

**The Impact of Big Box Retailing on the
Future of Rural SME Retail Businesses:
A Case Study of the South Taranaki District**

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A thesis submitted to
Auckland University of Technology
in fulfilment of the requirements for the degree of
Master of Philosophy

2009

Institute of Public Policy

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ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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ACKNOWLEDGEMENT

I wish to acknowledge the assistance of the following:

The South Taranaki District Council management team who assisted this research by subsidising the university fees for this degree.

The guidance received from Dr Love Chile, my primary supervisor for this thesis. This was additional to his normal workload. Dr Chile's professional support and encouragement has been a credit both to himself and the Auckland University of Technology. I also want to thank Dr Scott Fargher, my second supervisor, for his support.

I acknowledge the professional assistance rendered by my colleagues at the economic development agencies and staff in Colorado, New Mexico and Kansas (United States of America) and Victoria (Australia) who willingly aided the research. They helped in the gathering of information and by organising people based in the United States, Australia and New Zealand who were suitable for interviewing for the case studies. It is the expectation of this study that the information collected, together with the recommendations of the study, will be of value to district councils throughout New Zealand that face similar problems to the South Taranaki District.

ABSTRACT

Many rural districts are facing economic decline because of a range of factors such as demographic change, changing socio-economic development patterns, farm amalgamations, the entry of large retail businesses, the so called 'Big Box Retailing' (BBRs), and a decline in rural infrastructure investment. These factors in turn affect the viability of many small-to-medium sized enterprises (SMEs), which are the primary employers and the engines for economic growth and employment in rural districts. The combined effect of these processes is that many rural districts struggle to keep young people, maintain economic and social diversity and attract new settlers and investment.

This thesis seeks to answer the question as to how large scale retail businesses, rural farm amalgamations and declining rural populations impact on the viability of SME retail businesses in rural areas. In order to answer this question, this study identifies the key factors, which affect the future viability of small-to-medium sized retail businesses in sparsely populated rural districts using the South Taranaki District as a case study. The role of economic development agencies and district councils is also examined using case studies of small towns in rural districts of Australia and the United States of America (USA).

This study found a number of factors affect the future viability of small-to-medium sized retail businesses in sparsely populated rural districts. For the South Taranaki district, these factors include the arrival of large-scale supermarkets, followed by large scale retail chains such as The Warehouse. These factors, combined with changing rural population structures and economic 'spikes' relating to sporadic energy development, have significant implications for the long term viability of many SMEs in the district.

Case studies of similar rural districts in the USA and Australia provided examples of strategies that could be used to manage these impacts. This thesis recommends policies, initiatives and strategies that may be considered by territorial local authorities, regional councils and central governments to help address the economic development challenges facing rural districts.

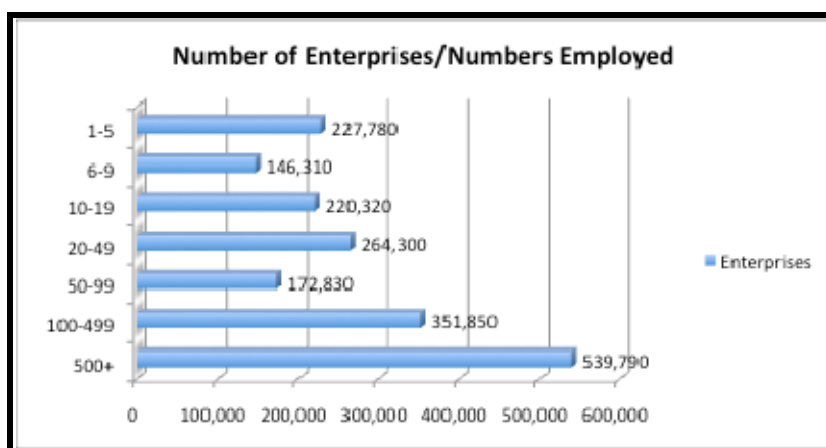
CHAPTER ONE:

INTRODUCTION AND BACKGROUND TO THE STUDY

The statement that SMEs are the most common businesses in New Zealand is a cliché, but true. The Ministry of Economic Development (MED) reported that in 2008 SMEs accounted for 31 percent of the total number of employees in New Zealand in 2007 (Ministry of Economic Development, 2008).

The MED defines an SME as an owner-operated business employing nineteen or fewer employees. (Ministry of Economic Development, 2005).

Figure 1: Total Employment by Enterprise Size in New Zealand, February 2007



Source: Ministry of Economic Development, 2008.

This picture is particularly true for the rural districts of the country. This study examines the case of small-to-medium sized retail businesses in South Taranaki, a region that has been subject to significant changes in its pattern of economic development, including farm amalgamation, the arrival and expansion of large scale retail chains commonly referred to as Big Box Retailing (BBRs), and infrastructure investment and development programmes that appear to be driven more by the needs of occasional large energy projects rather than a regional, strategic approach to sustaining local business. This research seeks to identify and examine these and other key factors affecting the future viability of SME retailers in the South Taranaki district.

Rural districts in New Zealand have gone through a series of economic changes since the 1940s. Many of these have involved the transformation of predominantly primary production based around forestry, mining and farming to more manufacturing and tourism. In the Taranaki region, major changes to the rural economy over the period 1985—2006 consisted of farm amalgamations and mergers, and the creation of large dairy factories such as Kiwi Dairies Cooperative Ltd to replace a series of small factories based around small production units. These changes had a direct impact on SME retailers in rural districts and the structure and composition of rural populations, as former owners and employees of these businesses left the district to seek employment elsewhere. This in turn impacted on other infrastructure and services such as schools, leading to a series of school closures.

Furthermore, the arrival of supermarkets and large scale retail outlets such as The Warehouse in rural districts created even further pressure on the remaining SME retail businesses. A series of legislative changes and other macro-economic policies from the mid-1980s to the late 1990s resulted in the rationalisation of major infrastructure such as railways, postal services, banking and hospitals in rural areas across the country. The closure of a number of branches of post offices, banks, insurance offices, hospitals and railway stations in many rural districts compounded the problem for the SME retail businesses and led to outward migration from the rural districts and small towns.

Very little research has been undertaken into the impact of these changes on SME retail businesses in rural districts. In particular, there has been hardly any work done in New Zealand to critically examine how large scale retail outlets, or BBR and supermarkets, have impacted on the viability and sustainability of SME retail in small towns and rural districts. Consequently, attempts by district councils to develop strategic approaches to address the problem of sustainability of SME retail businesses have been *ad hoc* and uncoordinated.

This study, therefore, seeks to understand the factors that affect the future viability and sustainability of SME retail businesses in South Taranaki, and to help rural districts develop frameworks and economic development strategies that are suitable for their particular needs. The research draws from previous studies in the USA, especially case

studies that examined the impacts of Wal-Mart and other BBRs on SME retailing in the USA. For example Stone reported in relation to Wal-Mart that:

There is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass merchandisers (sometimes referred to as the Wal-Mart phenomenon) than by any other factors in recent times. Studies in Iowa have shown that some small towns lose up to 47 percent of their retail trade after 10 years of Wal-Mart stores nearby. (Stone, 1997, p10)

In an earlier study, Stone described BBRs as ‘category killers’:

There has been a proliferation of discount department stores, such as Wal-Mart, K Mart, Target, an increase in the number of membership warehouse clubs like Sam’s, Price-Cosco and B.J.’s and rapid expansion in “category killer” stores such as The Home Depot, Lowes, Toys-R-Us, Office Max, Office Depot, Staples, Circuit City, Best Buy, PetSmart, and Petco. These stores are called “category killer” stores because they have a very large selection within a narrow range of merchandise, along with low prices, and they “kill” smaller local stores within the same category. (Stone, 1995, p2)

On the other hand, Basker argued that while large scale retail outlets may impact on small and medium scale retail businesses, they also provide a positive impact, such as a net increase in jobs in the community:

I find that immediately after entry, retail employment in the county increases by approximately 100 jobs; this figure declines by half over the next five years as some small and medium-sized retail establishments close. Wholesale employment declines by approximately 20 jobs over five years. Restaurant employment increases slightly; there is no change in employment in manufacturing or in automobile dealerships and service stations. (Basker, 2005, p2)

The role of BBRs in the economy of rural districts is, therefore, contentious. This research seeks to examine these factors with particular reference to South Taranaki in order to determine the extent to which they impact on the future viability of SME retail in the district.

A brief geographical and historical background to the Taranaki region is provided to give context to the economy of the South Taranaki district.

In Chapter Two, the position of South Taranaki on the west coast of New Zealand is explained, and main population centres are identified. The importance of physical geography such as the radial river patterns, the range of land form changes and particularly the significant influence Mount Taranaki/Egmont has on rainfall and the volcanic loam topsoil (which provides the basis for the dairying industry) are examined.

The remainder of this chapter outlines and backgrounds the historical aspects of early Maori settlement in the region and their interaction and trade with European settlers. These

early trading enterprises collapsed and were followed by the New Zealand Land Wars of the 1860s. After peace arrived, the development of Taranaki and South Taranaki's embryonic dairy industry was established. Over time, the dairy sector became a major economic force. Its importance to South Taranaki is described in Chapter Three.

Chapter Three examines the economic drivers of South Taranaki. The depth and sheer intensity of dairy farming on the ring plains and flanks of Mount Taranaki provide the basis for the dairy processing industry in the South Taranaki district. It is the dairy production and allied meat processing industries that provide South Taranaki with the majority of employment opportunities, followed by the symbiotic engineering and service industries. The massive rationalisations of industry that occurred around the 1950s and onward are described, and the subsequent economic upheaval in the rural districts and the restructuring and centralisation of services that took place in the rural districts affecting SMEs are examined.

The balance of this chapter provides background to the historical development and a geographical snapshot of the oil and gas formations in South Taranaki. Also examined and described are the positive and negative economic impacts that oil and gas exploration, development and commercialisation have had on the South Taranaki economy to the present day. The influence that the oil and gas industry has exerted on the development of local engineering expertise and support businesses is considered, as is the potential to value-add downstream. The paper seeks to understand the impact that this industry's spikes has had on South Taranaki's rural SMEs.

Chapter Four provides a short background to the history of retailing and the development of the Big Box Retailers based on the Wal-Mart systems in the USA. The migration of supermarkets and BBRs to New Zealand, and their subsequent arrival and impact in rural South Taranaki is examined. Also identified is the practice of BBRs and supermarkets of using retail convergence¹ as a tool to remove opposition from the market place. Examples of similar practices occurring in Australia and the United Kingdom (UK) are listed. Historical background to the BBR influx is examined in depth, including the formation of the Four Square co-operative to combat large grocery interests in New Zealand and the

¹ Retail convergence for this study is defined in chapter seven.

outcomes for rural New Zealand SMEs. The available New Zealand literature is examined and considered, but this identifies the paucity of New Zealand literature available from which to research New Zealand solutions. This paucity raised the need to utilise international literature, which could identify potential solutions to enable a healthy mix of SMEs and BBRs to operate in rural towns.

The methodology and data collection methods are described in Chapter Five, and these illustrate the consideration given to case study methodology and the use of interviews with suitably qualified economic development practitioners in the USA and Australia. This portion also identifies how the potential sifting of information from locals who have experienced the BBR Wal-Mart impact and arrived at localised solutions can assist New Zealand councils and economic development agencies to make comparisons and scrutinise the information for use in New Zealand.

Because supermarkets and BBRs capture a growing share of the retail market, Chapter Six considers the changing structure and retail trends in New Zealand. A case study based on retailing in the South Taranaki town of Hawera illustrates the changes and trends affecting CBDs in rural districts of New Zealand. Trends such as ghostboxes, retail churn² and retail quality decline after a BBR entry are considered. A time line of retail closures indicates a potential linkage between the arrival of BBRs and the departure of specific retailing segments.

Chapter Seven examines the experience of a similar rural district in New Zealand to enable a comparison and to contrast the effects of population decline, farm amalgamation, BBR impact and effect on retail SMEs, while Chapter Eight examines USA and Australian case studies to compare and contrast their experiences relating to the impact of BBRs on SME retailers. This chapter also considers the use of incentives and economic strategies formulated as local solutions by the coalface economic development agencies and government agencies.

Chapter Nine introduces and outlines the context of economic development in New Zealand at central government, regional and district levels, and describes economic

² Retail churn describes the number of times the premises are leased before being vacated and reoccupied.

development strategies employed by South Taranaki District Council (STDC) and other councils and towns to minimise the negative impact of the BBRs on rural retailers.

Chapter Ten draws the researched information to a conclusion, having examined the information gained from the overseas case studies and interviews, and considered the relevant New Zealand information and how this relates to the research question: how does the combination of the establishment of large scale retail businesses, rural farm amalgamations and declining rural populations impact on the viability of SME retail businesses? The chapter then identifies a number of policies and strategies that have proven effective and could be considered useful by economic development agencies (EDAs), District Councils and Government agencies such as New Zealand Trade and Enterprise.

CHAPTER TWO: GEOGRAPHICAL AND HISTORICAL BACKGROUND TO THE TARANAKI REGION

The Taranaki region is located on the west coast of the North Island of New Zealand. The region extends from the Mohakatino catchment in the north, to the Waitotara catchment in the south, and inland to the boundary of (but not including) the Whanganui catchment. It also extends twelve nautical miles (approximately 22 kilometres) offshore to include the waters of the territorial sea. The land area of the Taranaki region comprises 723,610 hectares (7,273 square kilometres), which is approximately three percent of New Zealand's total land area.

2.1 Location and Geographical Features of the Taranaki Region

The Taranaki region consists of three territorial authorities, namely New Plymouth District Council (servicing a population of 68,901), South Taranaki District Council (servicing a population of 26,484) and Stratford District Council (servicing a population of 8,892). (Taranaki Regional Council, 2007)

Figure 2: Position and Location of the Taranaki Region



Source: South Taranaki District Council, 2008a.

The Taranaki region is predominantly rural, with New Plymouth the only urban centre with population over 10,000. Major urban populations are illustrated in Table 1.

Table 1: Population of Main Urban Centres in the Taranaki Region

Centre	Population
New Plymouth City	45,228
Hawera	8,367
Waitara	6,288
Stratford	5,340
Inglewood	3,090
Eltham	1,983
Oakura	1,359
Opunake	1,368
Oakura	1,359
Patea	1,143

Source: South Taranaki District Council, 2008a.

A map of the Taranaki Region is shown in Figure 3 on the following page.

The map displays the Egmont National Park region, which straddles the border between the North and South Islands of New Zealand. The boundary between the two islands is marked by a thick black line. To the north, the North Island is shown in light blue, and to the south, the South Island is shown in a darker blue. The map includes several towns and settlements, with urban areas highlighted in red. Key towns include New Plymouth, Inglewood, Stratford, Eltham, and Hawera. The map also shows the locations of several rivers, including the Waitara R, Waikakahi R, Stony R, Egmont R, Kaupokonui R, Waingongoro R, Patea R, and Waitotara R. A legend in the bottom left corner identifies the symbols for Rivers (blue line), Roads (orange line), and Urban Areas (red square). A scale bar at the bottom indicates a distance of 40 km.

The mountain, Taranaki, also known as Mount Egmont, at a height of 2,518 metres dominates the region. A radial pattern of small rivers drains coastward from its flanks through the ring plains to the sea. The Taranaki Regional Council (TRC) describes the importance of the ring plain:

The mountain is regarded by Taranaki Maori as a spiritual place, the peak/head particularly is tapu (sacred). The region's name is derived from the mountain. By its west coast orientation, the mountain has a strong influence on the weather pattern of the region, as it

acts as a catalyst for the region's regular rainfall. Warm dry winds from the arid Australian land mass pick up moisture as they pass over the Tasman Sea. On reaching the Taranaki coastline, the winds are forced upwards by land rising from the sea, initiating the regular rainfall patterns so necessary for the major industry, dairy farming. The TRC describes the mountain's influence on weather as follows:

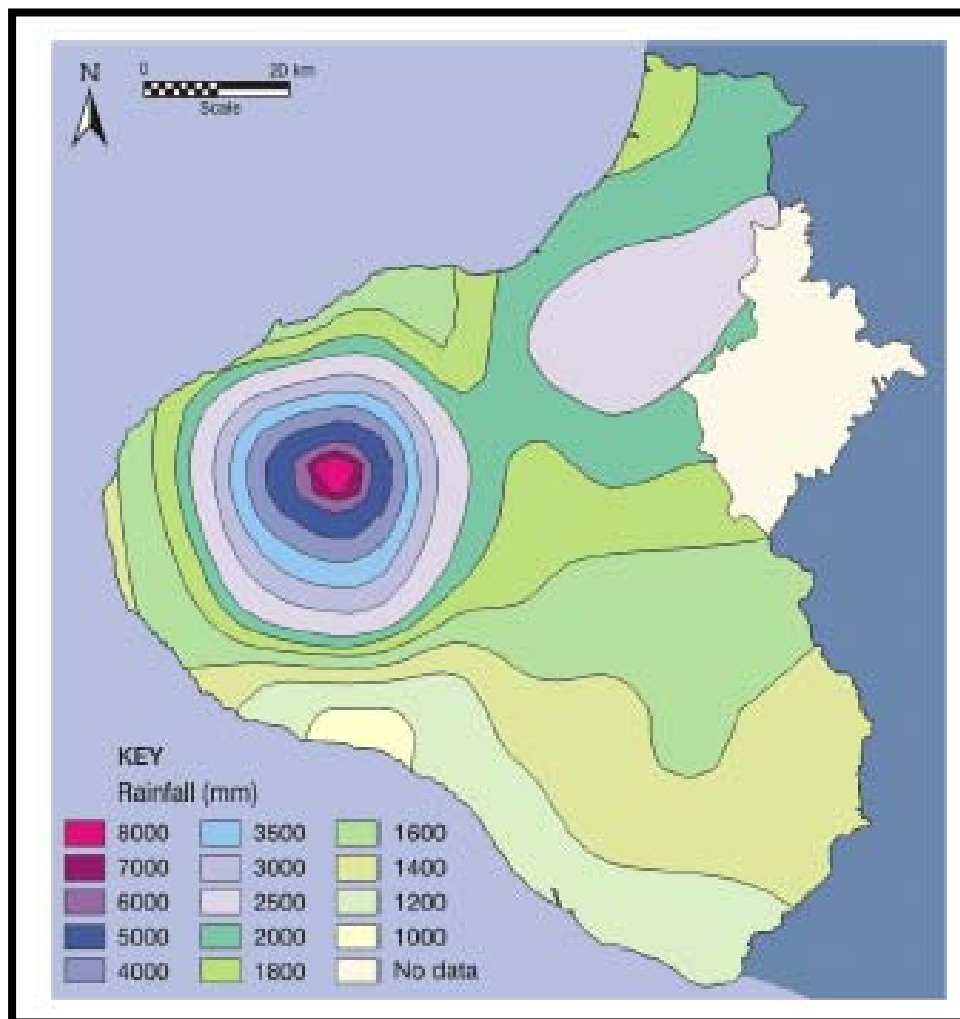
The climate of Taranaki is determined by its westerly position, mid latitude location, and topography. Taranaki lies in the path of westerly moving weather systems over the Tasman Sea and has a generally sunny, windy climate, with moderate temperatures and regular rainfall throughout the year. (Taranaki Regional Council, 2004, p74)

The amount of rainfall increases with altitude, while there is an inverse relationship between temperature and altitude.

Rainfall varies markedly throughout the region, ranging from less than 1400mm in the coastal areas to in excess of 8000mm at the summit of Mount Taranaki/Egmont. The average intensity of rainfall at New Plymouth is estimated to be 2.6mm per hour, with a total of 600 hours of rainfall during the year. This intensity is considered to be fairly typical of Taranaki coastal regions. (*ibid*)

Dairy farms backing onto the mountain receive significantly higher rainfall compared to those on the coast but have a shorter milking season because lower temperatures and less sunlight decrease grass growth. The map in Figure 4 on the following page illustrates the pattern of rainfall in the region and the influence of topography on the amount of rainfall. Note the intense rain figures at or near the summit compared to the coastal areas.

Figure 4: Taranaki Mean Annual Rainfall



Source: Taranaki Regional Council, 2004, p74.

The mountain's influence is not restricted to rainfall and weather. Over many centuries, the mountain has erupted altering the landform. This is particularly evident in western South Taranaki, where around Opunake, Rahotu, Pungarehu and Okato numerous lahars (volcanic cones of rock and soil) are scattered among dairy farms. The volcanic activity associated with the mountain contributes to the high fertility that supports the main economic activity in the region:

Over the last 50,000 years the cone has collapsed intermittently causing debris avalanches and lahars. Erosion of the volcanic cone between successive eruptions has redistributed the volcanic debris around the base of the volcano creating the ring plain. The fertile volcanic ash soils (yellow-brown loams) of the ring plain support intensive pastoral farming, particularly dairying (*ibid*, p37).

The report from the TRC argues that the soils of the Taranaki region are among the most fertile in New Zealand:

The Marine terraces raised by tectonic activity extend along the north and south Taranaki coasts. In the far north only a narrow strip of coastal plain is preserved, but between Waitara and Lepperton in the north and from Hawera in the south, the terraces extend up to 20 kilometres inland. Along the coastline, cliffs ranging from three to 60 metres in height have formed from high-energy wave action. The volcanic tephra deposits on the old terrace surfaces are deep and (because they are further from the volcanic centre) are finely textured. The 'Egmont soils' of these areas are classic volcanic loams and are among the most versatile and productive in New Zealand. (*ibid*, p72).

Figure 5, a photo of Mount Taranaki/Egmont, illustrates the landscape pattern and the pattern and intensity of farming in the region.

Figure 5: Landscape and Pattern of Land Use Around Mount Taranaki



Source: Stockwell, 2008.

The nature of the landscape also influences the drainage pattern which, in the case of Taranaki, consists of a radial pattern of over 300 rivers and streams flowing from the slopes of Mount Taranaki across the region. The mountain and its surrounding areas have been described as forming something like a “huge reservoir, supplying a steady flow of water to the ring plain streams, even during prolonged dry periods” to service both the agricultural sector, and recreational and domestic water needs of the region (Taranaki Regional Council, 2004, p73).

The landscape, the rivers and stream systems have a strong influence on the pattern of roads that service the region. The dairy industry relies heavily on good sources of water and also demands a very good road transport system. As with the rivers and streams, the roads system radiates from the mountain to service the needs of the region. There is only limited rail transport which services the bulk transport needs of the largest dairy processing industry in the region, Fonterra, at Whareroa.

Beyond the dairy industry, the physical landscape also has important implications for other economic resources in the Taranaki region, namely oil and natural gas, aggregate for road construction, and tourism, among many others.

2.2 A Brief Historical Background to the Taranaki Region

Polynesian migration and settlement in Aotearoa/New Zealand took place in the period between 600AD and 1300AD (King, 2003). The first (Maori) settlers landed in three canoes on the Taranaki coast at Ngamotu near the present city of New Plymouth. The canoes were named Kahutara, Taikoria and Okoki (Buck, 1962, p10). From these canoes, the eight recognised iwi (tribes) of Taranaki formed, these being Ngati Tama, Ngati Mutunga, Te Ati Awa, Taranaki, Nga Ruahine, Ngati Ruanui, Ngati Maru and Ngati Rauru (Taranaki Regional Council, nd).

Relations between the iwi of Taranaki and other tribes, especially from the Waikato, were characterised by inter-tribal warfare which impacted on the population and local economy. Burns reported that intertribal war between the late eighteenth century and the first decades of the nineteenth century became even more vicious with the use of firearms at the

time of European settlement, leading to a “near complete depopulation of the district destroying the Taranaki native economy.” (Burns, 1983, p58)

The establishment of European settlement in the 1840s led to tensions with Maori in the 1850s and the first Taranaki land wars in 1860-1861, followed by another more prolonged period of war from 1863 to 1866 (King, 2003, pp212-213). This resulted in the flight of European settlers from the Taranaki region to safer parts of New Zealand, such as Nelson and Auckland.

The return to a peaceful environment after the land wars led to rapid economic growth in the region:

The end of hostilities encouraged Europeans to re-settle in South Taranaki. Early communities made their living from flax milling, saw milling, trading in cocksfoot grass and an edible fungus known as Taranaki wool. When sufficient land had been converted to pasture, dairying began to intensify and co-operative dairy factories were established. At Opunake and Patea, wharves were constructed to cope with the growth in trade, although both facilities were later closed down as land transport improved and became more commercial. Drawing sustenance from the rich pastoral economy, the towns of South Taranaki grew and prospered. (South Taranaki District Council, 2008a, p3)

This also led to rapid population growth in the region in the period leading up to the World War I, so that by 1911 the European population of Taranaki was 51,569. In that year, the district carried just over five percent of the Dominion’s population – the greatest relative share it has had at any census. (McCaskill, 1996)

However, it was the dairy industry that dominated and became the mainstay of the development of the regional economy for Taranaki:

The first co-operative dairy factories opened in Inglewood and Opunake in 1885, leading the way to this province’s biggest industry. During the 1890’s [sic], Taranaki’s population grew faster than anywhere else in New Zealand. The first 20 years in the 20th century saw 95 butter and 21 cheese factories change to 26 butter and 116 cheese factories. When milk tanker collections started in 1956, it was to be less than 20 years before the 115 dairy factories dotted around the province closed down in favour of what is now the largest single-site dairy factory in the Southern Hemisphere at Hawera. (Venture Taranaki Trust, 2008)

The geographical position and history of Taranaki, therefore, have important implications for the regional economy. A mild climate and geographical conditions such as landforms and fertile soils provided the physical environment conducive for dairy farming.

CHAPTER THREE:

MAJOR DRIVERS OF THE SOUTH TARANAKI ECONOMY

3.1 Introduction

The predominant economic driver of South Taranaki is dairy farming. This sector, based on the natural advantages for dairying, makes South Taranaki one of the leading dairy producing areas in New Zealand. The district contains 61.3 percent of the Taranaki region's total dairy herds (Livestock Improvement Co, 2008) and is home to almost the entire dairy processing that takes place in the Taranaki province (for example, Fonterra Whareroa, Fonterra Kapuni and Fonterra Eltham). These favourable dairy conditions provide for symbiotic downstream industries, such as the three meat processors, Riverlands at Eltham, Silver Fern Farms Ltd (formerly PPCS Richmond) at Hawera, and Silver Fern Farms Ltd at Waitotara. A TRC report described the dominance of the dairy industry in the region:

A notable feature of the Taranaki region is its reliance on the region's natural and physical resources for its social and economic wellbeing. Farming and other land-based activities continue to play a prominent role in employment. Over 16% of the labour force is employed in agriculture and fisheries, compared with 8.3% nationally. Dairying dominates farming in Taranaki, particularly on the ring plain. There are over 2,200 dairy farms, producing approximately 14 percent of New Zealand's total milksolids. In addition to direct farm income from milk production, the added value by the processing of milk, whey and cheese manufacturing, is a significant contributor to employment. (Taranaki Regional Council, 2005, p19)

In 2006, 41 percent of South Taranaki's workforce was employed in industries associated with dairy, food, meat processing and the energy sector (South Taranaki District Council, 2008a, p4). These processing sites provide substantial supply chain advantages for the processing of dairy products close to source. The dairy processing-freezing works relationship is in turn directly supported by a large engineering sector in South Taranaki. Statistics New Zealand (2006) (SNZ) reported that, as of the 2006 Census, there were 67 companies in the engineering-manufacturing trades in the South Taranaki district, and they employed 550 people. Taranaki Engineering Consortium representative, Mr Ian Major, stated that a further sixty engineers are employed in-house by the major processing/manufacturing companies such as Fonterra, Natural Gas, Riverlands, Ballance Agri-Nutrients and Silver Fern Farms Ltd. (Major, 2006).

The engineering sector initially grew from the demand created by the growth of dairy farming, dairy processing and associated primary industries, such as freezing works, and the need for general and infrastructure engineering. This led to significant levels of expertise being developed by the district's engineering companies in the area of meat and dairy process engineering, using stainless steel and other metals in 'aggressive environments.' Skills and techniques gained from these two industries crossed easily into the oil and gas exploration sectors in the late 1960s and more recently, into the regions growing yacht building industry.

The oil and gas sector is characterised by huge spikes of expenditure on exploration and development, which in turn influences and impacts on the South Taranaki economy. Because the industry is geared primarily toward the export of crude oil, there are few opportunities to add value to the extracted petroleum products to create wealth locally in the South Taranaki district. Consequently the oil and gas sector has only a small employment multiplier (ie the number of jobs created downstream by one full-time employee) of 1.7, compared with the dairy processing employment multiplier of 6.5 and that of meat processing of 3.1 (NZIER, 2002, p28).

It is dairy production and processing and oil and gas production and processing that are the two key economic drivers in the South Taranaki district. Their associated secondary symbiotic industries are also a significant economic factor. These include by-products from dairy, beef and sheep processing industries, engineering, transport, retail and services. These key drivers and the cyclical effects that exploration and commercialisation of oil and gas has on the local economy are examined in the rest of this chapter.

3.2 The Processing Sector Associated with the Dairy Industry

The economy of South Taranaki is almost totally dependent on agricultural and related product processing. The seven largest businesses in the region are directly involved in dairy and meat processing and exert an enormous influence on the local (as well as the national) economy. In 2006, of the seven companies three were Fonterra-owned dairy processing companies that employed a total of 1,631 staff and had an industry employment multiplier of 6.5 (NZIER, 2002, p28). Employment at each of the sites in May 2006, were as follows:

- Fonterra Eltham, 530 staff (Ireland, 2006).
- Fonterra Kapuni, 105 staff (Gesterkamp, 2006).
- Fonterra Whareroa, 996 staff (Walker, 2006).

The Whareroa site had gross earnings of NZ \$1,300 million, which is 3% of New Zealand's Gross Domestic Product³ (Corbett, 2006).

The next three major employers in the South Taranaki District are the three meat-processing plants, which together employed a total of 1,440 staff and have an industry employment multiplier of 3.1. (NZIER, 2002, p28).

