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Village shops: outdated or revived model? Relevance for local supply, social functions and economic viability

An increasing number of villages in many countries do not have any local supplier at all. In the retail sector of Germany, the large supermarket companies require at least 5,000 inhabitants in the catchment area to run a shop. The aim of this paper is to describe the contribution of village shops to local supply and social life as well as to assess their economic viability. Therefore, findings from a telephone survey of approximately 100 shop operators in Germany are presented. The results show the limited supply and social function of the shops as well as their precarious economic situation. Many shops only offer a small range of goods so that the coverage of basic needs is difficult and they are mostly visited for supplementary purchases. Most village shops provide a snack area as a meeting place, but these are relatively seldom used. The findings indicate that permanent public and civic support is required to sustain many small shops in small villages. Because of the market conditions, however, public initiatives cannot halt the trend towards increasing numbers of 'food deserts'; at best they can slow down the process. Where village shops cannot be sustained economically, home delivery services, mobile supermarkets or improved mobility services are feasible options for assuring local supply for less mobile people.

Keywords: grocery stores, local supply, social life, profitability, rural retailing, community retail enterprises

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Introduction

Local suppliers, and here in particular food stores, are increasingly withdrawing from villages and small towns in rural areas of many countries (Vias, 2004; Meixner *et al.*, 2007; Adamowitz *et al.*, 2009; Clarke and Banga, 2010; Brändle *et al.*, 2011; FTGA, 2011; Wood, 2011). On the demand side, over a long period consumers have spent less and less of their purchasing power on location, since mobility has increased and the demands of the consumers with regard to price, selection and combination possibilities have increased.

It must also be considered that food stores, especially in Germany, face an oligopolistic market structure, intensive competition and stagnating total revenue. According to data from EHI (2011), the five largest companies generated 74 per cent of the total revenue in the food retail market in 2010. In 2009 the Herfindahl-Hirschman Index was 1,890 (Lademann, 2010), which implies a critical concentration. The average profit-turnover ratio in the food retail sector illustrates the increased competition: in 2003 it was approximately 1 per cent and in 2006 it had dropped to around 0.6 per cent (Lademann, 2010). Another important figure is the increasing sales area in Germany for food outlets, from 33.7 million m² in 2006 to 34.9 million m² in 2010 (EHI, 2011). But in 2009 the total revenue in food retail outlets without specialisation amounted to EUR 148 billion while in 2010 it accounted for just EUR 147 billion in nominal terms (DESTATIS, 2012a). Against this background, the entry into the market and success of small stores would appear to be particularly difficult.

On the supply side, in accordance with the changing demands, a trend towards larger stores can be observed**.** In Germany the average sales area of food stores has increased from 768 m² in 2006 to 888 m² in 2010 (EHI, 2011). Also the competitive pressure is increasing due to the expansion strategies of larger suppliers. Here, the need for larger trading areas and lower turnover ratios by sales area are linked, as well as a concentration of several providers and formats in rural centres. Steinführer *et al*. (2012) illustrated this situation for two rural districts (Harz and Osterode) in a German middle range mountain area. Especially in villages and smaller towns of under 5,000 inhabitants, discounters with few staff and thus less personal contact remain, as well as small supermarkets that have problems surviving economically. In Germany, the number of food retail outlets has decreased from 43,867 shops in 2006 to 39,305 in 2010 (-10.4 per cent) while the number of small grocery stores which are particularly located in villages fell by 35.6 per cent during the same period (EHI, 2011). In some countries an increasing number of settlements have no local supplier at all (e.g. Solard, 2010; Calderwood and Davies, 2012). As a result, the accessibility to shops has deteriorated and this is especially a problem for less mobile groups such as the elderly, handicapped persons, children and youth, but their purchasing power is hardly relevant for the location decisions of store companies.

