



Retail in Rural Regions

Exploring ways to support rural shops



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1. INTRODUCTION

Retail shops are one of the basic services in sparsely populated areas. However their existence is not inevitable. The problem is that small rural shops need a minimum number of customers to survive, and small villages with few inhabitants need a shop for the village to survive. Therefore the phrase “when the shop closed the last inhabitants moved away” is familiar in rural areas.

It was against this background that several countries in Europe's northern periphery decided to establish a scheme to support these shops. The aim was to assemble knowledge about the needs of local shop managers and to establish a training and consulting scheme based on this knowledge. An additional goal was to exchange best practices and share experiences among both retailers and local governments. The project received the name Retail in Rural Regions (RRR).

The partners in the project came from Iceland, the Faroe Islands, Finland, Ireland, Northern Ireland and Scotland. Three associate participants came from Norway, Sweden and Greenland. The project was funded by the Northern Periphery Programme (NPP), and co-funding came from NORA for participation by Iceland, the Faroe Islands, and Norway. The project lasted three years (2009–2011).

During the RRR project period a study of rural retail in Iceland was also completed (Karlsson et al. 2011). The objective of this additional research was to examine the needs and behaviour of consumers as well as consumer opinions on the state of rural retail. An additional objective was to identify the most effective support measures provided by local authorities.

This report discusses the execution and results of the RRR project in general and in addition focuses specifically on findings in rural retailing in Iceland.

1.1 Literature review

The generic problems of small rural shops, as well as the significant contribution they will make to the future development of local and regional economies, have been illuminated over the past 30 years by scholars specializing in retail (e.g. Jones and Oliphant 1976; Kirby 1982; Kean et al. 1998; Jussila et al. 1992; Byrom et al. 2003; Paddison and Calderwood 2007), by industry organisations (e.g. The Grocer 1996) and by policy-related organisations (e.g. DEFRA 2004; NIIRTA 2008). Downturns in consumer spending, increased competition, further development of out-of-town retail spaces, and population decline have intensified even further the challenges currently faced by rural shops across Europe. While perceptions of rural retailing have a propensity to revolve around images of decline and marginalisation, more recent research has revealed the multifaceted and dynamic characteristics of the rural retail sector and pointed to compelling examples of success (Paddison and Calderwood 2007). One finding has been that the success of rural businesses is inextricably linked to how owner-managers optimise the competitive advantages that exist, while simultaneously taking actions to overcome local environmental constraints (North and Smallbone 1996). Taking this into account, the focus of retail research has likewise focused on the business strategies of rural shops in specific regions of Europe (Jussila et al. 1992; Byrom et al. 2003; Paddison and Calderwood 2007).

Academics, practitioners and policy organisations concur that rural shops serve an important community function, both economically and socially, by providing a vital service to a particular group of consumers (Broadbridge and Calderwood 2003). As Paddison and Calderwood (2007: 140) explained, “an area’s economic prosperity and state of rural retailing are interdependent and intertwined”. Socially, rural shops serve as a community hub (Kirby 1982), providing channels for local events (Sullivan and Savitt 1997) and information dissemination. Despite rural shops' close ties to both the life and identity of their communities, the literature documents the historical decline of this sector in rural regions of Europe, a decline which continues today (Kirby, 1981; Jussila et al. 1992; Byrom et al. 2003; Paddison and Calderwood 2007). The rural business literature has highlighted how rural retail shops face distinctive challenges in the marketplace.

The early work of Jussila et al. (1992), based on interviews with rural retailers in Finland, identified three strategic directions available to these firms: adaptation (i.e. operating as effectively as possible within prevailing market conditions), diversification (i.e. expanding product ranges and/or service offerings to maintain and increase market share), and expansion (i.e. increasing the number of customers via tourist activities in the locality).

The literature referred to above is included in a paper which the author together with partners in the RRR project from Ulster University in Northern Ireland and Kemi-Tornio University of Applied Sciences in Finland published and presented in the EIRASS (European Institute of Retailing and Service Studies) Conference in Istanbul, Turkey in August 2010 (Hutchinson K et al. 2010).

2. OBJECTIVES

The overall objective of the RRR project was to improve the quality of services in small communities by supporting the survival, development and growth of rural retail shops, and thereby also to promote economic growth in these rural regions. A further objective was to provide tailor-made support for rural shops that would continue beyond the life of the project”

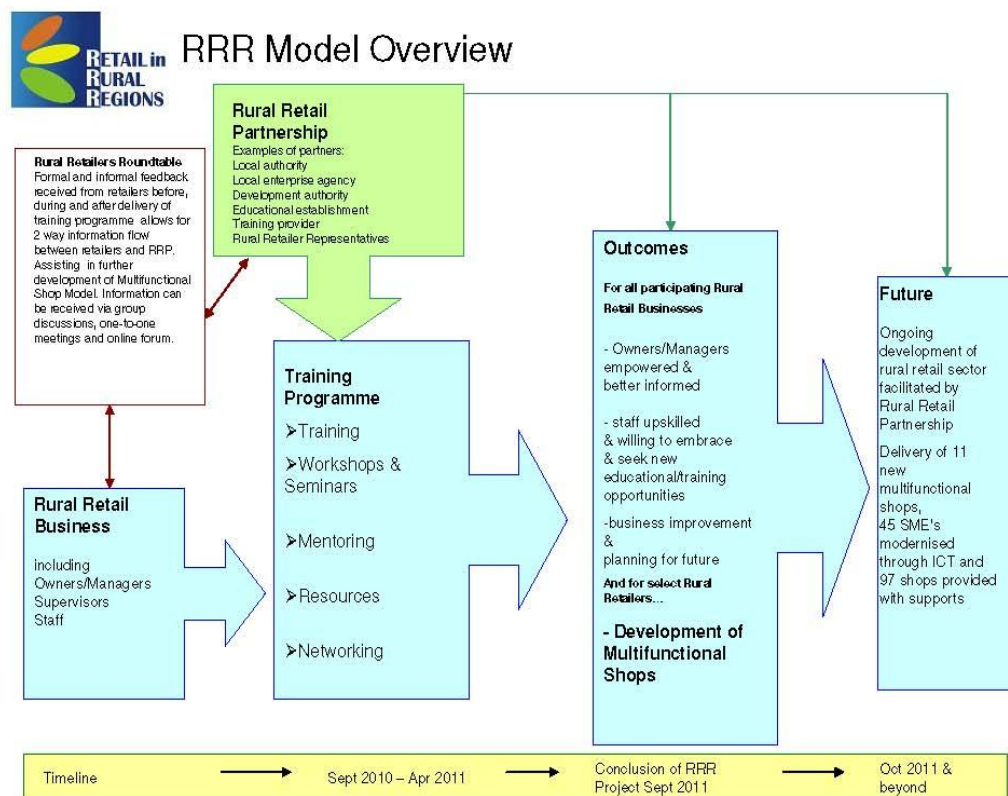
The RRR project aimed to help overcome key difficulties related to