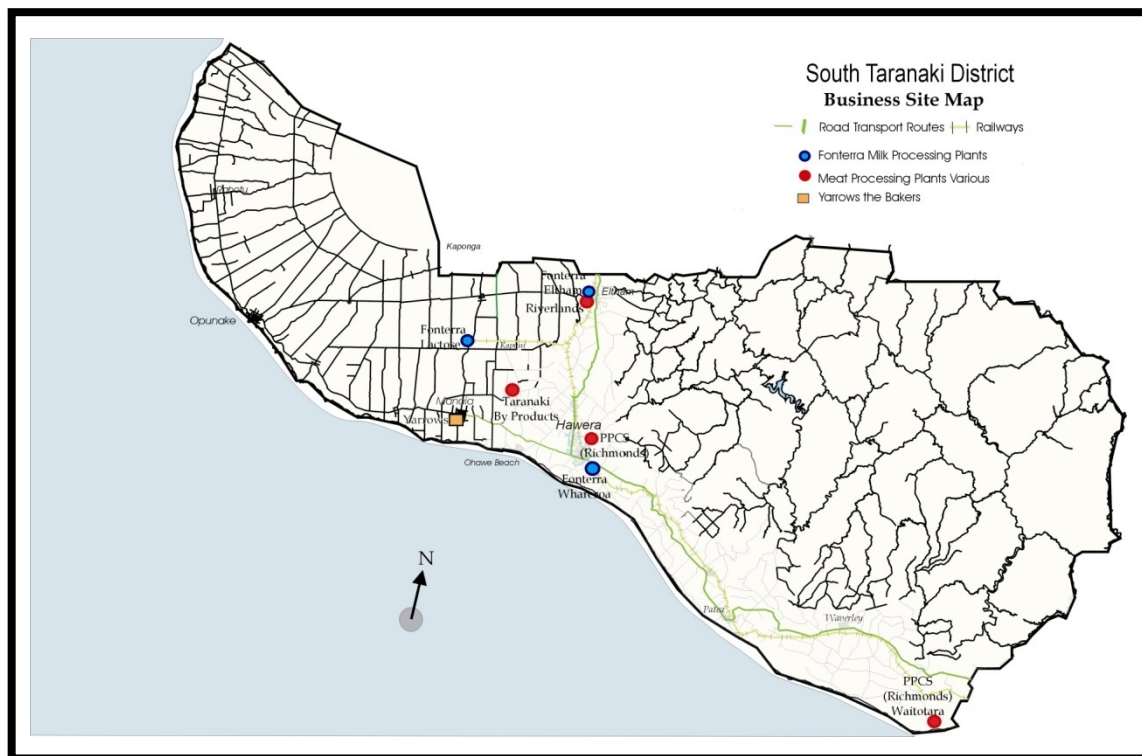
- Silver Fern Farms Ltd, Hawera, 560 staff (McKay, 2006).
- Silver Fern Farms Ltd, Waitotara, 280 staff (Ballie, 2006).
- Riverlands, Eltham, 600 staff (Johnson, 2006).

The seventh large employer in the district is Smith Bros Trading Group (SBTG), a boutique meat by-product business employing 109 staff, with an employment multiplier of 3.1. SBTG, in partnership with Riverlands, is an example of a value-adding downstream product fit. The two companies have a series of joint ventures developing and processing high value edible products such as edible beef bouillon powder and edible gelatine. In 2006, as part of this joint venture SBTG installed a semi-automated bone gel plant and a hydrogenated fat extraction plant, which enabled them to sell the high value product, increase revenues and employ more people.

Together these seven industrial sites employ a total of 3,180 staff. Using the employment multiplier ratios for each industry (NZIER, 2002), the companies generate a further 12,222 downstream jobs, making a total of 15,402 positions that are directly related to the processing industry. The locations of the seven large processing industries in the South Taranaki district are shown in Figure 6.

³ Gross Domestic Product (GDP) is a measure of the output produced in an economy during a period. GDP is measured on a quarterly basis and released towards the end of the next quarter. It provides a reasonably comprehensive measure of activity within the economy.

Figure 6: Map of South Taranaki: Large Processors Site Location

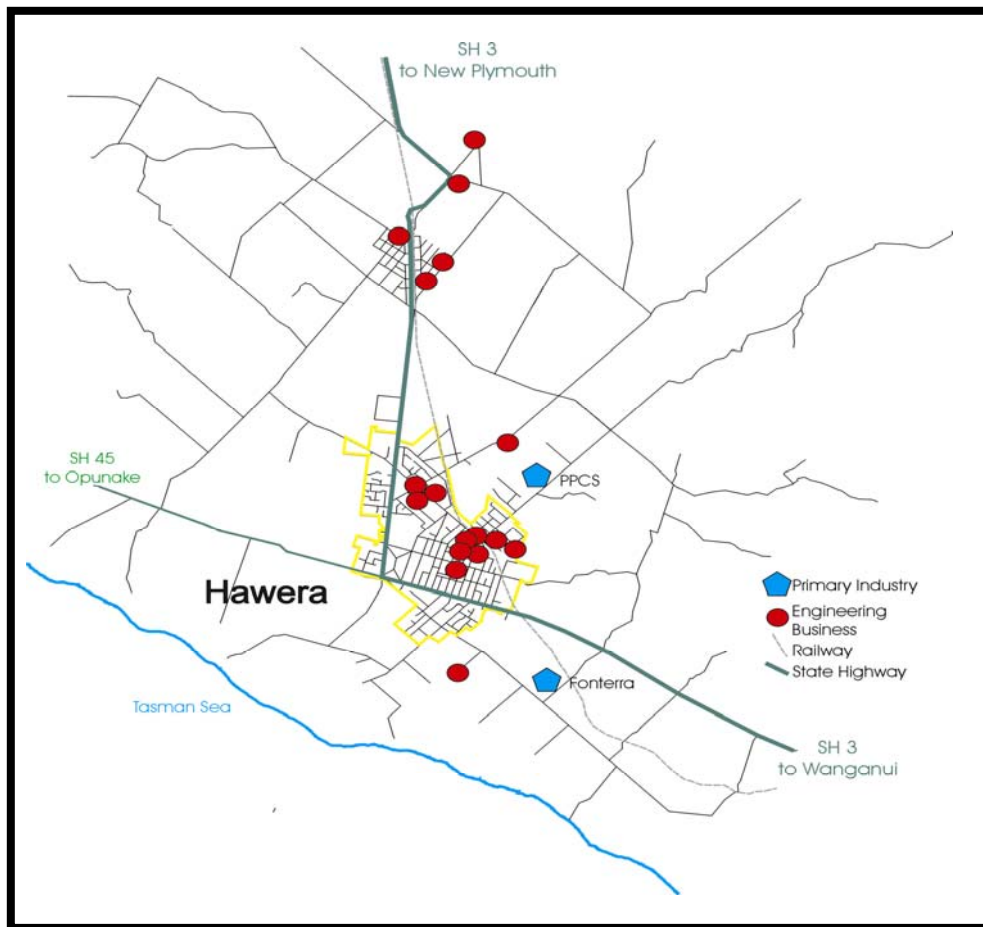


Source: South Taranaki District Council, 2008b.

Note: Although Yarrows is shown on this map, it is not a primary meat or dairy product processing industry.

The economic significance of these industries is further demonstrated by the multiplier effect they have on the district's economy in terms of supporting industries and businesses through horizontal (lateral) and vertical linkages. One example of the lateral linkages is the growth of the engineering service sector in the district. In 2006, there were approximately 39 engineering companies in South Taranaki servicing the needs of the dairy and meat processing industries (as well as the developing oil and gas sector). Figure 7 shows that the core engineering capability in South Taranaki District is centred on Hawera. Within a five kilometre radius there were approximately seventeen engineering businesses servicing the seven key industrial sites discussed. In addition to serving the needs of the local industries, 56 percent of the business of these firms was export focused.

Figure 7: Map of Hawera Engineering Density



Source: South Taranaki District Council, 2008b.

Table 2 (on the following page) provides details of 23 of the 39 engineering firms that service the dairy and meat processing sites in South Taranaki District. Firms with a minimum of two or more full time equivalent (FTE) staff or more were listed.

Table 2: South Taranaki Engineering Companies

Company	FTEs	Type
Global Stainless Ltd	2	Manufacturing Engineering
G T Engineering Ltd	2	Manufacturing
Quirk Engineering Ltd	2	Manufacturing Engineering
AEA Stainless Ltd	2	Manufacturing Engineering
Hollards Engineering Ltd	2	General
Icon Automation Ltd	4	Technology
Egmont Insulation Ltd	4	Technology
Bloeman Engineering Ltd	4	General
Matthews Eng Ltd	5	Manufacturing/General
McCartney & Hunger Ltd	5	General
BRT Ltd	6	Manufacturing Engineering
Reid Engineering Ltd	6	Manufacturing/General
Ace Equipment Ltd	8	Manufacturing
Armourshield Eng Ltd	8	Manufacturing/General
Ivan Jones Eng Ltd	10	Manufacturing
Hooper Engineering Ltd	11	General
Mobile Engineering Ltd	15	Manufacturing/General
Nickel Engineering Ltd	18	Manufacturing/General
Hotter Engineering Ltd	25	Manufacturing/General
Carac Couplings Ltd	38	Manufacturing/General
NDA Engineering Ltd	66	Manufacturing/General
Croucher & Crowder Ltd	70	Manufacturing/General
Robt Stone Stainless Ltd	88	Manufacturing/General
Total FTE Employees	401	

Source: South Taranaki District Council, 2008b.

3.3 Oil and Gas Industry in the South Taranaki District

The second major economic driver for the Taranaki region is the oil and gas sector. The discovery of hydrocarbons in the 1960s brought additional wealth and development to the Taranaki region. Oil and gas exploration produced a series of economic spikes and troughs in the past five decades (1960s to 2006) due to the injection of large expenditure into the sector at different times of exploration and development. These spikes and troughs are also associated with the influx of a highly skilled technical workforce into the district, often on a short-term temporary basis but at other times on a longer term, which occasionally puts pressure on local accommodation, the supply of skilled tradesmen, transport and allied services. For example, the development of the Genesis Energy offshore oil and gas project brought in over 400 contractors, including non-resident managers, and a large outsourcing of technical specialists. Prospecting, discovery and commercialisation create considerable

employment opportunities and inject people and money into the district. This provides a short-term positive infusion of wealth into the local economy as well as opportunities for longer-term investment in infrastructure to sustain the local economy.

The Taranaki region currently has New Zealand's only commercial oil and gas structures. The geological formations of the Taranaki basin, both on and off shore, are described on the Crown Minerals web site:

All of New Zealand's producing oil and gas fields are located in the Taranaki Basin. The basin is an oil, gas and condensate province. A majority of fields, including the large Maui and Kapuni fields, contain mainly gas but nearly all fields produce a proportion of oil/condensate. The offshore Tui and Maari discoveries are predominantly oil. Depending on how some smaller fields are amalgamated, there are 10 fields currently on production. The Maui field has recently accounted for about three-quarters of New Zealand's hydrocarbon production. (Crown Minerals, 2007).

The Crown Minerals web site describes the Taranaki geology as comprising "Composite basin morphology from diverse episodes of tectonic activity. Cretaceous to Quaternary basin fill up to 9 km thick". The region's oil and gas prospects are described as having:

The resulting features are generally asymmetric with more steeply dipping beds to the west. The developed and undeveloped fields at Kapuni, Mangahewa, Kupe, Maari and Pohokura fall into this category. ...most of the obvious inversion structures in the basin have been penetrated during the past five decades. Future exploration of this play concept will involve step-out wells on these features to delimit any traps with stratigraphic or diagenetic components along the margins of the structures. (*ibid*).

Extensive areas of the Taranaki basin are still poorly explored. While most discovered reserves are in Eocene sandstones, the following formations are often the hosts of hydrocarbon discoveries:

- Palaeogene reservoirs are primarily gas-condensate,
- Kapuni F sands are oil,
- Neogene reservoirs are primarily oil.

The influence of oil and gas on the South Taranaki economy was captured succinctly in the TRC report when it stated that:

The presence of oil and gas in Taranaki has given rise to new industries involved in the processing, distribution, use and export of hydrocarbons. Production stations or gas treatment plants are found at Oanui, Kapuni, Waihapa, Rimu, Kaimiro and the McKee oil and gas field, with the Pohokura production station currently in development (Taranaki Regional Council, 2005, p5).

More specifically, a 2007 Business and Economic Research Ltd (BERL) report puts the employment multiplier for the oil and gas industry at 3.66 for Taranaki. It states that, in 2006, the industry employed 817 FTEs (1.8% of regional employment) and contributed 17% of regional GDP (\$741 million) (Leung-Wai et al, 2007). However, when compared with the dairy production and processing sector with 6,160 FTEs (14% of regional employment) and an employment multiplier of 2.51 (*ibid*, pp24 and 27) amid which represents 17% of regional GDP (\$732 million), the figures show that while the oil and gas sector is significant to New Zealand export sector, dairy and meat processing has a stronger economic impact on the local economy and SME retailers in South Taranaki.

3.3.1 Historical Overview

Taranaki is the only region in New Zealand that produces oil, gas and condensate products on a commercial level, although other regions such as Wairoa, Hawkes Bay, Canterbury and the South Island Great South deepwater basins may have commercially viable deposits. Local Maori had knowledge of oil seeps in the Taranaki region, and early European settlers began exploration in Taranaki as early as the 1860s. Exploration stepped up in the post World War II period near Moturoa, New Plymouth, but was abandoned in 1972 after producing only around 250,000 barrels. Shell-BP-Todd (SBPT) consortium started production of natural gas in 1969 at Kapuni, South Taranaki (Shell Todd Oil Services Ltd, nd).

Ninety percent of New Zealand's gas is extracted from two South Taranaki wells, Maui (offshore) and Kapuni (onshore).

In New Zealand, 90 per cent of natural gas production comes from two gas fields: Maui (offshore) is mined by the Maui Mining Companies; and Kapuni (onshore) is mined by Shell and Todd. The remainder of the country's gas requirements come from a number of fields including the McKee, Kaimiro, Waihapa/Ngaere/Tariki/Ahuroa and Ngatoro fields. (Contact Energy Ltd, 2008).

Commercial production of gas from Kapuni had significant implications for New Zealand's energy self-sufficiency, providing an efficient and low-cost energy source for peak electricity generation. Kapuni gas also supported local dairy processing industries using small co-generation plants. Such as Fonterra Whareroa, where surplus electricity is fed to the national grid and has also enhanced the use of compressed natural gas (CNG) and liquid petroleum gas (LPG) in vehicles. Gas was also subsequently developed and

commercialised for industrial and domestic heating and processing. These uses led to the development of new skills, technology and infrastructure.

Oil production was projected to rise by nearly 50 percent between 2006 and the end of 2008:

Ministry of Economic Development statistics show that New Zealand's total oil production in the 2006 year was 6.8 million barrels. With 11 million barrels being produced from the Tui field, continuing production from other fields plus new condensate flowing from the Pohokura field, New Zealand oil output is expected to be over 18 million barrels in the next year. New Zealand's self sufficiency in oil in 2006 was 17%, the lowest it has been for many years. Self sufficiency is likely to rise to approximately 50% next year and possibly higher once the larger 50 million barrel Maari oil field comes on stream at the end of 2008. (Crown Minerals, 2007).

The Taranaki Regional Council describes the oil and gas industry's contribution to the regional economy:

The oil and gas industry is a major contributor to the Taranaki economy and is of strategic importance to New Zealand, with the Taranaki Basin currently New Zealand's only hydrocarbon producing area. The Kapuni and off-shore Maui fields contribute the major portion of New Zealand's natural gas resources, despite the gradual decline of Maui's resources. Other smaller fields produce crude oil and/or gas and condensate. By world standards, Taranaki remains under-explored. Over the next few years the amount of offshore and onshore exploration is expected to increase, with over \$NZ500 million scheduled to be spent during the next five years on new permits. (Taranaki Regional Council, 2005, p5)

3.3.2 South Taranaki District Infrastructure

The oil, gas and condensate discoveries and development led to the establishment of a number of processing points in South Taranaki, such as:

- Oanui production station, where the Maui (fourteenth largest gas field in the world) pipeline comes ashore for separation and distillation;
- Rimu production site, Mokoia;
- Kapuni, the site of the original large gas field in South Taranaki; and
- Origin Energy Kupe site at Inaha (Canavin, 2006).

Many of the fields, in addition to producing natural gas, provide other useful products, which include condensate, naphtha, natural gasoline, CO₂ and LPG. These products are separated and either exported or sold locally. After the gas is treated, it is distributed nationally via a pipeline to cities and towns such as Hawera, New Plymouth, Auckland and Wellington.

The natural gas is supplied to industries in either of two ways:

- Directly by high pressure transmission pipelines; or
- Through a low pressure distribution system.

Natural gas from South Taranaki is piped to Methanex New Zealand Limited in North Taranaki. There, methanol is produced at the Motunui and Waitara Valley plants. Both of these plants were shut down as gas supply dwindled, but recently they have been reopened as prices surged and other gas supplies became available. The crude methanol is manufactured from natural gas and either distilled into chemical methanol (AA grade) or made into synthetic petrol. This ethanol is in strong demand overseas, and most of the NZ production is exported for use in manufacturing processes. One of the exported products is MTBE (methyl tertiary butyl ether), a fuel additive. This is produced using a mixture of Kapuni LTS (low temperature separator) and Maui gas as a feedstock, with Maui gas as fuel. Both are extracted in the South Taranaki district. Kapuni gas is favoured for use because the high CO₂ content is valued by the petrochemical industry. (Ministry of Economic Development, 2003, p44).

In general, only very large gas users are supplied with gas directly, and they are often situated near to one of the transmission pipelines. Types of industries that are supplied in this way include:

- Methanol production (North Taranaki);
- Urea production (Ballance–Agri Nutrient, South Taranaki);
- Dairy companies (South Taranaki);
- Meat works (South Taranaki);
- Pulp and paper mills (Bay of Plenty);
- Oil refining (Whangarei);
- Hydrogen peroxide manufacture (Waikato). (*ibid*)

An example of the downstream processing of one of the South Taranaki district companies (listed above) using natural gas is the Ballance-Agri Nutrient Company located at Kapuni.

In 2006, this company employed 116 staff and extracts nitrogen from a blend of Kapuni and Maui gas. The urea produced is mainly used for agricultural use. (Houwens, 2006).

3.3.3 The Impacts of Oil and Gas on the Local Economy of South Taranaki

A great deal of down stream capture takes place in North Taranaki. Examples include Dynea Ltd, New Plymouth (urea-based formaldehyde glues), and the two major gas-methanol plants at Motunui and Waitara Valley. This aspect of the oil and gas industry is described on the Venture Taranaki web site which states that “[a]n ammonia urea plant is also located at Kapuni, a formaldehyde resin plant at Waitara⁴ and gas-fired power stations at Stratford and New Plymouth.” (Taranaki Regional Council, 2006b, p29).

Industries producing gas also rely quite heavily on the large Taranaki engineering sector to maintain and service plant shut downs in all Taranaki districts.

Long established in Taranaki, the engineering sector services the dairy production and processing industry with specialised skills. An example is the manufacture and maintenance of stainless steel plant for specialised aggressive corrosive environment areas such as the production and storage of whey, ‘mother liquor’ and other milk by-products.

The engineering expertise required for dairy and related industries transfers readily into the specialised metallurgy requirements for oil and gas discovery, extraction and treatment. In addition, the oil and gas industry have downstream processing industries, which support the engineering sub-sector of the District’s economy, such as Balance Agri Nutrients and Kapuni natural Gas plants. Table 3 shows the range of businesses providing support services for the Kupe Gas project in 2008.

⁴ The plant (Dynea) is actually sited in Bell Block, not Waitara.

Table 3: South Taranaki Engineering and Suppliers to the Kupe Gas Site, 2008

Engineering Firm	Service	Service companies	Service Type
Croucher & Crowder Ltd	Eng Ctr	Yarrows (the bakers) Ltd	Food
Carac Couplings Intl Ltd	Eng Ctr	Kiwi Court Motel	Accom
Robt Stone Ltd (Black steel)	Eng Ctr	Linden Park B & B	Accom
Robt Stone Ltd	Site Mgr	Rembrandt Motel	Accom
Robt Stone Stainless Ltd	S/S Eng	Obertech Ltd	Accom
Ivan Jones Engineering Ltd	Eng	Allied Concrete Ltd	Conc
Legend Elect Ctr = Electrical Contractor Eng Ctr = Engineering Contractor Accom = Accommodation S/S Eng = Stainless Steel Engineering		Kerry Lane Motel	Accom
		Tudor Lodge Motel	Accom
		Tairoa Lodge, B&B	Accom/Food
		Hawera Hire Co	Equip
		Mellond Water & Plumbing	Water supply
		Sybrandy Ltd	Earthworks
		Metcalf	Real Estate
		Beccard Motors	Repairs
		Brown Construction Ltd	Building Ctr
		Greaves Electrical Ltd	Elect Ctr
		Waimate Hotel	Accom/Food

Source: South Taranaki District Council, 2008b, p4.

The positive contribution of the supporting companies identified in Table 3 spreads across the local economy through sub-contracting to local businesses. For example, local auto electrician, Hobbs Davy Electrical Ltd, fitted site contractors' vehicles with flashing beacons, a safety requirement for the Kupe site. Beccard Motors Ltd reported an increase in service and repair work for site contractors' vehicles and the local real estate agency owner Selwyn Metcalfe advised of an increased six to eight months demand for furnished rental accommodation. Staff at Yarrows (the Bakers) Ltd bakery in Manaia, a small town close to the Kupe on shore site, was contacted by the Kupe site managers advising of another 200 workmen starting in the week of 7 April 2008, so that the bakery could anticipate a surge in demand for morning and afternoon tea supplies.

On the other hand, a surge of between 200 to 400 workers/contractors arriving in the South Taranaki district over a period of twelve to eighteen months puts considerable pressure on existing SME local companies to raise wage rates, not just to compete with the influx of highly paid contract labour but to retain existing staff. For example, Hawera engineering company Croucher and Crowder Ltd's CEO Marvin Towers suggested that:

The increased demand for skilled engineers at the Kupe site causes wage levels to rise, not just to compete, but so we can retain a core of skilled staff within our business. These increased wage rates do not fall back after the development finishes, so the new wage levels result in increased labour charge-out rates to locals for work not related to the Oil and Gas development. The same pressure of increased wages and demand for skilled staff spills over to other trades such as electricians, skilled builders etc. (Towers, 2008)

Also impacting on South Taranaki SME businesses is the commuting of workers, particularly oil and gas industry senior management, into South Taranaki from New Plymouth district rather than residing in South Taranaki. As an example, Ballance Agri-Nutrients Ltd is a large company with a large labour pool and day-to-day service requirements such as engineering, energy, water, etc. As such, it exerts considerable positive influence in the local economy. Of its 116 staff, approximately 50%, mainly middle management, commute daily from New Plymouth and other towns to the Balance Agri-Nutrient site (Houwens, 2006). This phenomenon is not isolated to the oil and gas industry and influences factors such as spending at local retailers; school pupil numbers and service clubs in South Taranaki. Table 4 lists major employers in South Taranaki and indicates the approximate number (provided by the company managers) of employees who commute into the area as at April 2006.

Table 4: Number of Commuting Employees into South Taranaki District

Major Companies	Total Staff	Commuters	Commuters (%)
Fonterra Eltham	530	80	15%
Fonterra Whareroa	1,000	150	15%
Fonterra Kapuni	105	10	10%
Smith Bros	100	0	0%
Silver Fern Farms Hawera	630	12	2%
Silver Fern Farms Waitotara *	180	90	80%
Ballance Agri-Nutri	116	58	50%
Totals	2,661	400	

Source: South Taranaki District Council, 2006.

Note *: This company is near the Wanganui District border and most staff reside in or near Wanganui.

Excluding Silver Ferns Farms Ltd, Waitotara, which because of its proximity to the Wanganui District draws most of its labour force from that area, approximately 12.5 percent of a total of 2,481 employees in major South Taranaki industries elect to live outside of the South Taranaki district. This 12.5 percent of the large labour force represents discretionary income not spent in the district, which is a lost business opportunity for local businesses. Obviously this also has social implications for South Taranaki, as employees or their families tend to belong to clubs, organisations and schools nearer to their places of residence.

As shown earlier in this chapter, it is the stop-start nature of the oil and gas exploration and commercialisation that creates the greatest spikes in the local economy. As a direct comparison, in 2002, the Mayor of New Plymouth described how the construction of several methanol plants in North Taranaki had affected the New Plymouth district economically:

In the past we've had a boom and bust economy. There were the Think Big projects. The development of Motunui (synthetic petrol plant) for example — 5000 people to build it and 132 to run it. Once Motunui was built house prices dropped, schools started emptying (Chamberlain, 2002, p36).

CHAPTER FOUR: THE IMPACT OF BBRs ON SME RURAL RETAIL BUSINESSES

4.1 Literature Review and Introduction

Specialty shops dominated the international retail market from the late 1800s to the early 1930s when the first business described as a ‘supermarket’ opened in the USA in 1916.

The Great Atlantic & Pacific Tea Company was one of the earliest examples:

The Great Atlantic & Pacific Tea Company, which in 1910 opened the Economy Store format, [sold] basic dry groceries such as tea, coffee and tinned foods. These items were sold in relatively high volume at low margin, another hallmark of the supermarket. They also only traded in ready cash and generally did not allow credit nor delivery to customers. This "cash and carry" concept grew rapidly over the coming years. (About Retail, nd).

The origins of Big Box Retailers (BBRs) in New Zealand can be traced to the first supermarkets. In New Zealand the earliest supermarket was the George Courts department store established on Karangahape Road, Auckland in 1886 (Bennett, 2005). More recent examples are businesses such as The Warehouse Ltd, and grocery stores operated by chains such as Progressive Enterprises Ltd and Foodstuffs NZ Ltd.

The points of difference for supermarkets and BBRs have been found to be a lower cost of sales and other overheads, resulting in increased profit margins. For example, Stone, in an article entitled “Competing with the Mass Merchandisers”, described how the American company Wal-Mart used a lean distribution system to reduce costs and then compared this with competing SMEs’ wholesale distribution:

About 78 percent of the merchandise sold in Wal-Mart stores comes through the distribution centres. The remaining merchandise is delivered directly from the factory or through vendors and distributors. The efficiencies generated by this type of distribution system are enormous and play a large role in the success of these large companies. Discount Store News reported that Wal-Mart’s distribution costs amounted to only 1.3 percent of its sales, compared to 3.5 percent for a major competing discount chain and 5.0 percent for a major general merchandise chain. In other words, for every \$100 worth of merchandise sold, the cost of getting it from the factory to the retail store was \$1.30. It is not hard to see why smaller retailers have such a hard time competing price wise when their merchandise must sometimes go through multiple layers of wholesalers and distributors. (Stone, 1995).

In some cases the BBR/supermarket companies grow into extremely large businesses and diversify into non-food products. In a 2006 press release entitled ‘Non-Food Items Sales Drive UK Supermarket Growth’, RNCOS, a market research and information analysis company based in India, described the increase of market share by UK supermarkets into non-food items. The report stated:

UK Food Retailing Market Forecast (2005-2010) estimates the supermarket sales to reach 88.5 billion GBP [British Pounds Sterling], which was 74% of the total market share in 2005. RNCOS experts account non-food items sales to be the main driver in the growth of total sales in 2005, which was through supermarkets. Analysing over the long term, UK supermarkets have almost doubled their sales of non-food items like CDs, DVDs, and clothing in the past five years. Supermarkets were also prominent for children's clothing and with price reduction they have captured a major share. (RNCOS, 2006).

In Australia, The National Association of Retail Grocers of Australia (NARGA) was so concerned by the level of market domination by BBRs that it sought governmental support and protection for Australia's small independent grocers to ensure that competition was retained in the retail grocery sector. The national NARGA website stated:

[T]wo major chains control over 80% of the retail grocery market in Australia, with the independents just under 20%. If nothing is done to stem the growing stranglehold of the major chains, by the year 2010 the chains will hold 85% and with the independents at 15% they will be facing the prospect of being little more than skeletons in the sand. (National Association of Retail Grocers of Australia, nd).

The NARGA website explained how the impact of these major companies impacted on a broad spectrum of SME retailers, for example:

The chains' domination has a very serious and adverse impact across a range of business sectors and geographical regions. The small businesses specifically affected include butchers, bakers, pharmacists, florists, newsagents, petrol station operators and liquor outlets. (*ibid*).

NARGA's national spokesman, Alan McKenzie, explained that internationally there are varying levels of saturation by the BBR/supermarkets and that they are limited by legislation in their domination of the market. This limitation does not apply in Australia or New Zealand but does exist in the UK, the USA and Japan:

In the United Kingdom, the three largest grocery chains have less than 45% of the market, in the USA less than 21%, and in Japan 17.5%... We have laws combating the media barons and Government has a 'four pillars' banking policy to stop the major banks totally dominating, but the big chains are allowed open slather in our retail markets. (*ibid*).

However, McKenzie's claim that the UK has placed limits on market domination (*ibid*) was not borne out by the following figures. Table 5 shows that seven supermarkets compete for approximately 73 percent of the UK grocery market share. This contrasts with two major chains dominating the New Zealand market and another two dominating the Australian market. Table 5 below compares the Australian, UK and New Zealand situation as at June 2007 (Reuters, 2007).

Table 5: Supermarkets' Share of Retail Market in Australia, the United Kingdom and New Zealand, 2007

Australia		United Kingdom		New Zealand	
Supermarket	Market Share	Supermarket	Market Share	Supermarket	Market Share
Woolworths, Aldi, Pick n Pay (Franklins)	80%	Tesco	31.6%	Foodstuffs (NZ) Ltd	55%
IGA (Foodworks & Richies)	18.9%	Asda (Wal-Mart)	16.6%	Progressive Enterprises Ltd	45%
Others	1.1%	Sainsbury's	16.2%		
		Morrisons	11.2%		
		Waitrose	3.9%		
		Sommerfield	3.8%		
		Other	16.7%		
Total:	100%	Total:	100%	Total:	100%

Sources: Australia: Price Waterhouse Coopers, 2007, p6.
New Zealand: Progressive Enterprises Ltd, nd.
United Kingdom: Reuters, 2007.

However by July 2008, intense competition between the New Zealand supermarket duopoly saw market share change:

Woolworths is losing market share to local cooperative Foodstuffs in the battle of the two New Zealand supermarket operators, according to JP Morgan analyst Shaun Cousins. The duopoly controls virtually all of New Zealand's grocery market. Woolworths, which runs the Foodtown, Countdown and Woolworths brands, has seen its market share fall from 45 per cent to 43 per cent, while Foodstuffs has seen its share rise to 57 per cent....(New Zealand Press Association, 2008b).

