that their business is a profitable venture. For more information, the website bizbuysell.com has resources for owners interested in selling their business.

Module 10 - Marketing for Rural Grocery Stores

Marketing is an important tool for any business, but it is often difficult to determine where to focus your efforts and budget. To find the most effective use of the advertising dollar, it is likely that some experimentation will be necessary. There will undoubtedly be successes and failures, but by tracking results of the various marketing ventures, you will begin to understand what works most effectively in your area.

Several marketing strategies are described in more detail below.

Digital Marketing

The first step to any good marketing plan is identifying your target audience. This article from the Blue Water Marketing Group (bluewatermarketing.com) shares a variety of ways to identify your digital marketing targets, whether you are a marketing beginner, or marketing pro! Among the recommendations are first to look at the characteristics of your current customer base. What is the typical age, gender, income level? How can that customer best be reached online? If you are unsure of the target market or how to reach them, another recommendation is to conduct a customer survey to collect this data.

After you have identified your target market you will be able to hatch a digital marketing plan, based on what that group responds to. Following digital marketing best practices, such as these tips from [Nerd Wallet.com](http://NerdWallet.com):

- Make sure your website looks and functions properly on a mobile device
- Start a blog and post regularly
- Build a contact list for email marketing
- Encourage customers to leave online reviews (Anthony, 2023)

Traditional Marketing

Although digital marketing is becoming more and more popular, you may find that the previously identified target market responds best to traditional marketing types. Things like promoting your store through the local radio and/or newspaper can be just as beneficial as digital marketing. According to the article from Newsworks.com, “RAMetrics data covering 2022-2023 shows print ads deliver a recall of 78%, a whopping 48 percentage points higher than digital.” (Print and Digital,

2024) This means that by printing in your local paper people may actually remember your brand better than if they had seen it online. According to a study done by the Radio Advertising Bureau, broadcast radio increased brand site traffic by 29%. (Radio Advertising Bureau, 2020)

Other things to consider when creating a marketing plan, specifically for a grocery store, may include branding, a loyalty program, and coupons. Having an established brand can be just as important to marketing as the advertisements you pay for. Branding your plastic grocery bags is a good start, but according to an ePromos article “10 Winning Strategies for Promoting Your Grocery Store” offering branded reusable bags may also be a beneficial option.

“In line with the sustainable movement, offering branded, reusable shopping bags is a must. More folks are ditching paper and plastic bags in favor of these eco-friendly options. Not only does this help the environment, but it helps to get eyes on your business logo when shoppers use their tote in other places around town. Don’t forget – the more bags are used, the less money you spend on plastic or brown bags. Keep your grocery bags at check-out lanes where customers can easily see and buy them.” (S., 2021)

The same article discusses loyalty programs as well as coupons. Although loyalty programs look different for every store, the idea behind them all is the same...keep repeat customers coming through the doors. Whether that be by exclusive shopping times, a purchase discount, specials on specific products, or other perks, there is sure to be a loyalty benefit that could be offered by stores of any size. Coupons offer the same idea, bringing people in the door. However, according to the ePromos article, you may want to make sure you are offering both printed coupons and digital coupons.

“People still love deals, even if they’re no longer scouring newspaper inserts to clip coupons. Instead, digitize your coupons so they can be found and retrieved with a simple finger swipe on a smartphone. Having a few coupons to use just may make the difference between whether they pick up their groceries at your store or the one across town.” (S., 2021)

Statistics show that combining more than one of these marketing strategies can be even more effective. According to Finances Online.com “By combining print and digital ads, it will make online campaigns 400% more effective.” A similar statistic from the study by the Radio Advertising Bureau, mentioned above, says “Web lift is increased by over 50% when digital [advertising] is added to radio [advertising].” (26 Relevant Print Marketing Statistics: 2024 Ad Spending & Impact, 2024)

In order to figure out what works best for your store, develop a plan following these “7 Steps To Successful Strategic Marketing Planning” from [indeed.com](https://www.indeed.com). Report authors recommend starting with a SWOT analysis to determine your own strengths, weaknesses, opportunities, and threats. This review will help you determine where improvement is needed and where opportunities are available and achievable. Next you may consider doing a little market research to see what other small stores or your competitors are doing. Understanding what is working for them, and what is not, should help as you plot your own marketing strategy. As you plan next steps, set goals and develop a realistic budget for your activities. (Indeed Editorial Team, 2023)