Retailers' roles and competence levels

- Commitment from the communities
- Institutional frameworks
- Distribution

The following diagram outlines the initial model of the project's activities:

Image 1: RRR Model



An aim of the RRR project was to increase the number of multifunctional shops in the regions involved. A multifunctional shop is one that provides a wide range of services in addition to groceries. The store has the ability to survive even in regions where the population is diminishing. The services provided may be both public and commercial. The multifunctionality of such rural stores means that owners must be able to handle a variety of tasks. Four factors are especially important to the success of a multifunctional store and can lead to bottlenecks in business development, which the RRR project attempted to relieve:

1. Retailers' roles and competence levels.
2. Commitment from the communities.
3. Institutional frameworks.
4. Distribution.

Measurable indicators of the project's activity are that multifunctional activities were implemented in 11 shops during the three-year project period and additionally 86 shops were provided with some level of support.

3. DEFINITIONS

The term rural has been defined in a multitude of ways, but Paddison and Calderwood (2007) identify particular variables that are appropriate for the retail context. Criteria may include population density (measured as the number of inhabitants per unit of area), settlement size (measured as the number of dwellings), and accessibility (measured as the level of remoteness and peripherality in relation to larger towns). A definition of the term “rural” may differ according to the type of retail operation in question; for example, non-food retailers require a larger catchment area than grocery stores (Paddison and Calderwood 2007). On the whole, rurality is characterized by its distance from urban life (Malecki 2003).

A common definition of rural retailing was sought for the purposes of this project. One of the main reasons for agreeing on a common definition of rural retailing was to provide project partners with a clear understanding of the shops to target and include in the project's activities. A standard definition of rural shops helped guide the consultants, trainers and service providers that assisted in the execution of the project.

Each participating country has unique aspects in terms of its geography, infrastructure, social conditions, population, climate and so forth. It is important to take all these factors into consideration in any definition of rural retailing.

3.1 Population concentration

In some of the participating countries the definition of a small town is one with a population of 3000 to 4000 people. It was therefore decided to define a rural area as one where the largest population centres have less than 3000 people. In turn, the project's working definition of a rural shop is one which covers an area with a population of up to approximately 3000 persons.

3.2 Retailer commitment

A prerequisite for rural retail shops' participation in receiving services from the project was that the shop owner(s) express to improve offerings by establishing a multifunctional shop or strengthening pre-existing multifunctionality. The owner had to provide the details on the business that were necessary to allow for the identification of training needs. The owner had to be willing to invest time in attending training programmes.

3.3 Ownership

Participating shops could be part of a chain or owned by an individual. The project proposal recommended that different types of ownership be represented: independents, co-operatives, franchises, etc. This was to encourage the comparison of experiences and transfer of know-how across ownership types.

3.4 Type of stores

All types of retailers were acceptable. The project defined “retailer” as a business whose main function is purchasing and selling goods to consumers or end users. The retailer may also provide other services such as a coffee shop, lottery services, internet services, fuel sales, DVD/video rental, etc. Although all retail sectors were included, there was a special focus on grocery stores.

The definition of shops valid for the RRR project is to be considered when choosing retail shops that are likely to need assistance because of their location in a sparsely populated area. Therefore the definition is based on the following two factors:

- ✓ Definition of “rural area”
- ✓ Definition of a “retail shop”

3.5 Definition of “rural area”

When defining a rural area many external factors have to be considered, such as geographical location, service accessibility, and so forth. According to Wikipedia, **rural** areas (referred to as “the countryside”) are large, isolated tracts of land with open fields and often with low population density.

It is difficult to define a rural area only in terms of political divisions (by counting certain municipalities, communes, counties, etc. as rural) because a single political division can encompass both urban and rural areas. Urban areas are generally described as areas with detailed town planning and a tight network of streets and housing, while rural areas are more sparsely populated and dominated by rural industries (Glesbygdverket 2008).

The industrial structure of the region is not important to the definition of “rural area”. The most common industries in the areas selected are agriculture, fisheries, and tourism, but for the purposes of the project it does not matter whether the area's economic base is dominated by a particular industry or sector.

3.6 Definition of “retail shop”

An important factor here is to measure the level of access that inhabitants in rural areas have to facilities like malls and supermarkets or grocery stores with a wide range of goods on sale. However, the distance from the rural area to the closest town is not a sufficient criterion. The reason for this is that the availability of transport varies from one area to the next. Some regions have fast highway connections to the nearest town or city whilst in others only slower transport is available. The latter is often the case for those living on small islands or in regions isolated because of snow and weather conditions, and for those who do not have access to their own vehicle.

3.7 Final RRR definition

Based on the intersection of these two definitions (“rural area” and “retail shop”), the *final* definition of rural retailing for the purposes of this project was:

A shop in a rural area with a population of less than 3000 inhabitants

- **A minimum of 30 minutes travelling time to the nearest town or city offering a wide variety of services.**

The project's intent was to enable participating retailers to provide a wide range of products/services in addition to grocery provision (for example gas, lottery, gifts, local products, etc.) through the setting up of a multifunctional shop. Such multifunctional shops will in turn help to serve the needs of rural communities and help to improve the quality of services available within those communities.

3.8 Definition of a multifunctional shop

After the initial project phase, which mapped the needs of rural retailers and analysed experiences from the Norwegian Merkur Programme, the project partners agreed to focus on encouraging rural shopkeepers to develop multifunctional shops. A multifunctional shop is one that provides a wide range of services in addition to groceries. Such shops have the ability to survive even in regions where the population is diminishing. The services provided can be both public and commercial.

4. PROJECT EXECUTION

The duration of the RRR project was three years (2009–2011).