Another trend, retail convergence, has also played a significant part in the decline of SME (and family) retailers in New Zealand. For this study, retail convergence is defined as 'the agglomeration, capture, or expansion into and aggressive acquisition of retail markets not previously core businesses. McKenzie (NARGA, nd) described the impact of retail convergence on family businesses, suggesting that it reduces consumer choice along with the market share of independent grocers. The downstream affect means fewer jobs in small business, which is the silent engine of our economy, and over time this will result in small town 'Mom and Pop' stores going to the wall.

The chains' domination has a very serious and adverse impact across a range of business sectors and geographical regions. The major chains' insatiable appetite for market share is now adversely affecting butchers, bakers, florists, pharmacists, petrol station operators, newsagents and also banking services and liquor outlets. (National Association of Retail Grocers of Australia, nd).

The history of New Zealand retail convergence in New Zealand may be traced to the birth of the Four Square group in 1922, when the Four Square group founder, Heaton Barker, became concerned at the activities of the chain grocery stores of the day. Because of their buying power and competition, the large chains of the time were making life very difficult for independent grocers in Auckland. In July 1922, Barker and members of Auckland's Master Grocers Association discussed plans for a co-operative group of independent grocers. This group registered as Foodstuffs Ltd, later Foodstuffs (Auckland) Ltd, on 1st April 1925. (Foodstuffs, 2007).

Retail convergence by supermarkets has played a significant role in South Taranaki. An example is Tom's Supermarket which opened in Hawera's CBD in 1964 and was owned by Tom Withey. Initially, Tom's Supermarket only retailed bulk grocery items. However, after twelve months, meat cabinets were installed, and the business retailed bulk packs of budget (mutton) sheep meat. Over the next forty-plus years the business evolved into a large New World supermarket, assimilating, or converging many retail business segments into its retail mix. Examples include fresh fish, baked goods, haberdashery, wine and beer, hardware, delicatessen products and flowers. Many of the business segments brought into the mix had formerly been the market niche of stand-alone SME businesses in the town.

Another mega supermarket (Pak'n Save) was opened in November 2006, joining the two major supermarkets already in Hawera (in addition to New World, there is also a large Countdown outlet in the town). The arrival of these supermarkets in Hawera resulted in the closure of ten independent retail butchers in the period from 1970 to 2003. (South Taranaki District Council, 2006).

This pattern has been replicated all across New Zealand. By 1948, Four Square opened New Zealand's first self-service store at Onehunga, Auckland, and subsequently the self-service concept quickly spread throughout New Zealand. In 1963, Foodstuffs Ltd adopted the New World Supermarket format, and by 1986 the Pak'n Save group opened its first store in the Northland town of Kaitia. In February 2009, the *New Zealand Herald*

reported that by July 2008 Foodstuffs (NZ) Ltd (57 percent)⁵ and Progressive Enterprises Ltd (43 per cent) dominated the supermarket trade in New Zealand (New Zealand Press Association, 2008). New Zealand's major retailers (BBRs as well as supermarkets) seek to acquire greater market share of diverse retail markets through intense competition.

This increasing domination of retail market share in New Zealand follows overseas trends. For example in the UK, Tesco, a large supermarket chain, increased sales by broadening its market segment to capture grocery and merchandise sales from hypermarkets⁶ with an average size of 6,500 square metres (approximately 70,000 plus square feet) of retail floor space to petrol station forecourts with 200 square metres of retail space (Coriolis Research Ltd, 2004, p37).

The second changing economic development pattern is the trend of BBRs establishing non-supermarket mega stores in small centres (including rural service towns) such as The Warehouse, Mitre 10, Bunning's Ltd (trading as Benchmark in Hawera) and Noel Leeming Ltd. In Hawera, with a population of a little over 8,367 (Statistics New Zealand 2006), retailers opened mega stores on the fringes of town. This lowered foot traffic in the CBD, increased the empty shop rate and resulted in a strip mall development as the large retailers replaced town-centre outlets.

BBR retailers occupy large, warehouse-like retail premises and sell at lower prices and higher volume at multi chain-store outlets. These outlets have extended opening hours, often with free parking available. In contrast, SMEs frequently have greater owner-involvement in day-to-day management. This characteristic is identified by the Inland Revenue Department (IRD) as one of the characteristics of SMEs.

The typical characteristics of SMEs include a lower level of specialist tax expertise, greater owner-involvement in day-to-day management, a smaller human capital base, a higher level of debt funding and greater exposure to personal liability. SMEs range from micro-businesses (such as taxi drivers and family-owned dairies) to larger firms with the potential to grow and develop globally connected operations. (Cullen & Dunne, 2007, p2)

⁵ Note: Foodstuff and Progressive Enterprises hold a retail duopoly over the supermarket food market in New Zealand. (Progressive Enterprises, nd).

⁶ Hypermarkets which sell everything from groceries to electronics in stores measuring about 100,000 square feet on average. (9,290 sq m). (Knight, 2005).

Because of the small size and purchasing power of SMEs, they are unable to purchase products in sufficient bulk to achieve substantial discounts on products from manufacturers. The inability of SMEs to purchase in bulk compels them to purchase smaller product lots through a wholesaler at a higher price. The SMEs point of difference or unique selling point is usually the ability to offer superior product knowledge and personalised service.

Similar patterns have been observed internationally, particularly the well-documented spread of the Wal-Mart stores in the USA. Studies by Stone in Iowa have shown that some towns with populations below 5,000 lost nearly half of their retail trade when Wal-Mart came to town (Stone 1997, p16), while Quinn (2000, p5) estimates that for each Wal-Mart store in existence, 100 family-owned businesses have gone under. Stone identified the changes to retailing:

Shopping malls fundamentally changed the way Americans shopped. They drew shoppers from the downtown to the shopping center location, typically at the edge of town or in a suburb. Shopping centers caused the demise of downtown, most of which have never fully recovered. (Stone, 1997, p3)

An article on the Economist.com website in April 2004 argued that Wal-Mart had a negative impact on small business in rural areas. That article states that “Wal-Mart manages nearly 3,000 giant discount stores and hypermarket Supercentres. Eight out of ten American households shop at Wal-Mart at least once a year.” (Economist, 2004).

This is a pattern which has struck the death knell of traditional rural retailing all throughout the USA. Furthermore, Quinn (2000, p5) estimates that 1.5 jobs are lost for every one job gained when Wal-Mart comes to town. Stone further argues that “[i]t appears that merchants in the nearby small towns may have continued to operate the first two years, but began closing their stores by the third year, thereby causing the greater decrease in sales than in the distant towns.” (Stone, 1995, p21).

The impact of Wal-Mart’s arrival in small rural towns with little or no population growth will directly impact on SME retailers as Stone suggested:

For example, if a new Wal-Mart Supercentre opens in a town with no population growth and generates sales of \$70 million per year, the \$70 million doesn’t come out of thin air; it comes out of the cash registers of competing businesses in the host town and surrounding areas. Some of the host-town businesses, like grocery stores, may suffer huge losses and be forced to close, but even businesses suffering smaller losses can become nonviable as a result. Perhaps, the most

tragic impact of a Supercentre is upon businesses in outlying, smaller towns. The owners of these stores have absolutely no say in the decision to allow the Supercentre to build but often are severely affected. (Stone, 2005).

In a paper entitled the “Impact of the Wal-Mart Phenomenon on Rural Communities”, Stone argued that Wal-Mart impacted on clothing and apparel retailers:

Apparel store sales dropped fairly steadily in the Wal-Mart towns in the years following the opening of a Wal-Mart store, ending at 28 percent below the pre-Wal-Mart level after 10 years. This probably means that primarily the stores selling low-end apparel that competed directly with the apparel sold at a Wal-Mart store suffered these losses. The apparel stores in non Wal-Mart towns also suffered a steady decline in sales in the years after a nearby Wal-Mart opening, ending year 10 at the same level as apparel stores in Wal-Mart towns, 28 percent. (Stone, 1997, p11)

Litz and Walker (2007, p214) cite to and discuss the work of Archer and Archer (1994), Samli (2004), and Mitchell (2006) in support of their argument that developments such as the emergence and increasing dominance of BBR make long-term survival prospects for many small retailers tenuous at best. In contrast, Zhu, Singh and Dukes (2005, p4) argue that if an incoming business has little market overlap, the positive externality could significantly outweigh any negative effects.

Litz and Walker further cite Mitchell (2006) who argues that:

Chains have used their immense power to hold down retail wages, which have not kept pace with wage growth in the rest of the economy. Work at most of the Big Boxes is gruelling and demoralising with pay well below the poverty line. Staff turnover rates hover about fifty percent at many of these chains; meaning half of all workers quit or are fired within a year. (Litz & Walker, 2007, p 214).

Similar concerns about the impact of BBRs and mega stores have been expressed in New Zealand. Environmental campaigner Warren Snow (former manager of the Tindall Foundation), speaking at the Green Party annual conference in 2003, referred to the job losses caused by closures of SMEs affected by BBRs, and how the influx of BBRs was changing CBDs and shopping patterns throughout the country:

Big box mega-retailers are devastating local communities as many shops close in the main streets and local shopping patterns change. ...[S]mall towns have been left with second-rate and struggling retailers while people drive to the outskirts to the mega-retail stores. Snow argues that a number of the large companies — including The Warehouse, Harvey Norman and Rebel Sports — fail to "adequately address the issue of sustainability" in terms of their social and environmental impacts. He doubts that the big chains employ many local people when compared to the jobs lost as competing local stores close down. (The Jobs Research Trust, 2003).

The Jobs Letter also quoted comments by the co-leader of the Green Party, Rod Donald, that were reported in the *Christchurch Press*:

In an article in the Christchurch Press, Donald argues that "big box" retailing wrecks communities by forcing out small retailers; sells cheap products that quickly end up in landfills; and deprives thousands of New Zealanders of manufacturing jobs by sourcing products produced by a "new form of slavery" in the Third World. (*ibid*).

The Jobs Letter goes on to report Donald as saying:

The impact of big box retailing is profound. A study by economists at BERL has calculated that every \$1 million of imported products costs the New Zealand economy around 20 jobs and more than \$500,000 in welfare payments, loss of taxation and loss of spending power. From the figures in the most recent annual report we see that the products imported by The Warehouse Ltd alone during the years 1990-2001, cost the New Zealand economy a total of \$2,040 million. Based on the above, The Warehouse's imported products cost around 75,000 New Zealand manufacturing jobs in the same period. Add to this the imports of other major chains such as the Briscoes Group, Farmers and the major apparel retailers and we start to see the full magnitude of the damage. (*ibid*).

The impact of BBRs on the New Zealand retail CBD are briefly identified by Sayers, Low and Davenport. The paper described the impact on the small owner-operator SME stores ('Mom and Pops').

Unfortunately, the rise of the corporate retail superstore has come at least in part at the expense of traditional, local "mom-and-pop" dealers. While shoppers seem to uniformly appreciate the often lower retail prices available at the mass merchandisers, many also rue the loss of personalized customer service previously provided by friendly, local dealers.

The retail environment of the local 'main street' is often seen as being integral to the life of communities. However, this view of small town life is mythologized at least to some extent: although friendly neighbours may conduct much of their public life through shopping in the town's main street, in small towns there are patterns of exclusion and inclusion that are un-remarked upon in both the international and New Zealand literature. (Sayers et al 2007, p19)

However, the paper's focus was on the social and cultural influence that The Warehouse has on Maori people in the Kaikohe and Kerikeri districts of New Zealand and not on the long-term strategic consequences that BBRs have on the New Zealand CBD SME retail businesses.

An impact report by Social Audit New Zealand, commissioned by The Warehouse Group to support their 1996 entry into the rural town of Dannevirke, identifies the attraction factor that pulls retail purchasing power from small rural towns to a BBR complex.

The Dannevirke surveys support the notion that The Warehouse attracted both local and regional shoppers. Just over half the business respondents in 2002 suggest that the majority of their customers are 'locals'. This is down from the 2001 survey when three-quarters of businesses believed local shoppers dominated trade. The implication is that 'out-of-town' trade has increased over the last 18 months. (Low et al, nd, p4)

Low et al acknowledge that the Wal-Mart business model was used as the basis for The Warehouse's retailing format. However, the paper does not address the replacement effect that the global acquisition and importation of goods has on the previous local manufacturers and suppliers:

TWG (The Warehouse Group) commissioned independent research from, a community enterprise specializing in social impact assessment, to explore the impact of its stores. TWG is also accused of fuelling consumerism, selling inferior goods and undermining local manufacturing by selling mainly imported goods. The validity of these arguments was not the focus of the present research and so, are not directly addressed. (Low et al, nd, p2)

In South Taranaki, rural/urban population decline and increased retail convergence coupled with the arrival of BBRs are without doubt the three most significant factors impacting upon rural SME retailers' profitability and survivability. This chapter considers the impact and influence BBRs exert on SME retailers and the changes in retail structure. It also illustrates the fact that over time retailing history is repeating the process of large companies dominating the retail scene.

Large BBR chains in New Zealand continue to encroach, absorb and engulf the traditional SME speciality shops, such as those retailing flowers, wine and beer, clothing, bicycles, hardware and timber supplies, underwear, furniture and electronics. The drive to capture market share is illustrated in a 2007 *Wairarapa Times-Age* article, which lists additional business segments being added to a new mega store.

[T]o capture the lion's share of the hardware and timber market in Wairarapa...Mitre 10 is to build a multimillion dollar Mega Store in Ngaumutawa Road... It will employ around 100 people over a seven-day week... The retail floor area will cover 9000sqm, which is about double the floor area of the new Pak'n'Save supermarket in Kuripuni... It will also have a timber yard, plants and garden section, a drive-through for building material sales, a children's play area, a cafeteria and 222 car parks. (Farmer, 2007)

Retail convergence often leads to control of the supply line via vertical integration. One of the arguments in support of retail convergence is that it delivers lower prices to the customer than SMEs can offer. Furthermore, suppliers, growers, transporters and other associated businesses are guaranteed stability and certainty to their businesses, albeit at reduced contract prices.

However, Stone noted that the perception of better prices was not always the case, arguing that:

[T]hrough advertising and word of mouth, the company [Wal-Mart] has developed a strong reputation for low prices. Many people strongly believe that everything is, in fact, lower priced every day. People who carefully 'comparison shop' have found that everything is not at the lowest price at Wal-Mart everyday. However, perception is more important than reality, and most people perceive that nearly everything has a lower price at Wal-Mart. (Stone, 1995)

Similar vertical integration has occurred In New Zealand, but increased competition between supermarkets and BBRs has put pressure on suppliers to cut prices and contribute to marketing (advertising). Colin Verlaan, Chief Executive Officer of New Zealand Palm Co in New Plymouth, a company that supplies The Warehouse, supermarkets and Mitre 10 chains, described his company's business relationship with The Warehouse:

We supplied The Warehouse at normal wholesale rates for two years, then as competition increased from Mitre 10, Mega Mitre 10, Bunnings and supermarkets, their purchasing manager came to us and informed us we would have to reduce our wholesale supply price by 10% across the board or they would no longer take our palms. Quite a number of suppliers we know in the horticulture trade were forced to accept the reduction because of the large quantities they supplied. Their businesses were geared to high production rates of product, which apart from the BBRs, no other outlet could handle the numbers. (Verlaan, 2007)

Verlaan suggested that other chains could impose even more severe 'terms of trade':

Whilst 'the Warehouse' was severe enough, the Mitre 10 chain is worse, for example on top of our normal wholesale rate we have to contribute 6.5% towards marketing costs, a further 1% to ensure guaranteed payment of our account, plus if they are opening a new store they want a special additional discount of 10% for the month of the opening promotion. But towards the end of the month they stock up 'big time' at the 10% discount rate which leaves us with no market for the next two to three months as the branch is loaded with stock for quite a period. (*ibid*).

The arrival of The Warehouse to Dannevirke's CBD in 2001 is described in a report, entitled *A Business Impact Study of the Newly Opened Warehouse Store in Dannevirke*. The report was commissioned by The Warehouse Limited in 2001 to ascertain its store's impact on Dannevirke retail businesses and its CBD. At first, the Dannevirke experience appears to run counter to both international trends and to what has been experienced in South Taranaki. The report concluded that rather than having an adverse effect on retail businesses, the reverse occurred. For example, the report states that "69% of all competing retailers expected the impact to be neutral or positive" (Davenport et al, 2001, p3), and later "thus a total of 67% (29 businesses) found the initial impact to be positive or neutral" (*ibid*).

This outcome at first glance could be considered significant, as the reports findings are the reverse of most New Zealand and international information available. However, in some cases the arrival of a BBR can improve retail sales, especially if retail leakage was taking

place in the Dannevirke CBD. For example, a paper entitled *Local Competition and Impact of Entry by a Dominant Retailer* by Zhu et al suggests that:

After entry by the discounter, however, its low price draws the poor consumers – the price sensitive segment – out of the market for the items it carries. This in turn fosters market segmentation and softens price competition between the incumbents for these items. Furthermore, the new entrant's unique product offering attracts more rich consumers to visit the location it occupies, which introduces positive demand externalities to the neighboring retailer. (Zhu et al, 2005, p3).

Therefore, on occasions the arrival of a BBR can be advantageous in the short term, but international experience shows that the long term outcome is usually negative. This conclusion is back by the well documented examples of BBRs, such as Wal-Mart and K-Mart, in the USA. For example, a study entitled “Impact of the Wal-Mart Phenomenon on Rural Communities” conducted by Kenneth E. Stone, Professor of Economics at Iowa State University, shows that:

There is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass merchandisers (sometimes referred to as the Wal-Mart phenomenon) than by any other factors in recent times. Studies in Iowa have shown that some small towns lose up to 47 percent of their retail trade after 10 years of Wal-Mart stores nearby (Stone, 1997, p2).

Stone continued, describing the long-term effect of a BBR in rural communities, concluding that over time the smaller stores lose sales to the large competitor. For example, he states that “[a]fter discount mass merchandisers operate in an area for an extended period of time, people gravitate to these stores and consequently cause losses of sales to smaller competing stores.” (*ibid*, p14).

In addition to BBRs, many other companies have diversified into areas which do not necessarily form their core business. For example, many petrol stations throughout New Zealand stock an increasing range of convenience items including bread, milk, drinks, fast foods, clothing items, fish bait and ice. An example is BP, which promotes its Wild Bean Café. The items sold by BP and its Wild Bean Cafés converge on the grocery trade, small motor trade, clothing shops and ‘take away’ food markets. David Russell, the recently retired Chief Executive of the Consumers’ Institute, highlighted the way that these market decisions are changing the face of New Zealand retailing and impacting upon SMEs. His observations on convergence are relevant in most retail CBDs, and his conclusions are very visible among the rural retail SMEs in South Taranaki:

Retailing is having a makeover. Over the past 50 years we have seen the passing of most corner grocers, butchers, and fruiterers. And with a couple of long-established standout exceptions,

department stores have been replaced by large chains, ranging from the ubiquitous Warehouse to the mainly Australian-owned furniture and electronic retailers.

Since 2003 up to 49 percent of a pharmacy can be owned by non-pharmacists. The Warehouse has just announced it intends to break into the pharmacy trade. A professional prescription filling service will continue - a registered pharmacist will still be at the heart of the business, but as an employee and not the owner. We can also expect cheaper prices for pharmacy-only over-the-counter products.

Supermarkets are beginning to stock more general merchandise, everything from garden furniture to power tools. Retaliation is coming from the big chains, most notably The Warehouse with its announced plans to move into food and liquor. Then we have service stations establishing convenience stores and some supermarkets countering with the sale of petrol. Hardware chains are also joining in. We are seeing a convergence of trading into one-stop shops. The big retailers want to entice consumers into mega-shops for basic, regular purchases - and while they have you captive, tempt you with a range of discretionary spending items. (Russell, 2006, p 2).

Both the BBRs and the supermarkets spread from the major population centres such as Auckland once market penetration slowed. The smaller cities in other regions such as New Plymouth were considered for expansion. For example, The Warehouse arrived in New Plymouth 1989⁷; whilst Dalton's New World (1964) was the city's first supermarket to open. As market saturation occurred in these centres, these businesses looked to the smaller rural districts, such as Hawera in South Taranaki, to enable growth in market share. As noted above, the 1964 arrival of Tom's Supermarket in Hawera was, over time, the catalyst for change that affected a wide range of retail SMEs. The subsequent arrival of two more supermarkets and a number of BBRs in Hawera only increased the severity of the impact.

Clearly, big box retailers like Wal-Mart in the US and The Warehouse in New Zealand also bring the promise of new jobs, which is often the selling point to public officials and members of the community. However, critics say that Wal-Mart creates net job losses in communities, because most of its sales are transferred from existing merchants, resulting in little or no economic gain to the host community (Public Broadcasting Service, nd). Stone also argues that BBRs change purchase patterns:

Shopping habits of consumers fundamentally change after the opening of discount mass merchandisers. People purchase a higher percentage of their merchandise from the mass merchandisers and consequently a lower percentage from local merchants. (Stone, 2008, p2)

⁷ Interestingly, Progressive Enterprises Ltd would not provide the establishment date for their supermarkets as they considered the information commercially sensitive.

The arrival of these larger retailers had and continues to have, a significant impact on local communities in a number of ways. For example:

1. The market share balance is changed in the favour of the BBR by providing 'one stop' shopping with much longer trading hours. This convenience appeals to busy shoppers.
2. The BBRs use bulk purchasing and streamlining product supply lines to reduce prices.⁸ This reduces product choice for consumers, but the reduced product variation maximises product runs enabling economies of scale. This reduces unit production costs to the manufacturer.
3. The gradual economic squeezing of competing SME retailers as the BBRs'/supermarkets' process of convergence and price undercutting affects the viability of the SMEs. The convergence reduces the economic vitality and retail mix of the SME retailers as the BBRs utilise their economic advantage of bulk purchasing and streamlined supply chains.
4. BBRs frequently alter the skill characteristics of localised employment in the community, as jobs in SMEs are replaced by jobs in BBRs and supermarkets.
5. The ability of BBRs to purchase bulk orders from high volume, low price suppliers based in low wage countries such as India, Thailand, Indonesia and China gives BBRs a competitive advantage. This advantage is used in conjunction with manufacturer's discounts to enable the use of loss leaders. These are products sold at cost or lower, to entice customers into supermarkets and BBRs.
6. BBRs reduce the number of SME jobs over time, and the positions they replace are often less skilled, often at lower hourly rates, short hour and shift work. This

⁸ Retail giants like Wal-Mart, Office Depot and Price Club are vertically integrated, eliminating the mark-ups of intermediaries. (ibiblio nd). In New Zealand, The Warehouse Ltd follows this trend.

contributes to ‘opportunity loss,’ (i.e. that of becoming a potential SME owner-operator).

The larger retailers arrival had a significant impact, not only in New Zealand and the United States, but also in Australia. For example Collits’ paper, “Small Town Decline and Survival: Trends, success factors and policy issues”, argues that regionalisation of services, centralisation of economic activity, and industry restructuring, combined with improved transport, leads to ‘out shopping’.⁹ These factors contribute to the closure of smaller businesses. Business closures in turn lead to continuing and, in some cases, escalating depopulation from small towns, particularly the loss of youth, resulting in a “loss of social capital” (Collits, 2000).

More broadly, Kenyon and Black present fourteen case studies that examine long-term economic, technological and social factors impacting on small towns in Australia. They summarise factors influencing rural towns and businesses:

Declining demographics are often the product of history and geography, and the stress and uncertainty of volatile world commodity markets, particularly within communities traditionally based on mining, fishing and traditional agriculture. In addition, there are other external pressures affecting the stability of small rural community life: growing environmental concerns, rapid technology changes, changing lifestyle options and consumer habits, low income and rising debt levels, decline in education and health services, national competition policy and practices, deteriorating infrastructure and high family and business costs. Also, throughout the later half of the twentieth century, the government and private sector policies that have sought to regionalize and centralise services have cumulatively had a major negative impact on small towns. Internationally, these issues are common themes, and affect most small inland and remote rural towns and communities (Kenyon and Black, 2001, p1).

Collits’ paper, “The Regional Divide and the Future of Small Towns,” also identified a number of factors impacting on rural Australian towns. They include increased demand for coastal living, increased mechanisation and corporatisation of farms and the flight of youth from regional areas in search of education and career opportunities. These factors impact on small rural towns and their SME retailers (Collits, 2003).

Thus, the establishment of large supermarkets and BBRs in rural communities has had a negative impact on rural SMEs and communities not only in New Zealand, but also in Australia, the United States and the United Kingdom.

⁹ ‘Out shopping’ is the purchase of goods and services outside the local business area.

4.2 Company Mergers and Farm Amalgamation

Major changes began to gain momentum in rural New Zealand in the 1950s with wholesale rationalisation, mergers and amalgamations of dairy companies resulting in economies of scale, tanker collection of milk and newer technology such as continuous butter production. The extent of dairy rationalisation was identified in a report commissioned by New Zealand Trade and Enterprise, entitled *Economic Evaluation of the Food Processing Sector*:

In one of the most obvious changes over time has been the reduction in the number of relatively independent dairy co-operatives that process virtually all of New Zealand's liquid milk production. In 1935 there were more than 500 co-operatives, by 1983 that number had dropped to 36 and by 1990 there were 17. Today, of course, there are only three... (New Zealand Trade and Enterprise, 2004, p88)

Since the 1950s, Taranaki has experienced the amalgamation of small dairy companies into a single processing site based at Whareroa near Hawera (previously Kiwi Dairy Co-op and now Fonterra Co-op Ltd). The closure of numerous small processing sites around the ring plain of South Taranaki provided the catalyst for district-wide social and economic change. Because of the intensity of dairying and the number of processing sites that had existed, South Taranaki was particularly affected. The closures effectively wiped out the economic base for SMEs, dairy factory employees, and service businesses in the following South Taranaki towns and townships: Otakeho, Manaia, Kaponga, Rahotu, Oaonui and Pungarehu, Matapu, Mangatoki, Okato, Te Kiri and Manutahi, to name a few. These closures removed the economic heart from the district. An insight into the depth and extent of the rationalisation and closures in South Taranaki can be gained from the map of site closures (1960 to 1989) shown in Figure 8:

[illegible]

Table 6 lists the South Taranaki processing sites and the date when they were amalgamated or closed for the period 1960—1989.

Year	Factory name	Year	Factory name
1960	Ngutuwera	1967	Pihama
1962	Ihaia	1968	Mokoia
1963	Hurleyville	1974	Cape Egmont (Pungarehu)
1963	Joll Group	1974	Oaonui
1963	Kaupokanui	1974	Opunake
1965	Eltham (2 Factories)	1976	Kakaramea
1965	Riverdale	1977	Warea
1966	Kaponga	1979	Waverley
1966	Mangatoki	1979	Whenuakura
1967	Hawera (Glover Road)	1981	Rahotu
1967	Manutahi	1984	Alton
1967	Meremere	1989	Awatuna
1967	Ohangai		

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The same process of amalgamation and closures occurred in other other New Zealand rural farming districts. For example, in the Tararua District 14 dairy factories closed between 1956 and 1981 as shown in Table 7.

Table 7: Dairy Factory Closures, Tararua District

Date closed	Factory name
1955	Kiritaki
1956	Hamua
1960	Norsewood
1960	Tataramoa
1960	United
1964	Mahara
1973	Tiratu
1974	Konini
1975	Riverbank
1975	Woodville
1981	Ballance
1987	Ruahine
Unknown	Kaiparua
Unknown	Mangamire

Source: Stephenson, 2007.

The loss of population resulting from the amalgamations and closures in South Taranaki altered the demographic make up of the district by changing the make up and pattern of the region as a whole. The resulting population decline was reflected in rural towns in the loss of business infrastructure such as banking and postal services. Fewer businesses and residents had to shoulder an increased burden of local body rates to retain physical infrastructure such as roading, water reticulation schemes, sewerage, parks and cemeteries. This left fewer (and increasingly aging) residents with business and managerial skills available for local body councils, committees and social clubs and significantly fewer SME business opportunities.

Fairweather (1987) provided one of the earliest accounts of the impact of changing farm size in New Zealand when land was broken up into hobby farms. Whilst this was an issue for the management of the peripheral areas of large cities because of demand for subdivisions and lifestyle blocks, it did not address the core issues that led to a decline of rural production.

Pomeroy and Reynolds (1991, p19) provided an insight into the variation in the ratio of liabilities as farm size increased in periods of increasing mortgage interest rates combined with a decline in dairy payout.

Le Heron and Pawson discussed the global linkages formed as economic, social and governmental policies underwent restructuring. These structural changes eventually affected rural SMEs and small towns. The authors identified factors that affect rural regions, such as the changes in the 1980s of the ownership and concentration structure (i.e. closures and rationalisation of dairy factories) and the amalgamation of farms by identifying the trend of increasing herd size (Le Heron & Pawson, 1996, p127).

The ongoing process of farm amalgamation is driven by economies of scale, accompanied by technological improvements and a reduction in labour requirements, which removed many advancement opportunities for young ambitious farmers and share-milkers. Moreover, farm amalgamation combined with a declining birth rate contributed to the closure of rural schools, along with a loss of jobs, the district's identity and its cohesiveness.

In South Taranaki the process of dairy farm amalgamation has reduced the number of farmers in the district and increased herd and farm size. Because of the increased capital required to purchase these larger amalgamated farms, family farm succession and contracting is restricted as lower order share-milkers are increasingly unable to finance the large capital sums required to purchase a farm.

The approximate increase in value for good dairy land in South Taranaki for the period 2007/08 to the 2008/09 season was thirty-six percent. The increasing price paid for South Taranaki dairy land was reported in the June 2008 STDC Economic Development Unit report to the South Taranaki District Council. Rodney Perrett, South Taranaki Manager for McDonald's Real Estate Ltd (a large Taranaki wide real estate company which specialises in farm sales), was quoted as saying:

Good (dairy farm land) properties are fetching in excess of \$30k per acre, (approx \$75k per Ha) up from \$22k per acre last season. Purchaser demand for good farm property was strong to very strong. (South Taranaki District Council, 2008b, p9)

Amalgamations are forming much larger farms and moving towards corporate farming, but at the same time also reducing labour and the opportunity for younger people to enter the dairy industry. For example, the principal of McDonald's Real Estate Ltd, Peter McDonald, stated that "[i]n the 2005/06 farming season the company has only sold one genuine 'first farm' to a young farmer aspiring to farm ownership." (McDonald, 2006).