Special Events

Another form of marketing is to offer a variety of special events. Depending on the type of event that is held, there can be an abundance of planning and promotion required, so you may wonder if the return is worth the trouble. Results reported in this article, called “In-Store Retail Events: The Complete Guide“ (www.lightspeedhq.com/blog), show the effort is indeed worthwhile. Their research found that 87% of consumers claim to purchase a brand’s products after having attended one of their in-store events. (Hamilton, 2023)

Events can range from a grand opening to a special holiday event, to a monthly special event. If you are just starting your grocery store a grand opening is a great way to announce your store to your community. Shopify offers these seven reasons to have a grand opening in their article “11 Grand Opening and Reopening Ideas for Any Business” (<https://www.shopify.com/blog/grand-opening-ideas>).

1. Generate press
2. Meet members of the local community
3. Reward early followers and supporters
4. Grow your social following
5. Build your email list
6. Collect valuable UGC (user-generated content) and testimonials
7. Start relationships with other brands and retailers (Winter, 2024)

These are all good reasons to start your marketing campaign and expand your reach right from the start. Although these are discussed in the context of a grand opening, they can also apply to holidays and other events throughout the year. The strategies can go hand in hand with the marketing plan developed in the previous section of this report. By meeting community members and starting relationships you set yourself up for future event partnership opportunities.

Other activities that have proven to be successful, yet simple, are tasting events in the store. Choose a product to feature, then market the event and that product all at once! According to an EPromos article, tasting events can be as simple, or complex as you want to make them and serve as a great way to get people through the door!

“Are tastings samples? Essentially, yes. But we aren’t talking about the generic table set-up where a disinterested employee hawks cheese cubes between texting. Make these offerings feel more like an event. Create an attractive set-up. Make sure your employee is friendly, engaged, and put together (fresh uniform, no stains, ironed, etc.).

Host tastings them [sic] at the same times each week, or at the same time of the day, so that customers can plan their shopping trip around them. Have a fun theme and offer a greater variety of items than just one jar of salsa or type of cracker. Promote the events on your social media accounts to help get the word out, too. People love free stuff, even if it’s just a few bites of food – and will likely pick up the milk and cereal they just ran out of while they’re there to sample, too.” (S., 2021)

Opportunities for events are endless. The most important thing to remember when planning events is that you know your target market, and your community. You know what types of events they will

respond to, or what will bring them through the doors! With this in mind and following a plan, such as the Lightspeed article mentioned above, events can be a useful marketing tool.

Partnerships in Marketing

An often-overlooked marketing strategy is to partner with businesses and organizations within the community. There are often synergies that can be capitalized upon when collaborating with other entities. For example, the grocery store could partner with a local school or community organization to educate students or adults on nutrition and cooking. Or the store could sponsor a fundraiser for a local non-profit organization. Working with other businesses on marketing projects can elevate overall visibility in the area. The more the rural grocery store is seen working within the community, the more likely they are to be viewed favorably, and this can pay dividends in sales and profitability. These and other creative promotional ideas are described in the section on Grocery Innovations.

Module 11 - Grocery Innovations and Ideas

Rural grocery owners are often challenged to develop unique, out of the box solutions to the problems inherent in the industry. Whether it be declining population in their market area, or competition from big box or dollar stores, small-town grocers find they must constantly be innovating and adapting to stay relevant. Below we have listed several innovative ideas.

The 24/7 Grocery

Every hour a grocery store is open there are costs involved. In a small town, it is possible that grocery sales will not be enough to cover these and other expenses. In Evansville Minnesota, after a previous store had closed, new owners found a rather unique solution to keep costs down. Their store, called Main Street Market, is open to the public and staffed only three days each week, a total of 23 hours. The rest of the week the store is closed, except for members, who pay a \$75 annual membership fee to gain 24/7 access to the store. These members can enter the store with their key fob or use an app on their phone. Once a shopper is ready, they use one of the self-check-out methods to ring up their purchases and are on their way. The store opened in May of 2021. Additional information on this innovative approach can be found here: [self-serve grocery store : NPR](#)

Delivery

In the midst of the COVID pandemic, grocery delivery options took off, as many consumers chose to avoid public places. Since then, grocers big and small have been trying to find the “sweet spot” for their organization and some have cut back on certain delivery options. But for some small stores it has become clear that delivery has the potential to add significantly to revenue and ultimately to their bottom line.

