

# Leadership for Healthy Communities

Department of  
Agricultural Economics



## Building a Healthy Retail Community: Lessons from Little Giants in Kansas

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Community Economic Development

Retail businesses in rural towns with small populations are losing trade to businesses in towns far from their home counties. This loss or leakage problem has been well documented at the county and city levels.<sup>1,2</sup> For example, in the 1997 study of city retail trade activity, the smallest towns (fewer than 1,000 in population) typically retain only 47 percent of their trade. This retention increases to 58 percent for towns with 1,000 to 2,000 people. It jumps to 81 percent for towns with 2,000 to 4,600 people (Table 1 and Figure 1).

Not every small town suffers as much loss of trade as these data suggest. In Kansas there is a group of cities that have become known as “**Little Giants**.” These are towns with populations fewer than 4,600 that act as minor trade centers. This status is identified with the help of sales tax data. A ratio of per capita sales tax collections is calculated and then locally compared to the same number on a statewide scale.

This ratio is called a Pull Factor (PF).<sup>\*</sup> It measures leakage and capture of retail trade across political boundaries. Minor trade centers have PFs of 1.01 or greater. A PF of 1.00 is often interpreted to indicate that community businesses are capturing all the available trade in the city. In reality, since households in small towns frequently buy from out-of-town merchants, every city experiences some leakage. Thus, a PF of 1.00 actually shows that the leakage factor is being offset by a capture factor.

<sup>\*</sup>The city trade Pull Factor is computed by dividing the per capita sales tax collections in city “X” by the per capita sales tax collections statewide. A sales tax rate of 1 percent is used.

This bulletin provides ideas on how to build a healthy and sustainable community of retailers in order to minimize leakage and increase retail capture. If used successfully, the president of the local Chamber of Commerce can brag that, “Our town is a Little Giant.”

### A Case Study

There are 627 incorporated cities in Kansas. Many follow the paths of railroad lines. There are great stories of town leaders trying to influence railroad companies to build the line nearby. Today, the functions of being a watering spot for steam engines, a loading place for agricultural products, and a retail center for surrounding farmers no longer work to keep the overall economy vital. Other functions must be imagined and pursued.

Also, loss of downtown area businesses is part of the reality that has pushed community leaders into identifying economic development and retail trade services as critical issues.

Empty storefronts on main streets were documented as symptoms of retail trade leakage. Leakage information has been reported annually in the K-State Research and Extension Community Development newsletter, *Creating Economic Opportunities*. A state map is published annually in the fall quarter newsletter and provides PFs for the 105 counties. City PFs are published in the fall quarter on all cities that have an optional city sales tax in place.

In the most recent city PF study, 141 cities had a city sales tax in place for the complete fiscal year that started July 1, 1996. Only two out of the 33 cities in the smallest category had high (above 1.00) PFs, and these unique cases will be discussed later in this report. Six of the eight largest cities in the study (population over 40,000) had high PFs.

Table 1 and Figure 1 show the summary results of the statistical analysis of all cities. They are organized into categories by population size. Two lessons are worth remembering: (1) small towns leak trade to larger towns; and (2) there is a critical mass that, when reached, helps a community function as a trade center with a PF of higher than 1.00.

This study identified 14 cities with populations fewer than 4,600 that have high PFs. These cities each have a favorable set of factors that contribute to this outcome—no single formula for success has been found. Map 1 shows the locations of these 14 Kansas towns, which are both close to and far from major highways and larger cities that act as urban and rural trade centers. The 14 are Ellsworth, Elwood, Fredonia, Gardner, Hiawatha, Hillsboro, Holton, Medicine Lodge, Norton, Sabetha, South Hutchinson, Spivey, St. Marys and Westwood.

### What Makes a Little Giant?

Based on our research, not all small towns with PFs of more than 1.00 are little giants. Spivey has a very high PF due to the oil field service businesses located there. However, this town has a population of only 89. The business community consists of three oil field service businesses, a day-care center, a cafe, and a gas station that also sells some groceries.