McDonald explained that the long-term implication of this change in the farm market condemns young people to a career as employees rather than farm owners. McDonald stated:

Of the farm sales our company completed in the 2005/06-farm sale season in South Taranaki, 62 percent were amalgamated directly with neighbouring farms the remaining 37 percent were bought by Taranaki farmers; none were sold to farmers outside the Taranaki region. (*ibid*).

This is rapidly excluding would-be young career farmers from the market who would have purchased farms in the previous five years. Existing farmers purchasing and amalgamating adjoining farms are able to spread the increased capital cost over their existing farm, thus having a much lower cost per acre. Taking Perrett's example of land priced at thirty thousand dollars an acre, the price of a two hundred and fifty acre dairy farm rose by \$2.2 million dollars in twelve months, making it very difficult for a young farmer to purchase. This difficulty is outlined in a *New Zealand Herald* report, where Livestock Improvement Co's (LIC) General Manager (strategic development), David Hemara, was quoted:

...while it may slow slightly, the rate of aggregation would continue, supporting dairy farm prices. He said it was possible there could be a further significant fall in herd numbers and a big gain in average herd sizes over the next decade. If the average herd size went up to, say, 650 cows, then such a farm would cost about \$9 million to buy, making it even harder for new people to come into the industry on their own. (Ward, 2006)

The attrition of the rural population is exacerbated by other factors such as:

- a very small number changing to dry stock farming;
- the overall aging of South Taranaki farmers, where quite a number approach retirement age. This again increases opportunities for amalgamation; and
- fewer younger family members returning to family farms.

Many young people leave the rural farming areas for secondary and tertiary education. Given the option of purchasing the average sized family farm of approximately two hundred and fifty acres (100 hectares) for over \$7 million dollars, or employment using

their degree, anecdotal evidence from real estate companies such as McDonald's Real Estate Ltd suggests they are choosing to sell, as farm amalgamation figures are increasing.

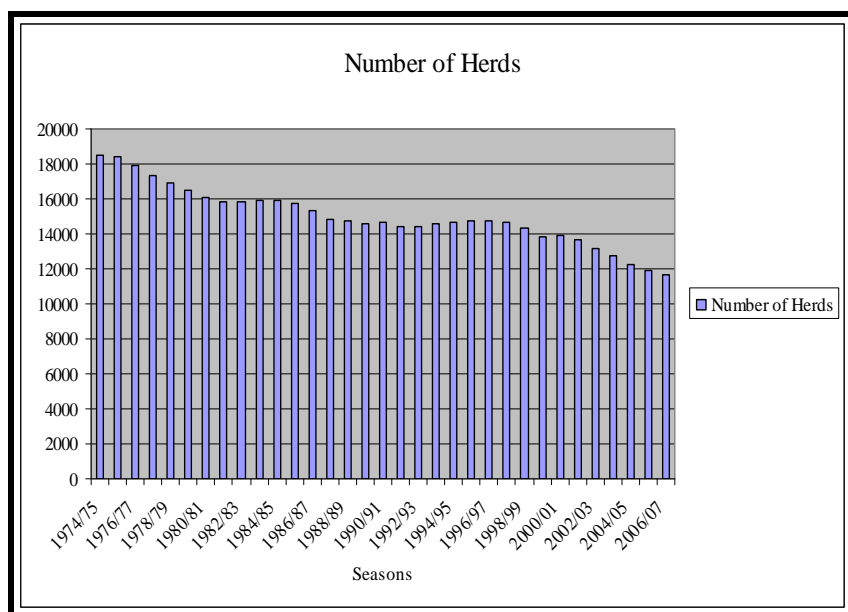
Farm amalgamation results in increasing herd size. In South Taranaki, the average herd size increased by over thirty-six percent as shown by LIC South Taranaki herd statistics for the years 1998/99 to 2007/08. Over the same period, numbers of herds declined but herd size increased. For example,

- 1998/99: 1,416 dairy herds with an average size of 207
- 2007/08: 1,084 dairy herds with an average size of 283

(Livestock Improvement Co, 2008).

These figures show a loss of 332 herds for the period 1998/9 to 2007/08, representing approximately 332 owners (farmers and families). Their properties were likely to have been sold to neighbouring farmers or, in a few cases, converted to dry stock farming, which delayed amalgamation for a few years. Using the employment multiplier of 1.2 (NZIER, 2002, p28) and the 332 dairy herds that have gone, it is estimated that over 66 downstream jobs were lost. The resulting job vulnerability would have caused a contraction in discretionary spending in South Taranaki towns, ultimately affecting the viability of retail SMEs. Those influenced would have included vet services, tractor and implement sales and services, and fencing and fertiliser contractors who are part of the multiplier chain. This would have led to a further reduction in vertical and lateral linkage suppliers of goods and services, such as vehicle and appliance sales, local dental and other family health services, etc. Figures 9 and 10 confirm the decline in herd numbers and the increase in herd size.

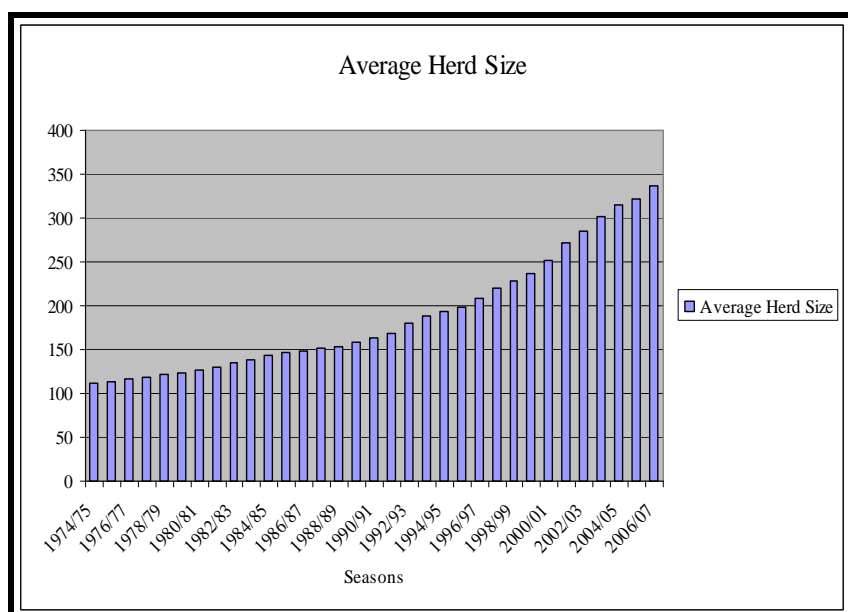
Figure 9: Numbers of New Zealand Dairy Herds, 1974—2007/08



Source: Livestock Improvement Co, 2008.

Over the period 1974 to 2007/8, New Zealand herd size increased to 351 while herd numbers declined as shown in figure 10 below. For the 1974/75 season, LIC recorded 18,540 herds; by 2007/08 herd numbers had declined by 7,104 herds (over thirty-eight percent), down to 11,436.

Figure 10: Average Cow Numbers Per Herd in New Zealand



Source: Livestock Improvement Co, 2008.

Mergers and amalgamations have a serious impact on small rural towns whose primary industry is based around the dairy factories, providing retailers and other services and workers to the businesses. In Kaponga, in South Taranaki, for example, the sole remaining company, Fonterra Group (formerly Kiwi Dairy Co) focused milk processing production at its Whareroa site. Employing almost one thousand employees, it is one of three specialist-processing sites owned by Fonterra in South Taranaki. The others are Fonterra Kapuni, which produces lactose based products, and Fonterra Eltham, which produces speciality processed cheeses.

Many retiring farmers leave rural districts and take their capital with them, investing in the city or in the location to which they move. In New Plymouth, for example, 50 percent of the twelve recently built Quarterdeck apartments have been sold to retiring dairy farmers in the period 2006 to 2007 (McDonald, 2007).

The resulting loss of population has altered the demographic make up of the South Taranaki District and consequently has had collateral effects on the local resource base. For example, there is a general change to the make up and pattern of land holdings and values in the district; there is also loss of business infrastructure in rural towns (such as banking, services, medical services and schools) based on population numbers. The fact that there are fewer businesses and residents means that those remaining take the greater responsibility to shoulder an increased burden of local body rates to retain physical infrastructure such as roading, water reticulation schemes, sewerage, parks and cemeteries, etc. It also means that those leaving may not be replaced and, therefore, the district is poorer in terms of the pool of business and managerial skills and experience that is available for local body councils, committees and social clubs.

CHAPTER FIVE: RESEARCH METHODOLOGY AND METHODS OF DATA COLLECTION

5.1 Research Methodology

This study examines how the establishment of large scale retail businesses, rural farm amalgamations and declining rural population impact on the viability of SME retail businesses. In order to answer the questions implicit in this description (i.e. to assess the downstream impact of BBRs and supermarkets on rural retail businesses and whether there is a correlation between the changing structures of population in rural districts and farm amalgamation), an appropriate methodology was adopted to guide the manner in which relevant data was gathered and analysed. Mingers and Brocklesby (1997, p489) describe methodology as a structured set of guidelines or activities to assist people in undertaking research or intervention, while Jackson (1991, p3) argues that the word methodology in the social sciences refers to the procedures used by a theorist in seeking to find out about social reality.

After a review of relevant economic development literature, two methodologies were considered, firstly the systems approach and secondly the case study approach. Systems approach was not considered appropriate because it does not allow for ‘bottom-up’ research, i.e. the behaviour of the whole cannot be explained in terms of the behaviour of the parts. Benbasat, Goldstein and Mead describe this weakness in the context of information system research:

The information systems (IS) area is characterized by constant technological change and innovation. Are researchers, therefore, often find themselves trailing behind practitioners in proposing changes or in evaluating methods for developing new systems. Researchers usually learn by studying the innovations put in place by practitioners, rather than by providing the initial wisdom for these novel ideas. (Benbasat et al 1987, p370)

In the economic development context for this paper, the systems approach method was found to be inadequate for the interviews and the gathering of coalface practitioner information required for this research. This view is held by Benbasat (*ibid*) who suggests that researchers who use this method tend to trail behind the coalface practitioners in proposing changes or evaluating new systems. In other words, researchers in the field of economic development usually learn from practitioners, rather than providing the initial

wisdom for these novel ideas. Of the two, the case study approach was considered to be the most suitable.

5.2 Case Studies

According to Sage, a case study is an empirical inquiry that “investigates a contemporary phenomenon within its real life context, especially when boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are generally used.” (Sage, nd).

Johansson further argues:

In practice, oriented fields of research, such as architecture and planning, the case study has a special importance. The ability to act within professional practice is based on knowledge of a repertoire of cases. These cases are based either on personal experience or are model cases established within the profession. Case studies contribute to the building of a professional repertoire. (Johansson, 2003, p4)

In the economic development context, case studies are used to investigate important questions of economic activity in rural regions. For example, case studies reveal information in a format that enables the information gathered to be evaluated and disseminated to interested parties by illuminating a case from differing angles, as identified by Johansson (*ibid*, p3). This can be useful, as a retailer’s point of view, for example, may be limited by his or her immediate localised retail experience rather than a regional or national overview. The case study methodology also allows for the incorporation of aspects of other methodologies. Johansson suggests that “one major feature of case study methodology is that different methods are combined with the purpose of illuminating a case from different angles.” (*ibid*).

The case study approach was deemed to be the most appropriate for this study because it provides the opportunity to utilise and apply the knowledge obtained in the US and Australian cases to other similar situations in New Zealand.

This thesis includes interviews with a range of professional economic development practitioners in the USA and Australia, and with enthusiastic and passionate US mayors. It also includes notes from informal meetings with business people who personally experienced the impacts of BBRs and changes in population structures on their businesses.

The case study methodology has been used precisely because it lends itself more easily to the mixed methods required by field data collection. As Gillham suggests:

Case study research is very much like detective work. Nothing is disregarded: everything is weighed and sifted, and checked or corroborated. There is nothing that disqualifies any type of data, quantitative or qualitative....Case study research (like a judicial inquiry) will make use of all available evidence. (Gillham, 2000, p2)

However, in contrast, Mingers argues that:

Mixing methodologies, particularly from different paradigms, does present serious problems....--philosophically in terms of paradigm incommensurability, theoretically in terms of effectively fitting methodologies together and practically in terms of the wide range of knowledge, skills and flexibility required of practitioners. (Mingers, 1997, p490).

While acknowledging the relevance of Mingers opinion, in this study, no such problems were encountered. The case study process is used in a range of research areas, with considerable analysis and discussion in published literature (see for example Feagin et al, 1991; Gillham, 2000; Gomm et al, 2000; Stake 1995; Tellis, 1997; and Yin 2002). Gillham defines a case study as:

one which investigates the case to answer specific research questions and which seeks a range of differing kinds of evidence. No one kind of evidence is likely to be sufficient or sufficiently valid on its own. The use of multiple sources of evidence, each with its strengths and weaknesses, is a key characteristic of case study research. (Gillham, 2003, p2).

In this thesis, case studies are used to examine and compare the impact of BBRs and supermarkets in rural South Taranaki with similar economic and population changes in rural USA and Australia and other rural areas in New Zealand. The analyses of the included case studies draw on qualitative data, such as personal communications and interviews with local economic development practitioners, to better understand the impacts of economic trends and research into the economic development strategies of rural towns and districts. The case studies were also used to evolve the framework for interviews and other research involving sources of information beyond the scope of the case studies used and to assist in the validation of data.

As can be seen throughout this study, localised solutions can be evolved by applying the knowledge acquired by local economic development agencies, government funded state agencies and retailers of intimate, specific, localised problems. Local strategies combined with localised solutions are best developed using case studies. When contrasted and compared with international experiences, an even better balance of solutions and outcomes can be achieved.

5.3 Background Research and Interviews

The establishment of large scale retail businesses, rural farm amalgamations and declining rural population has clearly impacted upon the viability of SME retail businesses in South Taranaki. However, initial research showed very little relevant New Zealand literature available that provided answers or practical solutions to the downstream impact of BBRs and supermarkets on rural retail businesses. It became obvious that economic development agencies, local council groups and retailing individuals with hands-on experience of these changes would be a logical starting point for finding these answers and solutions.

American retailers were among the first to experience the sweeping changes in retailing. These included the development of very large supermarkets and the arrival of the early Wal-Marts, followed by the Super or Mega Wal-Marts in their towns. The experience and information held by American economic development agencies (EDAs) and retailers would prove to be valuable when compared to and contrasted with the New Zealand retail experience.

The Economic Development Association of New Zealand (EDANZ) assisted with introductions to a number American EDAs that met the criteria for comparison with South Taranaki. The criteria for identifying suitable EDAs included the requirement that the US town used in each case study have a population similar to one in the South Taranaki District and should have a larger town that serviced the rural and urban population. This was not an easy requirement to match because of the wide range of towns and districts to choose from. Many towns had populations that were too big, too small or were major cities rather than smaller service towns.

A short list was identified of districts containing a town with a population between five and fifteen thousand and servicing a rural population. Because of the expense and extra time which would have been required to travel to the East Coast of the United States, the author restricted the area of research to the states of Colorado and New Mexico. Durango, Colorado, and Taos and Silver City in New Mexico were examined. All three towns experienced major changes in their CBDs as a result of the introduction of BBRs such as Wal-Mart or factors such as population change. Also included in the comparison studies was the town of Donald (in Victoria, Australia) as it, too, showed a declining rural and

urban population, farm amalgamation and the curtailment or closure of town services (albeit not the introduction of a BBR). It also provided a southern hemisphere perspective, indicating that changes to rural districts are not restricted to America and indeed could apply to New Zealand.

EDA personnel provided information based on their own experiences on policies, strategies and solutions that had been implemented in their small districts and rural towns and assisted with introductions to mayors, retailers and practitioners who had experienced the BBR arrival and changes to coalface retailing. Interviews with EDA personnel were designed to extract examples of local policies, initiatives and solutions to local problems. Questions were designed to ascertain what worked and what didn't and, therefore, what the councils or EDAs would have done differently in hindsight. Interviewees were asked whether financial or other incentives had been used, such as urban redevelopment or programmes to attract BBRs. For example, Durango City used CBD incentives to encourage the renewal of the downtown CBD, but did not use incentives to attract the Mega Wal-Mart to the city.

It was difficult to interview suitable retailers still in business, in part because as the business churn rate increases with the increased competition from BBRs and, with factors such as retirement and businesses closing, competing business owners had often left the district. In some cases, the time frame was so great that few affected retailers were still in business and available for interviews. For example, the first Wal-Mart arrived in Durango in the 1980s; it was almost twenty years later that the Super Wal-Mart opened. However, retailers were questioned as to the impact of the BBRs on businesses, what strategies were employed by their local council, by their company or business, what worked and what did not. The interviews were conducted with professionals or people who were very knowledgeable in their field, either at their place of employment or at the Australian and USA conferences that the author attended. Because of their expertise and experience, the EDA personnel understood the rationale for the interviews and were not vulnerable or at risk in any way. Those interviewed included:

Table 8: Interview List

Name	Position or Employer	Town	Country
Graeme Harris	Business & Commercial Development	Wycheproof	Australia
Norman McKay	Former Mayor	Patea	New Zealand
J P Jones	Former Mayor	Silver City	USA
R (Bob) Kunkel	Business Promotions Coordinator	Durango	USA
Fabian Trujillo	New Mexico Economic Development Department	Albuquerque	USA
Roberta Scott	New Mexico Small Business Development Center	Albuquerque	USA
Dale Bunn	Director Economic Development	Fort Scott City	USA
Linda K Jones	Silver City University	Silver City	USA
Greg Hoch	Planning & Community Development	Durango	USA
Pati Martinson	Director Taos County Economic Development Corporation	Taos	USA
Terri Bad Hand	Director Taos County Economic Development Corporation	Taos	USA
Joel Krueger	Kroegers Five Star Hardware	Durango	USA

These individuals provided localised insights and information for the case studies relating to economic development. These case studies included problems which appeared on the surface to be different but which in their impact on the community were similar. The strategic outcomes in their towns that developed from their specialised local knowledge and the interviews were particularly valuable because localised specific information was not otherwise accessible or available. Where subsequent clarification was required or where information from the interviews was incomplete, this was resolved by e-mail. However, this presented difficulties with some interviewees tardy in their response or not bothering to reply. Attention to detail at the time of the interview produced better quality information.

The personal experiences and observations by EDAs and local practitioners added value to the New Zealand information discussed in the following chapter, which considers the impact of BBRs on South Taranaki SME businesses.

CHAPTER SIX:

IMPACT OF BBR ON RETAIL BUSINESSES IN SOUTH TARANAKI

6.1 Introduction

Tom's Supermarket was the first of its kind in South Taranaki and a major change in retail style from local SMEs at that time. It offered advantages such as a large product range, self service, low prices and bulk purchase concepts. In addition, its longer opening hours appealed to consumers. Over time, Saturday (1980) and then Sunday (1990) shopping was introduced, followed by beer and wine sales (Progressive Enterprises Ltd, nd). Tom's was the catalyst for retail change in Hawera, as the company initiated the convergence process. Butchers, greengrocers and delicatessen shops rapidly felt the impact of the process.

Table 9: Hawera Supermarket Opening Dates

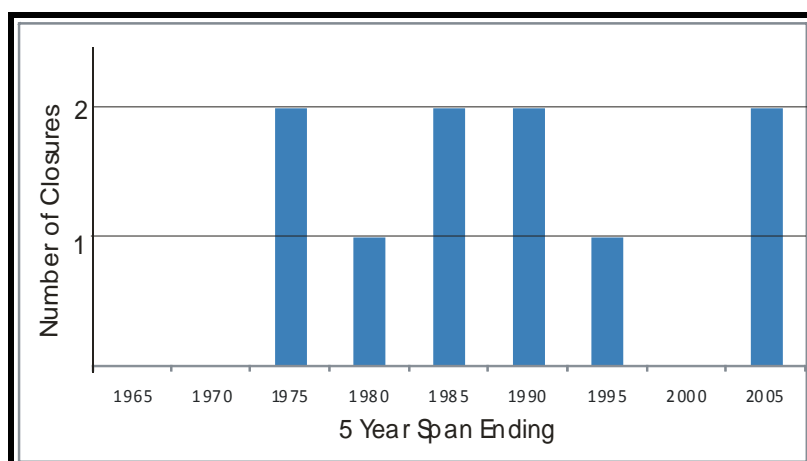
Business Name	Opening date
Tom's Supermarket (now New World)	1964
Countdown	1988
Price Chopper (now Pak 'n Save Ltd)	1986/2006

Source: South Taranaki District Council, 2008b.

Once meat and butchery departments were established in supermarkets, the decline of butchers as a retail group started, and the first butcher shop closures occurred from 1975.¹⁰ As a result of this convergence, all ten retail butchers in Hawera closed, as well as a further eight in the rural South Taranaki towns of Patea, Opunake, Waverley, Manaia, Kaponga, Manutahi, including the two shops in Eltham (for a total of eighteen retail SME butcher shops).

¹⁰ As business closure dates are not recorded formally, former Butchers and other business people of that period supplied dates and information.

Figure 11: Hawera CBD Retail Butcher Closures, 1965—2000



Source: South Taranaki District Council, 2008b.

Economic factors are not the only ones resulting in the closure of small shops. Customers did not necessarily consider price and quality as the sole determinant when choosing where to buy goods. The sheer convenience of supermarkets had an equal, if not greater, impact on small independent food outlets. For example, on-site parking, the sheer range of products available, the use of loss leaders (goods sold at cost to attract customers), extended shopping hours (e.g. 7am to 10pm), and the increasing availability of semi or fully prepared foods have all shifted the balance. The main beneficiaries of these changes appear to be the working women who have less time to shop.

After the initial supermarkets arrived in Hawera, they were followed by a succession of BBRs loosely based on the Wal-Mart business model, which impacted on businesses not previously targeted by supermarkets. The BBRs and their establishment dates are identified in Table 10:

Table 10: Hawera BBR Establishment Dates

Business Name	Opening date
Mitre 10, Hawera	1988
RD1 Hawera (Fonterra)	1995
Farmlands Trading Society Ltd	2004
Super Cheap Auto Ltd	2005
Noel Leeming Ltd	2008

Source: South Taranaki District Council, 2008b.

In order to illustrate the extent of creeping convergence, many trading banks now sell insurance (as does New World supermarket) and travel products over the counter. However, Taranaki Savings Bank, like Wal-Mart (USA) has withdrawn from this market.

Pak'n Save supermarket in Hawera now retails flowers, wine/beer, chemist wares, and direct petrol sales, while petrol stations sell motor mowers, ice, fish bait and a large range of food items and clothing as well as their standard lines such as oils, polish, tyres and fuel. This increased pressure on the viability of existing 'Mom and Pop' businesses by the BBRs and supermarkets resulted in a period where significant numbers of small retailers closed, flooding the rental market. This provoked a response by landlords of commercial buildings, who scrambled to rent their premises in an oversupplied market. In turn, this started a trend where shops entered a downward spiral of accommodating poorer quality retailers or, in some cases, remaining vacant. Because rents are seldom decreased in line with retail returns, the rate of churn¹¹ increased and continues to do so. This process was observed as occurring in the Hawera retail district and persists in 2008.

Examples include a number of two-dollar shop retailers with the most recent opening in 2006, second hand shops, and various religious charity shops such as St Vincent de Paul opened 1968, the Hospice shop followed in 2002 and the Salvation Army Shop in 2007. Other service/retailers have moved into the CBD such as a tattoo parlour in 1995, a massage parlour opened 1997.

Between 1964 and 2008, nine supermarkets and BBRs were established in Hawera. Their increasing encroachment into Hawera's SME market has contributed to the demise of small bakeries, many fishmongers, hardware stores, small home appliance shops, haberdashery stores, menswear retailers, bicycle retailers and chemists. Anecdotal evidence gathered indicates that there is a direct relationship between the arrival of the large businesses and the closure of SMEs in Hawera's CBD. In the 23 year period since the first BBRs/supermarkets opened, an average 0.8 businesses closed each year.

¹¹ The number of times the premises are leased before being vacated and reoccupied.

The rate of closure accelerated considerably over the next twenty years to more than two businesses a year following the substantially increased number of BBRs/supermarkets in Hawera.

Table 11: Hawera SME Closure Rates, 1964—2008

Period	No Years	Food- Based Retailers	Non-Food Retailers	Total	BBRs/ supermarkets opened
1964-1987	23	8	11	19	1
1988- 2008	20	16	26	42	8
Totals	43	24	37	61	9

Source: South Taranaki District Council, 2008b.

Table 12 compares the arrival of BBRs/supermarkets in Hawera with the closure of SMEs. It must be noted that reasons for SME closure varied, and included retirement, ill health and, in the case of chemists, mergers.¹² As mentioned previously, the food-based businesses in particular were severely affected, as the food market share was the initial target for supermarkets, thus reducing SME viability. The remaining businesses became the target market for the BBRs, and over time many closed. Those that could be identified by the author are listed in the table below.

¹² The rationalisation of chemists was a result of small shops combining to enable economies of scale and better work place conditions, with two chemists to dispense. The law requires one qualified chemist to be on the premises at all times.

Table 12: Hawera CBD Retail Closures, 1964—2008

Supermarkets/ BBRs		Food business closures	Non-food business closures
1964 Tom's Supermarket	1964-69	Blackwell's Dairy West End Dairy	
	1970-74	Taylor's Meat Market Berg's Butchery	Wallis (Cabinet Maker)
	1975-79	Barracough's Butchery	JC Robb Menswear Boyd's Pharmacy Lincoln Rowland Pharmacy Derek Morgan Pharmacy UFS Dispensary McGruer Bone Ltd (Draper) CC Ward Ltd (Draper)
	1980-84	Home & Colonial Susmilch Fruit Ltd Grubi Ltd (Restaurant)	Warnock's Menswear Harris Furnishings Ltd Bennett & Sutton Ltd (Hardware)
1988 Mitre 10 Ltd 1988 Countdown	1985-89	Barry's Restaurant Tawhiti Meat Co Maypole Grocery FCOS Supermarket	D Butcher & Co (Jeweller) Dalgety Travel Ltd Hawera Music Centre Ltd Willie Weavers (Wool) Phillips & Impey Ltd (Paint) Tele-Centre Ltd (Electronics)
1994 The Warehouse 1995 RD1 (Fonterra)	1990-94	London Pie Shop Barneys Fruit Shop South Rd Butchery Farmers Meat Co	Parkinson & Co (Flooring) Gulliver's Music Centre Luella Gowns Ltd. Black's Cycles Para Rubber Ltd (Rubber ware) Arch Rawles Ltd (Clothing) Taranaki Farmers (Farm supplies)
2004 Farmlands Ltd 2005 Super Cheap Auto	1995-99	Turuturu Butchery Butchart's Bakery	Bayliss Real Estate Wann & McKay Ltd (Cycles) Hallenstein Bros (Clothing)
2006 Pak 'n Save 2008 Noel Leeming Ltd	2000-08	Unka's Fruit Shop Ltd Le Pine Butchery Export Meats Ltd	Toyworld (Toys) Shooz (Shoes) Kevin Patterson Menswear

		West End Takeaways Snappers Takeaways Parklane Takeaways Domani's Ice-cream/ Sweets	Cornish's Ltd. (Draper) Bob Thomas Chemist Hawera Travel Centre Cute Az (Children's clothing) Colour Plus Ltd (Paint) Country Living (Giftware)
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Source: South Taranaki District Council, 2008b.

Until October 2006, Hawera CBD shop vacancy rates were not recorded by the STDC Economic Development Unit, but they now appear in the South Taranaki District Council's quarterly economic development reports. This data capture is too recent to demonstrate any relationship between retail viability and SME survival rate as a result of BBR or supermarket arrival in 1964, 1988 and 1994.

Recognition must also be given to the other forces at work in the economy at the same time as BBR and supermarket establishment. For example, the rationalisation of government services¹³, by the Labour Government's economic reforms in the 1980s¹⁴ resulted in centralisation and corporatisation of services. Banks and insurance companies downsized and closed many rural branches. This continued into the late 1990s as shown in the table below. For example, the Bank of New Zealand retained its main branch in Hawera but closed its rural branches and agencies in South Taranaki:

¹³ Many rural NZ Post offices, NZ Railway, State Insurance offices etc were closed or rationalised.

¹⁴ The dismantling of external trade barriers, the floating of the dollar, the establishment of a framework for stable monetary and fiscal policies, internal deregulation to force more competition into the New Zealand economy, and the reform of the public sector (including the corporatisation and privatisation of many state-owned businesses).

Table 13: BNZ Closures (Estimated Staff Levels):

Branches	Staff	Date
Kaponga	4	1965
Patea	4	1993
Opunake	5	1996
Eltham	7	1998
Manaia	4	1998
Total staff	24	

Source: Stockwell, 2007.

The impact of these factors was compounded by global events. For example, the 1987 stock market contraction significantly reduced business activity and the amount of discretionary income coming into the community. John Paul Koning explained:

Tens of thousands of people working in the financial industry across the globe lost their jobs as management tried to cope with the effects of the 22 percent fall. Companies announced stock buy backs. These buy backs influenced the internal structure of firms, their balance sheets, income statements etc, in other words, their fundamentals. Eventually such changes would have filtered through to employees, suppliers, and customers. Many individuals interviewed in newspaper articles that week stated that they would be cutting down on their spending. (Koning, nd)

Understandably, this global factor had downstream impacts on rural SMEs. At about the same time, improvements in vehicle reliability and the rapid rise of Japanese second hand imports became catalysts for change in South Taranaki, forcing a rationalisation of car dealerships. The agencies closed or merged, with eight businesses becoming four. The loss of 53 positions and related spending in the district impacted on SMEs (South Taranaki District Council, 2006).

However, in contrast, the retirements, closures and rationalisations also provided opportunities for new SME businesses to open in the town. Examples from 2000 to 2008 include a Mitsubishi vehicle sales and service business replacing the previously closed (staff of ten) business with two FTEs, an industrial air-conditioning and servicing business, an equipment hire business competing with an existing business, an aluminium joinery business, and Robert Stone Stainless Ltd (RSSL). This specialist engineering business, based in Hawera, is focused on contract maintenance for oil and gas processing plants,

power stations and food processing plants such as Silver Fern Farms and J Wattie & Co. In 2002 RSSL employed 12 FTEs; by 2008 the number of company employees totalled 88 FTEs (Lawrence, 2008).

