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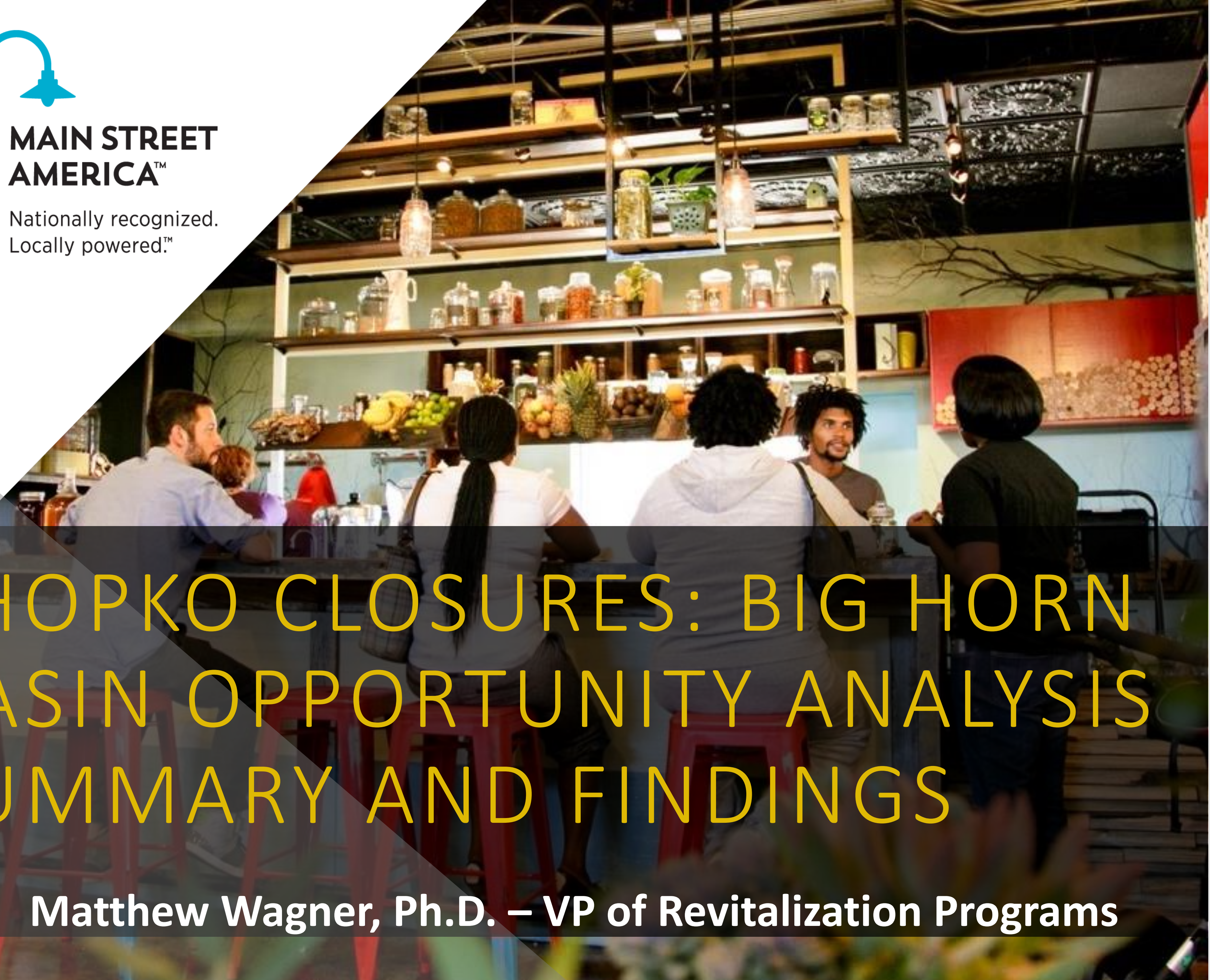


SHOPKO CLOSURES: BIG HORN BASIN OPPORTUNITY ANALYSIS SUMMARY AND FINDINGS

Matthew Wagner, Ph.D. – VP of Revitalization Programs

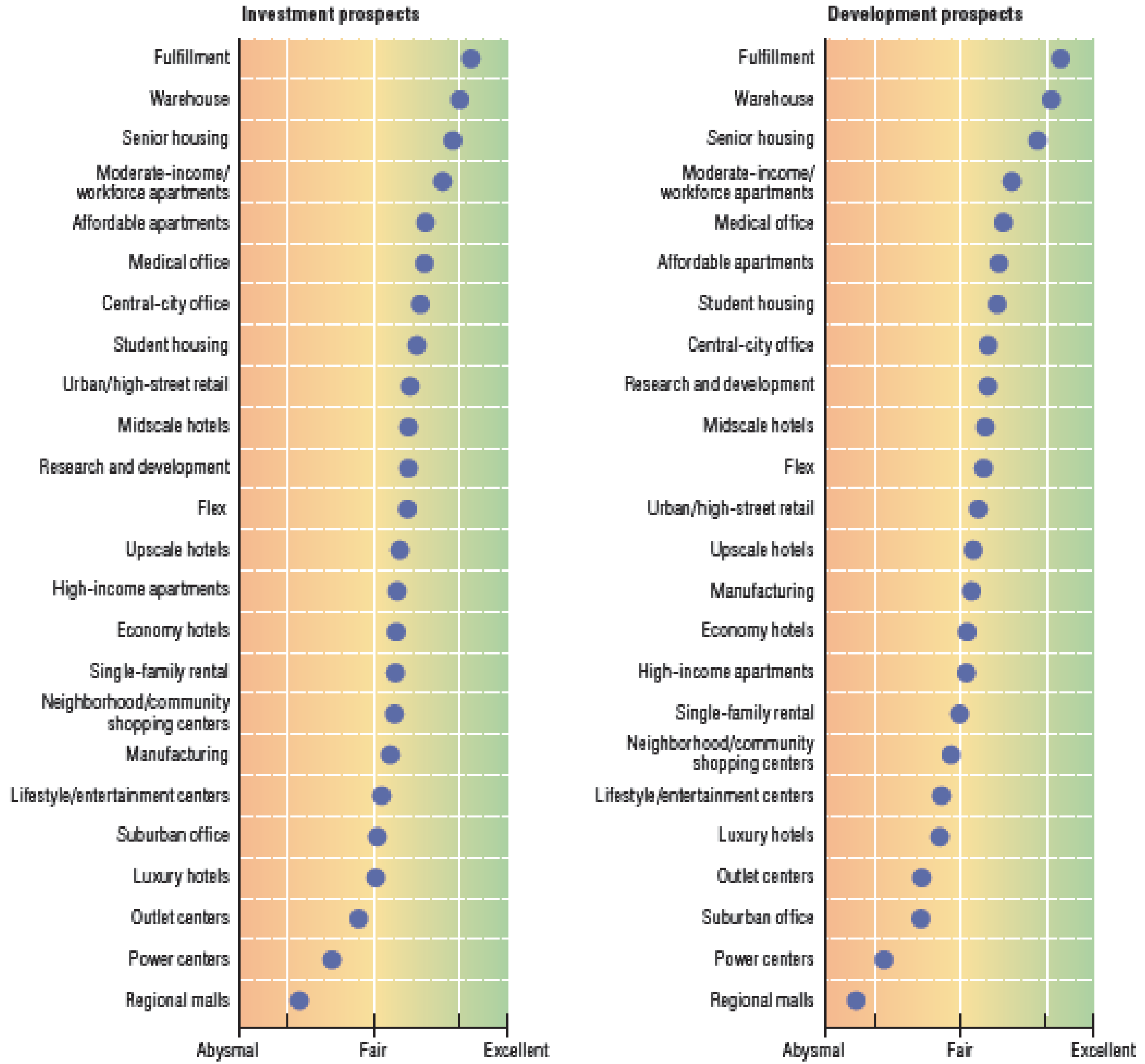
WHY IS THIS IMPORTANT TO YOUR REGION?

- According to the Small Business Administration's Office of Advocacy:
  - Small Businesses accounted for 60% of net new jobs since the end of the recession (mid-2009 to mid-2013)
- Growth from within has higher ROI (N.C. St. Study)
- Entrepreneurs provide character and create community identity

COMPETITION AND CHANGING CONSUMER PREFERENCES CONTINUES TO BUILD – …*THIS IS NOT A WYOMING ISSUE*

- American retail is overbuilt by about 50 percent. With about 24 square feet per capita, the U.S. has by far the most retail space of any country in the world, with about 25 percent more than the next closest country, Canada. (That data comes from the publicly traded real estate group GGP and the financial blog Zero Hedge.)
- Further strained by growth of Online Shopping (15% growth in 2018, and accounted for 64% of the overall growth.)
- Seismic shifts in consumer shopping patterns….