The partners were:

- Finland: Kemi-Tornio University of Applied Sciences (a public institute of higher education owned by municipalities in western Lapland). Lead partner in the project.
- Iceland: Icelandic Centre for Retail Studies, Bifrost University.
- Ireland: Donegal County Council, Community, Culture & Enterprise Division (a local government authority).
- Faroe Islands: Research Center for Social Development (a research centre formally attached to the University of the Faroe Islands).
- Scotland: Community Retailing Network (a private company limited by guarantee).
- Northern Ireland: University of Ulster.
- Associated partners:
- Norway: Merkur Programme (a national rural retail support organisation).
- Sweden: Landsbygdsservice (a national rural business support organisation).
- Greenland: University of Greenland.

Great emphasis was placed on close contacts with rural retailer and regional business support organisations throughout all work packages. The charting of the rural retailers' situation and their needs in work package 2 was carried out by interviewing retailers using a standard questionnaire which was developed by the partners. After the interviews a summary of the results from the questionnaire was reviewed by the retailers to check if the interpretation was correct. In Iceland this review took place by means of three different focus group meetings in three different regions in Iceland.

After analysing the needs of the rural retailers a pilot support programme was developed. These support services were tested and implemented by every partner. Although partners used different approaches for implementing the programme, the main focus was on consultation and training of

the rural retailers. The Icelandic partner developed a one-year pilot project in which 35 rural retailers and eight regional business consultants participated.

The transnational knowledge exchange was extensive. This partly took place during monthly on-line internet meetings and during face-to-face meetings (combined with visits to rural shops and support organisations); partly it took place through the transfer of experiences from the Merkur Programme in Norway, which is a successful rural retailers' support programme covering all Norway.

4.1 Work Packages

The project was divided into four work packages (WPs):

- 1 Management, coordination and communication
- 2 Creating the foundation for the Triple R Model
- 3 Building/creating the Triple R Model
- 4 Implementation of the Triple RRR model

WP1. Management, coordination and communication

This WP was led by Kemi-Tornio University of Applied Sciences, the Finnish lead partner in the project.

The purpose of this work package was to ensure the smooth execution of the project and achievement of the project objectives and results, with the resources given and within the stated time frame. An additional purpose was to ensure effective internal and external communication and project quality.

Seven face-to-face meetings were held, combined with visits to local shops and meetings with regional stakeholders. Beside these meetings the partners held meetings via the Internet, using iLinc.

WP2. Creating the foundation for the Triple R Model

This WP was led by the Icelandic partner, the Icelandic Centre for Retail Studies.

The purpose of this WP was to analyse the process of change through which rural retail businesses develop from traditional retail stores to multifunctional stores. This WP mapped the present situation in retailing in the northern periphery's rural areas, focusing especially on the effect of support activities and regional development programmes. Planning the best approach for the development of multi-use retail requires communicating with retailers and support organisations about the needs of both shops and communities.

Every partner organised a "round table" group of experts and stakeholders from their region. The group acted as a consulting group during the project. These groups played a different role in each area. Every partner analysed the current situation in retailing in the area in order to identify the main weaknesses which needed to be addressed.

Each partner interviewed a number of retailers in order to map the situation of rural shops in the area and identify retailers' needs and requirements.

The questions focused on key element of business strategy in the following key areas:

- Financial performance of the business (turnover, net/gross profit)
- Background conditions in the region, public support and funding
- Unique selling points of the products/services offered by the business
- Ability to ascertain customer needs
- Future direction of the business (i.e. willingness to diversify and/or differentiate)
- ICT and E-trade uptake
- Access to business support (e.g. buying groups, local authority, etc.)
- SWOT / TWOS exercise to pinpoint opportunities and barriers to growth

The main outcome of WP2 was to chart the-state-of-the-art in retailing and the steps that would be needed to developing shops into new types of multifunctioning stores. A detailed report (the WP2 Progress Report) was created, describing the needs and resources of the retailers and their preparedness for reinventing their businesses as multi-use stores. The report also described the retailers' aims and ideas for the new product and service offerings that they envision their shops will have in the future. The report also took regional retail developments into account. As well, it described the solutions that have been implemented to meet the requirements and measure the effect of these initiatives. The report served as a source of information to target groups in internal/external communication. The report also presented a definition of rural retailing. The overall aim of the report was to lay the groundwork for future activities.

WP3. Building/Creating the Triple R Model

This WP was led by the Irish partner Donegal County Council (specifically, the Community, Culture & Enterprise Division of the Donegal Public Services Centre).

This work package built on the findings of WP2. The goal was to build a foundation for a new model of rural retailing that can be applied across national boundaries. To do this, the partners cooperated with retailers, consultants and business support organisations. The training model involved strategies that retailers could use in developing their businesses into multifunctional shops.

The outcome of this was a “Triple R Model” consisting of approaches that retail businesses can use to implement a multi-use retail strategy in their shops. The model operates through consultants cooperating with the local and transnational stakeholder groups.

WP4. Implementation of the RRR model and Supporting Multifunctional Store Establishment

This WP was led by the Faroese partner, the Research Centre for Social Development.

The purpose of the WP was the following:

- Implementing the RRR model and associated service provision in all regions
- Assuring the continuity of the RRR services
- Creation of retail shop models for the participating retailers
- Implementation of the best retail strategy models

The outcome of WP4 can be seen in improvements at several retail shops in the participating regions. This was achieved through applying the RRR model in close cooperation with retailers, consultants and regional/local business support organisations. The Norwegian “Merkur” model was used to support retail shop managers.

This was achieved by delivering training services to the retailers. These included workshops, the provision of mentor networks for individual retailers or groups of retailers to assist in developing their specific business areas, and also one-on-one training tailored to an individual retailer's needs. Training was delivered by professional trainers directly to entrepreneurs/employers or to employees. Delivery took place both with the help of e-learning tools, like Moodle, and more traditional course materials presented in classroom settings. In order to achieve the expected outcome of WP4 the project sometimes had to help retailers seek training to improve their computer skills.

Overall Results

The sustainable results of the RRR project include the local, regional and international networks of retailers and organizations formed during the project and the multifunctional shops adapted to the conditions in each region. Training consultants in each region contributed to the project's sustainability.

In total 125 shops were involved in the project in all the participating countries. All were provided with some support and consultation. The total number of new services or products created was 70, in 30 shops. Some shops developed more than one new function. These new products and services ranged from the development of a multifunctional shop to improvements in merchandising or visibility, and the use of new marketing tools.

