

Revitalizing the Retail Trade Sector in Rural Communities:

Experiences of 13 North Dakota Towns

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Retail businesses in many North Dakota small towns have faced difficult adjustment problems in recent years. Many areas of the state have experienced declining economic activity and sales volumes during much of the decade of the 1980s, and smaller towns have generally experienced more adverse trends than larger ones (Mortensen and Leistritz, 1988).

A number of factors may be contributing to the declining market share of the smaller trade centers, but whatever the causes, the effects of declining retail volume can be devastating to small towns (Ekstrom and Leistritz, 1988).

This study was designed to contribute to a better understanding of the dynamics of rural retail trade and to document strategies that have been successfully employed by rural communities to revitalize their retail sectors. The overall goal of the effort is to provide information and insights that will enhance informational programs developed to meet the needs of rural business-persons and community leaders.

The study involved in-depth case studies of 13 communities across the state (Figure 1). A series of interviews with community officials, business proprietors, and other community leaders provided information concerning organizational techniques, business financing, business recruitment, promotional campaigns, and critical needs of rural business communities. The 13 towns selected for study range in population from about 600 to almost 3,100 and appear to be representative of the state's small and moderate-size trade centers. Key findings of the community interviews are discussed in the sections that follow.¹

ORGANIZATIONAL TECHNIQUES

The more successful towns appeared to have stronger community organizations and better local cooperation. A strong Chamber of Commerce was often the focal point of

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¹For a more detailed description of study procedures and findings, see Ag. Econ. Rpt. No. 252 (available upon request from the Department of Agricultural Economics, North Dakota State University, Fargo, ND, 58105).

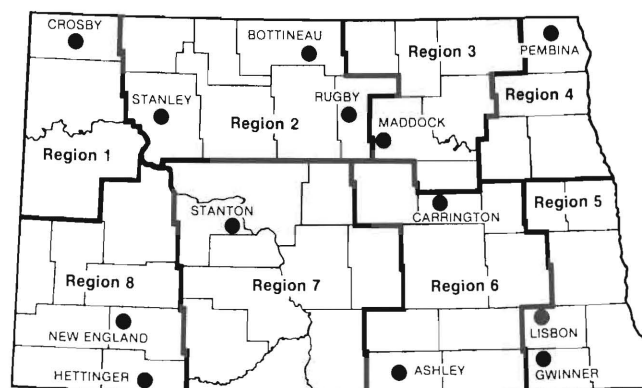


Figure 1. North Dakota communities selected for in-depth interviews.

community promotion activities, and the presence of a Chamber executive or development coordinator who was paid on at least a part-time basis seemed to be a key factor contributing to success. Among the towns surveyed, three had paid development coordinators at the time of the survey. Employing a development coordinator appeared to be a definite trend among the larger towns; Carrington and Bottineau had hired coordinators only recently, and Lisbon switched from a part-time to a full-time person during the course of the study.

Carrington offered an example of cooperation between county and city governments. The county and city had recently pooled their resources to hire a full-time development coordinator. Similarly, the city of Crosby and Divide County had joined with two other counties to fund a tri-county development office. Some of the other towns, however, offered examples of the difficulty that neighboring towns have in cooperating for development. County officials were sometimes reluctant to help fund development efforts, possibly because of concerns that the dominant town would receive most of the benefits.

BUSINESS FINANCING

Availability of adequate financing is often seen as *the* key to rural economic development, although some authors have pointed out that capital availability is a necessary, but

not a sufficient condition for successful development (Daniels and Crockett, 1988; Prestwich, 1988). In rural North Dakota, however, there is substantial evidence that capital restrictions pose a serious constraint to new business formation and business expansion. While the business and community leaders interviewed in this study indicated some variation in attitudes among communities, they also generally noted a trend of increased conservatism on the part of lenders. Bad experiences with some past loans were often cited as reasons for lender resistance.

In most communities, local banks were still regarded as a reliable source of operating capital for established businesses, but financing for a new venture or a change of ownership of an existing business was more difficult. The most critical capital shortage for new or expanding firms was equity financing and long-term debt.

Transferring the ownership of an existing business can be almost as difficult as financing a new one. In some cases the owner may attach a seemingly inflated valuation to the building and/or existing inventory, while in other cases the owner simply cannot find many prospective buyers. Sometimes a lack of buyers may indicate that the town is no longer a viable site for a certain type of business, but this study revealed several instances of seemingly viable small town businesses that were likely to close because no new proprietor could be found. Some potential solutions that several interviewees suggested were (1) seller-financing of a business purchase in much the same manner as the contract for deed that is common in sales of farmland and (2) developing an "opportunity network" to bring sellers in contact with potential buyers.

BUSINESS RECRUITMENT

Business recruitment efforts by these communities included efforts not only to attract new basic-sector employers but also to round out the local retail sector. Frequently, the retail recruitment efforts were aimed at replacing a business that had been lost previously. Automobile dealers, farm machinery dealers, and furniture stores were some examples of retail establishments targeted for recruitment by certain towns.

Local development organizations often emphasize that their efforts are aimed at attracting noncompeting stores, but the study results cast some doubt on the wisdom of this approach. On numerous occasions in several communities, the study team was told that the loss of one auto dealer, machinery dealer, etc. hurts the remaining one(s). The desire and ability of consumers to comparison shop was the reason most frequently cited to explain this situation.