As in other European countries (EC, 2010), these trends have lead to a loss of market share by grocery stores and the closing down of village shops for at least five decades in western Germany and, since the unification 1990, in eastern Germany (Adamovicz *et al*., 2009; Eglitis, 1999; Kuhlicke *et al*., 2005). In contrast, in regional planning and development an important part of sustainability is that all people should be able to reach shopping facilities of goods for short-term demand within walking distance, mostly defined as less than 1,000 m. Therefore, attempts have been made to develop new, local supply concepts using public support in the framework of different programmes that not only offer the goods for daily needs but also other services including postal, lottery or healthcare services. Rural development policy plays a special role in fostering accessibility to basic services and infrastructure due to its spatial focus. In the current programming period of the European Agricultural Fund for Rural Development (EAFRD) (i.e. 2007-2013), in addition to the Leader Programme, Measure 321 'Essential services to the population and economy in rural areas' is particularly used to support investments in local amenity facilities. The funding conditions differ greatly between individual German *Länder*. Up to 75 per cent of the costs of public investments in village facilities are supported. Recently, the local supply seems to have attracted more attention because state ministries have published handbooks and created support structures (e.g. in Brandenburg, Baden-Württemberg, Rhineland-Pfalz and Schleswig-Holstein), mayors have placed the topic on the agenda and citizens have established initiatives securing local offerings.

Against this background, the article presents empirical findings from Germany. Our aim is to answer the following two research questions: (a) to what extent do village shops contribute to local supply and social life; and (b) what is the status of the economic viability of village shops? The first question addresses the benefits of village shops. The local availability of goods is not only considered in terms of material supply, but increasingly also in terms of the social meaning of local stores as a meeting place, a source of identification and a crystallisation point for civic involvement (Clarke and Banga, 2010). The economic benefits for related sectors such as tourism or local food producers are not addressed in this paper. The second question focuses on the hypothesis that village shops are not profitable because of the above mentioned difficult market conditions. Public and civic support is thus needed or the shops will close a few years after their foundation.

The focus of our study is villages and small towns with fewer than 5,000 inhabitants. This quantitative threshold conforms to the number of people the large food retail companies require to run a supermarket or a discounter (Adamovicz *et al*., 2009; Kuhlike *et al*., 2005). Village shops, here, are stationary facilities with a sales area of less than about 400 m² providing basic foods as well as, where applicable, other goods and services for daily use. The core of the offering is provided by a grocery store with a broad product range. Bread or butcher shops, direct sales of agricultural products as well as fruit and vegetable dealers can be integrated in the offering, but do not alone suffice.

Methodology

A cross-sectional analysis was used to answer the research questions. Based on a literature review, relevant characteristics were identified and a questionnaire designed. The 39 questions covered the following topics: form of organisation, offering, location, economic data, community and public support. An Internet search produced contact information for 244 village shops across Germany that fitted the definition given above. In order to guarantee a similar distribution across the country, a proportionally stratified random sample was taken, selecting 65 per cent of the shops in each of the 13 non-city states (i.e. excluding Berlin, Bremen and Hamburg), giving 159 shops in total. From March to May 2012, shop operators were interviewed by telephone using a standardised questionnaire (Dillman, 1978). The sample was cleaned of stores not fitting the definition or no longer existing and therefore not contactable. A response rate of 70.5 per cent yielded 103 analysable questionnaires. The data collected were analysed using descriptive statistical methods such as frequency analysis and measures of dispersion (Field, 2009).

Results

The findings are presented in two sections according to the research questions. Firstly, the contribution to local supply and the social function of village shops are described. Secondly, results are presented regarding the economic viability of the shops. Additional information about the German retail sector is used to help to interpret the empirical findings.

Contributions to supply and social life

An attractive offering is important if people are able to do their main shopping in the village. A wide range of goods is required to provide, for instance, goods of different price segments, organic food or several packaging sizes. The average number of goods per shop is 2,851 with a median of 2,000 (Table 1). Village shops provide many fewer goods than an average supermarket (which stocks around 10,000 goods) but a comparable number to a discounter (approximately 2,000 goods) (EHI, 2010). In addition to 2,273 food products, on average 578 non-food products such as pharmacy products are offered. A quarter of the surveyed shops supply less than 1,000 goods, making it difficult to cover basic needs.