Of the new businesses opening in Hawera's CBD between 2004 and 2008, forty-four percent were food related, bringing the total number of cafés/restaurants in Hawera to 33 (South Taranaki District Council, 2008b). Because of the dominance exerted on the retail SME market by BBRs and supermarkets, food retailing is one of the few business areas where, in 2008, it is still viable for entrepreneurial people to start an owner-operated or franchise-based SME. Recent examples include Pizza Hut Ltd (opened in 2004), Arabica Café (opened in 2005), Subway (opened in 2006), Maracbo Café (opened in 2007), and McDonalds (opened in 2008).

Other business people developed or exploited niche opportunities based on lifestyle and technology changes. The following are examples of business established to fit such niches (the dates in parentheses represent the dates the shops opened in Hawera):

- Leading Edge (2005), a Telecom business based on servicing the need for mobile phones, Ipods and similar electronic accessories;
- Blokeswear (2007), a menswear business focussed on the younger male with mid-price range casual clothing; and
- O² Cycles (2008), which targeted lifestyle changes requiring exercise.

The South Taranaki, rural SME 'cross road stores'¹⁵ stores closed over time as a result of depopulation, caused in part by rural economic restructuring, increasing personal mobility and competition from supermarkets and BBRs. They were affected by increasing supermarket pressure on local market share, by more, bigger and American-style convenience supermarkets, by better vehicles, roads and competition from sponge cities¹⁶, and by the closure and amalgamation of dairy factories. Listed below are some South Taranaki rural stores and approximate closure dates.

¹⁵ Cross road stores were the rural equivalent of the corner dairy in towns. These were usually owner-operated and were small general stores that serviced the rural population.

¹⁶ These are cities usually sited in or near areas of population decline. They tend to attract entrepreneurial businesses to an area of activity.

Table 14: South Taranaki Rural Store Closures (dates shown represent the approximate dates of South Taranaki rural cross road stores)

Kakaramea	1960-65	Awatuna	1965-70
Mokoia	1980-85	Mangatoki	1965-70
Otakeho	1960-65	Matapu	1975-80
Te Kiri	1955-60	Riverdale	1975-80
Oaonui	1965-70	Pihama	1975-80
Okaiawa	1990-95	Pungarehu	1975-80
Manutahi	1960-65	Riverlea	1980-85

Source: South Taranaki District Council, 2006.

Extended shop trading hours did not exist until 1990, when the New Zealand Parliament amended the highly restrictive Shop Trading Hours Act 1977:

The Shop Trading Hours Act 1977 placed significant restrictions on the hours and days that shops could operate. This law was amended in 1990 to provide much greater freedom for retailers. It permitted retailers to open up to 24 hours a day, seven days a week. The only exception to this was the requirement to close on Christmas Day, Good Friday, Easter Sunday and the morning of ANZAC Day. (Department of Labour, 2005)

The 1990 changes enabled supermarkets and BBRs to take advantage of the radically extended hours, a change which impacted negatively on ‘Mom and Pop’ stores, as they could not physically sustain the new seven day a week trading hours. For example, Hawera New World supermarket trades fifteen hours a day, seven days a week, for a total of 105 working hours, more than 2.6 times the conventional 40 hour working week. The impact of 24/7 trading on SMEs is evident in the case of a dairy-grocery situated on the Main Road North, State Highway 43, in Normanby. Normanby is a small dormitory town, four kilometres north of Hawera. The owner at the time, Mr Paul Schrader, stated that the shop’s market share had been “captured by the supermarkets”:

prior to the Shop Trading Act being amended to allow seven day trading, the gross turnover for his shop was \$3,800 daily, but after the change in the act, the dairy’s turnover dropped to an average of \$3,000 per day, a drop of approximately 21 percent. (Schrader, 2007)

Retailers, who escaped the gradual convergence in the food sector have been placed under pressure as BBRs retailers such as Mitre 10, Super Cheap Auto, Farmlands, RD1 and The

Warehouse (as in the case of the large supermarkets) established in Hawera. BBRs erode market share of small businesses because of their increased buying power and their ability to source products from low wage countries like Thailand, Mexico, Indonesia or China (i.e. globalisation). These factors allow for economies of scale, which in turn lowers prices but at the same time reduce consumer product choice. This combination of factors severely affects local SME businesses. For example, Korten, author of *The Post Corporate World: Life after capitalism*, states that for each Wal-Mart that opens, 100 local stores on average go out of business, most of them family businesses that have been in the community for years (Korten, 1995, p164). Korten also described how more comprehensive data demonstrated that for every job Wal-Mart creates, it in turn expunges 1.5 jobs (*ibid*, p165).

6.2 Hawera Ghostboxes

The establishment of large retail stores in rural districts is often associated with another process known as 'ghostboxes'. Ghostboxes occur when the major business relocates away from the central business district (CBD) to the fringes of town in response to factors such as the rising cost of CBD locations, traffic congestion, parking restrictions, or the need for larger floor area for a wider range of products in mega stores. This often leads to 'strip mall' development on the periphery of towns, resulting in a decline in CBD business activity, high vacancy rates in both retail and non-retail commercial properties, and a general deterioration in commercial buildings in CBDs.

Hawera's CBD currently has two ghostboxes. Jessica LeVeen Farr, Regional Community Development Manager Federal Reserve Bank, Nashville, Atlanta, describes ghostboxes' effect on retail districts:

Vacant Big Box premises have a negative impact on the community landscape as well as on neighbouring businesses. Abandoned buildings and empty parking lots are not only unsightly, but they also become targets for vandals and attract other undesirable activities. The empty space also becomes a visible sign of economic decline and disinvestment....[S]o when the retailer departs or relocates, the dependent businesses may be in jeopardy as well... [The] loss of a big-box retailer can thus trigger the decline of an entire shopping centre. (LeVeen Farr, 2005)

Ghostboxes occur in retail areas for a number of reasons. In 2003, The Warehouse moved from the centre of town to a site just outside the CBD. The former Hawera manager advised that:

Three large business premises totalling 2,600 square metres were modified to form the Warehouse's initial retail site in June 1994. With the rapid growth of the business, the business relocated in October 2003 to the extreme west of the retail area. Four residential houses were removed, and new premises built. (Pollock, 2006)

This expansion and relocation left a large ghost box in the central CBD. As at March 2009, the site is still vacant. The impact on foot traffic in the CBD has been palpable, a fact observed by the Chairman of the New Zealand Property Institute, Mr Roger Malthus who is quoted as saying that “[p]edestrian flows in Hawera have dropped dramatically in the last two years, showing 90% fewer pedestrians in Regent St near the former Warehouse location.” (Darling, 2004, p3).

The second ghostbox was created by Mitre 10's relocation from its large, CBD retail premises in 2003, again to a larger greenfield site in Glover Road on the periphery of Hawera. This prompted existing Hawera CBD businesses to also relocate to Glover Road, as illustrated in Tables 15 and 16.

Table 15: Existing Businesses that Relocated to Glover Road

Business	Relocation year
Dobson's Marquee Hire Ltd	2003
Mid-West Machinery Ltd	2004
Tasman Work Wear & Safety Ltd	2005
Laser Electrical Ltd	2005
PGG Wrightson	2006
Egmont Garage and Doors Ltd	2007
Filbee Accounting Ltd	2007

Source: South Taranaki District Council, 2008b.

New businesses followed suit, with the following establishing retail/commercial businesses on the Glover Road.

Table 16: New Businesses on Glover Road

Business	Year established
RD1 (Fonterra)	1995
Egmont Marine Services Ltd	1996
Ideal Electrical Supplies Ltd	1996
Farmlands	2004
Super Cheap Auto Ltd	2005
Reid Auto Electrician Ltd	2007

Source: South Taranaki District Council, 2008b.

Thus, the impact of the BBRs and supermarkets was compounded by these rapid departures from the CBD, which left the High Street with a large number of empty retail premises. As Gillespie noted, the settlement of the retail superstore on the town perimeter triggers the migration of economic activity out of the downtown area and into the sprawling strip mall (Gillespie, 1995, p37). Businesses that are able to survive react to the redirection of consumer traffic by leaving the original downtown business district and relocating in close proximity to the new retail development (*ibid*).

6.3 Short Term Future of SMEs

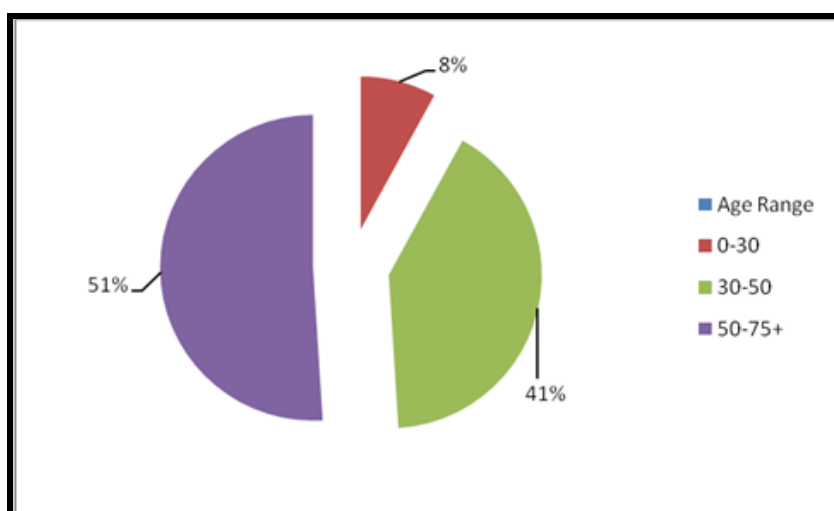
In addition to the issues outlined above, the short-term future of SME businesses in South Taranaki is also affected by succession problems. Two long established Hawera clothing businesses, Cornishs Ltd and Patterson's Clothing Ltd, closed in 2006 and 2008 respectively as no purchasers for the businesses could be found. The reasons were complex, and many of the factors previously mentioned were also present in the Hawera CBD. For example:

- The majority of current business owners are aged 50 plus (see figure 12 below);
- Younger people are reluctant to lockup or invest capital in a small business;
- There is a constant erosion of the market via convergence;
- Rental margins are low and landlords are reluctant to lower high rents and premises are often old and substandard in rural towns;

- There is an ongoing declining population, which results in sustainability issues; and
- Changing consumer trends, and increased electronic on line shopping all compete for consumers' business (e.g. Amazon.com, e-bay, Trade Me, on line banking, EFTPOS (Electronic Funds Transfer at Point of Sale) and credit cards).

Figures 12 and 13 show the age group composition of business owners or SME retail businesses in two South Taranaki towns' CBDs.

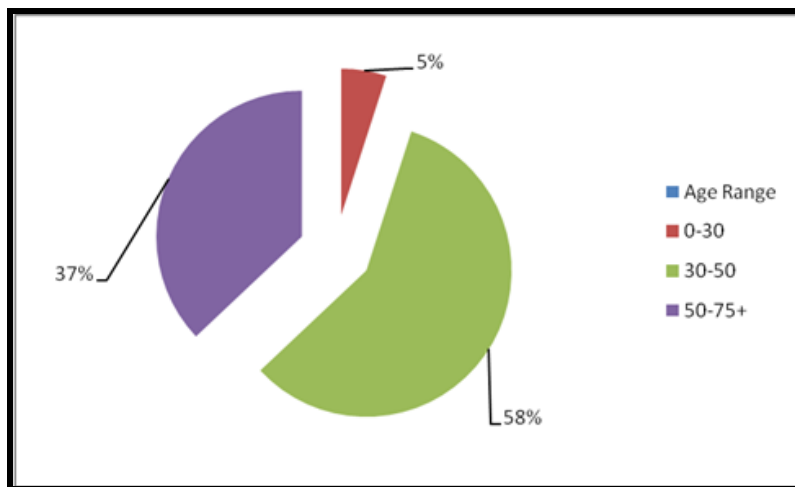
Figure 12: Age Range of Hawera Business Owners, 2006



Source: South Taranaki District Council, 2006.

Figure 12 shows the age grouping for Hawera businesses while figure 13 contrasts the age groups of SME businesses owners in Opunake a small coastal town with a population of 1,368). (South Taranaki District Council, 2008a). Opunake, approximately 30 kilometres from Hawera has no supermarkets or BBRs in the town. It may be argued that this remoteness from major competition enables a spread of ownership across a range of 'small town' businesses. Whilst figure 12 shows a large proportion of mature/older (50—75+ years) business owners in Hawera (51 percent), Opunake has 37 percent of business owners in the 50 to 75+ age group. In contrast, the 30 to 49 years old age grouping Opunake accounts for 58 percent of ownership, compared to Hawera's 41 percent, a significant difference.

Figure 13: Age Range of Opunake Business Owners, 2006



Source: South Taranaki District Council, 2006.

This suggests that the influence exerted by supermarkets and BBRs diminishes independent business opportunities in their area of influence and disrupts the normal sale transition and succession process through the erosion of business viability. Younger people tend to avoid entry into SME retail businesses when they see their future jeopardised by the creeping influence of BBRs on SMEs' future viability. This has direct implications for business succession planning as discussed below.

6.4 Business Succession

Hawera has very few third generation businesses and one only fourth generation family business. The lack of financial viability is one of the factors in this low number. In part, this is because of the changing retail scene with increased creeping convergence of BBRs and supermarkets into the areas of these SMEs. Table 17 below lists some of the multiple generation family owned businesses still trading.

Table 17: Hawera Generational Family Businesses

Business name	Generations	Established	Years in Business
Patterson's Clothing Co Ltd	3	1929	78
Hurrell Collision Repairs Ltd	4	1900	107
Gerrand's Gemtime Jewellers	3	1904	103
Halliwells Lawyers	3	1896	111
Welsh McCarthy Lawyers	3	1903	104

Source: South Taranaki District Council, 2008b.

The Halliwell law firm was started in 1896, but three generations ago the original business was purchased by a partnership consisting of Horner and Burns. The Horner family remain partners in the company today. Some companies that have been trading in Hawera for lengthy periods remain in business although, as Table 18 shows, they may have changed ownership many times. For example, still selling Ford vehicles today, Tower Ford Ltd started in 1918 as H R Kemp Ltd, becoming H R Kemp & Sons, then Spinax Motors Ltd, and finally Tower Ford Ltd in June 1990.

Table 18: Hawera Long Term Companies

Company Name	Business Type	Est.	Years in Business
Arthur Brown & Co	Builders	1944	63
Croucher & Crowder Ltd	Engineering	1929	78
Moller-Johnson	Car sales	1918	89
Tower Ford	Car sales	1910	97
Hobbs Davy Auto Services	Auto Electrician	1932	75
Taranaki Farmers	Stock & Station	1905	101

Source: South Taranaki District Council, 2007.

Another such business is L H Johnson, established in 1918, which became Moller-Johnson & Co in 1948 and continues trading today as Moller-Johnson Motors Hawera Ltd selling Holden and Mazda motor vehicles (Harrop, 2008).

An example of the low generational business succession transmission rate in South Taranaki is demonstrated by the engineering sector. To a large degree, the engineering sector is based on servicing processing plants such as Fonterra's three processing plants

and Silver Fern Farms (Hawera), Riverlands (Eltham), and various South Taranaki oil and gas production sites on and off shore such as Kapuni, Maui, Kupe and the Rimu/Kauri fields at Mokoia). Of the approximately 39 established engineering businesses in South Taranaki, eighteen percent are second generation; the remaining 82 percent have been established by their current owner/operators. The reasons for the lack of succession in these businesses also apply to retailers who have the added complication of increasing competition and retail convergence.

Informal discussions' involving the author and local engineers has shown that many of these engineers have migrated from the shop floor to becoming business owners. According to Souness (2008), they are frequently project focused, aiming at a sustainable income stream and a reasonable lifestyle. Their long-term goal is eventually a retirement based on the rewards garnered on a 'tradesman traditional skill' charge-out basis. Project and maintenance based engineering companies' long-term planning tends to only stretch out to their furthestmost order. This encourages a culture of 'short-termism' and doesn't allow for long-term planning, far less succession planning. This is not specific to Taranaki; indeed it tends to be a New Zealand issue, where the goal is at best to possibly sell the business or make enough money by retirement to purchase the boat and the holiday bach.

Conversely, Souness (2008) suggested that the general outlook for engineering firms in Europe is one of long term succession planning, with the long-term goal being the growth and longevity of the business, thereby providing income through retirement for the founder and for future generations. Souness (2008) also suggested that "[a] business that has more product-manufacturing base which captures and sells intellectual capital will have a strong resale value at the owner's retirement, thereby enabling continuity." (Souness, 2008).

A further analysis of the eighteen percent of engineering businesses in the second or further generation showed that 67 percent were product based involving intellectual capital, while the remainder had at least minor involvement in product manufacturing as part of the business. However, the trades sector has one major advantage over the retail sector. As shown earlier, 82 percent of engineering businesses were owner operated, with tradesmen still having the opportunity to evolve from waged employees into business owners with a future. This opportunity is rapidly disappearing for SME retailers in rural districts because

of globalisation, convergence and massive direct competition by BBRs and supermarkets. In other words, the trades sector has continued to survive on its own because there has been very little convergence in that sector, whereas businesses in the SME retail sector have been the target for BBRs, and therefore convergence.

For SMEs, anecdotal evidence suggests that the smaller the business, the quicker the churn. Contributing factors to the SME churn rate are shown in Table 18.

Table 19: Churn Rate Factors for SMEs

Churn rate factors
Relatively low capital required to purchase/start a smaller business. This can mean it is relatively easy to get into a business only to find it is unsustainable.
If the business is successful, the owner is faced with increasing demand for: capital requirements for product stock, the debtors ledger and possibly increased labour requirements.
Long hours required, often along with low margins.
Increasing retail convergence and competition from BBRs and supermarkets with erosion of market niche.
Owner and spousal burnout and stress, which leads to business and marital problems caused by fiscal stress.

Source: South Taranaki District Council, 2008b.

All of these factors contribute to the rapid turn over of businesses. There are relatively few intergeneration succession retail businesses in Hawera. In one example, a local businessman, a third generation owner of a Hawera business, announced plans in 2007 to downsize his Hawera business by selling his large art deco premises and relocating to smaller, rented premises. The owner, aged 60, a baby boomer, born and bred in Hawera, had spent his working life in retail sales. Part of his retirement focus is to change from fixed to liquid assets. Asked if he would encourage a fourth generation to enter his business, his response was that “[t]here will not be a fourth generation in the business as we (the owner and his wife) actively encouraged our family members to look to other professions.” (Patterson, 2007).

Patterson also made the observation that:

the high number of baby boomers in Hawera and other rural towns throughout New Zealand would find it difficult to find buyers for their businesses as nowadays few consider retail as a career option, except by those who were forced to “purchase a job” by going into business as a result of restructuring or becoming redundant. (*ibid*).

He continued by commenting on the age range of his fellow retailers in the three New Zealand fashion and clothing buying groups he was part of:

Without exception they are all in my age group [ie baby boomer retailers] so therefore succession will be an ongoing problem. In fact I suggest that most will end up closing their stores because few buyers will want the commitment, the stress and strain of retail hours along with the continual capital commitment. If they go off to University or acquire a trade qualification, they can pick and choose their jobs and not work six days a week. (*ibid*).

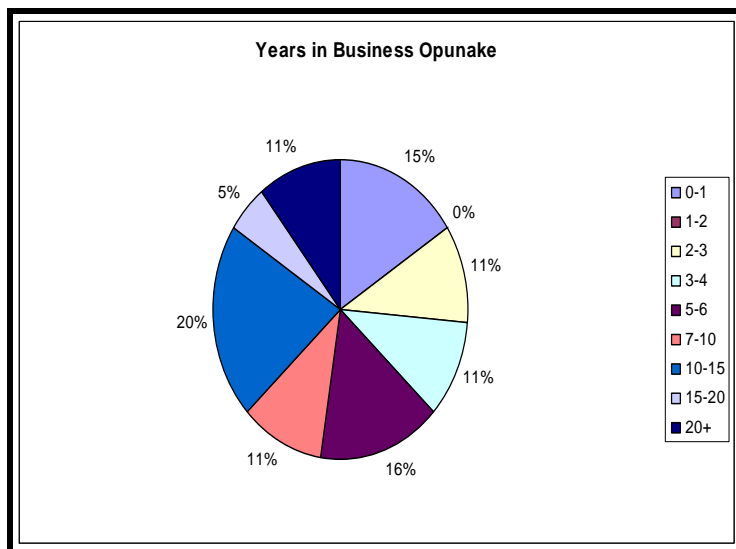
While he stated that he did not consider that the arrival of BBRs or supermarkets had directly affected his business, his subsequent comments show that this was not actually the case:

...I was not directly affected because I was in the high end of a high quality niche market. However, indirectly those businesses that were affected by the BBRs eventually closed and ceased purchasing from my business. The Superannuitants were the one segment that left my business to purchase from the BBRs, that was one area we did notice. (*ibid*).

In April 2007, Patterson’s Clothing Ltd’s owner announced that the menswear side of the business would close, as a prospective purchaser for this portion of the business could not be found. (Patterson, 2007).

It must be noted that mid size franchise businesses also play their part in this inter-generation gap, which tends to displace ‘owner operators’. Franchises such as Selectrix 100 Percent, Vodafone, Telecom and Guthrie Bowron Ltd require payment for brand use and marketing within their group nationally. This tends to stifle individuality, but does offer the advantages of group buying, marketing, and the provision of niche services. The graphs in Figures 14 and 15 indicate the length of time people have been in their current businesses. The number of Hawera owners in the twenty plus year ownership group (22 percent) was much higher than Opunake’s eleven percent. In the period since BBRs arrived in Hawera, the situation is reversed. In other words, there are far fewer long-term SME owners.

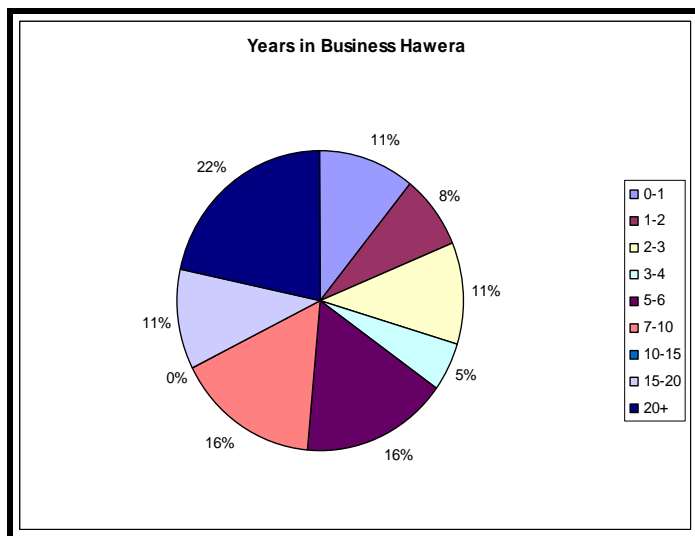
Figure 14: Opunake Retailers' Years in Business



Source: South Taranaki District Council, 2006.

Twenty percent of Opunake businesses have operated for ten to fifteen years, whilst in Hawera this is eleven percent. The nine percent difference between the two towns may be linked to the fact there are no supermarkets or BBRs in Opunake, therefore there is little convergence into the Opunake retail SMEs market compared to Hawera. Thus convergence encourages people with entrepreneurial inclination and skills to move to cities and towns with more business activity and potential. This denies small rural towns the use of capital and the opportunity to capture their energy and drive in businesses. There is also a reduction in people with the skills and experience to share civic responsibility, such as Justices of the Peace, representatives for school boards and involvement with sporting clubs and social and philanthropic organisations for the community's benefit.

Figure 15: Hawera Retailers' Years in Business



Source: South Taranaki District Council, 2006.

6.5 Retail Leakage, Sponge Cities and Reilly's Law of Retail Gravitation

Richardson (1979, p43) described Reilly's Law of Retail Gravitation, which measures retail trade between two centres of population. The Law of Retail Gravitation estimates the boundaries for draw and attraction of trade between cities using distance and population between each city. On boundary between cities, exactly half the population shops at either of the two cities. A more graphic representation of Richardson's description is presented by Rosenberg in figure 16.

Figure 16: Reilly's Law of Retail Gravitation

$$BP = \frac{\text{distance between city a and b}}{1 + \sqrt{\frac{\text{pop. b}}{\text{pop. a}}}}$$

BP is distance from city a to breaking point

Source: Rosenberg, nd.

Note: BP refers to "Breaking Point."

Reilly's Law assumes that there are no natural barriers, rivers, mountains or other distorting factors. The operative rule of thumb stated that a business could reasonably expect to

attract trade within a twenty minute or twenty kilometre drive time radius from the business site. Exceptions do occur, as occasionally a customer-business owner rapport or good service can overcome the distance obstacle. For example, when Reilly's Law is used to indicate the trade boundary or BP between New Plymouth (with a population of 68,901 in 2006), 70 kilometres north of Hawera, with an estimated population 8,000 plus, the breaking point is indicated at 8.87 kilometres north of Hawera. In South Taranaki, if Reilly's Law holds true, the BP for retail leakage between Hawera and New Plymouth is much closer to Hawera than previously believed. Reilly was not able to factor newer influences such as e-commerce (on line shopping), better roads, vehicles and the 'courier' system of over-night (or earlier) deliveries into his law. Also contributing to the leakage is an often-overlooked component, which is the social 'day out.' This may involve driving to a 'Sponge City' and purchasing a major ticket item, followed by dining out, going to the picture theatre or similar activities.

Kenyon and Black report on the impact of economic and social links by people in small country towns because of improved transport and communications. Many small towns were created based on horse and train transport requirements.

The car, telephone and internet have superimposed communication and travel patterns that allow rural people to shop, utilise services and participate in recreation well beyond the local community. Consequently, many of the smaller communities struggle economically and socially against the regional centres, which are now aptly described by Salt (2000) as 'sponge cities'. (Kenyon and Black 2001, p10)

Collits argued that:

Farm restructuring, industry rationalisation, 'corporatisation' and deregulation, improved transport and mobility have led to people in small towns to seek better services including shopping in regional cities. The trend towards out-shopping from small towns has only led to further loss of businesses from those towns. (Collits, 2000)

Johnson (quoted in Ochsner) argued that BBRs were a significant factor in the decline of SME retail activities in Lincoln Nebraska,

However the historic trend for most rural communities has been a steady decline in retail activity, which has accelerated in the past decade due in part to the rapid growth of large discount retailers. Growth in the big box retailing sector has considerably altered the distribution of retailing activity," he said. "This trend is concurrent with the increasing willingness of consumers to drive longer distances for their retail needs." (Ochsner, 2004)

Like the small rural towns dotted about South Taranaki, most of Nebraska's small to medium-sized communities, served as trade centres for the local populations. As in the South Taranaki rural towns, Johnson noted that:

Changes in transportation are also a major factor in the loss of retail activity in smaller communities. People have become more mobile, and the sense of community is broader, the lure of large-scale merchandisers pulls in consumers from ever-increasing distances.
(*ibid*)

Hawera has experienced the establishment of BBRs/supermarkets and the predatory practices described by Mitchell:

National retailers have the means and the tendency to under price their competition when initially entering a local market ... The ability of franchise retailers to survive while operating at a loss enables them to easily exterminate independent businesses and, in effect, acquire and secure dominance over the local economy. (Mitchell, 2000, p12)

This may be a significant factor contributing to the age differences of retailers in the two CBDs. The effect on Hawera's CBD is evident, while because of the distance from BBRs/supermarkets, Opunake businesses have been spared the intense competition resulting from the arrival of BBRs or supermarkets to date (2008). This enables the sale of small businesses and in some cases succession to family.

6.6 Economic Reform

The restructuring of the dairy, farming and meat processors by mergers and closures acted as a catalyst for rapid change in the South Taranaki District. Other factors contributed to the economic impact on rural retail SMEs at the same time. For example, the New Zealand economy had key structural changes take place during the 1980s, which influenced economic growth. Examples include the introduction of the 1991 Employment Contracts Act, the Fiscal Responsibility Act (1994) and the Reserve Bank Act (1989). Other changes include progressive tariff reductions, the abolition of import licensing and privatisation of government enterprises.

The governmental review process known as 'privatisation' began in the 1970s and carried on into the 1980s and 1990s and resulted in the closures or sale of government services and the removal of agricultural subsidies. All had a negative impact on South Taranaki. An

example was the sale of the NZ Railway Corporation in 1993.¹⁷ As a result of that sale, staff levels amongst guards, track maintenance teams, goods handling and ticket issuing personnel were radically reduced. Since then there have been huge staff cuts (from 21,000 to 7,000), and changes in the organisation and services (Dorothy, 1997). Nationally, these cut backs resulted in a loss of some 14,000 jobs.

In South Taranaki, staff were made redundant or transferred out of the district as stations, goods sheds and shunting facilities were closed throughout the region. For example, stations in Waverley, Patea, Hawera, Eltham and Normanby closed, as did the Kapuni-Opunake line. This situation persisted until 1993 when the economy had a period of sustained growth. This lasted until the end of 1997. Anderton reflected on these changes when on he stated:

Privatising state sector companies was meant to make them more efficient - but I have sat round the Cabinet table having to buy back an airline and a railway that were so inefficient they were about to stop running; we had to start a bank because we didn't have one of our own any more; and we've wrestled with a bungled telecommunications infrastructure, which was asset-stripped instead of investments being made in appropriate infrastructure. (Anderton, 2007)

In Anderton's opinion:

....[E]xposing our manufacturing industries to scorched earth competition was meant to make them stronger and increase our export base. But I have spent the last eight years working to develop the strength, productivity and international connections of our industry. It didn't make us more internationally competitive - the share of GDP from exports hasn't changed in the last thirty years and our share of global trade has been falling. We grew more slowly in the 80s and 90s than other developed countries, and unemployment has only now returned to the levels of twenty-seven years ago, as a result of proactive economic, industry and employment policies, followed by this government.

Our debt levels increased several times over, our current account has not been in credit for thirty-five years, and our comparative living standard slipped even further below the levels we had previously enjoyed. (*ibid*).

The restructuring process led to job losses and redundancies. Companies such as Wrightson's (stock and station agency) closed stores in rural and small urban towns such as Waverley, Kaponga, Opunake and Eltham. Ian Shirley described how the economic restructuring impacted on the Taranaki districts:

Despite dairy farming being the core industry in Taranaki, the role of the State was important in facilitating the programme of economic restructuring (in the 1960s). (However), as new jobs were

¹⁷ The NZ Railway Corporation was sold in 1993 to a consortium of Fay Richwhite and the Wisconsin Central Transportation Company. In April 2008 the NZ Government repurchased the rail system from Toll NZ Ltd.

created, especially in the service sector, redundancies occurred in the traditional areas of manufacturing.... [A]gricultural processing was also affected with the closure of older, smaller plants in both the dairy and freezing industries. These changes had a detrimental impact upon services of small towns in rural communities. (Shirley, 1991, p5).