While deliveries to in-town addresses are usually still available, we have seen an increase in stores with more delivery options, particularly to make drops in nearby towns. Rather than delivering direct to homes, the deliveries are often to a drop point where all those who placed an order meet the delivery driver at a pre-set time. Most deliveries include a fee, although there are some who will deliver to elderly or others for no charge.

A variation on the delivery theme is to load a trailer with staples and other grocery items and bring these to a pre-set location at a pre-set time. Sales are made on the spot and customers do not pre-order.

Grocery Lockers

Grocery lockers are becoming more common in rural areas around the country (see photo below). In small towns where there is no grocery store, and in some cases no dollar store or convenience store either, these lockers are one-way consumers can access groceries right in their town. Customers generally place their orders online, and the purchases are delivered to the lockers as soon as the next business day, for a small delivery fee. Some of the lockers are refrigerated, allowing sale and delivery of a greater variety of products.

Installation of lockers is expensive, however, and in many cases grant funding has been used to make these an affordable investment for the stores. Even so, both parties can benefit from this new arrangement. The stores will realize additional revenue and profit, while customers get access to groceries without leaving town.



Support Local

While stores have carried local products for years, buying local is a definite trend. Consumers like to know where their meals are coming from, and local food is often seen as superior. Many are willing to pay a little more for fresh local produce, meat, and dairy, among other products. In addition, if there is room in the store, consider carrying products created by local craftspeople. Selling products that are locally grown or locally manufactured helps the local economy and encourages loyalty among community members.

For Clint and Jenny Osner, who own and operate Hired Man's Grocery in the rural Kansas town where they grew up, supporting local has an added twist. As true "locals" they have adopted the catchphrase "Home Grown", and they use this phrase in multiple ways. They have begun referring to local service members as "Home Grown Heroes", and the Osner's will occasionally send care packages to those who are stationed far from home. In return, the men and women receiving the packages will often post pictures of the gift on Facebook, which is great low-cost advertising. Other home-grown products sold at Hired Man's include tomatoes and jalapenos from Beck's Family Farm, Rowan's Honey Products, Sarah Jane's salsa, DeVore Farms melons and pumpkins, and other local farm-raised produce in season.

Multiple Stores

Volume is an important aspect in rural groceries. One way some grocery owners are adding volume is by adding stores in nearby communities. Most often this is accomplished by purchasing an existing store, rather than opening new, but either is a possibility. When adding a second or third store, not only is volume being added, but there are other opportunities for efficiency. Depending on the proximity of the stores and the experience level of employees, it might be possible for two stores to share a manager. The stores can split orders of slow-moving items, reducing stale-date items, or order other items in bulk to reduce unit costs. Many other possibilities exist.

Co-locate

A great way to create additional traffic to the store is to co-locate with other businesses. Larger stores have been doing this for years (think floral, banking, postal services, coffee shop, etc.). If space is available, having additional stores and products either in the store itself, or next door, will bring more people to the area and will drive greater sales. Feel free to think outside of the box and if you think it will create more traffic, and if you have the space, give it a try.

City-Owned Grocery

On verge of losing their lone grocery store in May of 2020, the city of Erie, Kansas mailed a one-question poll to its residents. The single question was this, "Do you support the City of Erie purchasing Stub's Market?" The response was strongly in favor as 68.5% of respondents voted yes. (Waters, 2022) This town of roughly 1,000 residents would now be in the grocery business. Renamed Erie Market, the town hired a manager for the store, and the manager submits a monthly financial report to the city. The city has found that as a non-profit, and one that does not need to create significant profits for the owners, it has been easier to keep prices reasonable. If the store should happen to slip into the red the city will add a small fee to resident's water bill to make up the difference.