On average, around 1,000 customers per week purchase goods at the shops (Table 1), which approximates to the number a supermarket achieves on an average day (1,250 clients) (EHI, 2010). The mean purchase value in the village shops is EUR 8.8 which equates to the average figure for small grocery stores but is much less than in discounters (EUR 10.8) and supermarkets (EUR 12.2) (EHI, 2010). This suggests that village shops are mostly visited for supplementary purchases.

In addition to goods, all of the village shops, except one, offer a range of supplemental services as multi-purpose

Table 1: The approximate number of goods available in a sample of village shops in Germany and the use of this provision as estimated by the shop operators.

	Available number of goods	Food products	Non-food products	Customers per week	Purchase value (EUR)
Mean	2,851	2,273	578	1,052	8.8
First quartile	1,000	938	200	500	6.5
Median	2,000	1,725	373	950	8.4
Third quartile	4,000	3,000	800	1,335	10.0
n	86	86	86	96	92

Source: own survey data

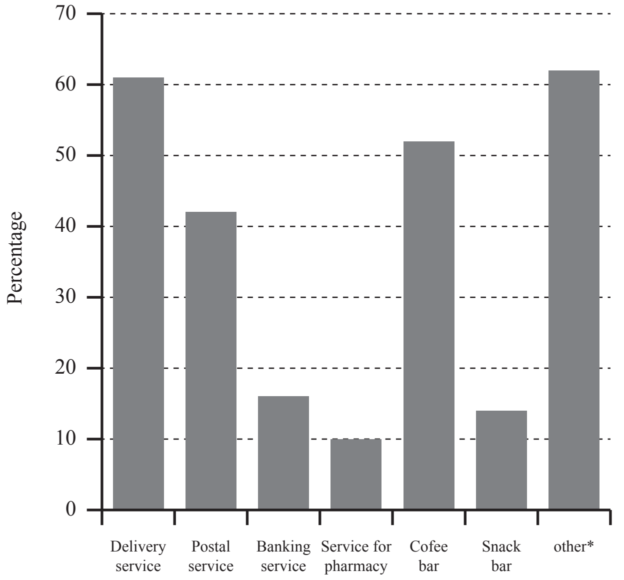

Figure 1: The proportion of a sample of village shops in Germany offering supplemental services.

n=103, except *n=102
Source: own survey data

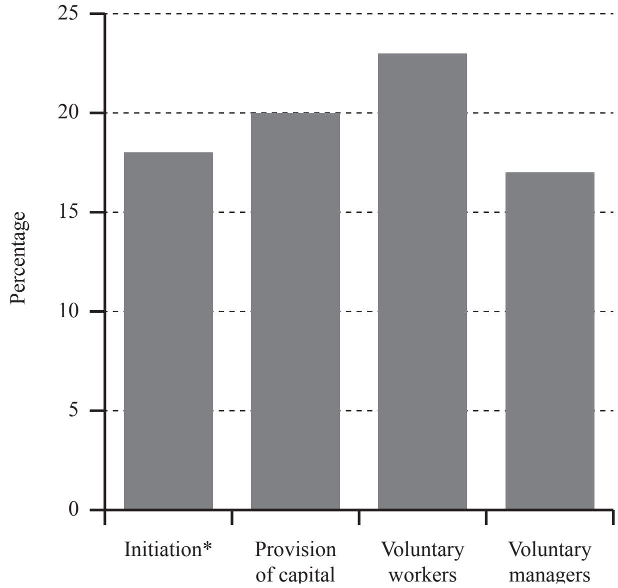

Figure 2: The proportion of a sample of village shops in Germany with different forms of civic participation and volunteerism.

n=101, except *n=103
Source: own survey data

stores (Figure 1). More than 60 per cent of the shops have a home delivery service which helps to expand their catchment area and to supply immobile people such as the very elderly as well. Many stores also provide a coffee bar or postal services. Amongst the other services offered are catering, lottery, taking in laundry and fancy goods. Along with the shopping, especially coffee and snack bars provide opportunities for the village residents to meet and to foster social life. While more than 1,000 customers visit the shops on average per week and have the possibility to chat with other clients or the staff, only 77 visitors patronise the coffee or snack bar in a week. In almost half of the 50 village shops which have a respective offer and of which the operator answered this question, less than 50 persons per week use the offer.