Two examples of restructuring in South Taranaki were:

- The closure of Patea meat works in 1982, and
- The closure of two small rural dairy factories in Kaponga.

Norman McKay, who was the former Mayor of Patea as well as a freezing worker at the Patea plant for many years, commented:

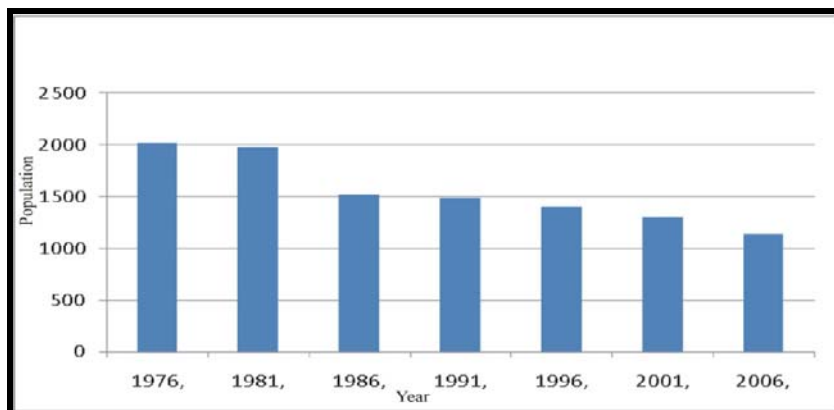
When the plant closed in 1982, there was a loss of an estimated 800 jobs. This loss of jobs resulted in the closure of numerous shops, with staff being laid off as turnover plummeted at local businesses. This decimated not only the local economy but also the community itself as the work force left town to seek other jobs. (McKay, 2006)

The closure of the Patea plant and the subsequent job losses have longer term economic and social impacts on the town as McKay explained:

The Patea freezing works closure immediately affected the fifty-one local businesses in the town. After the closure, the local economy tightened and worsened. The worst aspect was that over time, the intelligence and entrepreneurial drive was also exported from the town, leaving only those too old or those without equity in the town. (*ibid*).

In addition, opportunities for ‘on farm’ employment also diminished, as dairy farming returns were also under pressure, further adding to the effect on Patea businesses. As businesses contracted or closed, the town lost the banking services of five banks, the clothing factory, the Post Office, the town’s rail services and the local hospital. Local schools were under threat of closure in 2007 as the trickle down effect of the economic restructuring of the 1990s continued. Patea’s population fell by nearly 50 percent in the 30 year period 1976 -2006, as shown in Figure 17.

Figure 17: Patea's Population Decline, 1976 – 2006



Source: Statistics New Zealand, 2008.

The closures impacted on the town. The South Taranaki District Council advertised the sale of abandoned housing sections in a number of regional papers due to non-payment of rates. Of the ten sections advertised in the *Taranaki Daily News* on Saturday 21 October 2006, nine were in the Patea township. (*Taranaki Daily News*, 2006, p66).

Other rural areas of New Zealand suffered similar effects. For example, in 1994, Tomoana freezing works in Hawkes Bay closed, and in 2008 the Oringi freezing works near Dannevirke closed with the loss of 466 jobs (New Zealand Press Association, 2008a). In contrast with South Taranaki, however, the Hawkes Bay area had other seasonal industries such as fruit orchards and market gardening, which provided employment when the freezing works were shut. Workers could also access employment in larger towns, such as Whakatane, Katikati and Tauranga. There were no similar, alternative employment opportunities to absorb displaced workers in South Taranaki.

6.7 Kaponga Case Study

Evidence of the intimately intertwined relationship of the rural South Taranaki retail/service sectors is further demonstrated by the experiences of Kaponga, a small rural service town which suffered dramatically following the removal of its main economic driver, two dairy processing factories.

Situated in the South Taranaki province, Kaponga is at the intersection of Manaia and Eltham-Opunake Roads. In 1961, it had an urban population of five hundred and eighteen,

but then its only significant employers (two dairy-processing factories) closed. The first closure was the Maire factory on the outskirts of town in 1966, followed by the Kaponga factory situated within the town in 1984. The two Kaponga closures are representative of the South Taranaki dairy processing industry rationalisation attempt to enable economies of scale.¹⁸ When dairy processing relocated from the Kaponga district, it had a devastating effect on this rural service town's retail, service, and business district and community. The closures were the catalyst forcing wage earners to move from the area to find work.

By 2001, the population in Kaponga had declined to three hundred and forty eight, a loss of 42 percent since the 1996 census (SNZ, 2003). Other influences, such as a lower birth rate, farm amalgamations and state restructuring, also contributed to the decline. This affected downstream service industries and retail businesses, which relied on both the essential and discretionary spending of the local labour force.

The following businesses and services in the town subsequently closed:

Table 20: Kaponga's Business Closures

Business Name or Business Type	
Furniture Polisher (Hartley)	Dairy
Harding & Son's	Maternity home
Painter (Spring)	Lines General Carriers
Undertaker	Electrician (Stan Betts)
Furnishings	Skittrup General Carriers
Two retail butchers	Book shop
Cabinet makers	Plumber (Bocock)
Egmont Motors Garage Ltd	Sale yards
Chemist	BNZ and NSW bank agencies
Kaponga Motors Ltd	Kaponga Town Council
Doctor (General Practitioner)	Lawyers and accountancy agencies
Newton King Ltd	Kaponga dairy factory
One of two grocers	Maire dairy factory

Source: Brown, 2006.

¹⁸ Economies of scale refers to the decreased per unit cost as output increases. More clearly, the initial investment of capital is diffused (spread) over an increasing number of units of output, and therefore, the marginal cost of producing a good or service decreases as production increases. (Wikipedia Foundation Inc, 2008)

Kaponga's decline can be traced to the factors mentioned above and includes rural and urban decline, i.e. the rural-urban drift, the downward trending of birth rates, increased farm amalgamation, farm mechanisation, the increased use of farm contractors and technology improvements on amalgamated farms. As well as removing a significant portion of retail/service businesses, these factors and the consequent departure of families caused school rolls to fall, affecting schools and other community assets. For example, the Kaponga Catholic Nuns teachers' house was removed with the loss of five resident teaching nuns. These structural economic changes that started with the removal of the major wealth creator 'trickled down' even further, affecting social amenities and clubs. The following closed in the Kaponga Township:

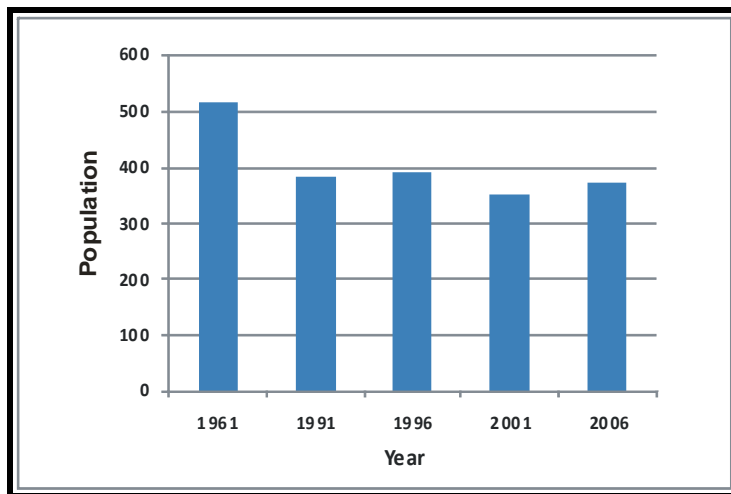
Table 21: Kaponga Clubs and Social Amenity Closures

Men's Hockey	Kaponga Town Council
Open Brethren Church	Indoor bowls
Masonic Lodge	Brownies
Kaponga Chamber of Commerce	Girl Guides
Police Station	Cubs
Post Office	Boy Scouts
Badminton	Presbyterian Church
Maternity Home	Catholic School

Source: Brown, 2006.

The loss of such amenities over time destroys the fabric of any community, devastating the important feeling of cohesiveness and belonging, and thereby also contributing to the depopulation of the town and district. Figure 18 below demonstrates the initial impact of the list of closures on Kaponga's population, and the continual decline of its population once the process had set in:

Figure 18: Kaponga's Population Change, 1961 - 2006

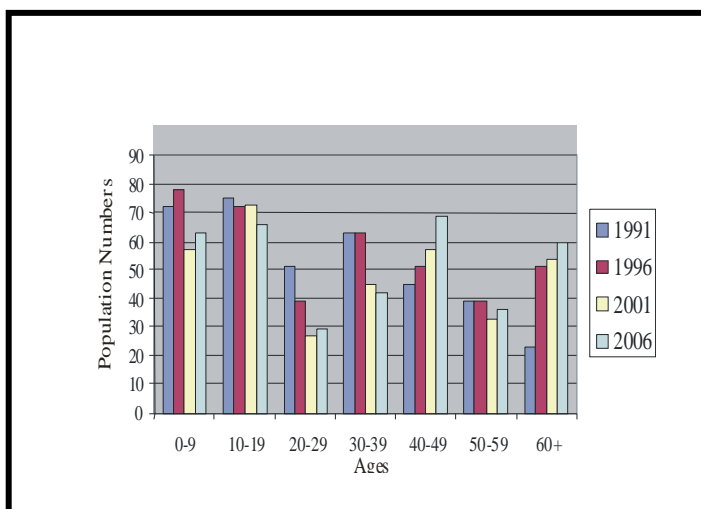


Source: Statistics New Zealand, 2008.

The falling birth rate in Kaponga (as shown in Figure 19, below) was accompanied by a lack of jobs in the twenty to 29 and 30 to 39 year old age groups because of the closure of the dairy factories. In addition, there was a significant aging of the population.

These demographic factors impact on SME businesses and occurs throughout South Taranaki's rural towns. The outcome is described by McKay who said that "[t]he worst aspect was that over time, the intelligence and entrepreneurial drive was also exported from the town, leaving only those too old or those without equity in the town." (McKay, 2006).

Figure 19: Kaponga's Population Change by Age Group, 1991-2006



Source: Statistics New Zealand, 2008.

Young people leave town in the twenty to 30 age group because of insufficient economic infrastructure to provide employment, whilst the 55 to 80-plus age group are unable to leave because they cannot sell their houses at a price that will enable them to re-locate. As entrepreneurial spirit also departs with the population, the removal of the main economic driver from a rural township makes any attempt to stimulate or instigate economic growth, which would support local SMEs and increase discretionary spending, very difficult.

CHAPTER SEVEN: SOUTH TARANAKI IN THE CONTEXT OF THE EXPERIENCE OF OTHER NEW ZEALAND RURAL DISTRICTS

7.0 Introduction

This chapter examines the experience of similar rural districts in New Zealand. The objective is to compare the impact of BBRs and supermarkets on rural SME retailers and examine the role of population decline and farm amalgamation on the viability of SMEs. This will also provide a framework for developing strategies to address some of the issues described in the South Taranaki experience.

7.1 A Comparison of the Tararua and South Taranaki Rural Districts

The South Taranaki district on the west coast of the North Island and the Tararua district on the east coast of the North Island experience and share many of the problems facing rural farming districts in New Zealand. Tararua, like South Taranaki, is an amalgamation of smaller councils and had additional boroughs and county districts added to its area under the 1989 Local Government Reform Act:

Tararua is a novel district established in November 1989 under the decree of local government restructuring. An amalgamation of four county and three borough councils, Tararua was an enforced merger of communities with traditionally different centres of interest. The southern area related most to Masterton, the northern area centred on Dannevirke viewed Hawkes Bay as their affiliation, while the central area around Woodville and Pahiatua focused on Palmerston North. (Rhodes et al, 2003, Appendix iv).

This amalgamation that occurred in the Tararua and South Taranaki Districts led to both having significant kilometres of backcountry roads added to their maintenance budgets.

7.1.1 The Economy

The Tararua district is predominantly a rural area of 4,360 kilometres, or approximately 436,000 hectares. Dominating the drier, steeper country towards the coast are large sheep and beef cattle farms. Dairy farming is concentrated on the fertile rich flats and gently rolling hills near and in the rain shadow of the Ruahine ranges.

Over a third of the workers in the district are employed in the agricultural industry. The district has a mix of other industries including, food processing, textiles (Feltex Carpets

Ltd) and, like South Taranaki, the Tararua District's economy is driven by the agricultural production and processing businesses which are based upon the productive capacity of the districts soils, climate and stock numbers. However, the Tararua District's strength lies in the number of sheep, beef and grain farming businesses and less so on dairying, whereas the inverse applies in South Taranaki. This is detailed later in the farming sector of this comparison.

The Tararua district's high beef and sheep stock provides the rationale for two meat-processing plants based near Dannevirke. The first, PPCS Oringi, employed in its peak approximately 750 FTEs processing sheep, lamb, goats and bobby calves (Stevens, 2007).¹⁹ The second, formerly the local abattoir and now owned by Alliance Group (Dannevirke) has been upgraded to export standard and processes sheep and lamb. This company employs 225 FTEs (Poole, 2007). Collectively they provide employment for approximately 975 employees. In the neighbouring Hawkes Bay district and also exerting an economic influence in the Tararua district by processing livestock is PPCS Pacific (a beef processor) and PPCS Takapau (a processor of sheep, lambs and bobby calves).

These meat processing companies provide the economic base for the service and retail sectors in the Tararua District, as wages and salaries from the processing companies support down stream businesses, such as farm service, transport, fertiliser, and engineering businesses, which in turn support retail SMEs and BBRs in the Tararua District. The families utilise schools and contribute to social activities in the district.

In the South Taranaki and Tararua Districts, engineering is a significant downstream service partner supporting the sheep and beef processing companies in the district. The Tararua District, as in South Taranaki, has a number of large specialist engineering businesses. This capacity is examined in detail in the later engineering section.

Geopolitically, the Tararua District is similar to other closely settled and farmed rural districts with a number of small rural service towns in the district. These towns include Pahiatua, Woodville, Takapau, Norsewood and Waipukurau. The largest, Dannevirke, has the most amenities and hosts the local territorial authority, the Tararua District Council.

¹⁹ This plant closed in June 2008.

These small towns are experiencing varying rates of population decline for much the same reasons as other rural areas, for example the amalgamation of farms, smaller families, technology changes that reduce labour requirements in industry and on the farm, all contribute to school closures that compound population loss in rural districts.

The rural school closures reduce demand for services and retail goods in the small towns and farming districts. The cycle of diminishing rural population continues, reducing opportunities for young people. This opportunity factor, be it farm ownership, business ownership, or positions in rural schools, affects the retention of young people who move seeking employment and business opportunities. In turn, this leaves an aging rural population. These factors are identified in a MAF paper, *Significant Changes Identified in Taranua: 1980 to 200:*

Like many rural communities throughout New Zealand the population has declined since 1986. Significantly, the rate of reduction also has been increasing. There were 1,209 fewer people in the district in 2001, than 1996. The greatest reduction has been in the age group 20 to 29, typically representing young families. Historically, a proportion of this age group was employed by banks, government departments and service industries and tended to be “short term” residents as they progressed through a particular career development path. Industrial and government restructuring since the late 1980s has eliminated many of these career opportunities. (Rhodes et al, 2008, ch4).

This process has an effect similar to the closing of dairy factories and the dairy farm amalgamations in South Taranaki. For example, when a dairy factory closes, it can bring about job losses for between twenty to 100 or so employees. These employees and dependents then need to relocate in search of employment and housing. Therefore, the impact of a dairy factory closure (employment multiplier of 6.5), NZIER, 2001, p28) or any other major employer is a massive economic shock to a district. It immediately affects both supporting and dependent SME businesses. The downstream socio-economic result is illustrated below:

A consequence of both this reduction in the age group most likely to have young children, and a declining birth rate, has been a reduction in the under 15 age group. Fewer children now attending early childhood services such as kindergarten, some primary schools now have non-viable rolls. In the Dannevirke district, three rural primary schools have closed since 1990 and a major review of primary school services is underway in the district. The 15-19 year age group has also fallen, partly as a decline in the flow through from the younger cohort. Consequently the High School roll declined from 663 in 1991 to 543 in 2001. This reduction now places significant constraints on its ability to provide a comprehensive range of course options, particularly for senior students (years 12 and 13)... (*ibid*).

The depopulation and falling school roll rate in South Taranaki are also mirrored in the Taranua Districts, as illustrated below in Table 22.

Table 22: School Roll Changes

Hawera High School			Dannevirke High School		
Year	Enrolment	Percentage change from 1996	Year	Enrolment	Percentage change from 1996
1996	951	0%	1996	629	0%
2001	804	-15 %	2001	558	-11%
2006	797	-16%	2006	526	-16%

Source: Gini, 2007.

As reported by MAF, the effects of declining and changing population demographics and the closure of rural schools trickle down through the community, affecting services such as the availability of health services and facilities. In South Taranaki and Taranua Districts, the Hawera and Dannevirke hospitals and nursing homes were either closed or now offer vastly reduced services. For Dannevirke hospital, this downgrading resulted in diminishment of services and finally closure in 1997, eliminating a significant provider of part-time employment for both urban and rural women (Rhodes, et al, 2002, ch4). Both towns also experienced the closure of maternity homes, nurses' homes and main hospitals. These were, however, replaced by new smaller community hospitals; Dannevirke in late 1997 and Hawera in 2002.

Rhodes et al's paper, *Significant Changes Identified in Taranua: 1980 – 2002*, could be describing the South Taranaki district almost word for word. Examples of the similarities include the changes in farm labour and the increase in contractor usage which is still widespread in South Taranaki in 2008. The report comments:

Employment in agriculture has declined, in part directly as a response to declining farm profits, but also as the demand for farm labour has decreased. Larger cowsheds and rotary platforms, adoption of large volume mechanical feed handing systems. The substitution of silage for hay, quad motorcycles, the increased use of contractors, and the dropping of previously major tasks such as much farm maintenance work have all reduced labour needs. Farm expansion through amalgamation and the development of forestry on coastal hill country also had an effect. (*ibid*).

Thirty-three schools have closed in South Taranaki from 1984 to 2008 whilst 21 closed in Taranua from 1985 to 2008. In 2004, the then Education Minister Trevor Mallard spelt out Government policy on the scheduling of closures.

There are 71 schools in Upper Hutt, the West Coast and Taranaki, which had already been earmarked for closure but have not yet closed and Mallard says the schedule for these closures continues. (Quirke, 2004)

Table 23 lists school closure and/or amalgamation in the South Taranaki district.

Table 23: South Taranaki School Closures, 1984 - 2008

Closure date	School Name	Roll at closure
Dec 1984	Kohi (Waverley)	Unknown
June 1986	Hawera Christian Academy	Unknown
Dec 1988	Oeo	Unknown
Feb 1989	Awhina	Unknown
Feb 1989	Mangamingi	Unknown
June 1990	Meremere	Unknown
Aug 1995	Awatuna	Unknown
Jan 1996	Alton	Unknown
Jan 1996	Manutahi	Unknown
June 2000	Te Roti	8
Sept 2000	Sacred Heart Manaia	7
Jan 2001	Ararata	9
Jan 2003	Otakeho	25
Feb 2003	Fraser Road	11
July 2003	St Joseph Eltham	14
Dec 2003	Oaonui	44
Dec 2003	Pihama	78
Dec 2003	Riverlea	35
Dec 2003	Te Kiri	33
Jan 2005	Kaponga	92
Jan 2005	Kapuni	59
Jan 2005	Manaia	140
Jan 2005	Mangatoki	71
Jan 2005	Matapu	43
Jan 2005	Newall	15
Jan 2005	Okaiawa	17
Jan 2005	Patea	39
Jan 2005	Pungarehu	48
Jan 2005	Rahotu	101
Jan 2005	Tokaora	9
Jan 2005	Warea	41
April 2007	Waverley High	102
Jan 2008	Te Kura o Nga Ruahine	54

Source: Education Counts, 2008.

The Tararua District experienced similar closures to those that occurred in Taranaki. These problems were identified by Rural Women New Zealand in a submission to the Horizons Regional Council on the proposed One Plan²⁰:

As properties become larger they are less likely to be affordable to young farmers hoping to acquire their first farms. School rolls drop when farms become part of larger properties. With a smaller population, organisations and clubs decline and communities become less attractive to new landowners or employees looking to move into the community. (Rural Women New Zealand, 2007, p6)

Mirroring South Taranaki closures, Table 24 lists a total of 21 schools that closed throughout Tararua district between 1985 and 2008.

Table 24: Tararua District School Closures, 1985 – 2008

Closure date	School name	Roll at closure
Dec 2003	Awariki	28
Dec 2003	Dannevirke North	87
Dec 2003	Hillcrest Dannevirke	243
Jul 1999	Hoereka	7
Jan 2008	Hopelands	Unknown
Dec 1985	Ihuraua Primary	Unknown
Aug 1995	Kaitawa	Unknown
Jan 2008	Kohinui	7
Jan 2008	Kumeroa-Hopelands	42
Dec 1998	Mangamutu	30
Dec 2003	Matamau	15
Feb 2002	Motea	25
Dec 2001	Nireaha	21
Dec 2003	Ormondville	34
Dec 2003	Rua Roa	61
June 1996	Totara College (Yr 9-15)	10
June 1996	Totara College (primary)	23
Jan 1995	Waiaruhe	Unknown
Dec 1998	Waione	Unknown
June 2002	Waitahora	10
Jan 1996	Wimbleton	Unknown

Source: Education Counts, 2008.

Other similarities exist between the two rural districts. For example:

²⁰ One Plan: Horizons Regional Council are to develop a single resource management plan combining the regional policy statement and regional plans

- The SNZ 2006 census data shows a decrease in younger people fourteen years and younger for both districts,
- There is an increasing percentage of the population aged 65 and over. (SNZ, 2006).

In terms of the economic environment, the following similarities can be noted:

- BBRs and large supermarkets are increasingly aggressively competing for market share,
- SMEs face pressure from the above points and include declining markets, pressure from parallel importing and the effects of globalisation.

These factors by themselves do not necessarily kill a business, but reduce the fiscal vitality of the business so that the gross taxable income is viable for a long established business. However, the returns are insufficient for the business to be sold to a new or younger owner(s) because of the insufficient return on capital invested.

7.1.2 Retail Similarities

In a similar vein, both towns have had supermarket closures. In the case of Hawera, the Write Price supermarket closed in 2006 and Dannevirke's Price Chopper supermarket closed in 2002. According to a survey done by the author South Taranaki District Council, 2006), both towns, like other rural New Zealand districts, shared the arrival of BBRs, in this case The Warehouse. As a predictable result, both towns' retail CBDs have suffered from closures by retailers in those towns (for example, both towns lost menswear retailer Hallenstein Bros Ltd and in Dannevirke, Hannah's Footwear Ltd also closed). As at 30 June 2007, the CBDs of the both towns had empty retail shops. Hawera had 12.9 percent of shops empty over its two CBDs, while at 25 June 2008 ten percent of Dannevirke CBD shops were empty. (*ibid*)

Currently (2008), Hawera retailers are concentrated in the High Street CBD. However, this focus as the CBD may well change as the 2000²¹ South Taranaki District Council and Transit (NZ) Annual Average Daily Traffic (AADT) vehicle figures show that the secondary Glover Road CBD created by the concentration of BBRs and the secondary

²¹ The AADT figures used are for the year 2000 as there is insufficient consistent recent data.

businesses that followed has a larger traffic volume. The concentration of BBRs and the influence on vehicular movements is clear.

Table 25: Hawera's Annual Average Daily Traffic Figures (AADT)

Area surveyed	Date	Vehicle movements	Info Source
Glover Road (Secondary CBD)	2000	AADT of 8,323	STDC
South Road (SH3)	2000	AADT of 7,220	Transit NZ
Hawera High Street CBD	2000	AADT of 6,241	STDC

Source: South Taranaki District Council, 2006.

The Hawera CBD is by-passed by South Road/State Highway (SH3), and the highway does not greatly influence the Hawera CBD retailers. Two new businesses established on South Road/SH3 (KFC in 1993, followed by McDonalds in 2008) take advantage of the 2,082 extra vehicles daily bypassing the town via SH3. In contrast, Pizza Hut (established 2004) and Subway (established 2006) have located themselves in the High Street CBD.

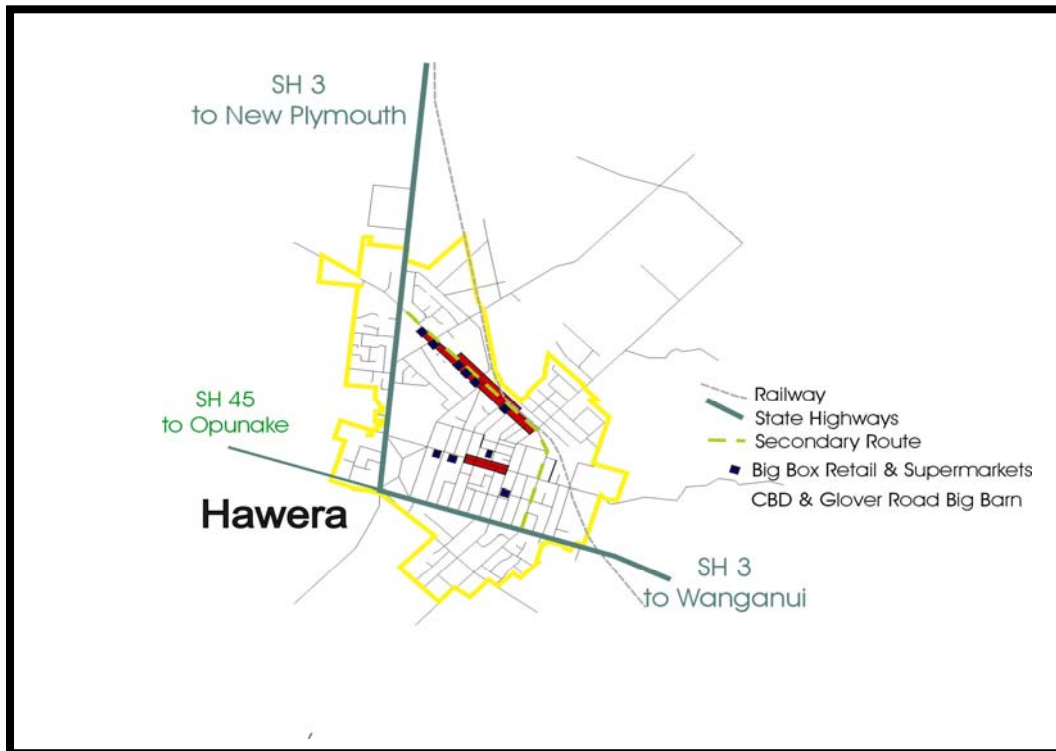
Glover Road (the secondary CBD) is some 2 kilometres distant from High Street and is where the town's BBRs are now concentrated. Glover Road is used as a partial bypass, connecting with SH3, and the secondary CBD there has better parking and larger, more modern buildings. This concentration of BBR businesses contributes to the high number of vehicle movements, but other factors such as availability of land zoned light industrial-commercial and the council requirement for car parking in new developments makes greenfield development easier than establishing a new business in the CBD. Witherby illustrated the impact that BBRs locating to the periphery of a town have on a CBD:

There is clear and indisputable evidence that the location of large players away from the retail core and, if designed inappropriately, within the retail core substantially damages the social and cultural fabric of communities. The role of retail development is not merely one of competition between businesses but it is an integral part of community identity and life. This is particularly the case within smaller communities with their higher propensity for local ownership of businesses. In addition, the small business sector often provides substantial support for sporting, cultural and other activities together with maintaining a higher degree of retained wealth with local ownership and control. (Witherby, 2000)

However, the location of BBRs some distance from the High Street retailers requires shoppers to use their vehicles to shop at these one-stop retail centres, contributing in part to the dropping foot traffic in the main CBD, which in turn contributes to Hawera's empty retail premises. Glover Road has much higher (AADT) vehicle movements, 1,103 more

than SH3 and 2082 more than High Street. The Hawera CBD location map, Figure 22, illustrates the by-pass and concentration of BBRs.

Figure 20: Hawera's Two CBDs and BBR Location

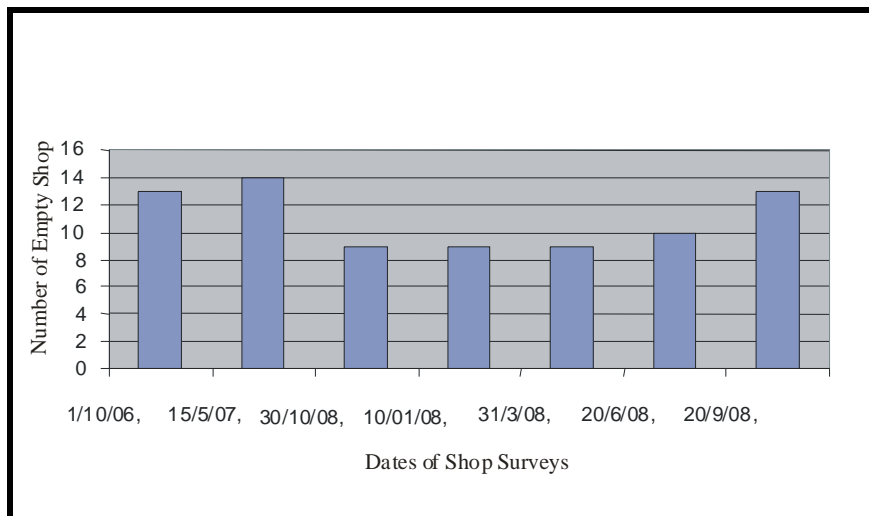


Source: South Taranaki District Council, 2008b.

Note: Hawera's two CBDs, ie the High Street and Glover Road are shown in red on the above map. The High Street CBD is shown in red whilst the Glover Road bypass is shown in broken green. SH3 bypassing the town is outlined in solid dark green.

The division of retail into two retail CBD districts splits shoppers and lowers foot traffic in the High Street CBD. The 90 percent drop in that rate of foot traffic after the relocation of The Warehouse was dramatic (Darling, 2004, p3); this obviously contributes to the classic ghostboxes phenomenon of very large empty shops in the CBD and low foot traffic counts, which affects the viability of the small SMEs. This is shown in figure 21.