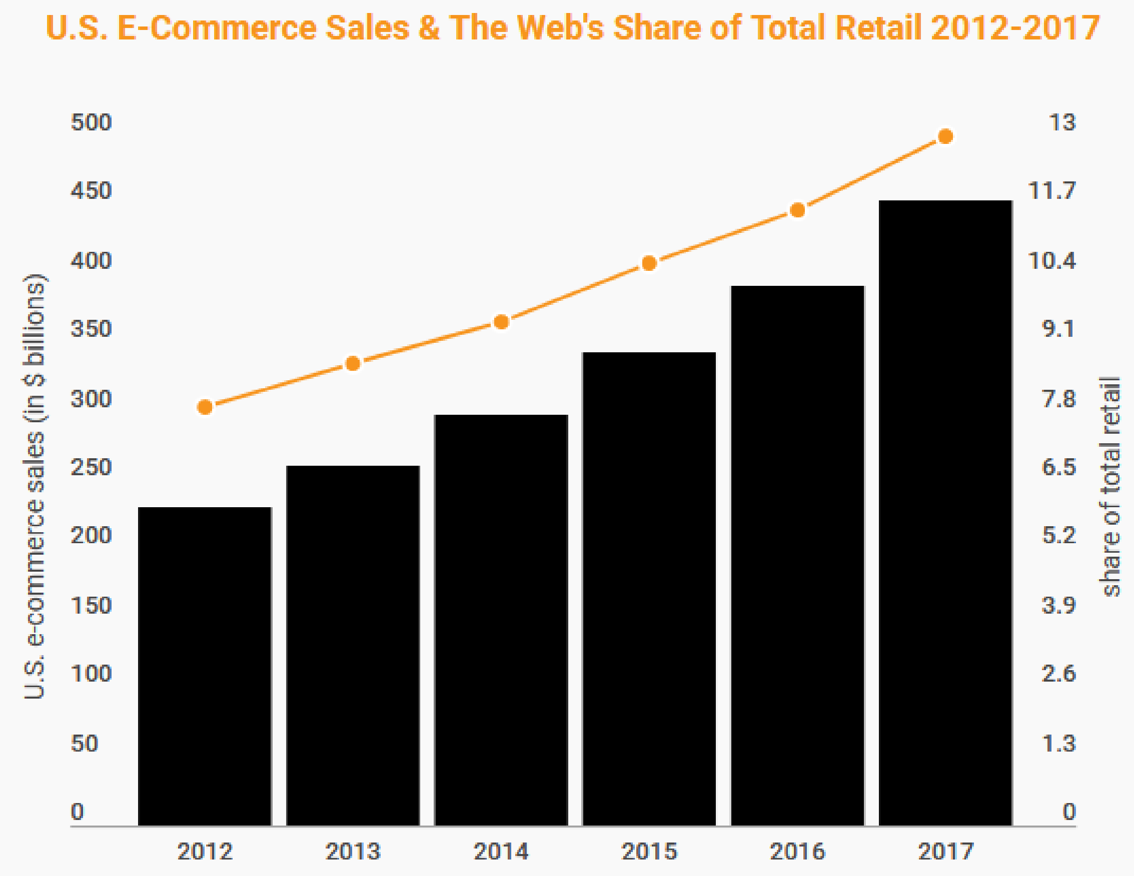
ULI – EMERGING TRENDS STUDY – 2019



Source: *Emerging Trends in Real Estate 2018* survey.

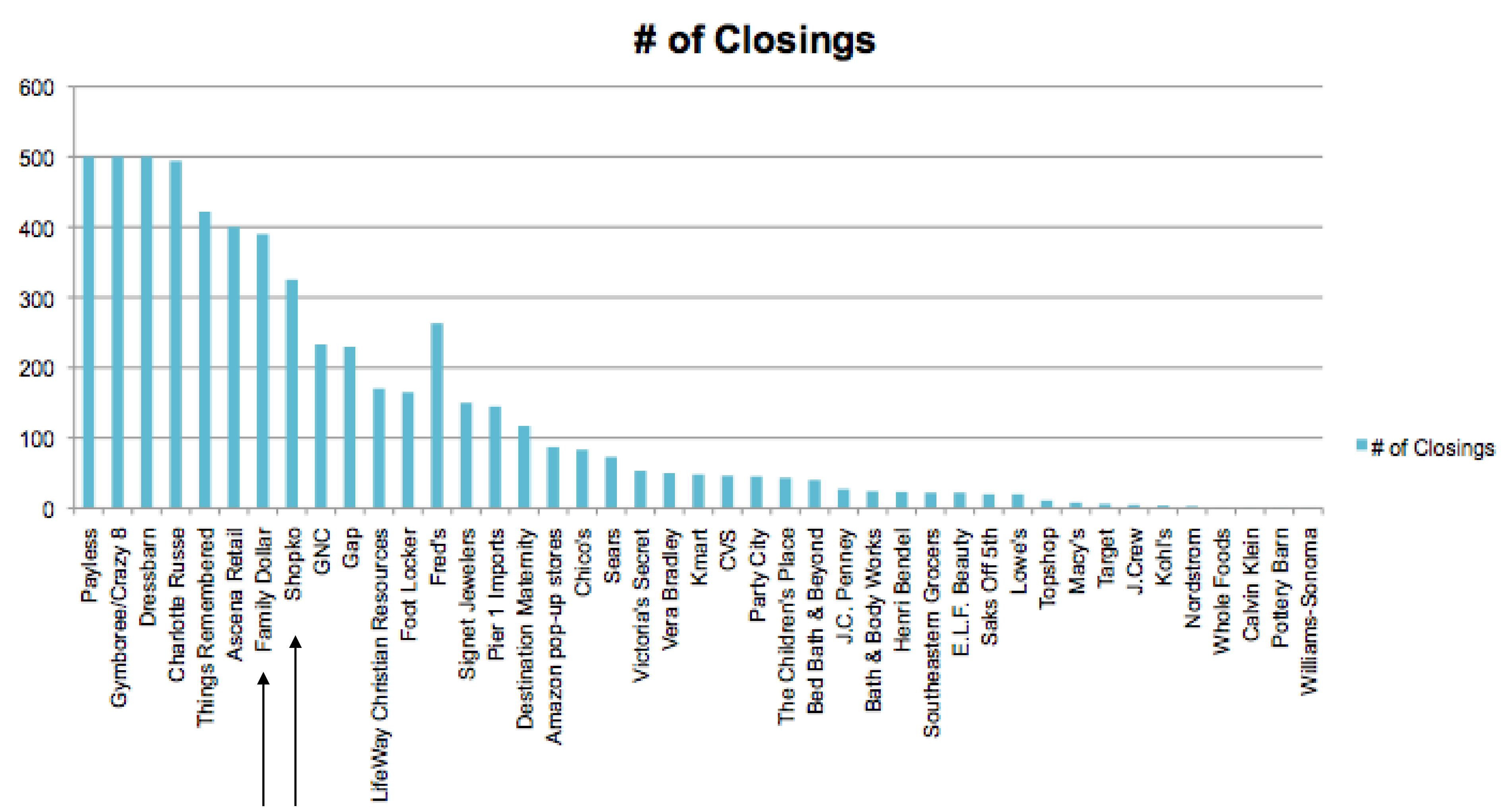
Note: Based on U.S. respondents only.

GROWTH OF ONLINE RETAILING



Source: Internet Retailer analysis of U.S. Commerce Department figures that factors out the sale of goods not normally purchased online such as automobiles, fuel, and sales in restaurants and bars.