Another social function of village shops is the provision of local jobs because villages and small towns often have few job opportunities and many residents have to commute long distances to work. On average, the shops in the survey engage six working persons (Table 2). However, 70 per cent of the staff members work part-time and 36 per cent only have minor jobs[1]. The gross wages for qualified as well as for unqualified employees are very low: 70.8 per cent of the former and 94.8 per cent of the latter are in the low wage sector[2]. Even though two thirds of employees in the food retail sector earn low wages (DESTATIS, 2012b), the percentage is significantly higher in village shops.

A further contribution to social life is that village shops serve as crystallisation points of civic participation and volunteerism. In 43 of the 103 cases, citizens support the shop. Most important is the provision of capital and the engagement as voluntary workers in about 20 per cent of the researched shops (Figure 2). The citizens help to establish small shops if they are engaged in the initiation process and raise the starting capital. The volunteerism in the service and management saves costs and allows shops to trade at locations with low economic potential. This leads to the second research question about the sustainable profitability.

Economic viability

The net sales are central for the economic success of a shop. In the German food retail sector, annual sales of in the range EUR 750,000 to 1,440,000 are required to run a small grocery store (BBE, 2010; Steinführer *et al*., 2012). Fewer sales make it difficult to cover all of the operating costs and too many perishable goods remain unsold and disposable. Compared to the minimum turnover figures cited in the liter-

1 A minor job or marginal employment is according to § 8 of the Social Security Code of Germany a job with a monthly salary of less than EUR 450 (until 2012: EUR 400). These jobs have some advantages for tax and social security payments. For the survey in 2012, the existing wage level indicates that most minor jobs have a maximum labour time of about ten hours a week.

2 According to the OECD definition, workers belong to the low-wage sector if their gross wage is less than two thirds of the median wage. In Germany in 2010 the low wage sector started at EUR 10.36 per hour (DESTATIS, 2012b).

Table 2: The number of persons working in a sample of village shops in Germany and their rates of pay.

	Total number of working persons	Number of full-time employees	Rate of pay for qualified staff (EUR hour^{-1})	Rate of pay for unqualified staff (EUR hour^{-1})
Mean	6.1	1.6	9.4	7.5
First quartile	3.0	1.0	7.6	6.5
Median	5.0	1.0	9.0	7.3
Third quartile	8.0	2.0	10.9	8.3
n	103	103	72	77

Source: own survey data

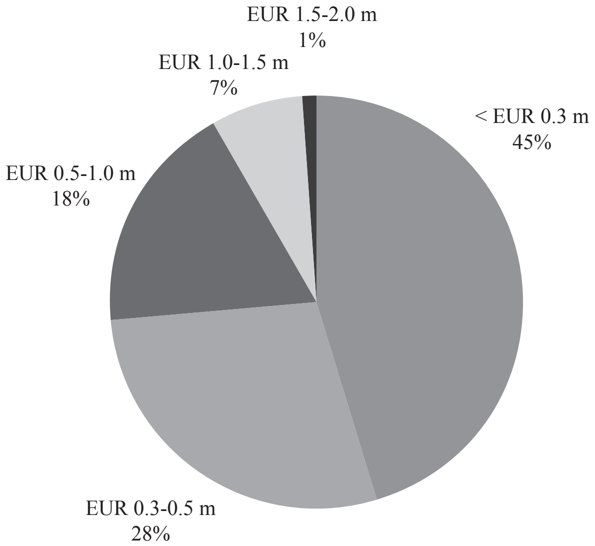

Figure 3: The distribution of a sample of village shops in Germany in terms of net sales in 2011 (n=88).

Source: own survey data

Table 3: The expected direction of business development according to the operators of a sample of village shops in Germany in the five years from 2012.