The next largest town identified by its high PF is Elwood, with a population of 810. It has no full line grocery store, but a

**Table 1: Retail Sales Data for Kansas Cities: Fiscal Year 1997 (July 1996–June 1997)**

| Size Category<br>(Population) | Number<br>of Cities | Pull Factors |        | Number of Cities<br>with Pull Factor > 1.00 |
|-------------------------------|---------------------|--------------|--------|---|
|                               |                     | Mean         | Median |   |
| <1,000                        | 33                  | 0.61         | 0.47   | 2   |
| 1,000–2,000                   | 32                  | 0.61         | 0.58   | 2   |
| 2,001–4,600                   | 33                  | 0.79         | 0.81   | 9   |
| 4,601–10,000                  | 16                  | 1.14         | 1.18   | 11  |
| 10,001–40,000                 | 19                  | 1.35         | 1.23   | 15  |
| 40,001 <                      | 8                   | 1.30         | 1.29   | 6   |

(Source: See end note Number 2)

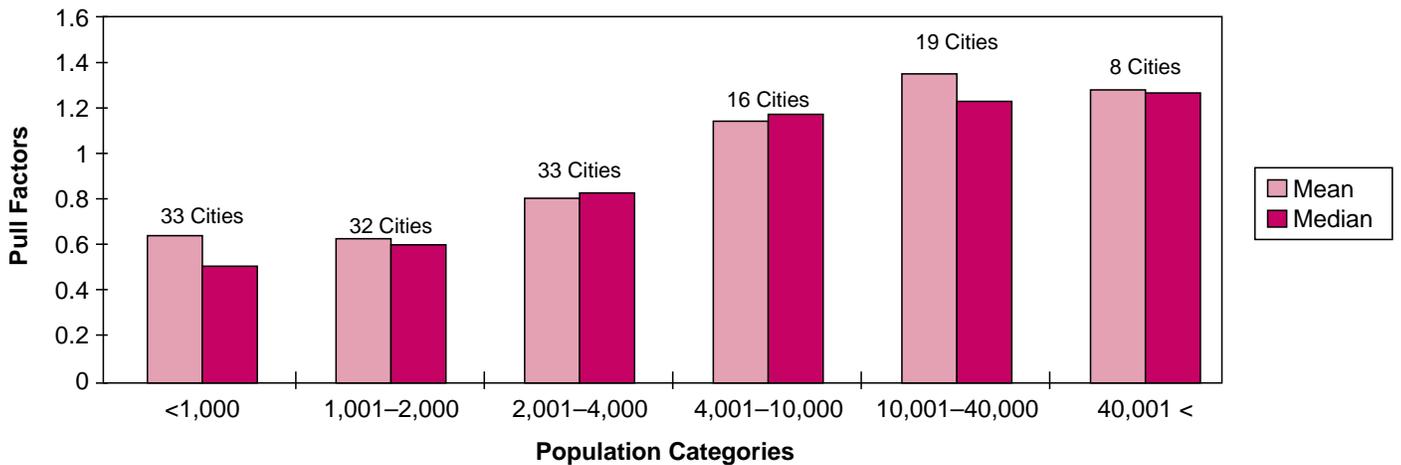


Figure 1. City Pull Factors' Means/Medians, FY 1997 (Source: See end note Number 2)

new convenience store was opened in 1997. Elwood does not have a department store, new car dealer, drug store or hospital. In fact, the town has a very limited selection of businesses, with one major exception. It has a very large discount lumber and building supply store that services people living in the nearby city of St. Joseph, Mo.

The next town in order of population size is much bigger than Elwood. Westwood has a population of 1,793. It is located in Johnson County, a metropolitan county within the Kansas City metropolitan area. Based on a telephone survey with the city clerk, the cause for the above average per capita sales tax collections cannot be explained, unless the headquarters of Sprint is somehow a factor. Using the information in Table 4 as a questionnaire, the mix of businesses seemed to be too incomplete to compete with the mass merchandisers in surrounding towns on both sides of the state line. The probable answer to the mystery came from a source at the Kansas Department of Revenue. Westwood received surprisingly high amounts of tax revenue from the tax on telephone services, water utilities and natural gas services. This seems to be a function of the wealth and high incomes of local residents. Traditional retail trade is not the source of above average sales tax collections.