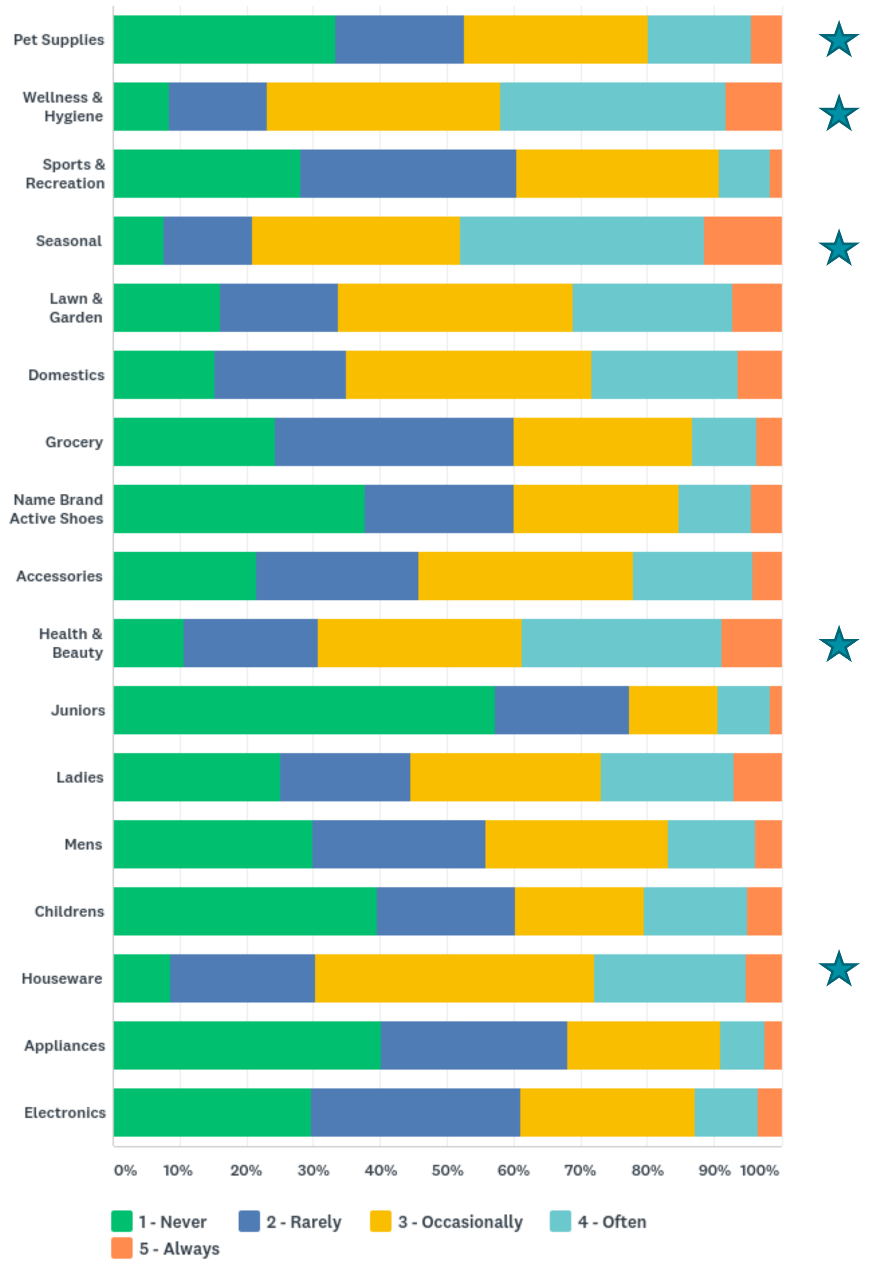
MORE TO COME IN 2019



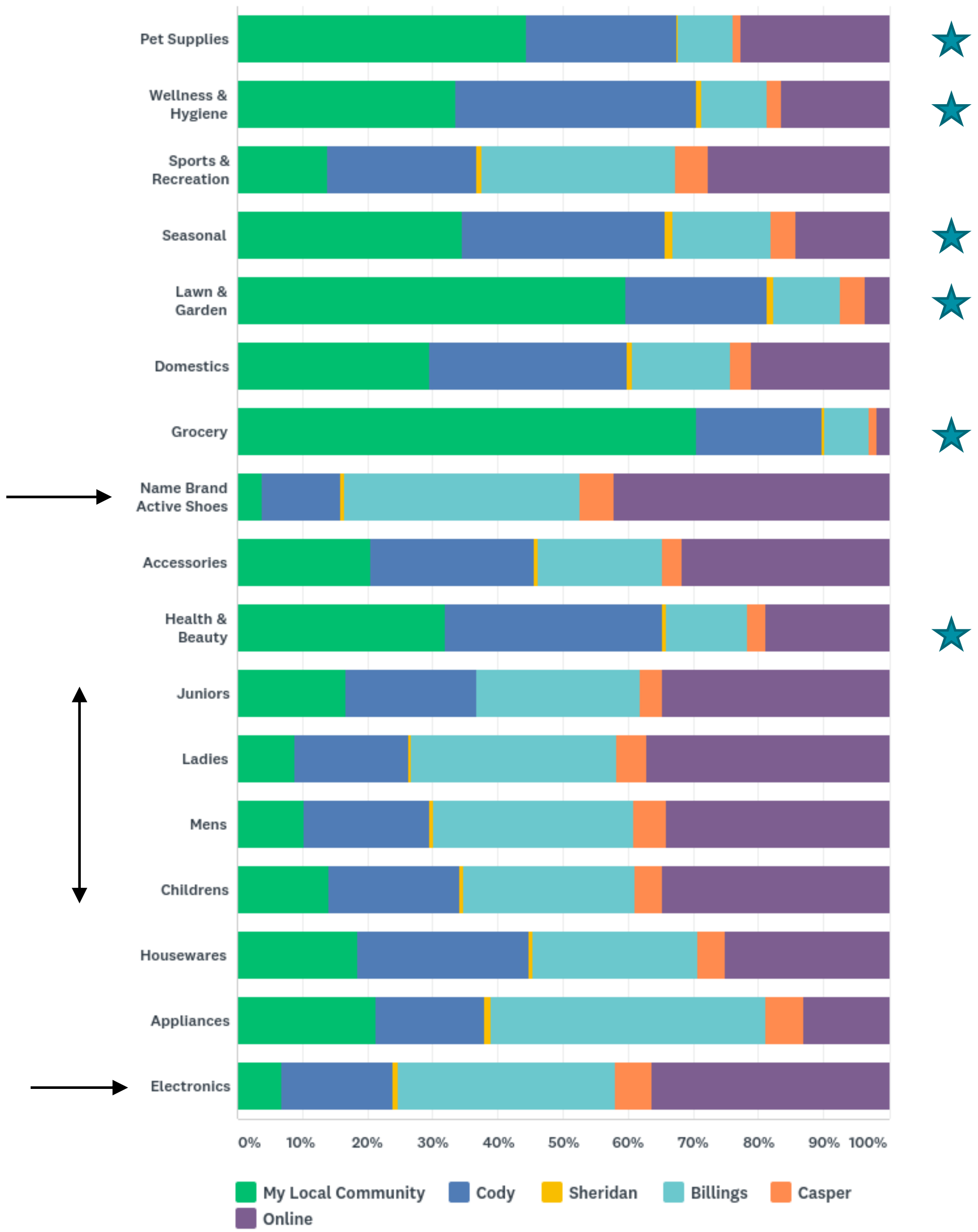
SURVEY OF IMPACTED COMMUNITIES

- 507 Community Responses!!!! Congrats!!!

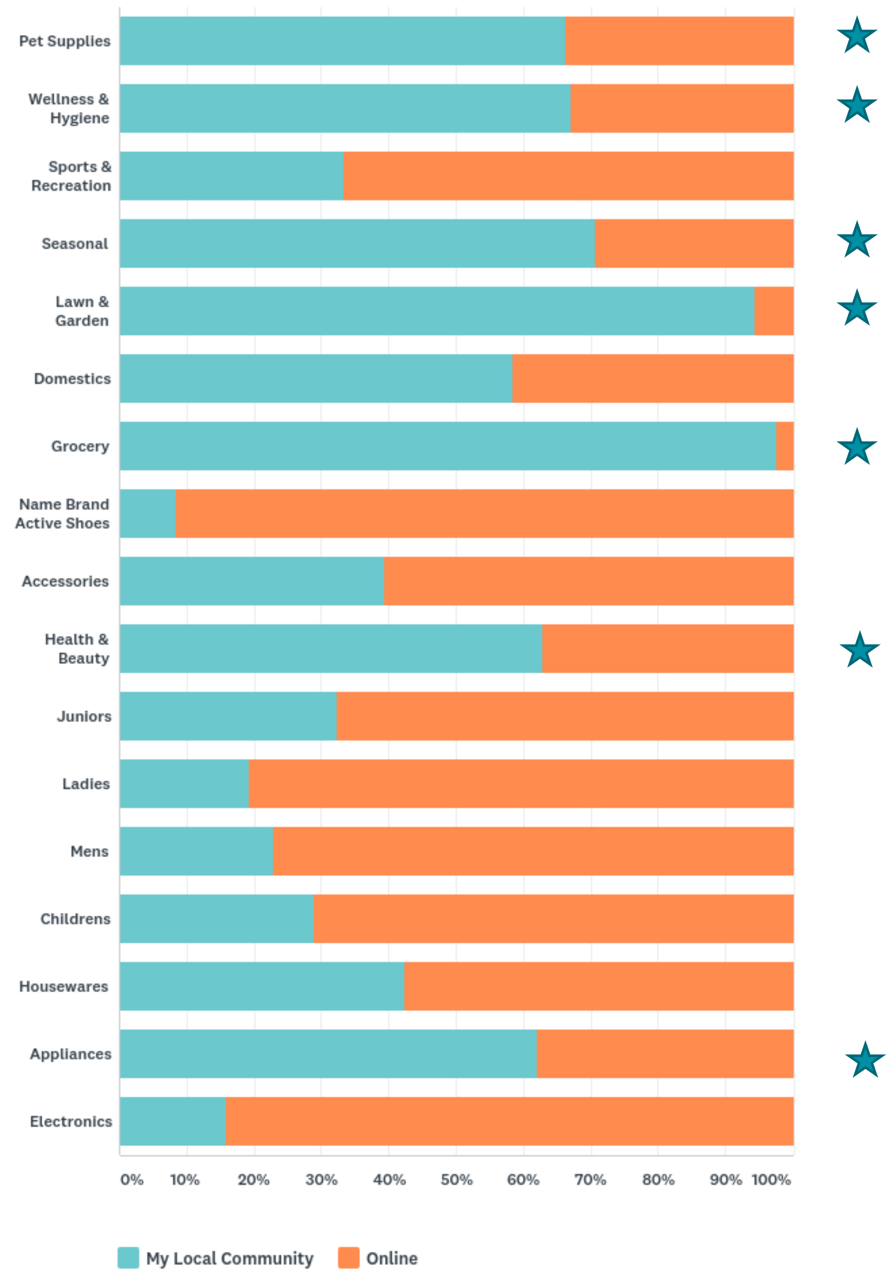
Q1 Please indicate the frequency in which over the past year you have purchased the following products from your local Shopko store:



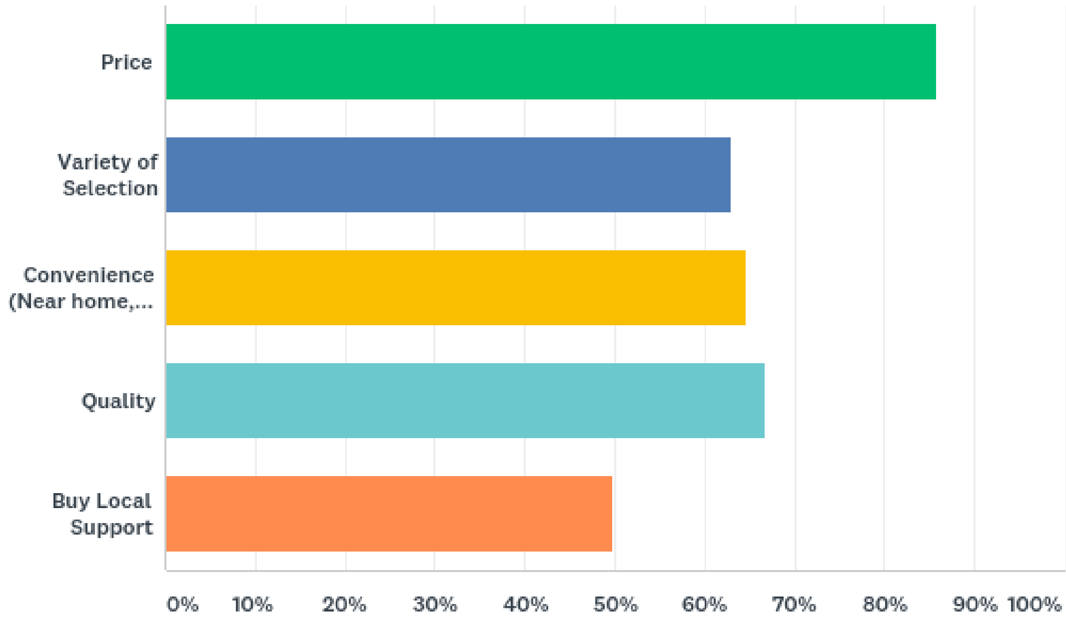
Q2 Based on our current knowledge of product availability, where are you most likely to transfer your purchases of the following product categories:



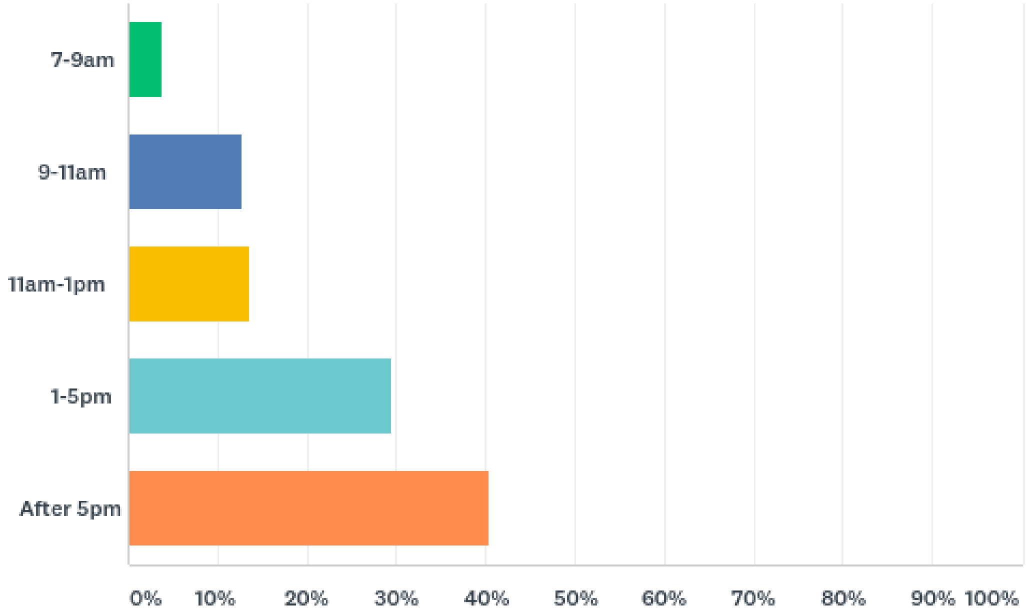
Q2 Based on our current knowledge of product availability, where are you most likely to transfer your purchases of the following product categories:



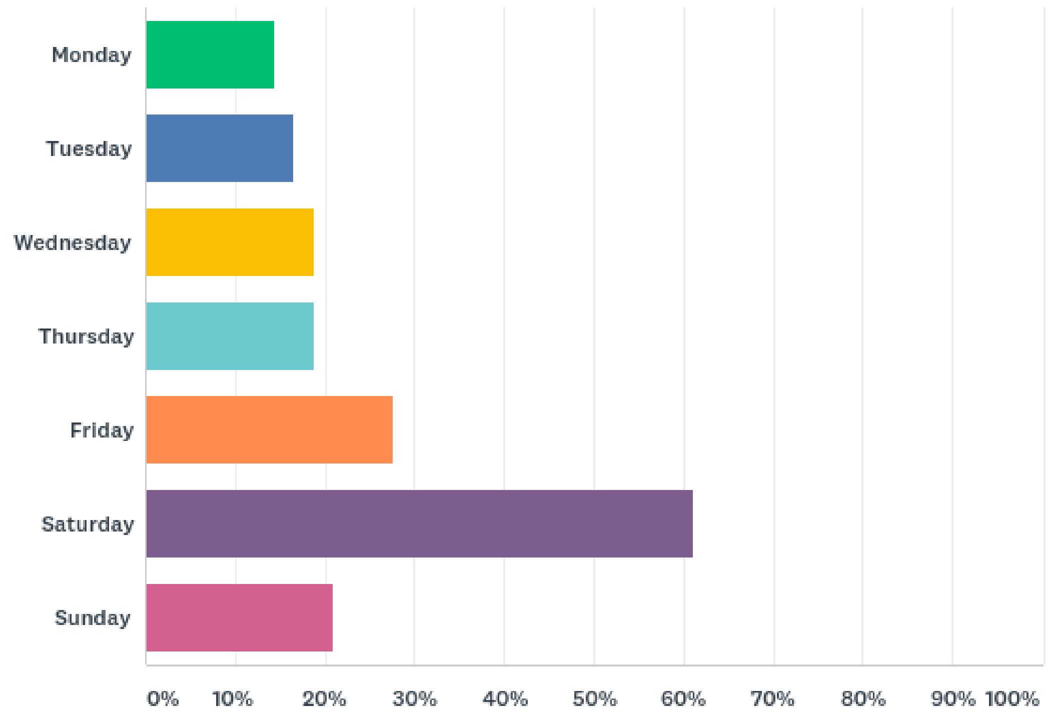
Q3 What factors do you consider when shopping? (Select all that apply)



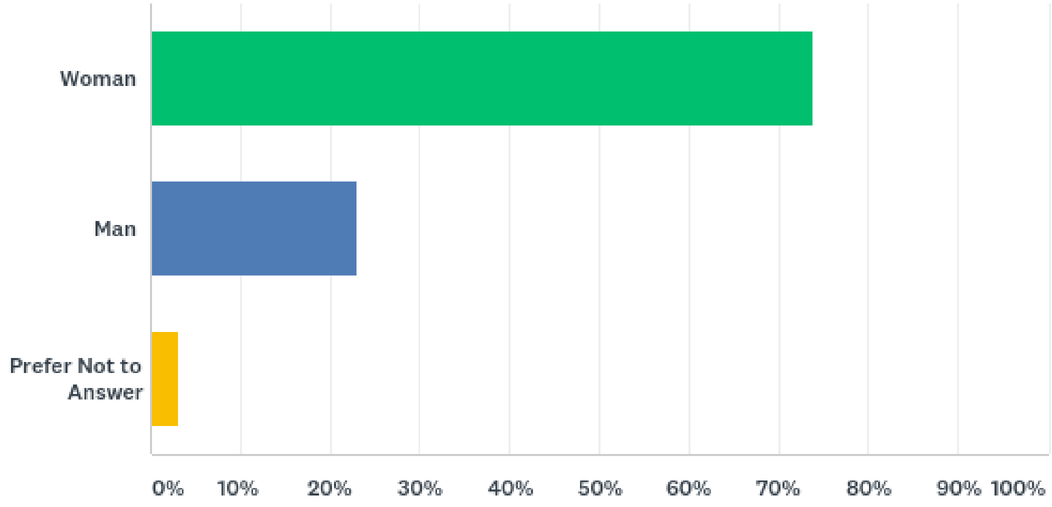
Q4 What time of the day do you most typically do your shopping (not just downtown)?



