



CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT



# LET'S TALK BUSINESS

*IDEAS FOR COMMUNITY DEVELOPMENT PROFESSIONALS WORKING TO EXPAND LOCAL BUSINESS ACTIVITY*

APRIL 1998

No. 20

## **General Merchandise Stores in Small Towns** *Development Plans by Pamida, Sears, Wal-Mart, and Others*

by Eric Dobson \*

**W**ith the major department store chains battling more than ever to gain market share, many have turned to small towns. For the most part, start up, advertising, and general expenses are lower in small towns than in metropolitan areas. The key to success for department store development in small towns is to get there first and to keep the local customer base in town to do its shopping.

According to Steven Fishman, chairman and CEO of the Omaha, Nebraska-based Pamida department store chain, there are three basic requirements to keep the customer shopping in the local market: great general merchandise, great groceries and, great health care and pharmacy. This is why Pamida's new prototype store strategy focuses on keeping the local customer right at home when shopping for basic necessities. Approximately 65% of Pamida's business is driven by routine purchases like toothpaste, snacks, socks, etc. However, this Midwestern retailer has shed the word "discount" from its name and is aiming to promote a more department store image.

Pamida began opening a large number of new stores in towns with populations of 10,000 to 15,000 in 1995. Over the last three years, Pamida has opened 27 of these new prototype stores in Indiana, Ohio, Michigan and Nebraska, and plans to add stores in six to eight markets per year for the next five years. The chain store offers general merchandise from hard goods to ready to wear merchandise. It has been closing stores

in its larger markets, and in four years, will have 45% of its total stores in the new smaller market prototype format. Pamida's main push for this strategy is to insulate itself from major competition in the larger markets by separating itself by 15 to 20 miles from stores like Wal-Mart, Target, and Kmart.

Of the 180 total stores that Pamida operates, 40 have pharmacies. By offering pharmacies in small towns, it can retain those local customers who would otherwise drive 20-30 miles to a Walgreen's or an Osco Drug.

Besides being convenient for local customers as well as retaining a competitive price structure, Pamida is also beginning to offer national brands in apparel such as Bugle Boy, B.U.M., Converse, Reebok, and Keds. This strategy is consistent with the store's new department store image, and can save the local customer time and money by shopping locally instead of driving into a larger city or to a mall for branded merchandise.

In smaller towns, the push for the major chains to invest and develop retail outlets is a direct result of the local customer being underserved. Sears, Roebuck and Company will be opening downsized versions of its stores in towns of less than 50,000 people. Over the next five years, the \$38 billion department store chain will open 100 such stores in these smaller markets with an emphasis on soft lines rather than hard goods.

Since 1993, Sears has had a dealer program in place that gives incentives for small town storeowners to

\* Dobson is a MBA student studying marketing management at UW-Madison.

invest \$40,000 in return for carrying Sears products. Currently, there are 530 dealer stores and the number is expected to grow to 900 by the year 2000. These dealer stores are located in towns of 25,000 people or less and carry mostly hard goods, e.g., appliances.

The discussion on general merchandise stores in small towns would not be complete without mentioning Wal-Mart. The retail giant, based in Bentonville, Arkansas, has over 2,000 discount stores across the country and 1997 revenues approaching \$100 billion. The huge discount chain is now offering groceries in its merchandise mix. As of 1996, 239 of these Supercenters were in operation, and the company built another 110 last year. Wal-Mart estimates that it can sell 30% more general merchandise in the Supercenters than it can in stores without food. Wal-Mart, with grocery sales at \$13 billion, has become second only to Kroger. In addition, Kmart already has 87 Superstores and Target is just entering this market with 2 of its own.

Despite the success of a few retailers, much of the rhetoric against department and discount store chains in small towns has been on the negative side. For example, many of these chains work directly with suppliers to keep costs down, practice predatory pricing, and provide non-unionized labor. These chains are providing intense competition for some smaller retailers and are believed by many to be the main cause of small business failure in the rural regions. Another argument is that large retail centers located near small towns drain the small community of its economic base and turn it into a "bedroom" community. Furthermore, many small towns have lost their general merchandise stores due to the developments by discounters like Wal-Mart and Kmart. One small town, Allegan, Michigan, lost its J.C. Penney store after having been established there for over 50 years, and other Midwestern states are seeing the flight of Penney's and Ward's stores from their smaller towns.

However, discount chain development is not all bad news for small towns. Kenneth Stone, a professor of economics at Iowa State University, is considered a leading expert on Wal-Mart, and has studied the effects of Wal-Mart on small towns. Based on his studies in Iowa, towns with a Wal-Mart store had 4.3% higher retail sales than the state average after three years. Towns without Wal-Marts experienced a 6.2% decline in sales. Two small towns in Maine, Augusta and Waterville, have given Wal-Mart tax breaks to lure it in, while other small towns in New England have resisted vehemently to a Wal-Mart presence.

Some smaller cities are reorganizing their downtown economic structure in support of department store chain reinvestment. For example, Manhattan, Kansas, with a population of 35,000, has invested \$24 million into an urban revitalization project in its downtown business district. The project captured the attention of two large retailers, J.C. Penney and Dillard's, and each has built 51,000 and 72,000 square foot department stores, respectively, in the Manhattan Town Center mall.

Despite the success of retail chains that have opened stores in small towns, experts say that in the next 13 years, the retail sector will change more than it has in the past 57 years. Some predict the demise of many of the department stores and the resurgence of the local merchant on Main Street, as long as the local merchant can provide a level of service unattainable by the big chains. Department stores are realizing that they will need to establish new outlet stores in small towns in order to remain competitive. Because of this, small towns may see the large chains focusing on smaller niche stores that serve specific customer needs.

#### Sources:

- Anonymous. Retail Trade: Living With a Giant, *The Economist*, April 24, 1993, p. 31-33.
- Eckenstahler, Charles. Refilling Small Town Retail Space, *Economic Development Review*. Spring 1995. Pp. 92-95.
- Edgell, David L. & Cartwright, Mary Lynn. How One Kansas Town Used Tourism to Revitalize Its Economic Base, *Business America*. November 5, 1990. Pp. 14-18.
- Johnson, Jay L. Pamida's Focus: Small Towns in a Big Way, *Discount Merchandiser*, December 1995. Pp. 20-25.
- Moukheiber, Zina. The Great Wal-Mart Massacre, *Forbes*, January 22, 1996. Pp. 44-47.
- Verdisco, Robert L. Superstores and Smallness, *Discount Merchandiser*, October 1994. Pp. 8-10.
- Loeb Predicts Dramatic Retail Shifts, *HFN*, October 27, 1997, Vol. 71, p. 6.
- Sears' Small Town Backlash, *Crain's Chicago Business*, October 6, 1997, p. 1
- Smaller May Be Better, *Chain Store Age Executive*, November 1997, Vol. 73, p. 33.

CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT, UNIVERSITY OF WISCONSIN-EXTENSION  
1327 UNIVERSITY AVE, MADISON, WI 53715

PH: (608) 265-8136; FAX: (608) 263-4999; <http://www.uwex.edu/ces/cced/index.html>

An EEO/Affirmative Action employer, UW-Extension provides equal opportunities in employment and programming, including Title IX and ADA requirements.