One common pattern that leads to success seems to be the traditional county seat town/trade center. Along Highway 36, the most northerly route across Kansas, there is a string of county seats such as Hiawatha and Norton. They are the domi-

nate trade centers in their counties, but they are still overshadowed by major retailers in cities like Topeka, Kan., Lincoln, Neb., and even Denver, Colo. These county seats have a good retail mix that is shared across two commercial areas: downtown and along the highway. Major discount department stores, car dealers, grocery stores, restaurants and fast food outlets, motels and farm equipment dealers are situated along the highway. Located around the downtown courthouse are specialty apparel stores, drug stores, banks, restaurants and the post office. New chain stores and franchised businesses have replaced some of the independent operators in the most commercially vital places. The retail environment depends on the dynamics of the local economy and community leadership. Norton, for example, has a state prison facility that is a stable employer. However, a “defender” attitude by local leaders can slow change, keep out new retail competitors, and end up hurting the competitive position of the entire business community.

**Holton: A Little Giant**

Holton is an example of a little giant that fits the above description of a county seat along a major highway. Historically, Holton has acted as a major trade center. Its city trade PF is 1.65. This is the highest value among the cities that are identified as little giants in this study.

Holton is 30 miles north of Topeka on Highway 75 and has a population 3,253. The next largest city in the county, Hoyt, has

a population of 517. Holton functions as a shopping center for northern Jackson County and for persons living in nearby counties, including Atchison, Brown, Nemaha and Pottawatomie. A small Wal-Mart is located on the edge of town along Highway 75. The traditional shopping district surrounds the courthouse in the classic Midwest square layout.

The Jackson County Trade PF is below 1.00 at 0.60. This indicates that Jackson County residents shop elsewhere for an estimated 40 percent of their household purchases. Their favorite places to shop are in Topeka at West Ridge Mall and other stores along the commercial corridor on Wanamaker Road on the west side of the city. Although the magnetic attraction to Topeka retailers is strong and growing, Holton businesses do a good job of holding onto local trade and capturing trade from their trade area. In the report on city PFs, it is estimated that the customer base supporting Holton is equivalent to 5,357 full-time shoppers. The customer base for the larger community of businesses countywide is only 7,210. Therefore, Holton has a 74 percent market share of retained sales in Jackson County.

Holton has some obvious strengths and weaknesses that are highlighted in Table 2. This table also is designed to be a SWOT (Strengths, Weaknesses, Opportunities and Threats) sheet to be used by the reader to evaluate other towns and cities (see page 7).

Obviously, some key anchor stores are both retaining and capturing sales. The community of businesses in Holton has to succeed the same way any shopping center succeeds. It must have the right mix of businesses for the targeted market. One strength is the medical facilities and services provided. For area

senior citizens, it is particularly important to be able to visit medical providers and drug stores for routine needs without leaving town. Topeka provides specialty medical services to complement those services provided in Holton.

Having county seat status, being on a highly traveled road with an average daily vehicle count of 7,700, and having some strong attractions in and around Jackson County are all strengths. In fact, Holton is in a growth corridor. This development activity is very recent and multifaceted. Three new Indian casinos have been built on nearby reservations. Highway 75 has been upgraded to a four-lane divided highway, and a multipurpose lake was completed in 1997. Also, urban fringe land use changes are altering the character of Jackson County.

There are several weaknesses that hurt Holton. There is the attraction of big stores and a new mall in Topeka; the absence of a radio station in town; and limited job availability. About 50 percent of the work force commutes out of the county every day. Household incomes in Jackson County are below the Kansas average, and wealth is modest.

**Spending Patterns of U.S. Households**

A town has to have major anchor stores and service businesses to capture local trade and to attract customers from a wider secondary trade area. An Alco, Gibsons, Wal-Mart or similar department store provides the sale of general merchandise. Having two strong grocery stores competing with each other is a plus. Households spend substantial amounts on their transportation needs, so vehicle sales and services are needed.

**Table 2. A Checklist for Success Cities with Populations of under 4,600**  
*The Holton, Kansas Example*

|  | Yes | No |
|--|-----|----|
| Strong downtown shopping district  | X   |    |
| Two or more grocery stores   | X   |    |
| Large department store selling general merchandise                                     | X   |    |
| Forty or more miles from a superstore that combines general merchandise with groceries |     | X  |
| Two or more new/used car dealers   | X   |    |
| Variety of restaurants and taverns   | X   |    |
| Building materials and supplies business   | X   |    |
| Drug store   | X   |    |
| Hospital   | X   |    |
| Strong medical services community  | X   |    |
| Strong local newspaper   | X   |    |
| Local radio station  |     | X  |
| County seat status   | X   |    |
| Job center status (at least one job for every two people)                              |     | X  |
| Strong attractions such as college sports events, festivals and natural wonders        | X   |    |
| Above average family incomes and net worth   |     | X  |
| Trade area population is growing at an average or faster rate                          | X   |    |
| Household incomes are growing at an average or faster rate                             |     | X  |
| Daily traffic volume ≥ 4,000 cars and trucks on a nearby major highway                 | X   |    |
| Source: David L. Darling, K-State Research and Extension                               |     |    |