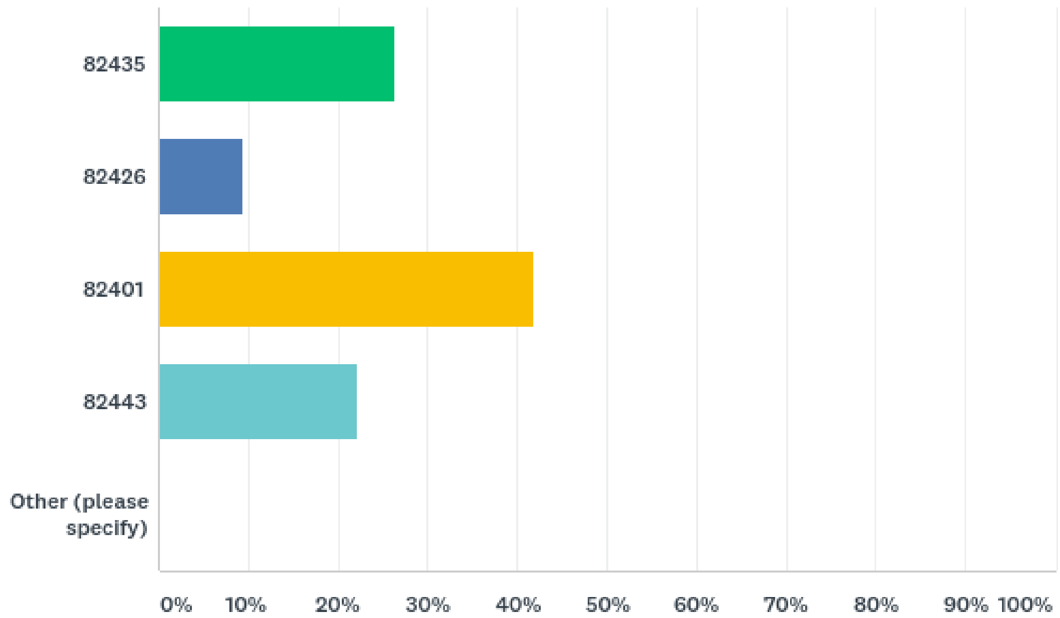
Q5 What day of the week do you most frequently shop (not just in downtown)?



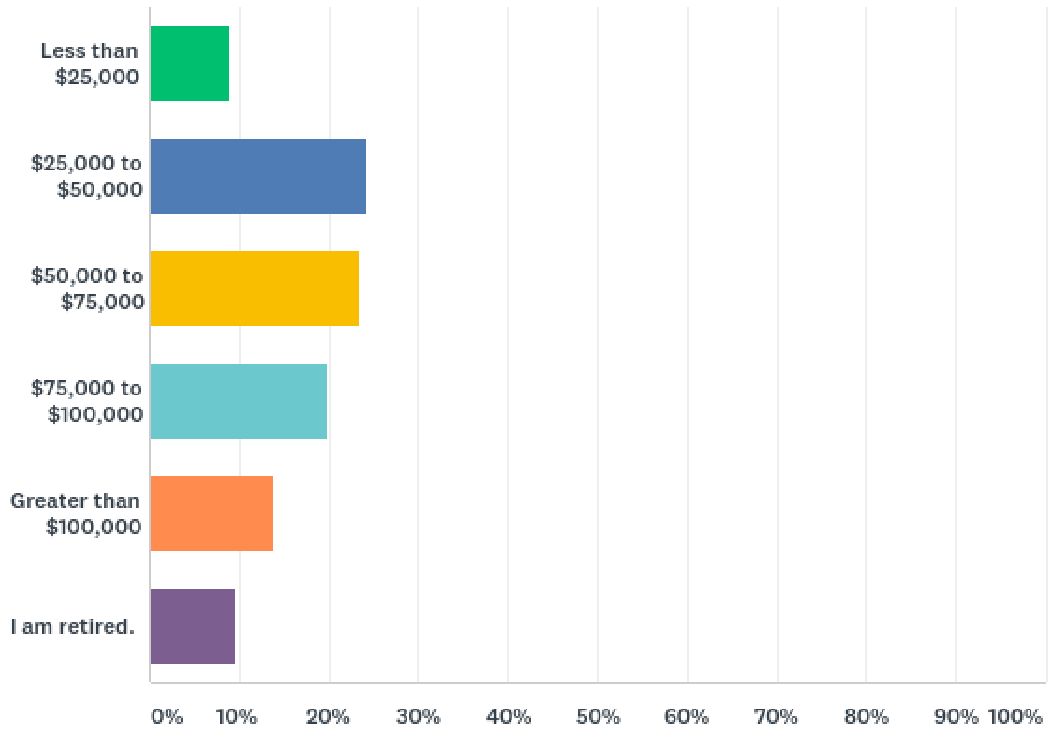
Q6 What is your gender?



Q7 What is the zip code of your home address?



Q8 What is your annual income?



SURVEY FINDINGS SUMMARY

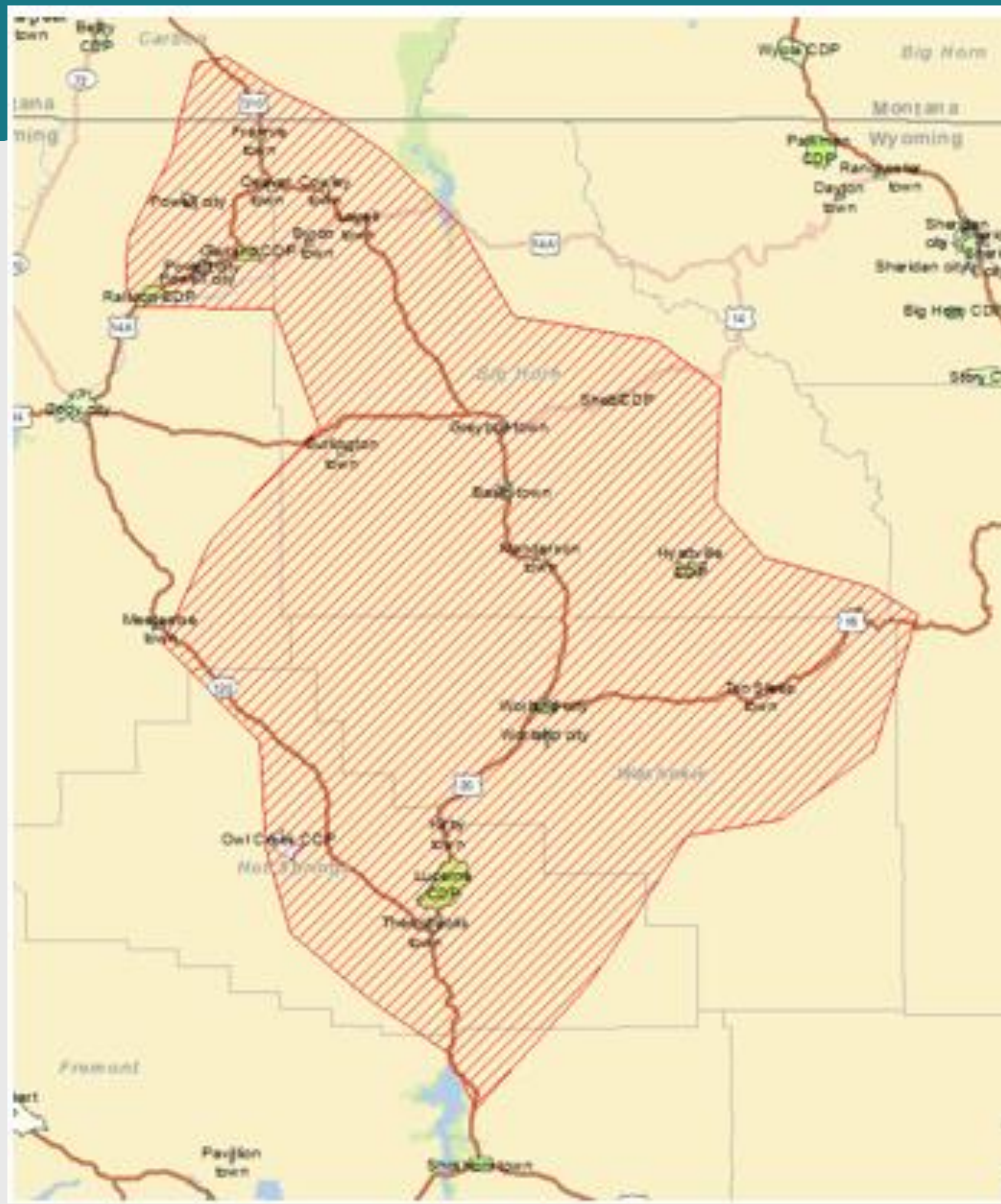
+ Most Shift to Local Spend (and it was consistent among the communities)
  - Pet Supplies
  - Wellness and Hygiene
  - Seasonal
  - Lawn and Garden
  - Grocery
  - Health and Beauty
  - Appliances

+ Apparel/Shoes and Electronics was going to online (note: consistent with national trends)
+ Sports and Recreation and Housewares have some potential
+ Shopping Hours and Weekend Open Hours are Absolutely Key!!