PROMOTIONAL CAMPAIGNS

Most of the communities surveyed were undertaking "special day" promotions and/or offering "hometown dollars" as an enticement to encourage shopping in town, but it was not always clear that these promotions were particularly effective in boosting retail sales. Typical of the special-day promotions were farmer appreciation days. Hometown dollars usually involved interest-free loans to residents from a local bank with businesses absorbing a small interest charge for funds spent in their store. These promotions are typically run during the pre-Christmas period.

A major conclusion with respect to promotion of a community's business sector is that certain services can be a major attraction factor. The medical services complex in

particular was frequently cited as a factor that drew people to some towns from a wide area. The quality of medical facilities was also cited as a factor influencing the residential decisions of retiring farm families. Other services or facilities frequently cited as attraction factors were schools and grain elevators.

CRITICAL NEEDS OF BUSINESS COMMUNITIES

The ultimate objective of the community interviews was to identify major needs common to the business communities of small rural towns. The North Dakota interviews revealed some needs that could be addressed only through a communitywide effort and others that reflected specific problems common to many local businesses.

The most basic problem requiring communitywide action is the need for economic diversification in rural communities that are heavily dependent on agriculture. Some of the communities studied had achieved at least limited success in broadening their economic base. Their experience indicates that successful economic development efforts require a long-term commitment and effective coordination of effort among the community's business and civic leaders, as well as an awareness of resources that may be available from higher levels of government.

Examination of the communities that have succeeded in broadening their economic base also suggests that both recruitment and entrepreneurship have played important roles in their success. Thus, the findings of this study, like those of John et al. (1988), support the conclusion that both techniques have a place in a community's economic development strategy. Perhaps most important is the need for communities to take a strategic approach to planning and implementing their economic development efforts. Such an approach emphasizes (1) determining community goals and (2) identifying available resources and constraints with the aim of (3) identifying the town's comparative advantages relative to other towns and localities. These advantages, which could be based on a variety of factors including the natural resource base, location, the skills of the labor force, or the availability of serviced land, can serve as a basis for identifying development and promotion opportunities.

Turning to the needs of individual businesses, both business proprietors and community leaders indicated a high level of interest in technical assistance for businesses. Areas frequently mentioned included financial management, developing business plans, merchandising, inventory management, personnel management, and customer relations. While the NDSU Extension Service has been offering an expanded program of technical assistance to rural businesses, there appears to be a substantial demand for further programs in these areas.

Both business operators and lenders also indicated a need for information concerning financial standards for small town businesses. For example, what levels of sales per square foot of selling space can be achieved by a well-managed hardware store, and what level of advertising is used by the more successful clothing stores?

Finally, the most pervasive problem mentioned was difficulty in obtaining equity or long-term debt financing for new ventures or major expansions. Although some of the reported reluctance by local lenders to supply funds to new or expanding enterprises may be a rational response to adverse local economic conditions, our observations as well as those

of others (see Daniels and Crockett, 1988) suggest that rural entrepreneurs generally have less access to various forms of equity capital than those located in more urbanized areas. State or local initiatives to make venture capital more readily available to businesses in rural areas could help resolve this problem, although careful analysis of potential investments would certainly be required. Also, improved access to technical assistance in developing a business plan and making key financial management decisions could aid some potential entrepreneurs in gaining approval of their loans.

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Continued from page 18

\$2,147,000. Population explained 45 percent of the variation. Land area and population density explained some of the differences in county general government spending.

Differences in per capita spending for general government were more difficult to explain. There was an inverse relationship between population and per capita spending but with wide variation among counties.

Highway and road expenditures accounted for 40 percent of all county spending with wide variation among counties. It appeared that there were considerable differences among counties in the quality or level of highway and road services. Total spending per county was related to land area, road miles, vehicle miles traveled, population, population density, and energy development.

Very little of the variation in per capita expenditures could be explained statistically. Data indicated some economies of size, with an inverse relationship between expenditures and population.

Health and human services accounted for 19.5 percent of total county spending. By statistical analysis, population and density explained 66 percent of the variation in county health and human service expenditures.

On per capita spending, population explained only 10 to 25 percent of the variation among counties. There was an inverse relationship between population and per capita expenditures for health and human services. There were indications that the high population counties with major cities were providing more and better services than smaller population counties.

Law enforcement accounted for 12 percent of total county spending. Statistical analysis indicated that population and population density explained 63 percent of the variation in county spending for law enforcement.

Analysis of per capita expenditures indicated that variations in population, population density, and land area could explain very little of the difference in per capita law enforcement expenditures amount counties.

Continued from page 11

Table 17. Insecticides used in 1988 on beans in Minnesota and North Dakota.

Insecticide	# A	% A
Asana	248	0.1
Comite	80	0.0
Furadan	361	0.2
Lorsban	965	0.6
Malathion	280	0.2
Methyl parathion	288	0.2
Parathion	679	0.4
Pydrin	839	0.5
Scout	238	0.1
Sevin	297	0.2
Non designated	2,480	1.4
Total Sprayed	6,755	3.9

IMPLICATIONS

Most North Dakota counties appear to provide public services fairly efficiently. There is a wide range among counties in per capita costs of providing public services. It appears that there are differences among counties in quantity and quality of services provided. There is some potential for savings by taking advantage of economies of size for some services particularly for general government and highways and roads. There may be opportunities for cost savings by functional coordination between counties or between counties and cities. Internal analysis of costs by each county and a study of similar counties with lower costs may provide opportunities for providing services more efficiently.