Figure 21: Hawera CBD Empty Shops (1 October 2006 - 20 September 2008)



Source: South Taranaki District Council, 2008b.

Note: The dates along the *x* axis represent the irregular survey conducted by the author.

On 20 September 2008, a total of thirteen premises out of approximately 69 central CBD businesses were vacant, almost nineteen percent of the CBD (it must be noted that four of the premises vacant have 1.5 metre to 2 metre frontages and are not easily used for retail). There were no vacancies in Glover Road. (South Taranaki District Council, 2008)

It is population contraction in the rural areas combined with the convergence of BBRs and supermarkets that subsequently affects the SME businesses and eventually leads to the export of the entrepreneurial capital and drive from the towns. In some cases there have been new businesses evolving to service the changed rural districts, such as a range of farming contractors, various spraying services, hedge cutting and mulching services, rural bankers, insurance and mortgage financial services. The latter have arisen as the banks and insurance companies withdrew from most of the small towns.

Unfortunately, the loss of services and small businesses over time considerably reduces the opportunities for younger residents to progressively enter retail businesses as owner-operators. This tends to constrict choice and can push young people toward minimum wage short-term employment in BBRs. The only alternative is to leave town and seek opportunities elsewhere. This process of movement among the younger population

contributes to the aging of the remaining population, widens a social and asset gap between the generations and, as mentioned earlier, exports entrepreneurial flair.

As discussed, in South Taranaki a variety of causes contribute to this phenomenon. They include smaller families, dairy farm amalgamations and technology contributing to and reducing changes in labour demand. Also influencing changes is increasing technology use both on farms and in industry, as well as government and business centralisation.

For Tararua, there is a similar slow strangulation of the rural population. This is contributed to by the same factors, such as smaller families, technology changes which reduce labour or farm amalgamations.

However, in both districts the outcome is a smaller population supporting fewer jobs and services. This inevitability causes social decline, as school closures and a reduction in health services based on a population basis result in those with teaching/health qualifications leaving over time. The loss of 'white collar' workers was particularly severe during the upheaval of the 1980s and 1990s for the two districts. The local body reforms merged many of the small rural councils and closed down rural depots. At the same time insurance companies, banks and other national service businesses withdrew from rural districts. An example of mergers and 'corporatisation' with accompanying job losses is the Wanganui-Rangitikei Electricity Power Board that formed Powerco Ltd. The *Taranaki Daily News* newspaper reported:

The original Powerco Ltd was formed in 1993, when the Wanganui Rangitikei Electricity Power Board was corporatised, and from that point it began to fold a number of other gas and electricity companies into its business. This included Taranaki Energy in 1995, Hawera based Egmont Electricity in 1997, and NGC's Taranaki gas networks in 1998. (Maetzig, 2008, p10).

The same picture emerges in the retail sector, with businesses such as Hallenstein Bros, a menswear retailer withdrawing to larger city centres nationwide in 2003. Despite all of these similarities, South Taranaki has its own uniqueness relationship with and outcome of the changes affecting its rural SMEs. For example:

1. South Taranaki has approximately 1,084 herds compared to 306 in Tararua District. (Livestock Improvement Co, 2008).

2. The sheer number of engineering companies, approximately 39 in South Taranaki. The Hawera area has seventeen companies within 5 kilometres employing 300+ FTEs. (Souness, 2008).
3. The huge economic impact of the dairy, meat and food processing industries. The total FTEs for the South Taranaki district in the aforementioned industries is approximately 3,371 in a population of 26,000. (South Taranaki District Council, 2006).
4. The unique but disruptive on-off oil and gas exploration that occurs in the district, such as the Origin/Kupe project. The commercialisation of this project is expected to cost NZ \$1.2b and provide 20 FTEs. (Canavin, 2006).

Whilst the above factors are similar for both districts, it is the intensity of dairying and engineering that make South Taranaki different from the Tararua District. The challenge is therefore to identify ways of ensuring the sustainability and potential growth of the hugely significant economic drivers discussed above and developing an economic (business) environment which fosters retention and positive growth. At the same time a catalyst needs to be put in place which will enable and encourage entrepreneurial activity and broaden and diversify the business base. This could provide a basis or reasons for young people to commit to or be attracted to the South Taranaki district. In the longer term, this has potential to promote both employment and entrepreneurial opportunity. In turn, this could ultimately encourage growth in existing SMEs and result in healthy economic activity, social stability and a broader demographic spread in the population.

CHAPTER EIGHT: SOUTH TARANAKI IN THE CONTEXT OF INTERNATIONAL EXPERIENCE

The author visited the small American rural towns of Durango (Colorado), Taos (New Mexico) and Silver City (New Mexico) as well as the small Australian rural town of Donald (Victoria) in September 2007 to ascertain if the experiences with BBRs in those towns' retail sectors could explain or be compared with the experiences and impact on similar, small rural towns in New Zealand whose retail sectors have also been affected by BBRs. The study trips also provided the author with the opportunity to examine some of the Economic Development and Council strategies used in these towns to address the challenges of local economic development.

Included in this chapter are case studies from each town visited, with each case study providing a brief description of the economic characteristics of each town as well as an outline of the retail profile and the strategies pursued to address weaknesses in their respective retail sectors.

8.1 Durango, Colorado

The City of Durango²² has a population of approximately 15,000, and is located at an altitude of 6,512 feet (approximately 2,000 metres) above sea level. It is in a temperate transition zone between desert and mountains. Durango's main economic drivers are tourism (including tourism-related retail businesses and accommodation providers) and a strong oil and gas sector in the surrounding La Plata County.

Tourism in Durango is characterised by outdoor pursuits, which utilise the natural areas and man-made attractions. The main attractions include Mesa Verde National Park, a World Class Cultural Heritage Site that attracted 519,649 visitors in 2005 (National Parks Service, nd), and the Durango to Silverton steam train, which transports visitors to the historic mining town of Silverton, 40-plus miles (64 kilometres) from Durango. This journey is a good example of the way Durango is able to leverage off its Wild West image, magnificent scenery and mining heritage.

²²The term 'city' with Durango city is in keeping with the American custom of referring to even quite small towns as cities.

Durango has successfully overcome the challenges of tourism seasonality by offering a wide range of activities in winter and summer, including the steam train ride and adventure and outdoor activities such as white water rafting, walking, hiking, skiing, snow shoeing, fishing, horseback riding and mountain biking. Durango's ability to offer this wide range of activities has enabled it to revitalise a local economy that had been negatively affected by a changing retail sector.

8.1.1 The Durango CBD

Durango City's popularity as a prime destination for visitors has led it to being ranked third on the West list as an 'America Dream town' (Thomas, 2006). As a result, the city is under significant population pressure due to an influx of newer residents to the district. In 2000, the Durango population was 13,922; by 2006 it had increased to 15,614, an increase of more than twelve percent (City-Data.Com, 2007). This steady growth in the city and surrounding district's population has attracted the attention of BBR developers, who consider the city as a potential site. However Hoch referred to an increasing numbers of new residents moving into the area and the residents' concerns at traffic congestion, increasing urban sprawl into rural areas, rising crime and pressure on local infrastructure (Hoch, 2007).

Durango, like many other towns and cities in the USA, has been targeted by early versions of BBRs. Known as discount stores, they date back to the late 1940s and early 1950s. One of the earliest discount stores was E. J. Korvette's, which developed the discount pricing model during the early 1950s. BBRs such as K-Mart, Wal-Mart and Target all began operations in 1962 (Discount-Stores.us, 2008). They were not the first discount department stores, but they turned out to be the largest chains (Stone 1997, p3). The 1980s saw a rapid expansion of these stores. In addition, a new store format, called "category killer", began to appear (Stone 1991). According to Stone these stores quickly became dominant and consequently killed off smaller stores within the category (Stone, 1997, p4).

The Durango CBD, like many main streets in the USA, had been severely affected by the initial wave of BBRs such as JC Penny, and Sears. Their location on the periphery of

towns provided intense competition and seriously affected a number of the smaller retailers, particularly in each town's CBD. These smaller retailers closed over time.

In Durango, Wal-Mart purchased land in 1994 on the periphery of the city and built its premises in 1998. Its arrival divided local opinion. Greg Hoch, Director of Planning and Community Development for the City of Durango, described the reaction of the local community in 1997:

- 30% were in favour of Wal-Mart coming to Durango City;
- 30% were against the arrival of the mega store; and
- 40% took the stance: "well, it's coming anyway!" (Hoch, 2007)

In Durango, the CBD retained more café-restaurant and tourism centric businesses, but the consumer retail and grocery trade moved to the Southern BBR district as noted by Hoch who said that "[b]ut although Durango's economic centre has shifted to the southern big-box corridor, downtown Durango continues to teem with tourists and locals." (*ibid*).

Not only did Durango suffer from the impact of BBRs, but like Glover Road in Hawera, changes occurred around the BBRs. Strip malls began to appear around the large BBR sites, as Bob Kunkel, manager of Durango Business Improvement District, explained:

This growth/development or concentrations of strip mall-light-commercial centres on the periphery continues to occur at an accelerating rate. When they are built, (strip malls) it increases the advertising and staffing costs of existing central businesses in order to compete and retain customers. (Kunkel, 2007)

Kunkel believes that this peripheral growth will contribute to the decline of the central CBD businesses, lowering foot traffic density and drawing people away from the CBD. Kunkel also identified retail leakage as a problem, suggesting the necessity of educating locals on the effects of 'leakage of retail sales' out of the area. Kunkel felt that if retail spending by Durango and La Plata county residents outside of the local economy could be reduced it, could help to stabilise local employers and reduce the sales taxes going to other local councils (*ibid*).

In 1981, the Durango Council Economic Development Department (DCED), concerned by the drop in sales tax revenue (2.25 percent tax applied to gross retail sales), canvassed

manufacturers' outlet businesses to fill the vacant CBD retail space. After the 1982 downturn, factory outlets occupied empty retail space. However, over time, as property values rose and trading patterns altered, they too vacated, once again leaving empty retail space in the CBD.

The potentially devastating impact of the BBRs' arrival in the CBD was reduced by the Durango Council's intervention. The emphasis on tourism became the focus, and by offering incentives and subsidies, the CBD was reoccupied over time by tourism-based niche stores such as hiking and skiing sports goods stores, restaurants, tour operators, white water raft booking centres and tourist souvenir shops. Tourism plays a major role in Durango City's economy, particularly because of nearby attractions, which include the nearby Mesa Verde National Park and the Durango to Silverton historic steam train ride. These attractions bring a substantial number of visitors to Durango's CBD and its shops, cafes and restaurants. This meant that the arrival of Wal-Mart's Super store in 1998, with its super-streamlined supply chain and minute supplier margins, had very little effect on the CBD.

However, Hoch confirmed that Durango City sales tax figures showed the South Durango Wal-Mart, which had located to South Durango, generated twenty percent of the sales tax gathered by the Durango City Council. This increased tax take has been a result of the 'attraction or pull factor' generated by Wal-Mart because of its aggressive pricing policy, low margin and high turnover. However, this retail attraction had the positive effect of reversing retail leakage to surrounding towns, which had occurred as Durango went through the negative part of the renewal cycle. Durango retail businesses now attracted consumers from the following nearby (50 plus mile radius) cities or towns: Silverton, Arboles, Mancos, Hesperus, Pagosa Springs, Ignacio and Bayfield. (Hoch, 2007).

However, by the 1980s the Durango CBD was severely affected by an economic downturn and the arrival of BBRs such as JC Penney, Sears and K-Mart, as noted earlier. This intense competition affected a number of the smaller retailers, particularly in the CBD, resulting in the closure of many shops. In 1998 a large Wal-Mart Supercentre was established rather than the normal Wal-Mart BBR discount store. A Wal-Mart Supercentre is much larger, averaging approximately 197,000 square feet (18,301 square metres) (Hoch

2007), and has a greater range of retail services such as a full supermarket that sells includes meat, a bakery, delicatessen, dairy products, garden produce, and seafood. In addition, it may also include a number of extras such as a garden centre, pet shop, chemist and dispensary, automotive services, optician, one-hour photo processing lab, portrait studio, and numerous niche 'alcove' shops. These alcove shops are mini retail shops within a shop and can include cell phone (and accessory) retailers, beauty salons, video stores, banking facilities, and travel outlets.

The Wal-Mart Supercentre was opened in South Durango, followed by a Home Depot in 2004. Its location away from the CBD encouraged the formation of strip malls around the Supercentre, thereby attracting even more shoppers away from the CBD. The effect of strip malls on the local CBD has been described as follows:

Downtowns began to decline with suburban sprawl and the growth of malls and discount stores. These shopping centers took business away from traditional downtown retailers, forcing them to move to the suburbs or shut their doors. Many downtowns slowly receded into desolate sections of vacant, decrepit buildings with poorly maintained streets, sidewalks, and signage. (Edgar, 2008)

The Durango Business Improvement District (BID), Chamber of Commerce, and the DCED recognised the importance of a vibrant retailer mix in the CBD and developed strategies to break the cycle of businesses opening and shutting. The groups took leadership roles in a variety of activities and projects designed to enhance the appearance of the Historic Downtown, as well as revitalise the economic heart of Durango CBD. For example, Durango organised Bounty of the County, an event geared at exposing locals to local businesses in an endeavour to reduce leakage and highlight what was available locally in the CBD. Bounty of the County has since been duplicated in Silver City, New Mexico ('Taste Silver City'). Bounty of the County, a non-profit event (formerly called 'Taste of La Plata') is in its eighteenth year (2007), celebrating local Durango and La Plata agricultural producers and the foods they produce. These celebrations bring city and county residents together. The restaurant owners' produce specialised local dishes, which highlight local treats and, most importantly, increase patronage in CBDs, at the same time lifting the profile of the respective restaurants and local foods. Consumers purchase a ticket entitling them to consume an appetiser at each restaurant. (Jones, 2007).

DCED sought a number of strategies to assist retailers and revitalise the CBD, for example one such DCED strategy was to involve the Durango CBD retailers in the national Main

Street program, utilising the four points system of organisation, promotion, design and economic restructuring. In the mid 1980s, the CBD retailers asked the Durango Council to levy a CBD tax, the proceeds of which could be used to redevelop the CBD retail environs. The incentives offered resulted in investment and improvements (such as upgrading the appearance of the CBD), which realigned the economic focus of retail into the one area not affected by the BBRs, i.e. niche tourism businesses. These businesses include adventure sports stores, restaurants, tour operators and tourist souvenir shops. Thus the subsequent arrival of Wal-Mart's Supercentre store and Home Depot had less affect on the newly tourist focussed CBD. (Hoch, 2007).

According to Greg Hoch, Durango City Director of Planning and Community Development Officer, a carrot and stick approach was used to kick-start CBD renovations. The Council made painting subsidies available to retailers, as well as access to loans at five percent interest, well below market rates of thirteen percent at the time. These loans were to enable the owners to renovate their shop frontages. The Federal Government allocated this fund to the State of Colorado, which then distributed the funds. This five percent interest funding could be borrowed by the business premises owners, but only accessed if spent on their Durango CBD retail premises. (Hoch, 2007).

Rather than succumb to the potentially devastating impact of the establishment of Wal-Mart's Supercentre (opened 1998) and Home Depot (opened 2004), existing Durango supermarkets and hardware stores countered the arrival of the BBRs by adopting different tactics. Some were successful; others not. For example, one Durango supermarket competed by cutting staff levels to reduce overheads. However, local consumers confirmed that the result was a decline in standards, service and product range, resulting in a significant drop in patronage (Hoch, 2007). In contrast, the local owner of Kroeger's Five Star Hardware Ltd, (Krueger²³, 2007), utilised a different strategy. This was by maintaining staff levels, increasing staff product knowledge and service levels made it more competitive in the face of BBRs than other locally owned retail outlets. This retail practice was confirmed by Krueger, (Krueger, 2007). Krueger reported that staff levels and staff product knowledge increased and service levels improved. As a result, Kroeger's Five Star Hardware experienced a turnover reduction of only 25 percent, not the expected

²³ Kroeger's is the name of the retail store Krueger is the owner.

industry norm of 50 percent. Krueger confirmed that the industry figure of 50 percent had been expected, as the Five Star Hardware franchise owners had sent industry experts to the area to assist franchisee retailers to cope with the increased BBR competition (*ibid*). As Krueger noted, “[i]t was common knowledge that the Wal-Mart grocery section is used as a loss leader to get people in the store where the hardware and other items differ little in price from other retailers.” (Krueger, 2007) .

However, most shops could not compete in the same way as Five Star. Wal-Mart and other BBRs not only placed intense price competition on local ‘Mom and Pop’ retailers but also hastened their demise because of the failure of the small shops to adapt to the rapid changes in retailing. The shift of Durango’s retail trade to South Durango, where the BBRs are located, is illustrated in an article that appeared in the *Durango Herald*:

In June 1998, South Durango accounted for 15.7 percent of city sales tax, while the Central Business District contributed 56 percent. By June 2008, the Central Business District contribution had fallen to 35 percent and South Durango swelled to 41 percent. (Locke, 2008).

However, the development of mega stores such as the Wal-Mart Supercentre also meant that Durango City had to find a way to prevent ghostboxes from occurring. As such, Durango City Council insisted that a binding covenant be imposed on Wal-Mart, which would prevent it from vacating its premises without installing a new long-term viable tenant. Hoch explained how, as a result, the District now places such a covenant in the building permits for all large ‘Supercentre’ BBR buildings, including Wal-Mart, Target and Home Depot. This prevents ghostboxes being left unoccupied (as is currently the case with the vacant The Warehouse building in Hawera) or on the periphery of town.

Interestingly, though, Durango refused to use incentives to assist the BBRs. The use of subsidies and/or incentives by many small cities and towns in the USA to assist companies to relocate into their particular areas is well documented. For example, in Maudlin, South Carolina, the council offered a tax break as an incentive for the renovation, improvements, and redevelopment of abandoned textile mill sites located in South Carolina, and allows a tax credit up to 75 percent of the real property taxes due each year, for up to eight years. (Davis, 2008).

In Fort Scott, Kansas, the council offered funding and incentives to attract Wal-Mart to the town. However, when Wal-Mart took advantage of the business relocation incentives, strong opposition was voiced by existing, local businesses. Dale Bunn, Director of Economic Development in Fort Scott, advised that Fort Scott Council altered the terms of these incentives and ceased to make them available to BBRs. (Bunn, 2007). The relationship and handling of the arrival of Wal-Mart and other similar mega businesses in Durango contrasts significantly with that of other American cities researched.

While the Durango Council refused to allow incentives to attract BBRs, it did engage in making some aggressive economic commitments in Durango City. According to Hoch innovative strategies such as the purchase and operation of a bus line (between 1984 and 1996), were undertaken by Durango Council. Investment in this bus line ensured that people, including tourists, were able to have access to the CBD as well as to the ski field areas as demand grew. Eventually, the council bus business was split off, with half sold to ski field operators and the other half, the town service, retained by local bus operators. Thus, while the council would not use incentives to attract BBRs, it was not averse to finding innovative ways to support local businesses, often administered through local economic development agencies. For example, the Durango Council economic development agencies oversaw a mix of catalyst seed funding, imposition of specific taxes on CBD properties, private enterprise investment and some state financial assistance. There are also a number of regional and localised incentives for retention and relocation. Examples of the kinds of assistance available are listed on the La Plata Economic Development web site:

Region 9 economic development District of Southwest Colorado, a non-profit corporation, administers, promotes and coordinates state and federal programs for economic development in the region. Membership is local governments in the region and private individuals from the five-county area

Revolving Loan Fund (RLF) program: a low interest revolving loan fund for "gap" financing to assist small business retention, expansion and job creation.

SW Colorado Enterprise Zone program state income tax credits for eligible investments including capital equipment, job creation and training, research and development, and donations to enterprise zone development projects.

Economic Development Planning and Technical Assistance: assisting local government with: regional economic development and transportation, strategic planning, socio-economic data analysis, and special projects to provide infrastructure needed for business retention and expansion. (La Plata Economic Development Action Partnership, nd)

As noted earlier, Durango City has long been associated with tourism. However, Hoch described how the Durango Council concluded that its reliance on tourism was too high and, as a result, took the strategic decision to diversify the economy, thereby lessening the exposure to a single industry (Hoch, 2007). Bob Kunkel, Manager of Durango Business Improvement District, advised that in the 1980s the tourism industry represented approximately 50 percent of sales tax receipts; by 2007, this was down to 25 percent (Kunkel, 2007). Diversification was made easier when a local benefactor in 1972 donated (1972) some 170 acres for development as an industrial park. Currently, a local Economic Development Trust now oversees 175 businesses on site. Occupants include professional offices, insurance companies, engineering companies, chocolate manufacturing, home loan providers, the United States Army Corps of Engineers, radio stations and chemical companies. A more detailed description of the industrial park can be found at the industrial park's website.²⁴ This large industrial park with its diverse occupancy base has successfully reduced the town's high reliance on tourism. However, the current Durango City Council is opposed to further annexation of extra La Plata County land into Durango City, as it believes that this will push up property prices, thereby increasing the rate of growth and altering the existing balance.

8.1.2 Event Marketing and Use

Although the town successfully reduced its reliance on tourism (no longer making it the sole or major economic sector in the town), it also examined ways to leverage off its existing strong but less significant tourism base to ensure the economic health of the town (i.e. bringing in visitors). For example, Kunkel explained that the need to extend the tourism season has led to the staggering of historic tourism events over the season, particularly in the shoulder periods, reducing the severity of existing peaks and troughs (*ibid*). Kunkel described how the district council intended to re-examine the existing use of the 'lodger's' tax, (A tax imposed on accommodation for economic development) with a view to increasing the rate and:

- Use the increased funding to reduce dependency on tourists in the high summer season by marketing and attracting different types of visitors. Examples include: special interest groups in the national 'off seasons' of spring and autumn
- Build a conference-event-meeting centre. Kunkel considered Durango City missed significant shoulder season visitor revenues from small meetings and conferences, of fewer than 500

²⁴ www.buydurango.com/bodoparkoccupants.htm

persons. This would diversify the retail economy, spreading cash flow, increase tourism appeal and competitiveness of the State of Colorado.

- Use better promotion of Southwest Colorado and the San Juan Skyway. By featuring multiple towns and the broad diversity of mountain activities, attractions and cultures. This would help overcome competitive offerings and rising costs of ground travel (*ibid*).

As part of his ‘Historic Durango’ event planning, Kunkel emphasised the need to reduce the leakage of retail sales out of the area it could help to stabilise local employers and reduce the sales taxes going to other local councils. (Note: sales tax is only collected by local government in the USA not in New Zealand).

This problem of retail leakage was a concern with most USA cities and towns researched, as it is with many smaller rural towns, including South Taranaki. (For business reasons rather than the collection of tax). In order to help thwart this leakage, a secondary industry and major contributor to the local economy has been based around Durango’s college. The Durango former two-year junior college has now become a four-year college (i.e. moved from a polytechnic to a university) giving 4,000 young people access to degrees. This is considered to be a real advantage for the district and a very important contributor to the local economy, by retention of young people, providing employment opportunities and adding an additional layer of intelligentsia to the town. Greg Hoch, Director of Planning and Community Development for the City of Durango, estimates that the college contributes US\$15 million to US\$20 million (NZ\$26.493 million to NZ\$35.298 million²⁵) annually to the local economy through student and the college (university) spending in the community (Hoch, 2007).

8.2 The Town of Taos, New Mexico

Located in north of New Mexico at 6,969 feet above sea level, in the foothills of the Sangre de Cristo Mountains, Taos was formally incorporated as the ‘Town of Taos’ in 1934. The population was estimated at 5,193 in 2006 (US Census Bureau), a growth of 10.49 percent from 2000 (Sperling’s Best Places, 2007). The town is quite remote. The nearest large city is Santa Fe, approximately 70 miles (112 kilometres) away, whilst Albuquerque is 135 miles (216 kilometres) away. The town of Taos is an area of contrasts, with a strong tourism focus. Attractions include hot springs, the historic Taos Pueblo (constructed

²⁵ Conversion as at 18 April 2009

between the years 1000 and 1450 A.D) (Taos Web Community, 2008), snow skiing, and interesting places such as Wild West former gold mines. It is liked with historical figures such as Kit Carson. The vibrant colours and clear air of this semi-desert region attracted the nucleus of an artists' colony around the late 1890s and the turn of the 20th century. (The Taos News 2008).

The local economy has a variety of drivers. The Questa mine, located 20 miles (32 kilometres) from Taos, has 350 employees and contractors (Parker, 2007). This mine has shut twice and re opened three times, resulting in considerable hardship to the districts' small retailers, workforce and associated services. The Taos mine closures and exodus of workers and families is analogous to the company mergers and closures of South Taranaki's small dairy factories. The impact of the Taos closures is clearly shown in the following extract:

For 1999 the annual average civilian labour force fell by 722, employment fell by 562 and unemployment fell by 160. These decreases were influenced in part by the layoffs at the moly [sic] mine in Questa and by poor snowfall for skiing. (Taos Business Alliance et al, 2001, p2).

However, the strong demand for metal ores has resulted in the mines re-opening.

The mine's [sic] had a boom and bust cycle, opening and closing, subject to worldwide forces and the price of molybdenum, an element used in the hardening of steel. (Stiny, 2007)

A number of movies have been shot on location in Taos, including Butch Cassidy and the Sundance Kid (1979), Blue de Ville (1986), Twins (1988), Natural Born Backtrack aka Catchafire (1990), Road Scholar (1993), Natural Born Killers (1994), Fools Rush in (1996), Off the Map (2003) and Seraphim Falls (2006) (Taos County Film Commission, nd). Taos is also an extremely well known ski and tourism destination, tow sectors which play an important part in the region's economy. The Village of Taos Ski Valley, at 9,200 feet (2804 metres) above sea level, is fifteen miles from Taos and is a popular winter destination. In 2005, the ordinary resident population of the village was 63, with 120 part-time workers during the ski season. However, the village has n average daily tourist occupancy of 2,000, with an average of 250,000 skier visits per year (Taos Ski Valley Chamber of Commerce, 2008).

The Town of Taos and the surrounding district have a number of historic attractions. For example, the central Plaza of the Town of Taos is the original town's plaza and has been

maintained as close to the original 1800s adobe architecture as possible. Despite a number of fires in the 19th century, the adobe premises, now restored, continue to attract large numbers of tourists to the central plaza and town retail areas. Taos has over 150,000 visitors per year, with tourism responsible for 80 to 85 percent of the Taos economy (Taos Business Alliance et al, 2001, p2).

8.2.1 The Arrival of BBR in the Town of Taos

In the 1980s, Taos was an economically depressed community with no size restrictions in place for large retail structures (Ballock nd, p1). A 75,000 square foot (22,860 square metre) Wal-Mart was built in 1985 and opened in 1986. In the first year, 100 employees were hired (Ballock, nd, p3). The store is situated on the state highway leading into Taos, approximately two miles from the historic town centre and the CBD.

The arrival of Wal-Mart in 1986 divided opinion in the town between those who supported the tax revenue and jobs generated and those who opposed the potential for SME business closures. For example, local retailers that still sell the same merchandise are continually undersold by Wal-Mart's "low, low prices" (Ballock, nd, p3) putting into question their claim of creating healthy competition in small towns. As testified in other small town scenarios, when the large retailer continually undersells the small retailers, competitive pricing occurs only until the small retailer goes under. With many small businesses going under in Taos, it was clear that the competition created by Wal-Mart was short-lived and not sustainable (Ballock nd, p3). Staten concluded that although Wal-Mart may have created jobs in the name of economic revitalization, time has shown that the big box has done more to hurt the town's small businesses than to help them (Ballock, nd, p3).

The purchase by Wal-Mart of a Supercentre site on the main highway, two miles out of town, spurred the Town of Taos to enact specific restrictions²⁶ on the footprint or size of large BBR businesses, particularly in or near the CBD area of town. This was to protect the central CBD retailers and retain a vibrant central core. New Mexico Economic

²⁶ Some communities have banned only the biggest of the big boxes. Belfast, Maine, for example, caps stores at 75,000 square feet. Others, like Hailey, Idaho, and Ashland, Oregon, have chosen much smaller limits (36,000 and 45,000 square feet). (Institute for Local Self-Reliance , nd).

Development team leader, Fabian Trujillo, explained some of the restrictions in a personal communication:

A maximum building size of 80,000 square feet (approx 7,432 sqm) was the largest the Council would allow. This was to preserve the historic look of the business district and also prevents BBRs such as Wal-Mart from demolishing large areas of the historic CBD to erect their buildings. On two occasions the council has denied Wal-Mart applications for buildings of 110,000 square feet (approx 10,219 sqm), despite this Wal-Mart have appealed the decision and reapplied for a 3rd time. (Trujillo, 2007)

The Taos Town Council commissioned a survey, which was reported by the *Home Town Advantage Bulletin* in April 2003, found that:

Residents favoured retaining the restriction by a 61-to-39-percent margin. Support for the size limit has increased. A similar survey taken four years ago when a Wal-Mart Supercentre was first proposed; found that residents were evenly divided about the prospect of large stores. That controversy ended when the town turned down the Supercentre and implemented the 80,000-square-foot cap. (Institute for Local Self-Reliance, 2003)

On 25 April 2003, Ballock interviewed Sarah Backus, Taos Planning Director, who stated that,

The Taos Plaza and town center is still vibrant and full of unique character, despite the loss in small businesses. The on-going success of the Taos Plaza area is probably due to the rich historic nature of the Plaza and the famous art galleries that are located nearby, providing a distinctly different function than convenience retail shopping. The three-mile distance between the charming town center and the “Miracle Mile” retail character of Wal-Mart, the two grocery stores, and myriad of chain restaurants serves as a barrier from impacting the character of the town center. (Ballock, nd, p4)

The success of the 80,000-square-foot restriction was still obvious in September 2007 when the author visited the Taos CBD. The central Plaza shops were full of visiting tourists. However, the downside to this restriction is clearly visible on the main highway. Ballock mentioned the mall sprawl in 2003:

While the separation between the Taos Plaza and the Wal-Mart might serve to keep intact the historic character and unique artistic identity of the town centre, it has contributed to the sprawl of chain stores and fast-food restaurants along the state route that serves as the gateway to town. (*ibid*)

As in almost all other towns, the arrival of Wal-Mart in Taos created negative economic impacts for small businesses. While Wal-Mart may have created jobs in the name of economic revitalisation, time has shown that the Big Box Retailer has done more to hurt the town’s small businesses than to help them. There are no conclusive figures, but studies show that within the first eleven years of operation, the number of retail businesses decreased by 30 to 60 percent (Ballock, nd, p3). The majority of the small local retail businesses are located along the historic Taos Plaza in the town centre, and many that survived have had to modify their merchandise to stay viable (*ibid*). In and around the

square in the towns centre, there are more than 80 art galleries and more than 60 retail shops (Trujillo, 2007), and had Wal-Mart located in the CBD square as initially proposed, it is likely that a high proportion of these businesses would have been adversely affected, completely altering the character of the Plaza.