FOCUS GROUP WRAP-UP

- Cody or Billings For Out of Basin Shopping
- Online is huge – probably see a bigger influx
- "Shop Local is great but people are looking for the best <u>price</u>." (Price Sensitivity)
- Product Opportunities:
  - Arts & craft supplies – yarn, paint, etc. for school children to professionals
  - School supplies
  - Linens
  - Curling irons, Hair dryers, etc.
  - Housewares (including small to large kitchen appliances), pots/pans
  - Recreation (Primarily in Fishing/Hunting)

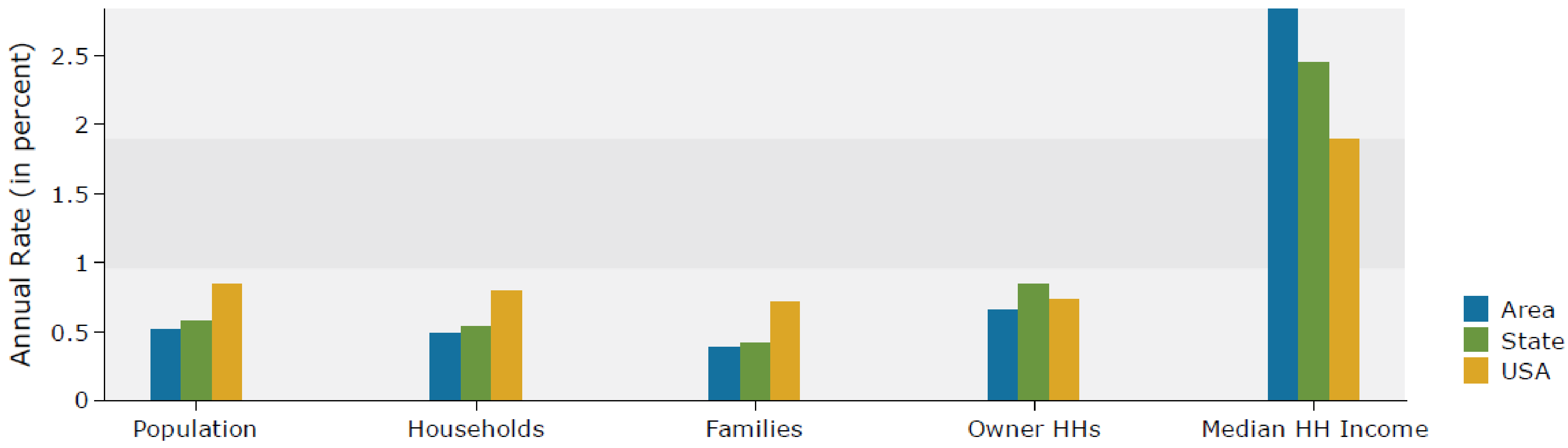
MARKET ANALYSIS – TRADE AREA



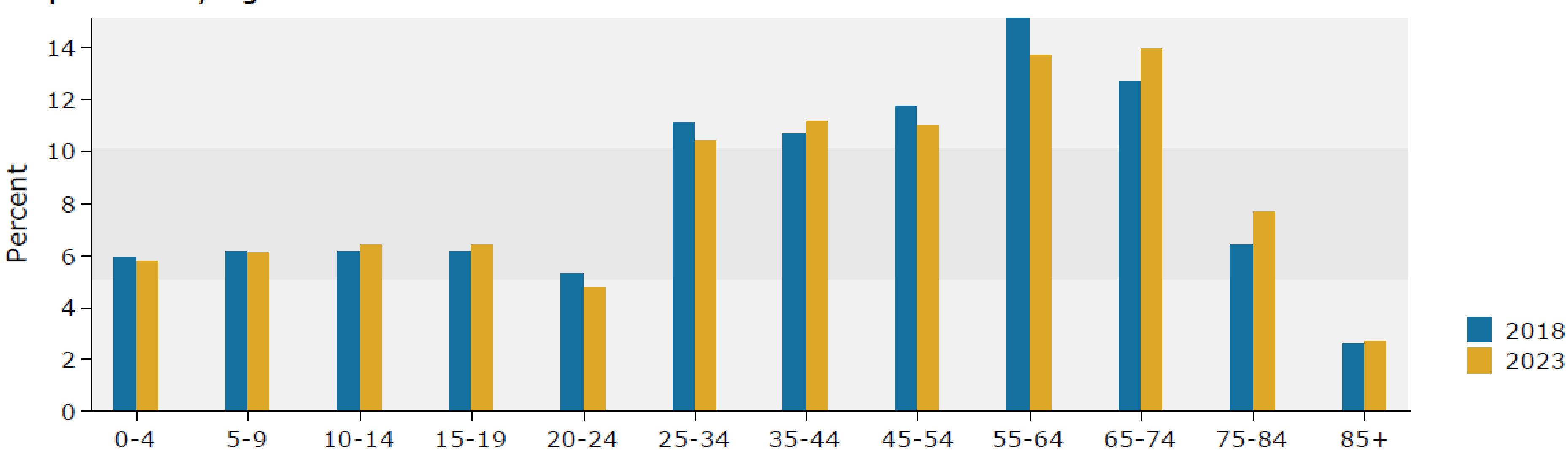
Special Thanks to the Wyoming Small Business Development Center!!

DEMOGRAPHIC TRENDS

Trends 2018-2023



Population by Age



PSYCHOGRAPHICS

Some psychographic characteristics

What is Psychographics?

Psychographics is the study of personality, values, opinions, attitudes, interests, and lifestyles. Psychographic studies of individuals or communities can be valuable in the fields of marketing, demographics, opinion research, prediction, and social research in general. They can be contrasted with demographic variables (such as age and gender), behavioral variables (such as usage rate or loyalty), and organizational demographics variables (sometimes called firmographic variables), such as industry, number of employees, and functional area.

When a relatively complete profile of a person or group's psychographic make-up is constructed, this is called a "psychographic profile". Psychographic profiles are used in market segmentation as well as in advertising. Some categories of psychographic factors used in market segmentation include:

- activity, interest, opinion (AIOs)
- attitudes
- values
- behavior

PSYCHOGRAPHICS

		2018 Households		2018 U.S. Households		
			Cumulative		Cumulative	
Rank	Tapestry Segment	Percent	Percent	Percent	Percent	Index
1	Prairie Living (6D)	32.9%	32.9%	1.1%	1.1%	3076
2	Old and Newcomers (8F)	9.1%	42.0%	2.3%	3.4%	395
3	Heartland Communities (6F)	8.8%	50.8%	2.3%	5.7%	385
4	Midlife Constants (5E)	7.3%	58.1%	2.5%	8.2%	293
5	Green Acres (6A)	5.9%	64.0%	3.2%	11.4%	184
	Subtotal	**64.0%**		**11.4%**		

LifeMode Group: Cozy Country Living

Prairie Living

6D

Households: 1,323,200

Average Household Size: 2.51

Median Age: 44.4

Median Household Income: $54,300

WHO ARE WE?

Prairie Living is Tapestry Segmentation's most rural market, comprising about 1.2 percent of households, located mainly in the Midwest, with a predominance of self-employed farmers. These agricultural communities are not diverse, dominated by married-couple families that own single-family dwellings and many vehicles. Median household income is similar to the US, and labor force participation is slightly higher. Faith is important to this hardworking market. When they find time to relax, they favor outdoor activities.

OUR NEIGHBORHOOD

- About four-fifths of households are owner occupied.
- Dominant household type is married-couples with no children.
- Most are single-family homes (87%) built before 1980; a higher proportion were built before 1940 (Index 218).
- Higher percentage of vacant housing units is at 16.5% (Index 146).
- Most households own 2 or 3 vehicles; this is the highest ranked market for owning 4 or more vehicles.