Image 2: The social importance of rural shops. *Photo from the shop Albina in Patreksfjörður, Iceland*



5. RURAL RETAILING IN ICELAND AND FAROE ISLANDS

As mentioned before, the conditions in each participating country are different. The countries' economies and social systems differ from one another. As well, the regional business support system is organised differently in each participating country. Therefore, each partner developed its service offerings according to the specific needs in the region or country. Here is a description of the conditions and the project results in Iceland and the Faroe Islands:

5.1 Present situation

The economies of the two countries are highly export-driven. Marine products account for the majority of exported goods. However the service industries have been growing rapidly, and in Iceland they accounted for nearly 70% of GNP in 2007. Until the radical economic downturn in late 2008 the economy had been growing rapidly. The main industry in the rural areas all around the coast of Iceland and the Faroes is fishing, and there is an increasing number of aluminium plants in some parts of Iceland. In both Iceland and the Faroes, inhabitants are few and distances long. Most of the population lives in the capital area. Around 63% of Iceland's population lives in the capital area (Icelandic Statistics). Many small fishing villages are relatively distant from the nearest town that has a comprehensive selection of services and shops. In the Faroe Islands, many small communities are

on small islands and transportation to and from larger towns is by boat. Transport can represent a relatively large part of the cost of consumer goods for those living in these villages and islands.

In Iceland, food prices are on average over 40% higher than in the European Union (calculated on EU15 data from before enlargement; Einarsson 2008) and the situation is thought to be similar in the Faroe Islands. Prices in small privately owned rural shops in Iceland are 30-60% higher than in larger discount stores (Karlsson et. al. 2011). This drives rural inhabitants to search regularly for cheaper goods in Reykjavík or other towns with discount stores.

As a result of the growth in the economy during the last decades the Icelandic retail sector has grown significantly. Retail growth was approximately 70% from 1990-2002, while over the same period the increase in Norway was 20% (Einarsson 2008). This trend has, however, changed radically since the economic crisis began in 2008.

The structure of retail shop ownership is similar to that in the other Nordic countries and so is the degree of ownership concentration. Around 81% of Icelandic retail market share is in the hands of three chains; by comparison, in Denmark and Sweden the three largest retail chains command over 91% of the retail market share (Einarsson 2008). In the rural areas of Iceland ownership of grocery stores is dominated by Samkaup, the country's third-biggest retail chain, which has its roots in the cooperative movement. Iceland's largest retail chain, Hagar (formerly Baugur), owns discount stores in most of the larger towns around Iceland. Besides this a great number of privately owned local shops exist in rural areas.

5.2 Mapping the situation in Iceland and the Faroe Islands

The following sections highlight the main interview results from Iceland and the Faroe Islands. The main areas of enquiry included: background availability of public support and funding; consumers' needs; future direction of the business; ICT, Internet and e-trade usage; nature of training; sources of assistance and supplier information; strengths, weaknesses, opportunities and threats.

5.2.1 Interviews with rural retailers

From June through September 2009, 15 interviews with Icelandic rural retailers were conducted with the aim of identifying their experiences and challenges. The findings can be summarised as follows: Problems:

- High prices
- High transport costs
- Low profit
- Low level of business education of owner-managers (though they are hard-working)

A typical rural retailer purchases goods in quantities too small to allow for a volume discount. Making matters worse, the rural retailer has to pay proportionally higher transport costs per unit than larger retail chains. The local inhabitants react by declining to patronize the local shop and instead shopping in the nearest town large enough to have a discount store. This creates a vicious circle of low profits and a struggle for survival by the retailer.

However, several examples turned up of shop owners who have found a way of escaping this hopeless situation. Their approach can be summarised as follows:

Solutions to the problems:

- Multifunctional alternatives
- Support from local authorities
- Tourist services
- Improved road communications and infrastructure
- Training and external support

The multifunctional approach includes offering a wider selection of products and services, which attracts both local customers and tourists passing by. Improved infrastructure and a good road system is an issue of importance for rural retailers. This can be a key factor in promoting increased tourism. In certain areas, retail turnover doubles during the tourist season.

In the Faroe Islands six interviews were carried out. The main conclusions were more or less the same as in Iceland.

The following were identified as key strengths, weaknesses, opportunities and threats for retailers in Iceland:

<p>Strengths</p> <p>The shopkeepers are hard-working and engaged people, ready to sacrifice much of their time to the mission of running the local shop</p> <p>They are open-minded and are willing to strengthen their businesses by providing new and comprehensive services</p> <p>They have strong relations with the local inhabitants and are well aware of local needs</p> <p>Most rural shops have sufficient ICT facilities for ordering goods and communicating with suppliers</p> <p>Tourism makes up a considerable percentage of turnover for rural retailers</p>	<p>Weaknesses</p> <p>No profit from the business, except for those who can provide extensive services (transport services, food processing, insurance agency, etc.) Most shops thus have a limited ability to develop new ventures which require investment in new property, equipment or facilities</p> <p>High prices. Some of the rural retailers purchase individually from several suppliers and cannot get the same quantity discounts from suppliers that the big chains can get. Quite often local residents complain about the high prices.</p> <p>Goods transport is both costly and time-consuming. Most supplies are transported by truck from Reykjavík. In some places the truck arrives once or twice a week.</p> <p>Lack of education in business management. This is a sensitive issue to tackle and has to be dealt with by offering specific training targeted to specific needs.</p>
<p>Opportunities</p> <p>Increased tourism. The flow of foreign tourists has increased considerably during the last decade. This is also the case for domestic tourism after the economic recession. Icelanders have chosen to travel domestically since the Icelandic króna was devalued and foreign currency has become much more expensive.</p>	<p>Threats</p> <p>Reduction in population. In recent years the population has decreased in almost all rural areas of Iceland. However, after the economic downturn started, this has changed. It has become less easy to get a better job in a larger town.</p> <p>Low-price superstores. The biggest low-price chain,</p>

<p>Improved road communications and infrastructure. This is actually both an opportunity and a threat. One the one hand this makes it easier for people to live in rural regions and on the other hand it makes it easier for them to go shopping in neighbouring towns.</p> <p>Infrastructure improvements lower transportation costs and open up new opportunities due to the possibility of more frequent shipments.</p> <p>Quite a few retailers have made an agreement with one big retail chain (the former Icelandic cooperative organisation) to purchase almost all goods through their warehouse. They are then delivered to the retailers.</p> <p>The business support provided by local governments can differ a lot from one place to another. Usually rural retailers do not get any governmental support, but in other places the retailers take care of purchasing goods for pre-schools, old age homes, and the like, which can be seen as a kind of support. This kind of support can have a considerable influence on a business and can be an opportunity to strengthen a business.</p>	<p>Bónus, has opened in all the biggest villages and towns in Iceland. Therefore “going on a Bónus run” has become a common phrase in smaller villages. This threat is mentioned by most retailers.</p>
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Image 3: Some of the participating rural shops in Iceland