**Table 3: 1995 Household Consumer Expenditures for Income of \$33,597**

|                                     | Income of \$33,597 |        |
|-------------------------------------|--------------------|--------|
|                                     | %                  | \$     |
| <b>Food</b>                         |                    |        |
| At home                             | 8.5                | 2,866  |
| Away from home                      | 5.4                | 1,804  |
| Alcoholic beverages                 | 0.9                | 302    |
|                                     | 14.8               | 4,972  |
| <b>Housing</b>                      |                    |        |
| Owned dwelling                      | 11.1               | 3,744  |
| Utilities                           | 6.5                | 2,179  |
| Housing operations                  | 1.5                | 518    |
| Housekeeping supplies               | 1.4                | 465    |
| Household furnishings and equipment | 4.5                | 1,499  |
|                                     | 25.0               | 8,405  |
| <b>Apparel and Services</b>         |                    |        |
| Apparel and Services                | 5.3                | 1,771  |
| <b>Transportation</b>               |                    |        |
| Vehicle purchasing                  | 8.0                | 2,676  |
| Petroleum supplies                  | 3.0                | 1,014  |
| Other vehicle expenses              | 6.1                | 2,063  |
|                                     | 17.1               | 5,753  |
| <b>Other</b>                        |                    |        |
| Health care                         | 5.2                | 1,747  |
| Entertainment                       | 5.0                | 1,687  |
| Personal care products and services | 1.3                | 430    |
| All other                           | 26.3               | 8,832  |
|                                     | 37.8               | 12,696 |
| <b>Total</b>                        | 100.0              | 33,597 |

Source: U.S. Dept. of Labor, Bureau of Statistics, *Consumer Expenditures in 1995*, June 1997.

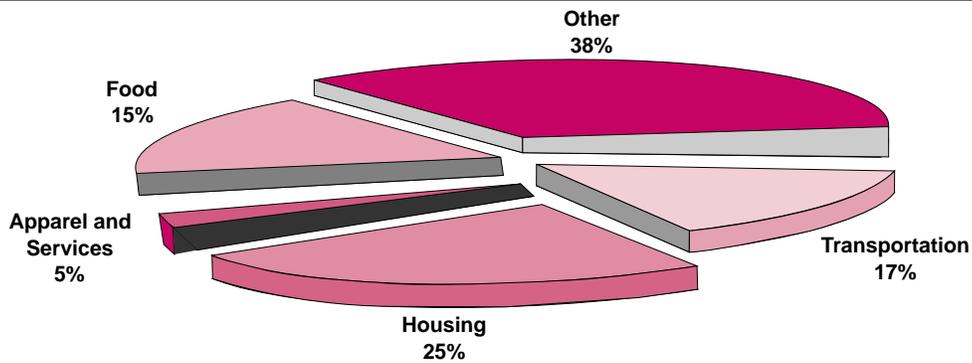


Figure 2. 1995 Household Consumer Expenditures

Households spend more each year on food prepared out of the home, so cafes and restaurants are needed. Older households spend a higher proportion of their income on medical services and drugs.

Figure 2 and Table 3 break down household spending patterns. By reviewing these, one can quickly understand the types of businesses needed to tap into the normal flow of consumption expenditures.

In Kansas, sales tax collection data is available by business class. On a statewide basis, this information can be used to

analyze per capita taxable trade. For example, family shoe stores that sell boots and shoes have typically had a per capita taxable trade of \$48.27 in the fiscal year ending June 1996. When comparing that number to the amount in the “Grocery and Meat Stores” category, \$1,245, it becomes obvious the effect of losing the only grocery store in town is much bigger than the consequences of losing the only shoe store. Dr. Ken Stone, an economics professor at Iowa State University and an

expert in retail trade analysis, has discovered that the grocery store is the most visited retail outlet in a small town.