SOCIOECONOMIC TRAITS

- More than half have completed some college education or hold a degree.
- At 2.9%, the unemployment rate is almost less than half the US rate.
- Labor force participation rate slightly higher at 65%.
- Wage and salary income for 72% of households plus self-employment income for 23% (Index 217).
- Faith and religion are important to these residents.
- Tend to buy things when they need them, rather than when they want them or to be trendy.
- Somewhat resistant to new technology.
- Creatures of habit when purchasing food items.

TAPESTRY SEGMENTATION
esri.com/tapestry

Note: The Index represents the ratio of the segment rate to the US rate multiplied by 100.
Consumer preferences are estimated from data by GfK MRI.

PSYCHOGRAPHICS

+ **Prairie Living (33%)**
  - Very consistent pattern shoppers. Primarily buy local oriented. Reluctant online shoppers.
  - Spend on Pets, outdoor leisure activities, and lawn/garden.
  - This group was your most likely Shopko shopper.

+ **Old and Newcomers (9%)**
  - More technology savvy…most likely to switch from Shopko to online shopping.
  - Would be your typical appliance shopper given age and starting households.
  - Into environmental concerns…so think <u>green products, organics, natural products as a specialty offering to lost Shopko categories ….may be niche inventory adds or new boutique store offerings.</u>

SPENDING POTENTIAL INDEX

- Data suggests areas of spending allocation greater than the norm.
- Average for Big Horn Basin trade area is 93 for all goods and services. Note: The index is based on 100 being a national average.
- Areas of Potential Focus:
  - Pets – 112
  - Lawn and Garden – 102
  - Health/Non Prescription – 101
  - Major Appliances – 99
- Note:
  - Apparel Categories – Average 82
  - Sports and Recreation - 84

SALES GAP ANALYSIS

Retail Leakage and Surplus-- Defined

From Esri:

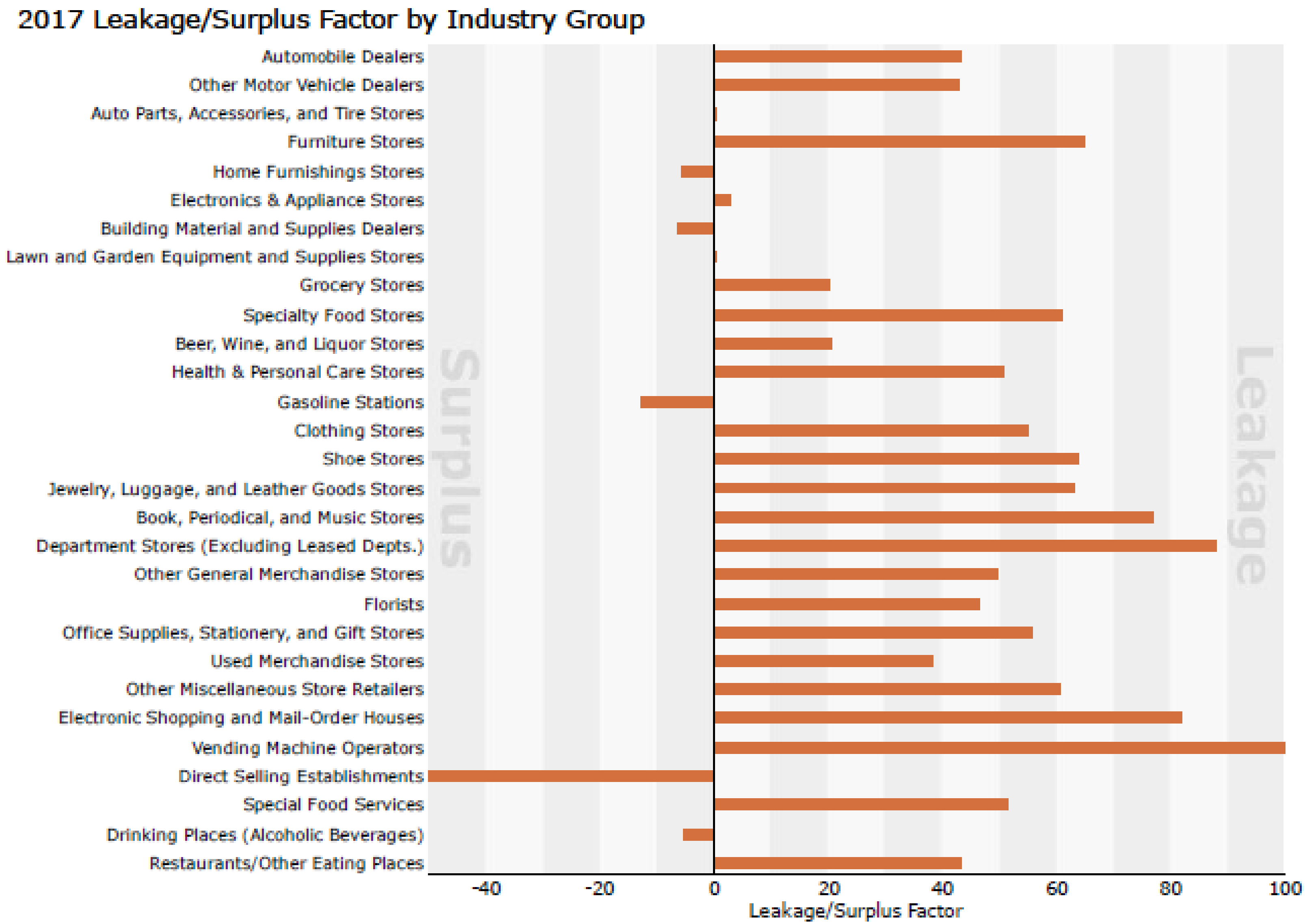
What does the Leakage/Surplus Factor in the Retail Marketplace database mean?

The Leakage/Surplus Factor in the Retail MarketPlace database measures the balance between the volume of retail sales (supply) generated by retail businesses and the volume of retail potential (demand) produced by household spending on retail goods within the same industry.

Leakage in an area represents a condition where demand exceeds supply. In other words, retailers outside the market area are fulfilling the demand for retail products; therefore, demand is "leaking" out of the trade area. Such a condition highlights an opportunity for new retailers to enter the trade area or for existing retailers to extend their marketing outreach to accommodate the excess demand.

Surplus in an area represents a condition where supply exceeds the area's demand. Retailers are attracting shoppers that reside outside the trade area. The "surplus" is in market supply. Brand positioning and product mix are key differentiators in these types of markets.

SALES GAP ANALYSIS



SALES GAP ANALYSIS

- Average $36,000 in annual spending per household (18,905 households estimated in region 2018)
- That provides $681,000,000 in potential spend within the region IF ALL those dollars were captured.
- Currently capturing 58% of total dollars for the region.
- Results in Leakage outside of the 30 Mile Trade Area = $288 Million
- Reported data of 385 businesses, suggesting average sales of $1.01 million per business.

MARKET ANALYSIS – SALES GAP SUMMARY

- Very small leakages in Lawn/Garden and Appliances suggest strong potential to maintain shopping locally in these categories. Although most new sales for local retailers will likely be in recapturing Shopko lost sales.
- Apparel is showing $12 million leakage. However, this is an area hardest hit from online shopping. Surveys suggests most of this shopping will move online from Shopko. **Given national stats that lower income shoppers use online shopping the least, any capture would likely be in thrift/discount apparel.**

MARKET ANALYSIS – SALES GAP SUMMARY

- Large recapture opportunities (10-20%):
  - Groceries - $2.9M to $5.8M
  - Specialty Grocery - $250K to $500K
  - Health and beauty - $2M to $4M
  - Sporting Goods & Hobby - $400K to $800K
- Potential Supportable Square Footage of New/Expanded Retail
  - Overall Retail Trade– $38.2 Million (Avg 15%) = **81,623 sq.ft.** (note: Walmart is $468/sq.ft.)
  - Overall Food and Drink - $6.7 million (Avg 20%) = **33,500 sq.ft.** ($200/sq ft (Bloomberg) for 5% profit margin. *TRENDS – Greater spend of household income going to food away from home. Further backed by average spending potential data.)*
  - Groceries – 8,285 to 16,571 sq.ft. (avg $350/sq.ft.)
  - Specialty Grocery – 375 to 750 sq.ft. (avg $663/sq.ft)
  - Health and beauty – 6,153 to 12,306 sq.ft. (avg $325/sq.ft. **Can rise to $4,600/sq.ft.)
  - Sporting Goods & Hobby – 1,624 to 3,248 sq.ft.(avg $246/sq.ft – Dick's Sporting Goods)

