IT and E-Commerce Use by Small Food Retailers: Preliminary Findings

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Rural and small-town food retailers face a double-edged sword in what might be described as a battle for survival: declining populations and incomes among their near-by customers; and a challenge to compete in goods and services markets with major food retailers that are more accessible than ever to rural customers. This situation is especially critical for retailers in the full-service grocery business, but similar concerns exist among rural retailers of specialty foods. Such businesses are generally perceived to have two major assets: quality service and high-quality and/or unique food products. Recent discussion has focused on ways to better leverage these assets using information technology to expand market reach or increase supply-chain efficiency. However, much promotion of “advantages” of e-commerce has had little basis—beyond adopter enthusiasm—for strategic recommendations relevant to grocery or specialty food sectors.

This research update builds from our ongoing studies of the marketing of groceries on the Internet and on managers’ use of information technologies (IT) by small rural retailers. It was conducted as part of the project “Rural Food Retailing: Is the Internet a Silver Bullet?” funded by the Southern Rural Development Center (Ernst & Hooker 2005) and the Ohio Agricultural Research and Development Center Seed Grant “Rural Retailers: Profiling Internet Users & Non-Users” (Stoel 2005). This work centers on the development of more in-depth research and on strategies and evaluation tools for rural grocers and specialty food marketers to use in determining the viability of adopting technology-based management strategies and/or e-commerce.

Methods

In Summer 2005, key informant interviews were conducted with selected rural/independent grocery and direct-market food retailers in Ohio. A database of such grocers and direct marketers in Ohio, Kentucky, and West Virginia was compiled for the purpose of surveying and conducting case studies in Fall 2005. Concurrently, findings from this work are being used with existing data from research we have conducted on larger e-grocers to develop tools for these retailers to use to plan viable online retail enterprises and to evaluate their potential for online marketing and sales.

Key informant interviews with six independent grocers located in rural Ohio counties were designed to elicit information and opinions in several areas:

- use of information technology in the operation and management of the store; potential future uses for Internet-based management practices and retail sales;
- technology aptitude of store management and staff;
- competition issues related to movement of “big box” grocery retailers into the six different markets and the role technology plays in that competition;
- sources of information and consultation for managers of these firms on technology and strategic management issues; and
- service and community responsibilities felt by these firms and their owners and/or managers.

Key informant interviews of additional specialty food retailers are currently being conducted.

Preliminary Analysis

Attitudes of firm operators toward the Internet and its potential to change a nearly 10-percent disap-
pearance rate for rural businesses has been studied in Ohio and Kentucky by members of our E-Agni-
business Working Group. The Internet is a signifi-
cant part of business-to-business relationships and
is used in some manner by 61 percent of rural Ohio
businesses responding to our earlier survey, but it is still
not significant as a retail channel. Only 20 percent
of rural Ohio retailers responding to our 2004 sur-
vey used the Internet as a retail channel, generating
only about 3.4 percent of their total revenue. While
this earlier study was not specific to the grocery or
specialty-food marketing sectors, it does address
motivations of rural firms generally—supporting
the observation that firm strategies toward informa-
tion technology are based on individual enthusiasm
rather than quantitative economic research.

None of the sampled grocers selected for inter-
views were involved in online sales of groceries at
the time of the interview. One was seriously inves-
tigating its application in part of its market region.
Four of these retailers are currently providing home
delivery to some customers and have existing in-
frastucture that might be applied to an e-grocery
enterprise. Two grocers had a current web pres-
ence—one using it strictly as a billboard and one
going beyond that to distribute sale information and
provide some community services. Five of the six
grocer deployed some level of computerized point-
of-sale and/or inventory-management system. Level

of adoption within the firm appeared partially based
on management attitudes and cost of deployment.
Technology cost and ROI for this infrastructure was
cited by all as a current and future concern.

Half of the firms faced direct in-town competi-
tion from big-box grocery stores. All discussed
the impact of such competitors on their business
and ways in which they had already or intended to
adjust their business to deal with the effect. Those
competitors’ proficiency with technology, cost/price
management, and supply-chain control was cited at
some level as a competitive advantage in all cases.
The five grocers that have adopted computer tech-
nology discussed the challenges of managing IT and
training employees to use it effectively.

Applying findings from the earlier study of rural
retailers to smaller and geographically challenged
food retailers and the findings from key informant
interviews offer guidance for the planned research
on effective IT adoption and e-commerce strate-
gies for rural grocery and specialty-food marketers.
While online marketing and sales will not replace
traditional ways of doing business in rural commu-
nities, it is rapidly becoming an indispensable part of
demand- and supply-chain management throughout
the grocery industry and may offer ways to increase
effectiveness of operations, expand traditional rural
markets, and sustain businesses.