The following items were identified as key strengths, weaknesses, opportunities and threats for the Faroese retailers:

<p>Strengths</p> <p>Tourism is a considerable part of the turnover for rural retailers Infrastructure improvements (also a threat in very remote areas) Shopkeepers know their customers A high level of customer service, “going that extra mile”</p>	<p>Weaknesses</p> <p>High prices, which leads to dissatisfaction among residents Long lead time for stock Limited product range / service offerings Limited financial resources Inhabitants are shopping in other areas</p>
<p>Opportunities</p> <p>Growth via expansion and diversification Targeting a wider range of consumers, e.g. tourists Improved road communications and infrastructure</p>	<p>Threats</p> <p>Reduction in population Low-price superstores Internet (online prices hard to match) Dissatisfied customers</p>
<p>External Opportunities</p> <p>Easy to get what the customer wants and easy to know the customer's needs Possible to have tourists as customers Expand the choice of services and goods, so the customer will have more reason to come into the shop</p>	<p>External Threats</p> <p>Dissatisfied customers. People are buying goods in larger supermarkets, which have cheaper prices and a larger range of goods Customers lack confidence that a product they want will be in stock</p>

Internal Strengths	Strengths / Opportunities	Strengths / Threats
<p>Good knowledge of the customer</p> <p>Loyal customers</p> <p>Customers know each other</p> <p>Attractive natural surroundings (tourists)</p> <p>Good opportunities to expand buildings and products</p> <p>Easy ordering</p>	<p>Better communication with the customer can win their confidence</p> <p>Allow a customer to be heard</p> <p>Advertise the area along with the store</p> <p>Allow the customers to influence purchasing decisions</p> <p>Modernize the shop, and the range of goods and services</p>	<p>Using close contact with the customer as an opportunity to create a shop where the customer gets a feeling of ownership, and therefore is likely to patronize the shop.</p>
Internal Weaknesses	Weaknesses / Opportunities	Weaknesses / Threats
<p>People are shopping in the area where they work</p> <p>The range of goods is too small</p> <p>The customer base is small, especially in winter</p> <p>It takes too long to get goods, especially bakery products</p> <p>It is hard to sell fresh fruit and vegetables, and the date marking is a problem</p>	<p>The more services the retailer can offer, the more reason customers have to come into the store. This can minimize the need for shopping elsewhere</p> <p>Ensure that bakery products arrive early in the morning</p> <p>Solve the problem of fruit, vegetables and outgoing goods</p>	<p>High prices and small variety of goods</p>

Quotations from the interviews with Icelandic rural retailer

Prices and market share:

- *The customers understand why I have to have higher prices than the large discount stores. The government could help lower prices, for instance by waiving VAT on our very high transport costs.*
- *I don't know my market share and I don't care so much. I only try to keep the customers I have happy by creating a friendly atmosphere. Then more come, one by one. The number of tourists doubled last summer.*
- *I do not consider the large discount stores as a competitor. Quite often people buy far too much food when they go there, and when it goes bad then they need to throw some of it away.*

- *When I select a new supplier, I always try to get them to agree to cover transport costs. If they refuse, then I try to find another supplier. By getting them to pay for transport, I usually get a lower total price.*

The right concept:

- *Since I found the right concept for the shop, profit has been rising every year. Now I think it has reached a limit for the expansion. The bakery corner in the shop is very much appreciated by the locals, and tourists find it amazing that they can get fresh bread and cakes in a small village shop.*
- *There are many good ideas that could be utilised. For instance, increased services for tourists. However, this would require a totally new approach, so in the near future there will probably not be that many changes at the shop.*
- *Before Christmas, I always order fewer products than usual because my customers all go shopping in Reykjavík or some other place where they can find a larger assortment of products.*
- *When local people meet each other here in the shop they often start to discuss politics or other important issues. These discussions can be quite lively and go on for a long time. It is also the custom that when people who have moved away come back to visit, they stop by in the shop to say hello, hoping to meet some old neighbours. Unfortunately, it's not possible for me to offer them coffee.*
- *I have the most important personal characteristic needed for this job: I am carefree, unstressed and do not take life too seriously. If I can just take a break every now and then and travel to exotic places then the business is OK for me. That's all I require.*

5.2.2 Consumer behaviour

Three separate focus groups, comprised of local consumers, were formed in three different rural regions in Iceland in August 2010. The aim was to chart the local inhabitants' shopping behaviour and identify the kinds of retail services they need and require. The areas chosen were the same as those that the shop owners participating in the RRR pilot project came from. This measure was a part of the study of rural retailing in Iceland that formed part of Work Package 2 (Karlsson et al. 2011).

The selection of participants in the focus groups was carried out in cooperation with the regional business support organisations in each region. The criterion was that each group would consist equally of men and women, representing all ages from 18 years on up and representing different family types. Around 12 persons participated in each focus group meeting. Those who had to drive to the meeting were reimbursed on a per-kilometer basis. The meetings were held in Patreksfjörður (for the Westfjords), Blönduós (for the northwest region) and Húsavík (for the northeast region).

Image 5: Regions in Iceland where the focus group meetings were held



The participants in the focus group meetings were asked to describe their shopping behaviour and which factors influenced this behaviour. Participants were also given a chance to express their opinion of the local shop's performance and its social relevance for the local community.

A majority of the participants purchased most of their fresh food in the local grocery store, but whenever they needed to go to Reykjavík or visit the closest larger town with a discount store, they used the opportunity to shop for food, for example for items with a longer shelf life. It was also quite common to plan special shopping trips to the nearest discount store; people often go together in one car. These trips are referred to with a special name (“Bónus trips”) as the largest discount chain in Iceland is called Bónus. It was also common to ask friends and relatives to buy food in larger discount stores when passing through communities where such stores are located. The frequency of shopping trips to larger towns varied considerably from one region to another and depended largely on the distance involved, especially given large recent hikes in the price of petrol. Some general conclusions from the focus groups:

- The main reason for purchasing goods in stores outside the local community is that local prices are high. Participants estimate food prices to be 30–60% higher in local communities than in the large discount chain stores.
- The frequency of shopping trips specifically for buying food and other everyday goods ranged from 3 to 24 trips pr. year, depending on the distance to the nearest town. There was a clear correlation between the frequency of shopping trips and the distance to nearest town.
- The amount spent during each shopping trip outside the local community averages 50.000 ISK (around 330 EUR).
- When families consider whether to leave their community for everyday shopping needs, the critical distance is 100 km. If the distance to a discount store is longer than this, people do not plan such trips.