Future development	Closure %	Declining %	Unchanged %	Increasing %	n
Net sales	11	1	47	41	100
Profit	12	1	48	39	94

Source: own survey data

ature, the interviewed shop operators report much lower net sales for their village shops (Figure 3). Almost three quarters of the stores in the survey sold less than EUR 0.5 million of goods and services in 2011. As a result, 20 of the 71 village shops which answered the relevant question closed their accounts in 2011 with a loss. Most of the other stores only reached a 'black zero' so that no owner could live from the profits alone. In order to interpret the data, it is important to consider that more than one third of the shops were established after 2010 and more than half since 2008. These shops are thus in their start-up phase and they still have to establish their position in the market.

Asked about future development, most shop operators are rather confident that the development will continue or even improve in terms of net sales and company results (Table 3). In contrast, eleven of the village shops will probably not exist in five years time. The estimated cessation of business was reasoned by a lack of commercial viability. Causes in practice include a declining population in the catchment area, rising operational costs as well as competition with food discounters located within a short distance. Together with the ten small stores where we could not interview the operator because of their recent closure, this underlines the precarious financial situation of a significant proportion of village shops.

Against this background, many village shops seem to be able to exist in spite of their low turnover. A reason could be that public and civic actors support the small stores in order to safeguard local supply, particularly for less mobile groups, and their function as a meeting place. Figure 4 depicts the

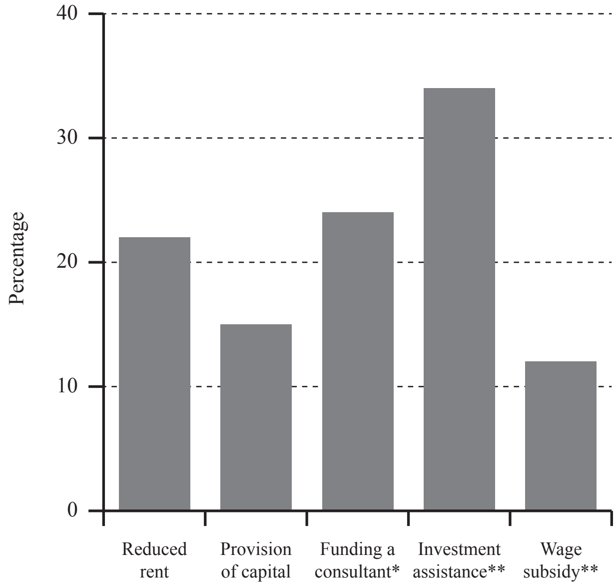

Figure 4: The proportion of a sample of village shops in Germany receiving a specific type of public support.

n=101, except *n=98, **n=100

Source: own survey data

relevance of municipal and state support for village shops. In 22 per cent of the cases the municipality owns the building and offers it to the shop operator for a reduced rent. For 15 per cent of the researched shops, the municipality contributed some of the initial capital. Almost one quarter of the small shops have benefited from the services of a retail consultant who was (co-)financed by the municipality and/or state. The state grants investment assistance in more than one third of the cases using the EAFRD or other funding instruments. Finally, 12 per cent of the village shops receive wage subsidies. These so-called 'integration stores' are supported because they enable the participation of disadvantaged groups, such as disabled or permanently unemployed people, in the labour market. The state gives these stores tax benefits in addition to salary supplements. While the provision of capital, investment assistance and usually the funding of a consultant represent public support that is limited to the starting phase of the business, reduced rents and wage subsidies represent a permanent subvention of village shops indicating a lack of profitability.

The importance of volunteerism has already been mentioned. In order to assess the economic success of this often reported strategy (e.g. Calderwood and Davies, 2012), we compared village shops supported by citizens with stores without volunteerism using the Mann-Whitney test because of ordinal or non-normal data (Field, 2009). The results show no significant differences ($p < 0.05$) between the two groups with regard to the year of foundation, the number of goods, the number of food products, profits, and the expected development of net sales in the next five years. For the net sales in 2011, civic involvement in shops (median class = EUR 200,000-300,000) differs significantly from non-involvement (median class = EUR 400,000-500,000), $p < 0.01$, $r = -0.36$, $N = 88$. Accordingly, village shops supported by community initiatives have significantly fewer customers a week (median = 600) than those without support (median =

1,000), $p < 0.001$, $r = -0.36$, $N = 96$. In addition, shop operators supported by citizens are significantly less confident concerning the development of profits in the next five years. They expect on average a stable development compared to a median between stable and increasing profits for stores without volunteerism, $p < 0.05$, $r = 0.21$, $N = 94$. The results do not indicate that village shops supported by citizens are economically more successful. Instead, some significant differences suggest the opposite.

