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Why grocer and other retail competition is good for consumers, municipalities, and the market – and how we can help

Situation

We are often asked to consult on behalf of municipalities, development agencies, shopping center owners, foundations, and community organizations faced with one of these challenges:

1) There is little or no existing retail in one or more of their communities or in a particular mall or center. Areas might be middle- or high-income with enough consumer density and buying power but nonetheless be underdeveloped. Perhaps the municipality is being pressured to recruit new retail because residents voice concern or because the municipality needs the additional sales tax revenue. Low-income areas that are food or commercial deserts can also experience a version of this scenario. Disadvantaged areas might still be able to support new retail, but there is no obvious proof of concept. Grocers and other retailers go where grocers and other retailers are already. This can create a very Yogi Berra problem!

2) In other cases, middle- or high-income communities are actively concerned about a new grocery or another type of potential commercial entrant, either because officials or residents perceive it would disturb the scale or sense of place, decrease property values, or compete with a particular long-standing independent. They need assistance determining if they should encourage, discourage, or even prohibit such retailers through zoning and other measures. Interestingly, this can also happen in low-income communities that have very little quality neighborhood retail but that fear that a prospective new entrant would jump start gentrification. How can a new quality retailer help anchor the local business district, attract other quality tenants, and support existing businesses, local entrepreneurs, and mixed-income housing and shared quality of life amenities?

In retail, like attracts like, in either a positive or negative direction. The highest level of retail sets the tone, and most market actors gravitate to easy cookie-cutter deals. If your project or situation appears difficult, our specialized data development methods and applied strategies can point you in the right direction, either for a particular use, or a broader revitalization, food system, or business district plan. ***For analysis and strategies concerning food access and community health, please see other MG brochures.***

Scenario

We have developed this comparison to demonstrate why some level of agglomeration is good for consumers and the market. It is based on an actual project (can't say where!). The situation was that two bordering, upper middle income towns – both with historic mainstreets – began competing for retailers, primarily out of concern for sales tax revenues. However, one town – our client – had been approached by a chain grocer that wanted to enter an available location but, to do so, required a minor municipal easement as well as other general cooperation (for signs, permits, etc. – typical developer needs in almost any situation). The town had a long-standing, independent grocer that was in the community thirty years, but it was located on a dead-end street without sightlines, off the main road, and isolated from other retail. A dead-end street from a commercial standpoint – in short – looks dead, and does not generate essential traffic. The lack of traffic and sightlines means that fewer people will see the store. Furthermore, the store was below street level and already hard to see, with trees blocking parts of its signage. Without a street presence, customers are not reminded of that store as an option, and it is not convenient for impulse or last-minute purchases. The store would not capture dollars from the occasional shopper passing through town on the main road or from customers visiting other nearby stores (since there are no nearby stores at that location) who might decide to also shop at the grocery store during that same shopping trip. The owner of this long-time independent was a very affable and capable fellow who knew most of his customers by name and went out of his way to please them. He was a board member of the local chamber of commerce and YMCA, and an active member of a local church. He regularly and enthusiastically contributed to local causes. What's more is that his son was his second in command: they had a succession plan.

Here is a simple comparison table to help get your decision wheels turning:

-------------Scenarios begin with a level planning field-------------- © MG	
1) Both towns have strong and roughly equal level of consumer spending	
2) Both towns experience pressure from retailers wanting to develop additional stores	
3) Both towns have increasing residential population	
4) Both towns are historic and have high quality of life and engaged residents	
Town A	**Town B**
Managed growth and competition allowed.	Growth curbed and competition stifled.
Agglomeration increases – retailers face more competition.	Developments remain isolated – retailers protected with very limited competition.
Retailers respond to competition with improved product selection, product quality, customer service, and prices.	No new competition to keep retailers on their toes – business as usual.
Retail environment flourishes.	Retail environment declines.
Shoppers respond by visiting more often and by spending more money. New shoppers and visitors are attracted to the retail cluster and patronize nearby and downtown eating and drinking establishments.	Shoppers respond by shifting consumer dollars elsewhere, spending less time and money locally. Hard to attract new shoppers and visitors. Local eating and drinking establishments reduce product offerings and/or shorten their hours of operation due to low levels of activity.
Sales tax base increases.	Sales tax base decreases or stays flat.
Retail environment continues to flourish. A few new retailers locate in the cluster.	Retail environment continues to decline. A business or two might close. Pressure might be placed on commercial landlords to lower rent because the location is deemed less valuable. Lower rent means less money for site and building maintenance and improvements.
Trends favor retail environment.	Trends diminish retail environment.
Sales tax base continues to increase.	Sales tax base continues to decrease or stays flat.

Town has an increase in funds to support quality of life improvements. Uses some of the funds to support mainstreet improvements, community events, and local independent businesses. Attractive, local eating and drinking establishments (and other destinations along mainstreet) increase walking and shopping activity.	Town has a decrease in funds to support quality of life improvements.

The “isolation” scenario (Town B) has an especially negative impact on grocers and other stores that specialize in perishable goods, even though people generally shop for food at stores that are most convenient to them. Shoppers expect certain types of fresh vegetables, meats, and other foods, which, unlike retail products such as clothes and tires, do not have a long shelf life that allow retailers to weather harsh economic conditions. If fresh food products are not available, customers will shop elsewhere. Because profit margins in the grocery industry are tight, as sales volume decreases, fewer perishable goods can be supported.

A declining selection of expected goods reinforces declining sales; and the two factors together can have a major compounding effect. Because profit margins continue to decrease as part of this process, but operational costs are generally fixed, the unit cost of goods will have to rise to cover the store’s expenses. This means the selection (and perhaps quality) of goods will go down while prices go up. If this downward spiral continues, the store might go out of business altogether, even if it is the only grocer in town. A town with no grocery store is the absolute worst-case scenario from a retail and public health perspective. While an existing grocer might lobby to protect its captive market, a new grocer would generally not want to locate where there are no other grocers – i.e., no competition. Grocery retailers assume if the market were good at least one or two grocers would have already entered the market or would have persisted in the market. Those retailers place stores in locations where the market is proven (Town A), not where the market appears to be in decline (Town B).

OK, so you probably think we recommended simply letting the new grocer in.

Or protecting the existing independent.

Instead, we developed a practical strategy that included both and that helped the town keep, strengthen, and build on its mainstreet charm.

The scenario presented in the table helps explain general market tendencies and also two extremes. The good news is that you can cut a better, brighter path down the middle and cater to both dynamics. Why settle for less, when you can have more?

Each situation is unique. That’s why each of our approaches is customized to your best opportunities. It’s time to be intentional.

We can help. Reach out today to change your world for the better.