MARKET ANALYSIS – SHOPKO IMPACT ON SALES

- Shopko annual sales estimated nationally at $3.3 Billion
- With 363 stores – average sales $9.1 million
- Big Horn region impact – Estimated at $36 million in lost sales and/or 5% of the sales within the region.
- Anticipated Loss to ONLINE – So (Adobe DPI Research) Wyoming spends $750 on online shopping per person income of $60K. Big Horn area average is $70,784 (Census 2018) suggesting annual spend of $885. With 46,681 persons, that is $41.3 in annual spending online. OR 6.3% of all spending is being done online.
- Thus of the $9.1 million in lost spend, would suggest that $575,932 would go online from the Shopko current spend. *Most likely that will occur in Apparel/Shoes area.*

- ***Results in $4.69 Million in Big Horn region recapture estimate (55%)***
  - ***Reasons for Recapture Rate – While large region, there are few options for recapture in core area of Apparel and Shoes. Suggesting that greater than expected amount of sales will go to online. This is further supported by survey results.***
  - ***At $468/sq.ft. (Walmart Average for 2019) = 10,017 sq.ft of new and/or expanded retail of "Shopko goods"***

SUMMARY OF BUSINESS/PRODUCT TARGETS

Business Type	Survey Responses	Focus Groups	Demographics	Spending Potential	Psychographics	Sales Gap	Trends	Gut	Existing	New
Pet Supplies	XX	X	X	XX	X	N/A	X	XX	X	X - Specialty
Seasonal	XX	X	X	N/A	N/A	N/A		XX	X	
Grocery	X		X	X	X	XX		X	X	X - Specialty
Health & Beauty	XX	X	X	X	X	XX	X	X	X	X - Specialty
Lawn & Garden	X		X	X	X		X	X	X	X- Specialty
Wellness & Hygiene	XX	X	X		X	XX	X	XX	X	X-Specialty
Sports/Recreation	X	X	X		X	X	X	X	X	X-Specialty
Appliances	XX		X		X			XX	X	
Housewares		X	X		X	X	X	X		X-Specialty
Hobby & Crafts		XX	X			X			X	
Restaurants			X		X	X	X	XX		X - Need Type

RECOMMENDATIONS – SHORT-TERM

+ Share the Data with Existing Businesses
+ Target Existing Stores to Review Product Line Extension
+ Consider Developing Short-term Financial Tools to Assist with New Inventory Acquisition
  – **The Wyoming Business Council is exploring the option of providing a matching fund program in partnership with local economic development organizations to establish revolving loan funds for local community investment.**
+ Develop a “Regional” Business Directory rather than just local directories. As a region you are stronger. Ensure that rather than just name give more details about products carried.
+ Launch a Buy Local Campaign – Incentivize with a Punch Card for a Gift; Plan a single day “Get to know your local stores” event; release your “regional business directory”
+ Work with your SBDC to offer wholesaler connection technical assistance (research and identification)
+ Develop event programming that works with stores that will stay open later on Friday/Saturdays, and have some limited Sunday hours.

RECOMMENDATIONS – LONG-TERM

- Map the regional Entrepreneurship Ecosystem and develop programs to "Fill the Gaps"
  - Create entrepreneurial programming to support new endeavors in complimentary areas to Shopko losses (THINK Specialty Items/Boutique - Exclusive pet supply stores/boutique services; specialty lawn and garden supplies; specialty health and wellness products/natural products; hygiene personal care boutique)
  - Test product categories by having pop-up retail opportunities within current stores…or take a short-term lease out on vacant storefront…keep "gritty feel" and let the products do the talking. Use as a promotion opportunity to generate something new and exciting.
- For housewares, health and wellness, and personal care look at Esty zip code vendors and reach out to see if they would try Pop-up and begin to fill your pipeline. Offer incentives/grants to assist them with inventory.
- Understand your Market Strengths and overlay your economic development activities with strategic target markets.

BUILDING A PIPELINE REQUIRES A ROBUST ENTREPRENEURSHIP ECOSYSTEM

WHAT IS AN ENTREPRENEURIAL ECOSYSTEM?

By most definitions, entrepreneurial ecosystems refer to the strategic alignment of a variety of public and private efforts—including government policies, funding and finance, human capital, and regulatory frameworks—to provide necessary financial, social, and human capital to foster entrepreneurship in innovative and creative ways. Frequently overlooked in these definitions is **the value of place and the physical environment as central factors in creating and growing successful enterprises**.

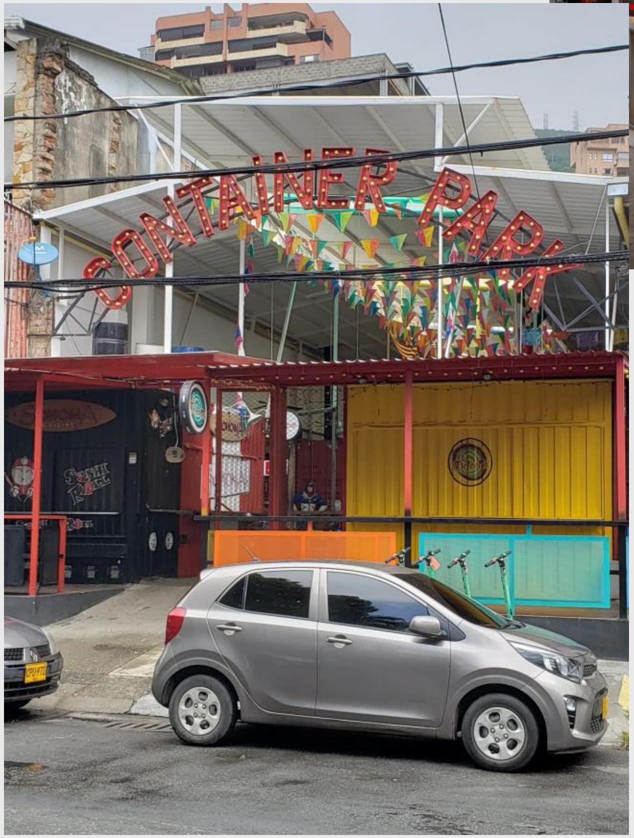
By emphasizing the creation and support of great places and spaces for people to live and work, commercial districts can attract new businesses and new ideas, thus contributing directly to the development of the local entrepreneurial ecosystem.

PIPELINES FOR NEUTRAL LOCATION BUSINESSES AND OFFICE USERS

PARKING LOT “HUT” POP UPS

PIPELINES FOR NEW ENTREPRENUERIAL GROWTH: VALUE ADDED PRODUCTION FROM FARMER’S MARKETS

SHIPPING CONTAINER STORES AND PARKS – GET FUNKY!!



PIPELINES FOR NEW ENTREPRENEURIAL GROWTH: ONLINE PLATFORMS FOR MAKERS/ARTISANS

- 60% of ETSY Stores have a Bricks n Mortar store.
- Mine using zip code searches by category

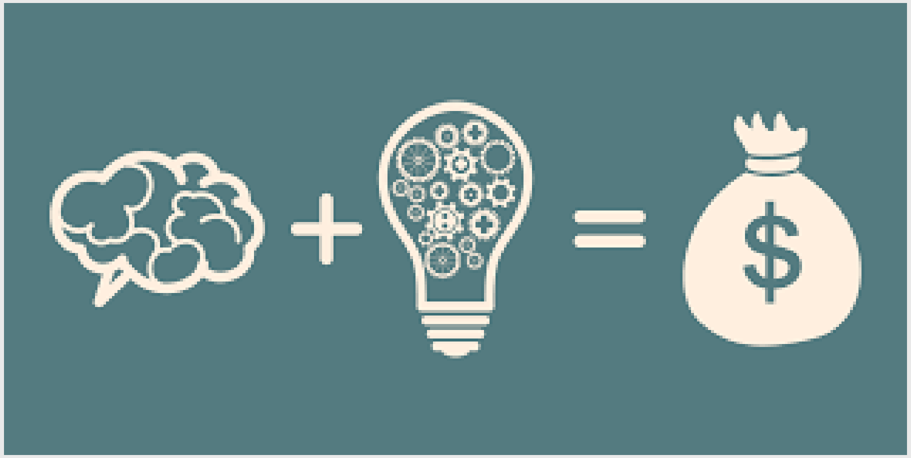
Etsy

MAKER'S
row
EST 2012

MOBILE RETAILING

ADDITIONAL PIPELINES

+ Graduates from local/regional college and university entrepreneurship programming.
+ Participants/clients from your local/regional SBDCs
+ Participants of area Pitch-It Contests and/or Shark Tank like contests.
+ Maker Spaces
+ Incubators/Accelerators
+ Push Cart Vendors



IMMEDIATE NEXT STEPS

- Summary Report to Be Issued by NMSC
- PPT will be sent out to all participants
- NMSC to be available for follow-up questions regarding Report/Data, etc.

KEY FOLLOW-UP RESOURCE CONTACTS

State and National Contacts:

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Discussion and Questions…Thanks!