Discussion

Firstly our findings confirm the limited extent to which village shops contribute to local supply and social life. Many stores only offer a small range of goods so that the coverage of basic needs is difficult and the stores are visited mostly for supplementary purchases. The number of customers is thus relatively low even though home delivery services and additional offerings such as post office and banking services emphasise the service orientation of the village shops. With regard to social functions, most stores provide a snack area as a meeting place, but these are relatively seldom used. The local stores also provide local jobs, although most positions are part time and have low salaries. As a crystallisation point for civic involvement, in many of the cases citizens get involved with the stores and help to initiate and run the shops.

Surprisingly the shop operators continue to provide a coffee or snack bar even though it hardly seems to be profitable given the low level of use. At least three possible explanations for this behaviour can be hypothesised: (a) the offer is part of a service-oriented business strategy in order to foster lasting customer loyalty; (b) supplying meeting places was a requirement to receive public funding; and (c) several village shops are run by citizen initiatives or non-profit organisations that focus on such social goals.

Secondly, the economic situation of the shops seems precarious due to low profits and low turnover, accompanied by many businesses being in their starting phase, and expected or realised closures. Many operators are hopeful of improvement, which stands in contrast to the more intense competition with the discounters and increasing operating costs. The findings indicate that permanent public and civic support is required to sustain small shops in many villages. Non-parametric tests have shown that stores supported by citizens were economically less successful in terms of net sales in 2011, customers per week and expectations for profit development in the next five years. This result corroborates the hypothesis that civic support is needed where the economic potential for running and maintaining a store is particularly low.

Ultimately, the question that forms the title of the paper, whether a village shop is an outdated or revived model, is difficult to answer. On the one hand, our findings have shown that most of the village shops were established only a few years ago. This could indicate a trend towards a revival of small shops in rural areas, but another reason for this result could be our method of Internet research for identifying the surveyed shops which made it more likely to select new shops that have recently been reported on because of their opening.

On the other hand, the low number of clients and purchase value demonstrate the weak demand for local supply and for this kind of offering with few selection possibilities, high prices and limited opening hours. In contrast to convenience stores located in urban centres, railway and petrol stations that are sometimes open 24 hours, seven days a week, village shops usually have relatively short opening hours since the number of potential customers and the frequency of their custom is very much lower. The surveyed small stores are open for on average for about 52 hours per week. Problems of economic sustainability draw attention to the preconditions of this supply concept. If too few people live in the catchment area to assure a profitable business (which in small villages is often the case), citizens have to volunteer in the shop, public actors must permanently provide subsidies and the staff and owner cannot earn enough money for a reasonable standard of living. There is a high risk that citizens will lose their commitment after an enthusiastic initial phase. Citizens and public actors can mis-invest their money because only a few customers really use and support the village shop after its foundation. And finally, the staff can be demotivated by the poor conditions of employment. In addition, small shops particularly with volunteer management can be mismanaged.

Above all, the challenges facing village shops seem to outweigh the opportunities. As Calderwood and Davies (2012) have noted in the UK, the trend to small stores in rural areas is driven by political actors who have installed respective funding instruments and focus more and more on local supply as an indicator for sound rural communities. Nevertheless, the market conditions remain the same on the demand as well as on the supply side. Public initiatives, therefore, cannot stop the trend to increasing numbers of so-called ‘food deserts’; at best, they can slow down the process. In places with financially well endowed municipalities and strong community commitment, such initiatives can also be successful in smaller villages but the customer always decides with his/her purchasing behaviour whether small shops will survive. Where village shops cannot be sustained economically, home delivery services, mobile supermarkets or improved mobility services including public transport, subsidised taxis or arranged lifts are feasible options for action to assure the local supply of people who are unable to use a car. Furthermore, other social gathering places, such as youth or senior clubs, associations, citizen centres or pubs can fulfil the social functions attached to village shops as well.

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