Table 4 lists some of the per capita calculations by business class. The following are the top 10 most important types of businesses based on per capita sales tax collections.

**Concluding Thoughts**

Table 5 shows a list of important factors that support a healthy community of retailers. These factors are essential components of a proactive effort to build and sustain retail strength in any town. These factors can be the exclusive effort of one town, or they can be the creation of a multi-community collaborative effort.

**Table 4. State of Kansas Per Capita Sales Tax Collections by Business Class**

| <b>Business Class</b>   | <b>Taxable Trade Per Capita (\$)</b> |
|---|--------------------------------------|
| Grocery and Meat Stores   | 1,245                                |
| Department and Discount Stores  | 1,103                                |
| Auto and Truck Dealers  | 1,051                                |
| Restaurants and Other Eating Establishments                               | 661                                  |
| Variety, Hobby, Gift and Antique Stores                                   | 329                                  |
| Building Material Dealers   | 317                                  |
| Engine Repair Shops   | 295                                  |
| Rental and Leasing Businesses   | 280                                  |
| Plumbing, Heating and Air Conditioning Contractors and Service Businesses | 258                                  |
| Office Equipment and Stationary Stores                                    | 204                                  |

Source: Darling, David L. and Chatura B. Ariyaratne. "Spending Patterns Across Business Groups by Kansas Consumers: An Analysis of Data from Fiscal Year 1996." C. D. Study Report #167, KSU Department of Agricultural Economics: Manhattan, KS, 1997.

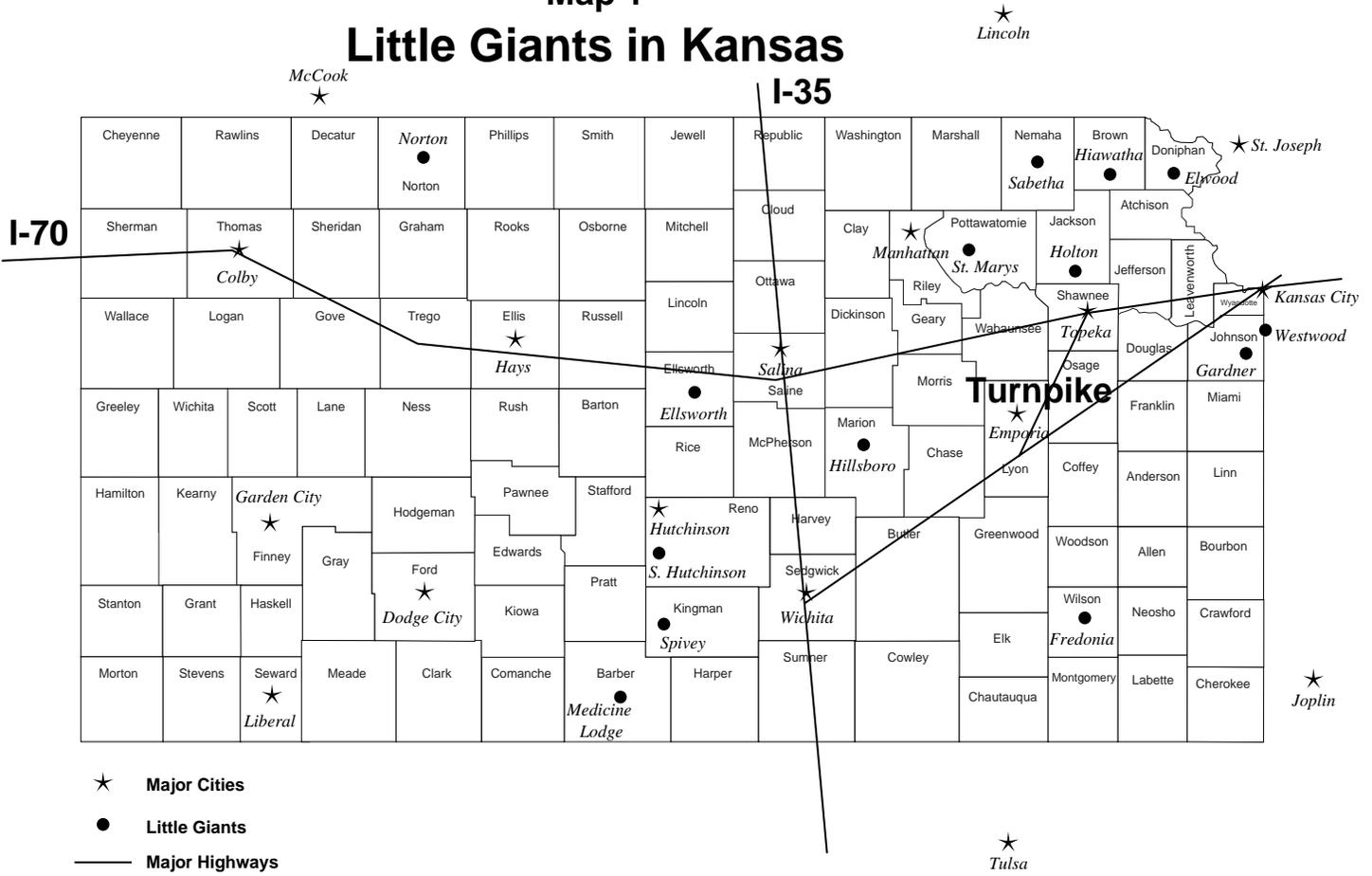
**Table 5. Essential Components of a Healthy Retail Community**