School-Owned Grocery Store

While the school-owned store is also discussed elsewhere in this document (Module 1 - Rural Grocery Ownership Models), it bears repeating here. Even though this ownership model may be used rarely to this point, it does have some distinct advantages over other models. Like non-profits and cooperatives, there is less pressure to create profit. In addition, since the store is largely student-run the learning opportunities are nearly endless. Students can be involved in all aspects of running the store, such as cleaning, stocking shelves, pricing, advertising and sales, merchandising, ordering, and customer service. Students with crafty or artistic abilities can create

and sell their products at the store. Meat from livestock raised by the students can also be sold at the store.

School-run stores sometimes have limited product and limited hours. They may be located within the school, or they may have their own location separate from the school. An example of this approach can be found at the Circle C market in Cody, Nebraska. Information on the Circle C Market can be found at: [Health News : NPR](#).

Competition – Dollar Stores

When a dollar store comes to town there will most likely be more competition for a certain percentage of the consumer grocery budget. However, there may be some tactics you can employ to offset the losses. We have heard from grocers that there are certain items in the dollar stores where they just cannot compete on price, such as paper goods and pet food. One option could be to go ahead and cut prices, using sort of a loss leader approach on some products. While it is possible this could be effective, there is a limit on how often and how deep the cuts can be made. An alternative strategy is to reduce the area devoted to the non-competitive products. For example, instead of carrying three brands of paper towels, cut back to one. Use the space you have freed up to bring in products with better profitability.

One key area where a rural grocery store can stand out when competing with dollar stores is in fresh food. Most dollar stores do not carry much in the way of fresh products. In some cases, you can also differentiate your store from the competition by keeping it clean and free of clutter. Make sure customers are greeted and that friendly employees are available to assist customers when needed. Tactfully point out these attributes in advertising and social media posts.

Social Media

While most businesspeople know how important social media is, Facebook in particular, many do not do a good job of posting frequent and relevant information. Jenny Osner of Hired Man's Grocery stated that part of the reason her store creates and participates in so many local events is for the story. Trick or Treat in the store, a cookout in the parking lot, a successful canned food drive. Pictures and videos of the events make great stories to be posted on Facebook for customers to see and respond to.

Marci Penner is a particular fan of the use of Facebook Live to share information with customers. These sessions can be used to highlight employees, talk about what is on sale, introduce new products, and feature local suppliers and their products. Topics are only limited by your imagination. The primary purpose being to form a relationship with the customer and stay in touch with them.

Miscellaneous Promotions

Mildred Store, Mildred Kansas:

Owners Regena and Loren Lance like to think of promotions and community services that are "outside the box". Their Dresses on a Dime program collects and stores used prom dresses and accessories. Each year these are made available for students to rent, each for a dime. The items are later returned and will be available for others to rent in future years.

The Mildred Store happens to have a large building attached to the back of the store. The building is made available for public rental, but the most exciting event taking place there seems to be the

monthly music night. Owner Loren Lance and friends provide live music and community members can dance, socialize, and partake of concessions made available by the store. Dance lessons are sometimes available as well. These nights bring in some additional revenue for the store but perhaps more importantly create additional goodwill in the community.

Hired Man's Grocery, Conway Springs Kansas:

In their anniversary month of July, customers can save receipts and once they have \$100 in purchases they get an entry into the end-of-month drawing for some nice prizes. Examples of items given away are Yeti coolers, cornhole (bags) game, fire pit, Big Green Egg grill, Roomba vacuum and more. Also in July, the store randomly gives away 200 bags of groceries. These winners are automatically selected by the cash registers and customers who win are gifted a pre-packaged bag of groceries on the spot.

Also from Hired Man's is a canned food drive done in conjunction with a cookout in the store parking lot. Anyone bringing a canned food donation received a free hot dog, chips, beverage, and pie. The quantity of food donated exceeded the goal. Then there is Trick or Treat night that has become a popular annual event. Employees are in costume as they hand out candy of course. Finally, one summer the local swimming pool was in need of expensive repairs. Hired Man's decided to help and organized a pool party with a two-mile walk/run fundraiser. A barbecue was held, sponsorships were obtained, and donations were accepted. Subsequently, a bike-a-thon was held for additional funding. Enough money was raised to complete the repairs and add a slide to the pool.