Although residents are not satisfied with the high local prices, the general attitude towards the local shops is positive. The participants generally understand why the prices are high and do not see high mark-ups by the local shopkeeper as the reason. The opinion of the local shop was usually quite favourable, no matter whether it was a part of a larger chain or privately owned by a person or a family in the village. Here are some general conclusions concerning the social impact of local shops:

- Local shops have an important impact on social life. The shop is considered to be a comfortable meeting place with a friendly atmosphere.
- The personal attitude of the local shopkeeper is more important than whether the shop is locally owned or part of a chain.
- People are willing to pay higher prices for food at the local shop in order to keep the shop in the village.

5.2.3 Requirements from local businesses

An important customer to rural shops are other local businesses who purchases from the local shop. Examples of such businesses in Iceland are fishing boat companies that purchases food for the fishing trawler's crew and other supplies for the fishing fleet. Also local hotels, restaurants, old peoples home, elementary schools and kindergartens are important customers for the local shops.

Interviews were made to two companies for identify their requirements in interactions with the local retailers. One was a fishery company in Westfjords and the other was a local hotel in northeast of Iceland. Here are the common requirements from both parties:

- Reliability of the services and quality of the goods. Both interviewed parties were ready to pay extra costs if these main requirements were fulfilled. Punctuality in delivering goods was also a crucial factor for the businesses.
- Fast and secure communications with the retailer.
- Mutual trust and respect.
- Service minded, flexible and fast services.

5.2.4 Support from local government

Four interviews were carried out with local government representatives in different areas of northern and southern Iceland. The objective was to identify effective ways of local support for rural retailers.

The interviews identified two common issues related to rural retail growth. One is the ability of local governments to support the growth of local shops, and the other is the capacity of rural retailers to create an environment in the shop that serves a social function for residents. Support from local governments can be implemented in several different ways:

- One important measure that came up in the interviews is that local governments can support rural shops by purchasing groceries and other necessary goods for local institutions like pre-schools, schools and old people's homes. This increases retailers' turnover and may enable a retailer to buy larger quantities and therefore to lower prices.

- Support measures provided by regional governments for local industries are mainly available to companies that are not in competition with similar businesses (for instance unique manufacturing industries). This prevents many retailers from searching for business consultancy services. This non-competition requirement should be reconsidered to enable rural retailers to search for the same kind of assistance as other local businesses.
- Local governments could support rural retailers by collaborating on goods transportation. For instance, purchases for the shop could be picked up together with municipal purchases (such as building material, road construction material, machines, etc.)
- Infrastructure does play an important role in the survival of rural shops. An improved road system and increased ease of travel makes it easier for the local inhabitants to go and shop in a discount store in the closest town. On the other hand, improved roads also make it easier for tourists and other visitors to come to the rural shop. This might be people living in surrounding areas or tourists, who would not have come if local roads had been in poorer shape.
- Some rural shops survive because of tourism. Therefore it is important for regional development agencies to try to increase tourism, as it can strengthen retail businesses as well as other service providers.
- Rural shops in fishing villages along the coast of Iceland can play an important role by providing the fishing fleet with groceries and other supplies. Some fishing boats purchase fishing nets, fishing gear and equipment needed for maintenance. Also, some shops offer additional services, such as laundry.

5.3 Project implementation in Iceland

The implementation of the project differed from one country to another. Here is a description of the Icelandic case:

This was a pilot project which lasted throughout the year 2011, with participation from 35 rural retailers. The preparation was in the hands of the Icelandic RRR project leader together with four regional business support institutions and the National Regional Development Institution (Byggðastofnun). It was organised in accordance with the needs of rural retailers as identified in WP2, and the experiences of other partners, especially from the Merkur Programme in Norway.

The project consisted of three seminar weekends on the campus of Bifröst University, where all the participants, along with eight regional business consultants, came to stay. In between the seminar weekends the participants were given practical assignments to complete in their shops. The business consultants assisted the retailers in completing these assignments and guided individual retailers in analysing their store's main weaknesses and creating a strategy to address them.

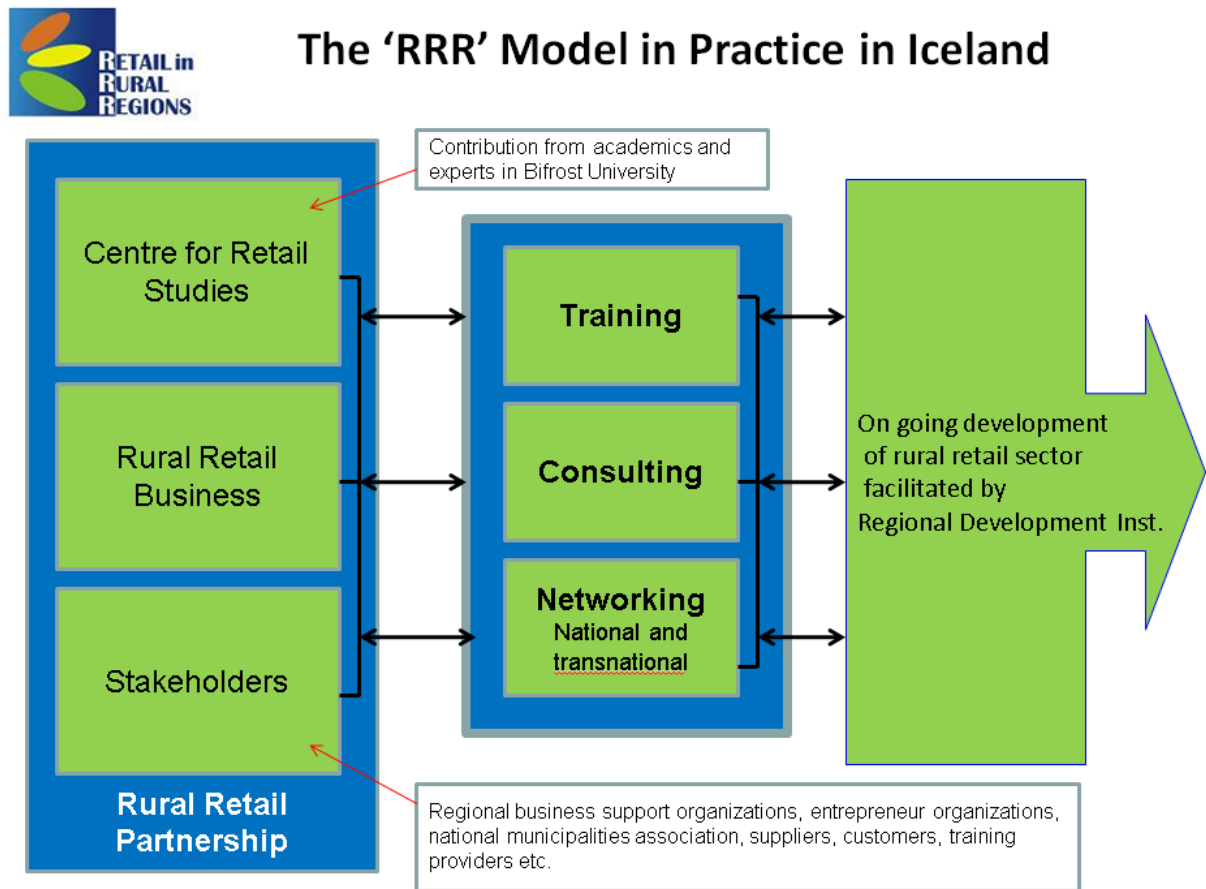
The seminar weekends consisted of lectures and discussion forums where the participants could exchange experiences and discuss relevant issues with experts. The instructors were mostly university instructors with experience in teaching entrepreneurs and SME managers. The subjects were retail management, marketing in local areas, retail accounting, IT and planning, staff management, and purchasing and negotiation technology. Some sessions were also devoted to allowing the participants to exchange ideas and experiences.