1. A Chamber of Commerce.
2. A paid Chamber of Commerce executive.
3. A strong promotion calendar.
4. A strong image for the downtown.
5. A respectable budget to pay for the Chamber of Commerce programs, including frequent educational programs.
6. A strong retail committee structure with effective and motivated leaders.
7. Good media involvement, promotion and commitment to the community's economic health.
8. A Chamber of Commerce mission statement that focuses its programs on community economic health and sustainability.
9. Commitment of local banks to the retail community.
10. Commitment of all community and county leaders to a prosperous retail community.

Original Source: Unknown. Revised by David L. Darling, 1/98

1. Darling, David L. and Chatura B. Ariyaratne. *County Trade Pull Factors: An Annual Report for Fiscal Year 1997*. C.D. Study Report #177, Manhattan; KS: K-State Research and Extension, Department of Agricultural Economics, January 1997.
2. Ariyaratne, Chatura B. and David L. Darling. *City Pull Factors for Fiscal Year 1997 and the Strength of Retail Trade in Kansas Communities*. C.D. Study Report #172, Manhattan, KS: K-State Research and Extension, Department of Agricultural Economics, September 1997.

# Map 1 Little Giants in Kansas



Cities located within the county, but not positioned accurately.  
Roads are approximate also.

### Major Cities

- |             |             |
|-------------|-------------|
| Colby       | Kansas City |
| Dodge City  | Liberal     |
| Emporia     | Manhattan   |
| Garden City | Salina      |
| Hays        | Topeka      |
| Hutchinson  | Wichita     |

### Possible Little Giants

- |           |                  |
|-----------|------------------|
| Ellsworth | Medicine Lodge   |
| Elwood    | Norton           |
| Fredonia  | Sabetha          |
| Frontenac | South Hutchinson |
| Gardner   | Spivey           |
| Hiawatha  | St. Marys        |
| Hillsboro | WaKeeney         |
| Holton    | Westwood         |

**Worksheet 1. A Checklist for Success for Your City**

|  | Yes | No |
|--|-----|----|
| Strong downtown shopping district  |     |    |
| Two or more grocery stores   |     |    |
| Large department store selling general merchandise                                     |     |    |
| Forty or more miles from a superstore that combines general merchandise with groceries |     |    |
| Two or more new/used car dealers   |     |    |
| Variety of restaurants and taverns   |     |    |
| Building materials and supplies business   |     |    |
| Drug store   |     |    |
| Hospital   |     |    |
| Strong medical services community  |     |    |
| Strong local newspaper   |     |    |
| Local radio station  |     |    |
| County seat status   |     |    |
| Job center status (at least one job for every two people)                              |     |    |
| Strong attractions such as college sports events, festivals and natural wonders        |     |    |
| Above average family incomes and net worth   |     |    |
| Trade area population is growing at an average or faster rate                          |     |    |
| Household incomes are growing at an average or faster rate                             |     |    |
| Daily traffic volume $\geq$ 4,000 cars and trucks on a nearby major highway            |     |    |
| Other  |     |    |
| Source: David L. Darling, K-State Research and Extension                               |     |    |

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