Module 12 - Grocery Trends

The nature of retail is to keep up with trends. Failure to do so can cause a retailer to suffer lost sales, even leading to closure of the business. Rural grocery stores are no different. The case could be made that they need to be even more in tune with trends as they try to hold on to the smaller market in which they find themselves. At this writing, there are several trends that are hitting the grocery space, both rural and urban, that need to be explored. Some of them are due at least partially to the Covid-19 pandemic.

First on the list of trends is the consumer desire for ease of shopping. While this is not necessarily a new desire, more stores are offering services to address this issue. Where available, many customers have moved from in-store shopping to online ordering. They can then pick up their order at the store or other location, or they can have the groceries delivered right to their door. This trend has become known as digital grocery. Research from Symphony RetailAI suggests that having an online option can increase both sales and loyalty. According to their June 2021 article, shoppers with a digital option “shop more frequently and spend up to 20% more than in-store only shoppers”. (Omnichannel Grocery Shoppers Spend Up to 20% More, 2021) The article continues, “The data suggests that retaining online and omnichannel shoppers, and encouraging in-store shoppers to make online purchases, will yield long-term loyalty for retailers.”

Of course, small rural grocery stores with limited budgets and limited personnel will have to determine which of these services can be implemented in their store. As discussed in the section on Innovation, there are creative ideas being tried to bring some of these options to rural stores. However, as rural stores look for ways to remain relevant and maintain (increase?) sales volumes,

digital grocery should be considered as part of the operation. As an example, Ramsey's Market in Southwest Iowa employs online ordering through eGrowcery, an online platform that according to their website allows retailers to "grab new market share as shoppers look to save time with online alternatives". (eGrowcery, 2023)

Another example of a trend Ramsey's is trying are grocery lockers. Ramsey's Market is in Lenox, Iowa, but they have installed grocery lockers, some refrigerated, in the smaller nearby communities of Walnut and Shelby, Iowa. Customers order their groceries online and then pick up their groceries in one of the lockers utilizing a customized code to gain access. More information on this can be found at [3newsnow.com](https://www.3newsnow.com).

The next trends to explore are somewhat interrelated, "Fresh" and "Local". Given that these rural stores are close to the farm economy, this is an opportunity for small stores to really differentiate themselves from the larger stores. The rural stores have ready access to fresh produce, meat, and possibly dairy products. In fact, producers of these products may already be shopping in the store. These products are in high demand and typically not sold at dollar stores.

The perimeter departments have generally offered the most opportunity for sale of local products. Produce departments have commonly carried items grown by local producers. Bakery and dairy departments may also showcase local producers. In recent years there has been increased interest in the source of meat products, offering another opportunity for local producers to sell through stores. There are plenty of other opportunities for local producers to sell their wares in the hometown stores. Honey, salsa, and crafts are just a few examples.

Given the perishable nature of many of these products, it is understandable if some retailers are hesitant. That said, according to a 2015 presentation by the US Department of Agriculture entitled "Why Local Food Matters" ([usda.gov](https://www.usda.gov)), "Availability of locally grown produce and other local packaged foods are major influences on grocery shopping decisions." And that "87.2% of consumers regarded this as 'very or somewhat important' to their choice of a primary food store". (Tropp) Given statistics such as this, it is worth considering local products as an option.

Items such as local produce and dairy items (i.e., eggs and milk) are typically delivered at the height of freshness. The resulting longer shelf life can be of benefit to both the retailer and customer. Again, this is a differentiator and therefore a reason for customers to shop locally. Meat sourced locally is no different. Another advantage to sourcing products locally is a lower carbon footprint due to the proximity of the retailer to the source of the products. Finally, buying local will support jobs and add to the local economy.

One thing to keep in mind is that there are often regulations that apply to buying/selling fresh products from local producers. Since regulations will vary from state to state, it is best to check with your local health inspector(s) to remain in compliance. Another challenge with sourcing locally may be finding enough product to keep up with demand. Thought needs to be given to finding the correct supplier(s) that can provide the quality and quantities needed. The University of Minnesota Institute for Sustainable Agriculture (MISA) published a Farm-to-Grocery Toolkit that provides insight into setting up partnerships with local producers as well as an outline of the regulations to keep in mind. That toolkit can be found here: [Farm to Grocery Lid 1 \(misadocuments.info\)](https://www.misadocuments.info).