In connection with the seminars, the Icelandic partner published educational materials in Icelandic on the subjects dealt with in the seminars, as mentioned above. This material was customised for rural retailers and based on materials used by the Merkur programme in Norway. This material was also used by the regional business consultants who provided hands-on consultation to the retailers.

During the weekend seminars, the regional business consultants, who came from four different regional development agencies, met amongst themselves to exchange experiences and discuss how to approach various consulting situations.

Two representatives from the Icelandic Regional Development Institution participated in most events and partner meetings. During all phases of the project the Icelandic project manager kept these representatives updated and consulted with them. This was considered very important as the role of the Institution is to coordinate regional business support throughout Iceland. The Icelandic Regional Development Institution will continue running the support programme for rural retailers after the project ends, following the model developed during the pilot project.

Image 6: The Icelandic RRR Model



5.4 Project implementation in Faroe Islands

The Faroese approach was similar to the Icelandic approach but on a smaller scale. Seven rural shops participated in the consultation programme, which was carried out by the Research Center for Social Development. The education and training element was in the hands of the Business School in Kambsdalur.

The same study material was used in the Faroe Islands as in Iceland, and close links between the Faroese and Icelandic partners were established.

5.4.1 Results in Faroe Islands

The main conclusions from the Faroese participants were:

1. Impact of the project on daily retail activities: The Faroese partner is currently working on a forum that allows rural retailers to exchange views with each other's , and organize common activities. One employee in the Center will be paid for organizing and coordinating these activities.

2. Success factors: This includes the establishment of the association “Sustainable shops in rural regions”. The association was established as a consequence of the RRR project, and the initiative came from the shop owners who participated in the RRR.

3. There has been great interest from the community in the RRR project. The Faroese press (newspapers, radio, and television) was active in publicizing the project.

4. The project has clearly influenced policy decisions and initiatives at the national level. The Faroese National Tourist Board (Ferðaráðgið) is prepared to incorporate retailers in rural regions as an active tourism product, and the RRR has been invited to put a “flash” on the publicly funded tourist information website (www.visitfaroeislands.fo).

5. Further activities can be demonstrated by the initiative “Rural shops and events in the Faroe Islands and Iceland,” which was financed by development fund NATA. As a result of this, an brainstorm seminar was held from 8-10 June 2012 in the Faroes. 28 participants from Iceland and the Faroe Islands worked with ideation and activities for tourism. This work will be continued as a part of the established RRR network.

6. FINDINGS AND RESULTS

The main result of the entire RRR project was the creation of a battery of services which can be provided to rural retailers to strengthen their business skills and the range of retail services available for local inhabitants. The project brought about the creation of several networks. One of these was the transnational network consisting of the project partners, business consultants, and not least of all retailers themselves. Another important network consists of the rural retailers in each participating country, who had the opportunity to get to know each other and exchange experiences. Local shop owners usually do not meet with their colleagues unless they are a part of a bigger retail chain.

6.1 Key findings

Here are some key findings in the project:

- There has been a large uptake of Information and communication Technology (ICT) across the regions, however expertise in areas such as web development and internet selling is limited
- A common strength across regions is the closeness of retailers to their customers, their care and attention.
- Need to expand product ranges and services. Local products and brands are important unique selling points.
- A positive link between tourism and retailing is evident in several regions.
- Different regions have different strengths.

- Limited financial and human resources are a common weakness
- High prices and poor ability to compete on price is a weakness (and part of the typical image of rural shops)
- Transportation and the frequency of supply deliveries is a weakness in several regions (e.g. Finland, Iceland), but not in others (Northern Ireland, Ireland)
- Decreasing population and changing population demographics (such as an aging population) are significant factors in Finland and Iceland
- Key threats: the growth of large discount chains
- Local support and funding for retailers is limited, particularly in terms of assisting business growth and development
- Policy development (local level) to assist rural retailing is required
- Need for retailers to have input in legislative development, training on how to plan and prepare their business for external changes that can have effects on the retail businesses.

6.2 Results of activities

The aim of the project was to support at least 97 shops and to enhance 11 shops to become multifunctional. This goal was achieved, as 125 shops were involved in project activities in total and 30 shops adopted new solutions. The number of new products/ services in these shops was 70.