Of course, getting the benefits from selling local, such as higher margin and improved reputation, only works if customers know they're buying local. Every local product should be clearly labelled as such with in-store signage. Social media can also be a great way to create awareness of these local partnerships. The partnerships with local suppliers create goodwill in the community as the business partners support one another, cross-promoting to friends, customers, and acquaintances in their town.

Beyond local foods, small rural grocers are leveraging other, often higher-margin items. Things such as local flowers, hand-made crafts, and even wines from a local winery are among the options that can be explored. For example, the RAYR Market in Mount Ayr, Iowa features several local items. In addition to meat and eggs from local producers, they carry candles from a local artisan as well as wines from a winery about 30 minutes away.



Carrying local items will benefit the store in multiple ways. As mentioned, these items often have higher margins than typical grocery items. Any increase in sales is a bonus for the store's bottom line, but adding sales with greater margins is doubly beneficial. Beyond financial returns, however, selling local products allows the local store to be seen as even more a part of the community, supporting local producers and artisans as they strive to make a living. The local chain stores seldom carry local products, thus creating another opportunity for the rural grocer to distinguish themselves from the competition.

Another trend that bears examining is consumer demand for Ready-to-Eat (RTE) meals, as well as "meal solutions" such as HelloFresh. While these products will cost more than the individual ingredients would, consumers will measure their "cost" in time against the additional cost to purchase convenience food. Often busy consumers will choose the latter; thus, the increased demand for both RTE and meal

solutions. According to a report by Spoonshot, a company that uses artificial intelligence and machine learning to predict trends in food and beverage:

- 55% of shoppers are eating at home more often since the pandemic began
- 36% of adults in the US reported eating ready-to-eat meals in 2020
- Global market of RTE products is expected to grow at annual rate of 7.2% through 2026 (Food Insights: Is the Ready-To-Eat Food Market Expected to Expand?, 2021)

The full article can be found at: [Ready To Eat Food Market: Industry Analysis & Trends](#). RTE meals can be anything from soup to pizza to full meals prepared in-store. The general definition of an RTE meal is one that does not require any washing, cooking, or additional preparation prior to consumption.

As mentioned earlier “meal solutions” are also a growing segment of the food industry. These meals tend to require some assembly and preparation, and often need to be heated or cooked. The kits will include premeasured ingredients and instructions and can be delivered right to the customer’s door. One of the best-known providers of meal solutions is HelloFresh, and according to an article by [progressivegrocer.com](#) “In the fourth quarter of 2021 alone, [HelloFresh](#) delivered more than 111 million meals to 3.5 million U.S. customers for a year-over-year increase of 38.7% and 34.9%, respectively.” (Zboraj, 2022)

Since there is often a limited selection of eating establishments in rural communities, and many rural and small-town residents are commuting to work (and short on time), RTE meals and meal solutions could be a popular option if available at the local grocery store. With the increased margin these items offer, it would make sense to capitalize upon this demand to the extent possible.

Another emerging trend is the support of customers for businesses and products that emphasize sustainability and that are ethically sourced. An article by Oracle, a company that provides data services to companies in a variety of sectors, states that, “61% of shoppers are aware of sustainability efforts their preferred grocers are making and that 37% are willing to pay a premium of up to 17% for sustainable choices.” (Jackley, 2023) The whole article can be read here: [10 Grocery Retail Trends in 2023 \(oracle.com\)](#). Another article from King Retail Solutions states that “Customers shop for groceries twice a week on average, and close to 80% of those customers are now interested in the environmental impact of their choices.” (Sustainable Grocery Stores: 7 Priorities For Greener Grocers, 2021) Examples of sustainability can range from energy efficiency in operations and reduced packaging, to buying from local producers and thus reducing the fossil fuels required to get the products to the store.

Convenience and differentiation can be the keys to keeping a small rural grocery store open. The above trends are just some ways that communities and grocers are working to make that happen. The nature of trends is that they can be transitory. Managers and community leaders need to be on the leading edge of keeping their store fresh – in every sense of the word.