Here are some examples of new solutions/ services/ products:

- An improved and/or more focused selection of products or services
 - Examples: souvenirs, crafts, local products, tourist information stand, video rental, hardware, etc.
- Establishment of a new outlet
- Improved visibility for the shop (on the web, social media, or other channels)
- eTrade (web shop)
- Joint purchasing
- Selection of new suppliers
- Improved management of the store or its stock, and improved skills in areas such as customer care
- Improved health, safety and food standards

- New furnishings
- New facilities like a launderette, videoconferencing, and meeting rooms

6.3 Sustainability

The project's level of sustainability is different in each participating country. All partners are in one way or another involved in the continuation of the project. In Iceland the Regional Development Institute has taken over the project activities and plays a coordinating role. This is quite natural, as the mission of the institute is to promote and support local businesses, and the institute is the formal coordinator for the regional business support provided by several local business support agencies around Iceland. The educational/training component of the institute's work will still be carried out by Bifröst University and the consulting work is expected to be carried out by local business consultants. The Icelandic service model is shown in Table 1.

RRR service model - Iceland																																																				
	Weeks:																																																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52
Learning material sent to participants																																																				
Individual requirement analyses with consultants																																																				
Weekend seminar																																																				
Individual plan of activities																																																				
Project manager reviews the work of the local business consultats																																																				
Installation of on-line learning system																																																				
Consultation, e-mail contacts and communications through e-learning web																																																				
Visit by project manager and consultant to each retailer to evaluate the progress																																																				
Final product or implementation plan																																																				

7. EVALUATION

During the last session of the Icelandic training seminar on 9 September 2011 a representative from The Icelandic Regional Development Institute surveyed the participants to evaluate the outcome of the pilot project. 21 answers were received. Here is a short summary of the results:

- Between 90% and 100% had a very positive or quite positive opinion of the quality of each instructor/teacher in the training program.
- Between 90% and 100% said that the four weekend seminars had a practical impact on their shops.
- Over 80% thought the project would make their companies more profitable.
- 100% said that the project had improved their personal skills as shopkeepers.
- Evaluations of the local business consultants' work assisting shopkeepers were very diverse. Some were quite satisfied with the advice and support they received while others were more critical.
- All participants but one wanted to participate in a continuing programme that would develop their practical and personal skills.
- The price that participants most commonly said they would be ready to pay for such a programme was between 50.000 and 100.000 ISK (€330–660).
- The single most valuable outcome of the project was networking between the participants. (It is worth mentioning that the participants decided to form an association.)
- When asked what would be the most important type of support rural shops could receive from local governments, many suggestions were mentioned. Examples were reduction in transport costs and government purchases of goods through local shops instead of directly from other suppliers.

Image 7: Icelandic participants in the seminar for rural retailers at Bifröst University in Iceland



8 . CONCLUSIONS

For rural retailers, the ultimate success of their business is in the hands of both suppliers and customers. In the literature on relationship marketing, relationship quality is considered as a resource. Academic work on this subject considers how high-quality relationships with customers enhance the delivery of value to customers and minimize customer defection (e.g. Auh et al. 2008). Research in this area argues that it is through the conversion of resources into capabilities that retailers achieve competitive positioning (Griffith et al. 2006). The dimensions of high-quality relationships may include trust, commitment, stability, and communication. Therefore, through the development of stable, trusting and committed supplier relationships, retailers can effectively coordinate their supply chain to offer products and services to meet customers' needs and preferences (Adjei et al. 2009). Given their remote location, the threat of customers shopping elsewhere is of particular concern to rural retailers. Not only do many residents of small rural communities work in larger towns where they are able to shop at more convenient hours; there is also a perception that town centres provide a cheaper and wider choice of products (Sullivan and Savitt 1997). Several observers propose that rural retailers need to understand their customers in order to maintain and grow the business (Sullivan and Savitt 1997; Broadbridge and Calderwood 2003).

Here are the main challenges and opportunities that the project identified in the rural retailing sector:

Challenges
Higher inventory and transport costs
Limited scale and scope of local market opportunities
Lack of experience, skills and ambition to support entrepreneurial behaviour by owner-managers
Demographic make-up of rural areas, with lower levels of income and educational attainment, and a higher proportion of elderly and disabled residents
Consumer compensation of rural remoteness by mail-order and Internet shopping activity
Consumer trips to larger retail outlets in major towns
Multiple retailer competition
Lower rates of capital provision in rural areas constrain growth
Difficulties linking into appropriate support structures
Underinvestment in rural businesses by lending institutions

Opportunities
Increase services and functionality to increase turnover from impulse and add-on purchases
Identify a business's most useful and distinctive assets, as opposed to simply replicating larger competitors in town and city locations
Focus on providing quality and premium products and service
Capitalise on the distinctive and valued characteristics of rurality (those connected with identity and amenities)
Work in partnership with the local community to provide rural consumers with an optimal merchandise mix and shopping experience
Source local products

Superior customer service to increase customer loyalty and encourage secondary shopping and home delivery
Utilisation of ICT will overcome the disadvantages of rural distance and bridge time and space with respect to markets and suppliers
Communication technology can provide access to global markets for rural firms
Non-store retailing can maintain the momentum of purchasing and communication, extending the diffusion of products

8.2 The social role rural shops

One important conclusion from the RRR project is that shops play an important social role for locals. When residents think of the local shop as a pleasant place to gather and socialise with other people they are very likely to support the shop, among other things by paying a little extra, assisting in renovating, etc.

One way to build this social role is to widen the assortment of services provided. A multifunctional shop is more likely to strengthen customer loyalty than one with a very small selection of goods and services.

Image 8: A label which participants in the RRR pilot project displayed in their shop windows, which certified the shop's participation in the project

Verslun í dreifbýli

Þessi verslun tekur þátt í verkefninu

Retail in Rural Regions (RRR) / Verslun í dreifbýli

RRR er norður-evrópskt samstarfsverkefni sem miðar að því að styrkja stoðir verslunar á landsbyggðinni með ráðgjöf og fræðslu

Íslenskir umsjónaraðilar að verkefninu eru:

- Rannsóknasetur verslunarinnar við Háskólann á Bifröst
- Atvinnuþróunarfélag Vestfirðja og fleiri atvinnuþróunarfélög
- Bygðastofnun

 Northern Periphery Programme 2007-2013
Introducing innovation in the Northern Periphery for sustainable and prosperous future

 European Union
European Regional Development Fund

 Rannsóknasetur verslunarinnar
Háskólinn á Bifröst

 NORA
Nordisk Atvinnasamráðgjafi

 RETAIL in RURAL REGIONS

Image 7: Multifunctional activities in rural shops can take different forms. One example is a coffee corner where customers can visit with each other. This image was taken in the shop called Albina in Patreksfjörður, Iceland.



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