Module 13 – Financial Statements Explained

When producing financial statements, and particularly the Income Statement, it is important to know the audience who will be using the document. For a business owner, in most cases the more

detail the better. A detailed statement will allow the owner to analyze which products or services are creating the most revenue and profit, and where cost savings might be achieved.

Other individuals who are involved in the business may also want to see a certain level of detail but may not want the highly detailed review that would be desired by the owner. A moderate level of detail might make the most sense for these individuals (a Board member for example).

Lastly, although closely held for-profit companies do not typically share financials with the public, non-profits and publicly traded companies do. Members of the general public would typically be shown a document that is summarized into broad categories (Operating Expense, for example), and is not broken out into great detail. In most cases these summarized documents will be satisfactory. Sometimes providing too much detail where it is not necessary will only create additional questions and confusion.

We have included two versions of sample financial statements that have been prepared for a hypothetical rural grocery store. One is fairly detailed and the other is summarized into a format that might be used for the general public. Below is a short description of each of these statements, and a link to the statements can be found at the end of this document.

Income Statement

The income statement covers a range of time, which can be a month, a quarter, a year, or any period desired. Frequently, income statements will be produced showing year-to-date results. The income statement begins by showing sales and other revenues, then cost of goods is subtracted, as are operating expenses and any other expense. The remainder, after subtracting all expense from revenue, is the Net Income, which can be positive or negative.

Balance Sheet

The balance sheet provides an overview of a company's assets, liabilities, and shareholders' equity as of a point in time, as shown by the date at the top of the page. This report is generally viewed at the end of a reporting period (month, quarter, or year).

Assets are shown first on the balance sheet and include items such as current assets (cash and accounts receivable for example) and long-term assets such as equipment, buildings, and vehicles. Long-term assets are sometimes referred to as fixed assets and are assets that will last longer than a year. These assets are depreciated over their useful life.

Liabilities are amounts owed and are also divided into current and long-term accounts. Current liabilities are things like accounts payable and other short-term obligations. Long-term liabilities are often long-term debt. In a healthy business, assets will exceed liabilities.

Owners' equity is a company's total assets minus its total liabilities. Owners' equity represents the amount of money that would be returned to shareholders if all of the assets were liquidated and all of the company's debt was paid off.

An easy way to remember how a balance sheet functions is this: assets are what you own, liabilities are what you owe, and equity is the difference.

Cash Flows Statement

The purpose of a cash flow statement is to provide a detailed picture of what happened to a business's cash during a specified period, such as for a specific month or year-to-date for example. It demonstrates an organization's ability to operate in the short and long term, based on how much cash is flowing into and out of the business.

The cash flow statement is typically broken into three sections:

- Operating activities
- Investing activities
- Financing activities

Operating activities detail cash flow that's generated once the company delivers its regular goods or services and includes both revenue and expenses. Investing activities include cash flow from purchasing or selling assets, such as equipment or real estate that is purchased with cash not debt. Financing activities detail cash flow (in or out) as debt is incurred or repaid.

Sources and Uses of Funds

While not necessarily considered a core financial statement, this is often a key financial document for business start-ups. This document will show how a particular project is being paid for by listing all sources of funding, such as Acme Bank loan, State Grant, and Owner Contribution. Sources are typically listed on the left side of the page.

Then Uses of Funds will be listed on the right side of the page and will show all anticipated expenditures, including items such as Equipment, Vehicles, Lighting, and Working Capital. While it is not necessary to list every single item here, some level of detail is typically desired. As with most financial documents, the two columns are expected to balance (Sources = Uses).

Sources and Uses of Funds statements are often requested by entities funding the project. A well thought out Sources and Uses document will show that the potential business owner has carefully considered the amount of cash needed and how it will be used. Due to the nature of this document, we have only included one sample in this instance.

Sample Financial Documents

As mentioned above, we have included two samples of each of the basic financial statements. These are a summarized and a detailed version of an Income Statement, a Balance Sheet, and a Statement of Cash Flows. In addition, we have included a sample Sources and Uses of Funds document. A link to these documents can be found below.

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