Integrated into the Taos Council's strategy of protecting the historic central plaza is the provision that the historic nature and look of the Town of Taos should be retained as far as possible. The objective was to retain the attraction value of the town as a tourist destination, which assisted SMEs, focussed on tourism. Trujillo explained how this strategy was implemented:

The council restricted the signage of various businesses so that these would not jar the historic harmony and look of the town. For example, McDonald's restaurant was forced to resize their famous 'Golden Arches' to a very modest size so that the premises remained in keeping with the historic look of the Town of Taos. (Trujillo, 2007)

Taos is one of many communities which recognise that local economies can absorb only so much new retail without causing numerous existing businesses to close. Other such examples include Belfast in Maine, Hailey in Idaho, and Ashland in Oregon, all of which enacted legislation to prohibit stores over a certain size. This legislation assists CBDs to retain a vibrant mix of SME stores, which in turn sustains and nurtures local business development. BBR size restriction can prevent many of the negative impacts of big box development, such as traffic congestion and strip mall development. As in the case of Taos, local government can also help retain and protect the unique character of the community by insisting that new development is in keeping with existing buildings. (Institute for Local Self-Reliance, nd).

Despite being a remote town in the mountain foot hills, the state regional strategy is to retain and grow businesses. Taos avails itself of a number of state incentives for business assistance. For example, the New Mexico State government provides significant industry support for the film industry, using a number of financial incentives as a 'sweetener' to add to the natural strengths of the region and the Taos district. These are mentioned in the next section (ie section 8.3), and therefore are listed below with basic detail:

- New Mexico offers a 25 percent tax rebate on all production expenditures;
- New Mexico State offers a loan, with participation in lieu of interest, of up to US\$15 million per film project;
- Film Crew advancement Program: New Mexico State offers a 50 percent reimbursement of wages for on-the-job training of New Mexico residents in advanced below-the-line crew positions²⁷.

The New Mexico film incentives have their counterparts in the business sector, and the state and a range of other bodies offer various incentives and tax relief for business entities to set up businesses, particularly in the rural areas of New Mexico State. While some have been taken up in Taos (such as the role of the Taos County Economic Development Corporation (TCDEC) which is explained later in this study) this list forms part of the strategy to encourage businesses, for example:

- High-Wage Jobs Tax Credit. Governor Richardson and the New Mexico Legislature created this new incentive. One example is the Taos new insurance call centre, CiDirect which created a large number of jobs in Taos. (Office of the Governor, 2004)
- Rural Jobs Creation Tax Credit: Employers may receive a maximum credit of US\$1,000 per job created for two years.
- Manufacturers Investment Tax Credit: A tax credit for people who invest in manufacturing in New Mexico. (NM Partnership, nd).
- New Mexico ISO 9000: Businesses obtain ISO 9000 certification on a sliding scale costing US\$1,000 to US\$6,000 (compared with US\$120,000 by conventional means).
- Community Development Incentive Act: This provides a strategy for municipalities and counties to exempt commercial personal property of a new business facility from property tax for up to twenty years. A ‘facility’ means any factory, mill, plant, refinery, warehouse, dairy, feedlot, building or complex or buildings, including land on which the facility is located and all machinery, equipment and other real and tangible personal property located within the state. This act encourages SME development in rural districts such as Taos and Silver City.

²⁷ Below the line refers to costs such as, salaries of the non-starring cast, technical crew, studio use, technical equipment, travel, location and catering costs, etc. Below-the-line budget is usually fixed.

In a similar manner the Taos Council provides the Taos district with a strategy to support rural businesses and the districts economic development by supporting the Taos Business Alliance for Economic Development. This Alliance assists businesses relocation, businesses education, training and business expansion by marketing and e-commerce. Taos County Chamber of Commerce has 650 members, and promotes economic development, runs the Taos visitor Bureau, collects/distributes tourism data and supports TCEDC.

Established in 1987, TCEDC addresses community and economic challenges in this historic, semi-isolated, very dry rural area. The economy is transitioning from an old, self-sufficient agrarian base to a commercially focused economy. As was the case in Silver²⁸ and Durango cities approximately twelve years ago (1995), a local benefactor donated six acres of land near the outskirts of Taos for the establishment of an industrial park (the American taxation system allows citizens to accrue tax advantages by such gifts). The Director of this non-government organisation, Director Pati Martinson provided the following information in a personal communication in September 2007. TCEDC, using the equity value of the gifted six acres, leveraged funding from a number of foundations, such as the Ford Foundation, and grants were obtained (both Federal and State) and used to develop the park. TCEDC's main offices are at the business park. Here, TCEDC assists owner-operated small businesses to establish their embryonic businesses on site by utilising the advantages of a business incubator. The TCEDC is able to assist micro SMEs to get established and operate in a business like manner through the vulnerable first 6-12 months. The provision of business advice and (initially) low cost infrastructure small businesses premises minimises the impact of BBRs on these new businesses.

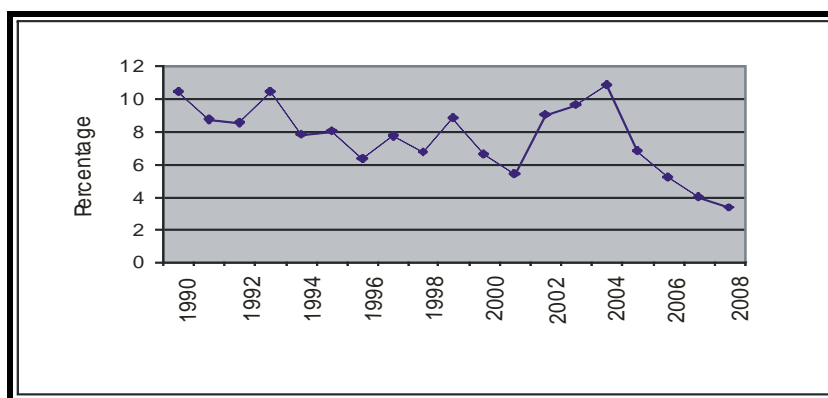
Like Durango and Silver City below, The University of New Mexico (UNM) has a satellite facility known as the Taos Campus. Anne Landgraf, UNM Information Resource Manager, reported that Taos Campus had 1,416 registered students as at September 2008 (UNM Taos, 2008). The Taos campus contributes to the economy by providing employment, SME opportunity based on service and discretionary spend, and the opportunity for a relatively low skilled population to raise their skill and educational levels.

²⁸ See section 8.3, below.

8.3 Silver City, New Mexico

Silver City New Mexico is situated east of the Continental Divide,²⁹ in South-Western New Mexico and has a population of 11,950 (US Census Bureau, 2000). The City sits near the Pinos Altos Mountains at an altitude of 6,142 feet (approximately 1,889 metres) above sea level and has a mild, temperate, high desert-mountain climate receiving approximately twelve inches (30.5 centimetres) of rainfall per annum. Silver City traces its beginnings to 1870, when silver was discovered one kilometre west of the present-day courthouse. Within a year, more than 80 buildings had been constructed. By 1871, Silver City had become the seat of Grant County (DesertUSA.com, 2008). Silver, gold and copper mining, and the provision of downstream services, comprise the main economic drivers for Silver City. Because of the nature of the mining industry, Silver City experiences a wildly fluctuating economy with closures and subsequent reopening of the mines in the district, reflecting the cyclical nature of the demand for minerals. As can be expected, this cycle of openings and closures causes spikes in the town's labour market.

Figure 22: Silver City Unemployment Rates by Percentage, 1990-2008



Source: Economagic.com, 2008.

Mining is the largest employer in the district. JP Jones, former Mayor of Silver City, told the researcher during an interview that in 1999 approximately 1,000 miners and service providers, such as electricians, engineers and transport operators, in the Silver City district were laid off. Richard Peterson, spokesman for Phelps-Dodge Mining Corp, confirmed his company alone had laid off some 400 mine employees during this turbulent period

²⁹ An extensive stretch of high ground or mountains, from each side, river systems of the continent flow in opposite directions.

(Peterson, 2007). However, by 2005 the situation had improved, with staff levels increasing to 1,200 in 2006 (*ibid*). As a result of the uncertainty of employment these stop-start fluctuations brought about a large number of workers and families left the district seeking more stable employment.

Another major contributor to the Silver City economy is tertiary education. Silver City has the 117 year-old Western New Mexico University (WNMU) located in the central city and has a student population of 2,500 (Western New Mexico University at Silver City, nd).

Although it is a modest city of 11,950 (US Census Bureau, 2000), Silver City and its surrounding district have experienced turbulent economic conditions. In order to cope with this turbulence, the town developed strategies to cope with the spasmodic opening and closing of the district's major mines and the impact this had on local businesses, especially retailers. At about the same time (early 1980s) the first Wal-Mart arrived in town, but re-located into a large supercentre on the periphery of town, resulting in further stress for local retailers.

8.3.1 The Arrival of BBR in Silver City

In the early 1980s, the first Wal-Mart was built on the outskirts of Silver City at about the same time that a number of mines in the neighbouring counties were closing. Chuck Strang, Professor of Accounting and Finance at WNMU, commented:

With the closing of the mines in Hidalgo County, 39 percent unemployment in Luna County, 15-20 percent unemployment in Catron County, and 10 percent unemployment in Grant County, the income level of people here is relatively low. (O'Hara, 2000)

Judy Ward of SIGRED (Silver City/Grant County Economic Development) commented that in 1982 and 1983, the unemployment rate in Silver City was 40 percent. This assertion was confirmed by Mike Trumbull, former Silver City/Grant County Chamber of Commerce president and motel owner who observed that there was a 40 percent downtown occupancy rate, which by early 1999 had recovered to about 95 percent (Wall, 1999). As a result, a variety of small businesses were able to provide more jobs and income, thereby attracting a new wave of tourists. Trumbull, quoted by Wall, also expressed concern about the arrival of the Wal-Mart Supercentre in 1998:

The fate of the downtown economy may also be affected by Wal-Mart's expansion last September to "Super Wal-Mart" status. The huge store on the eastern edge of town has been expanded to include

such atypical services as a travel agency, beauty shop, and the usual full-service grocery operation. Though the store's expansion may well bring people to town from outlying communities, in turn swelling gross receipts, it also threatens to hurt merchants in the Historic Downtown area, which in turn could sabotage the tourist trade there that the community has fought so hard and long to establish. (Wall, 1999)

Mr Ed's Do It Centre is a hardware store on the outskirts of Silver City, owned by Roy Chavez. It competes directly in general hardware with Wal-Mart. While retailing similar hardware stock items, Chavez made a deliberate policy of differentiating his stock items from those stocked by Wal-Mart. For example, Chavez deleted or 'specialized' off any stock lines similar to those carried by Wal-Mart. Chavez' store survived and was still trading in September 2007 when the author visited Silver City.

To counter the compounded economic difficulties affecting the local retailers, town and surrounding Grant County, the local Council and SIGRED developed strategies to attract business and promote local events in order to reduce the heavy reliance on the mines. These strategies sought to support micro businesses and grass roots organisations. For example, Silver City used its five percent Lodgers Tax to support many small local organisations by offering subsidies and funding promotions in the CBD and surrounding Grant County. Lodgers Tax receipts for 2005 were reported to be US\$208,905 (NZ\$315,852 as at October 2008). The Silver City Lodgers Tax is also used to acquire real estate for tourist facilities and municipal transportation, advertising and promotion of tourist attractions, and police and fire services for events (McClure, 2008).

Funding is primarily channeled to those groups, events and attractions that promote Silver City, its natural scenery and favourable climate. Examples of organisations and events which received funding from the Lodgers Tax are shown in Table 26 below.

Table 26: Silver City Lodgers Tax Funding Recipients

Recipients	Tax use
Chamber of Commerce.	Partial funding for the Chamber. Its website states: “we’re proud to be supported in part by the Silver City Lodgers Tax and businesses of Silver City and Grant County.” (Silver City Grant County Chamber of Commerce, nd)
Gila River Festival	The 4 th Annual Gila River festival brings experts and laypersons, artists and scientists from many disciplines, to converge on the topic of the Gila River. It includes intensive workshops co-led by artists and scientists, a keynote speaker, lectures, hikes, kayak trips, and performance over a four-day period. (<i>ibid</i> ; Gila Conservation Coalition, nd)
Silver City Events	<ul style="list-style-type: none">• Art, Antiques & Flea Market• Copper Creek Ranch Chuck Wagon Supper & Western Show Melodrama Theatre at the Pinos Altos Opera House. (Free Spirit Promotions, 2008)

Other events are also supported using the tax. For example, Taste Silver City is an event where a large number of local chefs and restaurateurs provide specialist meals highlighting local and national dishes. Each food establishment creates and cooks a small speciality dish. Visitors purchase one ticket, giving them access to each of the fourteen businesses taking part. Each visitor then has a ‘taste’ of Silver City at each establishment. This event has been very successful in raising the profile of food establishments, increasing foot traffic in the CBD, and symbiotically increasing business for other retailers and food outlets such as bars (Jones, 2007).

Another example is the Silver City Film festival, based on Silver City’s historic association with the film industry. Silver City was the site for Lubin Films Western Location Headquarters that produced eight films in Silver City, before moving to Las Vegas in August 1913 (Film New Mexico, nd). The town staged its second annual Film Festival in 2007, and the third took place in October 2008. One of the festival producers, July McClure, advised that visitor numbers and guest nights (accommodation) for the festival had increased substantially. McClure estimated that for the three day festival period, visitors numbers increased from 150 in 2006 to approximately 500 in 2007. She also estimated that the total number of guest nights for 2007 was 125 (McClure, 2007).

These events, along with others such as the five day Gila bicycle race and a large number of art exhibitions, all add to the attraction, profile and 'retail pull' of the Silver City CBD. As with other events, the local retailers take part by promoting shop specials and themed attractions.

Silver City's retail environment has also been significantly helped by a Council strategy aimed at rejuvenating the CBD and environs. For example, new paving was laid and 'period' acorn quadruple light clusters were installed. These improvements were financed through a number of sources such as local Government matching funds and state legislature capital outlay funding. Silver City acted as the fiscal agent and project manager for the restoration. Retailers were encouraged to tidy, paint and renovate the shop frontages. The Mainstreet program³⁰ was used in the CBD to mobilise the retailers and keep them enthused and contributing (Jones, 2007).

Another strategy to diversify the local economy was initially successful. A large telephone call centre, Stream International Inc, was attracted to Silver City in 2001. Within three months of opening, the number of employees had reached 900. However, the call centre ran into difficulties and closed. Eventually it was re-established under new management, but like the opening and closing of the district's Freeport-McMoRan Copper & Gold Inc mines, a number of prospective employees had decided to relocate to other districts seeking employment or became wary of committing to any given employer. The number of employees remains well down on the original call centre numbers (Jones and Jones, 2007).

A more successful enterprise was the expansion of the WNMU in 1963. The importance of a tertiary institution to a local economy can be significant. For example, a 2003 study described the University of Wisconsin's Madison campus (UW-Madison) contribution to that region's economy:

The UW-Madison is an economic engine and economic anchor, since 1848, for the region. The total economic contribution due to the presence of UW-Madison in the region was over US\$4.7 billion dollars in 2002. UW-Madison was responsible for creating almost 75,000 jobs in the state, 70,000 locally. Its presence generated nearly \$347 million in state and local tax revenue. (Winters and Strang, 2003, p6).

³⁰ The Mainstreet program utilises four platforms as a catalyst for economic renewal: Organization, Design, Promotion, and Economic Restructuring.

The economic development agencies of both Silver City, New Mexico, and Durango, Colorado, have recognised the benefits that such institutions can bring. For example, WNMU has more than 500 employees and enrolls approximately 2,100 students. An institutional population of 2,600 provides a significant contribution to the local economy in a centre such as Silver City, and makes the economic footprint of the university the third largest businesses in the district. The contribution to the local economy is confirmed in a November 2003 report, entitled *WNMU: Working for Economic Development in Western New Mexico*. Dr. John Counts, president of WNMU and honorary member of the board of directors for SIGRED, was quoted in the Silver City press regarding the economic contribution by WNMU:

As a regional comprehensive university, WNMU plays an important role in the local and regional economics of southwest New Mexico. Total expenditures by the University for the last ten years totals over (US) \$270 million, which includes more than (US) \$30 million, spent on capital projects. For AY 2002-2003, WNMU expenditures totalled more than (US) \$33 million, of which roughly (US) \$14 million was salary and benefits for 403 FTE employees mostly in Grant County. (Counts, 2003, p5).

Counts continued by describing how a study of the economic impact of WNMU, completed in June 2000, showed WNMU had an income multiplier of 1.5 for Silver City and others in the Grant County area. According to Counts, the multiplier indicates that for every dollar spent locally by the University, faculty, staff and students, an additional benefit of fifty cents of economic benefit is generated by local businesses that re-spend a portion of the benefit within the local economy. The employment multiplier was also estimated to be 1.5 as well, indicating that for every position within the university an additional half position (0.5 FTE) resulting from university spending patterns is created within the community. In addition, similar impacts are felt in nearby Deming, Truth or Consequences, and Gallup as a result of WNMU activities in those communities. (Counts, 2003, p5).

Thus, it can be seen that the economic impact in the region is substantial and of particular significance to the retailers in Silver City and Grant County. However, the indirect contribution to the district should also be considered. Although more difficult to measure, WNMU's economic impact is also substantial because of the business and community opportunities created by the existence of the University and accessibility to its resources. A good example is the Fine Arts Centre Theatre (FACT). The 1,000 seat FACT is the largest performing arts venue in southern New Mexico. It is used for Mimbres Region Arts Council productions, the Community Concert Association Productions, Cowboy Poets,

commercial concert promoters, county and regional meetings, and University concerts and productions. FACT is an important resource which creates tremendous synergy and benefits for the region both aesthetically and economically. (Counts, 2003, p6).

The WNMU Museum is another example of economic impact. This Silver City museum houses the largest permanent display of Mimbres pottery in the world (Counts, 2003, p6). Counts listed other examples of university resources that have an economic impact, including the McCray Gallery, Light Hall Auditorium, and the Library's recreational facilities, all also used as venues for other community activities.

In 2002, WNMU opened the US\$5.6 million Besse-Forward Global Resource Centre (GRC), which includes a 270-seat auditorium and several meeting rooms for medium-sized conferences. In 2003, the GRC hosted numerous conferences, institutes, meetings and special events, all of which contribute to significant discretionary spending by visitors in the town and district. The new facility also houses the regional Small Business Development Center (SBDC), and SIGRED. (Western New Mexico University at Silver City, nd).

Local councils, EDAs, Chambers of Commerce and local retailers have also combined to implement a variety of strategies in the CBD (including Taste Silver City and the provision of infrastructure like the GRC auditorium) to counter the impact of negative economic influences on SMEs and retain retailers in CBDs. In several studies, Stone recognises the importance of CBD retailers in the local economy as a way to mitigate this negative economic impact. (Stone, 1997). Thus, Silver City has found a way to offset the negative influences of BBRs such as Wal-Mart and Home Depot, and the catastrophic loss of localised production (i.e. the mines) that is analogous to the closures of dairy factories in South Taranaki.

8.4 Donald, Victoria

Donald in Australia has a population of 1,434, (Australian Bureau of Statistics, 2006) and is approximately 282 kilometres (176 miles) inland from Melbourne. The district is predominantly a grain growing area, with 14.4 inches (36.6 centimetres) of rain per annum. The town is located beside the Richardson River, at the junction of Sunraysia and Borung

Highways, in the Shire of Buloke, Victoria. The Buloke Shire district was formed in 1995 by the merger of the following shires: Wycheproof, Birchip, Charlton, Donald, and parts of Kara Kara Shires (Harris, 2007).

Donald is too small to support a BBR, however, the challenges faced by Donald town and district and the strategies evolved to deal with them will be of use to South Taranaki and other rural districts. Donald's problems were precipitated by a series of droughts combined with low commodity prices, plagues of mice and rural depopulation in the surrounding shires. By the 1980s, the situation in Donald had become desperate. The closure of numerous businesses, such as the freezing works in 1980, and the withdrawal of services by governmental agencies, such as the Railway with the transfer of 50 jobs and the closure of the station and yards in 1993 characterised the local labour market. According to Kenyon and Black, 60 jobs were lost in 1980 when the local meat works closed, leaving a number of families without a livelihood. The authors further noted that at about the same time, rationalisation of the railways occurred, with the loss or transfer of a further 50 jobs. The railway station itself closed in 1993. In addition, government agencies such as the Lands Department and Victoria Roads also withdrew, resulting in even more job and service losses. Furthermore, rural depopulation occurred with local farm amalgamations when ten farms of approximately 640 acres were purchased and amalgamated by the Australian Superannuation Corporation, displacing nine farming families (Kenyon and Black, 2001, p50).

Although not adversely affected by the establishment of BBRs, the retail sector, rural service providers and infrastructure were seriously affected by these other challenges in the 1980s. The economic fallout from these signalled to the local residents that unless they urgently undertook the deployment of an economic strategy to halt the decline, most of the town's economy, infrastructure and social fabric would disappear over time. Faced with the devastating economic impact which these job losses had, the town council (just as the Silver City Council) called a public meeting in 1985 to elicit suggestions as to how the surviving businesses and services in the town could be safeguarded. The Donald residents and Buloke Shire Council also began to explore ways to develop new businesses and services in the area and investigate which government-funded programmes could be of use and how they could be applied in the town and shire. In order to help the Council focus on

these initiatives, a committee of shire councillors, the Chamber of Commerce, the Victorian Farmers Federation, government departments and the community was formed. The committee also appointed Graeme Harris, Buloke Shire Economic Development Officer and local businessperson, as an honorary promotions officer (*ibid*). By 1995, this group evolved into the Donald 2000 committee. The committee developed a series of innovative strategies, which included financial incentives, the backing of local entrepreneurs and assistance from local and state government.

Table 27: Donald Incentive Strategies

Financial Incentives	Attraction package consisting of A\$800 in relocation assistance, and six months free factory/shop rental for new or incoming businesses
	Donald 2000 Committee competition, awarding A\$1,500 for the next family house built to lock up stage on a town site
Entrepreneurial	Investment by locals in local businesses (e.g. A\$5,000 for Kooka's Country Cookies in 1992.
Buloke Shire Council	The purchase of 300 acres for an industrial park.
	Special new home building incentive package (three year rate free).
	Rates suspension and financing of land for housing sub division and development
Victorian Government	Rural Enterprise Victoria Scheme (1989) for the employment of business development facilitators in rural districts.

Source: Harris, 2007.

In August 2007, Harris explained that part of the strategy was to diversify the local economy in an effort to reduce the vulnerability of retail and service providers reliant on the rural economy (Harris, 2007).

An early business start up under the incentive strategy was a clothing factory established in a former church. The premises had been purchased by the Shire council and leased to the company. Over time, the increasing competition from low cost imports caused the business to fail and receivers began to liquidate the business. However, at the asset liquidation auction by the receivers in Melbourne, a group of Donald local entrepreneurs convinced the security holders to accept a discounted offer for the business. The new owners of the business changed focus and successfully targeted small niches such as police and fire uniforms for the various Australian states. The business now employs eighteen to twenty

local Donald women on a 'glide time' basis (*ibid*). This enables the women to operate around the demands of schooling, families and farms and has the additional benefit of off-farm income for local families and local retail/service businesses.

A second effort at Council diversification was its purchase of a 300-acre light commercial and industrial block. Harris commented that this purchase has been reasonably successful. An unforeseen problem, however, was the sizing of the land parcels for individual businesses. The initial subdivision was in parcels of approximately one acre. One transport company purchased 30 acres however most companies bought two or three acres. On reflection, Harris felt that, "larger blocks of land would have enabled the industrial block to be more acceptable" (*ibid*). One hundred acres of the block were divided into lifestyle blocks; another large segment has been leased to neighbouring farmers.

A successful example of the diversification strategy was the establishment of Kooka Country Cookies, a food and biscuit facility. Harris advised that the factory was established in 1993 and now employs approximately 40 staff with an annual turnover of approximately A\$3 million dollars. Harris further noted that this business was started in a former abattoir by an unemployed chef, and backed by a group of local entrepreneurs (*ibid*). The Managing Director, Kelvin Clarke, in a personal communication, explained that

[T]he business now exports to a number of countries, such as New Zealand and Singapore, and other states within Australia such as New South Wales and Queensland and provides economic stability to the town and district shires by providing employment and an income source independent of local farming conditions. (Clarke, 2007).

These grass roots solutions have enhanced retention of people in the district, which in turn encourages discretionary spend at the local retailers and services and a potential for growth. Thus the problems and solutions identified in Donald are similar to those encountered in the rural United States towns of Durango, Silver City and Taos, albeit caused by different factors.

The net effect of these initiatives has been to stabilise the local population, increase utilisation of existing businesses, encourage research into potential opportunities, encourage the establishment of new businesses through the use of incentives, and increase visitors and tourism numbers to the district through events based on local attractions.

CHAPTER NINE: STRATEGIES FOR ENHANCING THE FUTURE VIABILITY OF RURAL SME RETAIL BUSINESSES

9.1 Introduction

The case studies examined in the previous chapter illustrate that the challenges facing rural SME retail businesses are global. They also provide examples of how other districts have addressed these challenges. This chapter summarises some of these strategies with a view to examining how they could be applied in the case of South Taranaki district. However, before examining the strategies, it is important to understand the culture of economic development at the Federal (National) and state levels in the US. Most economic development in the USA has historically been implemented through regulation and programmes administered by Federal agencies such as the Environmental Protection Agency, the Consumer Product Safety Commission and the Equal Opportunity Commission. Subsidies and Federal price supports have also become an instrument of Federal government intervention to protect jobs in the 1970s and 1980s, such as guaranteed loans for Lockheed and Chrysler in the motor vehicle industry, tariff protection and tax incentives for agriculture when the US was to enter the North American Free Trade Agreement (NAFTA).

Federal economic development activity is largely coordinated and administered by the United States Government's Economic Development Administration (EDA). The EDA's mission statement shows that its role in economic development in the USA is "[t]o lead the Federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy." (EDA, 2006a).

During 2008, for example, United States Department of Agriculture (USDA) provided direct low interest loans totalling US\$342 million to telecommunication companies through the Rural Development Broadband Loan and Loan Guarantee Program to deploy

broadband and telecommunications services to rural communities of 20,000 residents or less, in order to improve access for rural SMEs, residents and local companies:

Agriculture Secretary Ed Schafer announced that broadband and telecommunications loans totalling more than \$342 million are being awarded to 18 communications firms serving 21 states. The funds will help bring new and improved telecommunications services to rural residents and businesses. (United States Department of Agriculture, 2008)

At the state level, the EDA lists some 50 state economic development agencies (EDA, 2006c), including state, regional and local governmental agencies and private sector organisations such as Chambers of Commerce and local action groups that are engaged in economic development activities. (Economic Development Administration, 2006b). State level economic development is generally implemented through a combination of strategies and assistance which includes direct funding, tax relief for businesses and funding for infrastructure that will help the economy as a downstream effect.

In New Mexico, Federal and state government strategies to generate economic growth include revolving loan funds to support small businesses to retain their employees, income tax credits to support job creation, business expansion, research and development, training, and the purchase of capital equipment. In 2004 for example, New Mexico's Governor, Bill Richardson signed into law a range of regional assistance programmes to stimulate the economy, including a state-wide four-year, High Wage Job Tax Credit for employers to attract and retain skilled people to the state. Under this tax credit, companies receive a ten percent refundable credit for each new high wage job created.³¹ (Office of the Governor, 2004, p2).

Richardson stated:

This will send a message to companies that are here, and the ones yet to come, that the State of New Mexico is ready to be a partner in creating new, higher-paying jobs, and that means new opportunities for our citizens. (Office of the Governor, 2004).

Another financial incentive was the Military Base Retention and Compensating Tax Incentive:

New Mexico's military installations remain critically important to our national security, our national defense, and our national economy. We will provide an incentive for companies, and the government, to test new technologies in New Mexico, by providing an exemption on the compensating tax, making us more competitive. (*ibid*).

³¹ High wage jobs are defined as salaries starting at US\$28,000 in rural areas and US\$40,000 in urban areas. (*ibid*)

In addition, changes were made to the law relating to the state's Regional Transit Districts to increase local taxes to enable the extension of the commuter rail system in the state.

In New Mexico there is a commuter rail service in operation between Belen and Bernalillo, with plans to extend the service to Santa Fe within four years. Regional Transit Districts will be responsible for the operation of this service. This law allows the RTDs to ask for voters to approve an increase in the gross receipts tax to fund commuter rail operation. (*ibid*).

The State of New Mexico also offers subsidies and incentives to a wide range of business activities, as summarised in Table 28:

Table 28: New Mexico State Assistance

Business Assistance
Agricultural Business Tax Deductions and Exemptions
Research and Development Gross Receipts Tax Deduction
Research & Development Small Business Tax Credit
Rural Software and Web Site Gross Receipts Tax Deduction
Technology Jobs Tax Credit
Telemarketing Gross Receipts Tax Exemption
Alternative and Energy Assistance
Clean and Renewable Energy
Alternative Energy Product Manufacturers Tax Credit
Bio diesel Blending Facility Tax Credit
Hybrid Vehicle Tax Exemption
Renewable Energy Production Tax Credit
Solar Energy Systems Gross Receipts Tax Exemption
Solar Market Development Income Tax Credit
Sustainable Building Tax Credit

Source: New Mexico Economic Development Department, 2007.

It is, however, the implementation of these business incentives, tax credits and the strategies developed and applied at the coalface by the residents and locals of the small rural towns and cities that are particularly relevant and useful to rural SME businesses.

9.2 The New Zealand Experience

The New Zealand Government provides a series of incentives to attract large companies to New Zealand through its inward business relocation service, Investment New Zealand.³² The Government considers open, stable, deregulated and competitive economy, which is transparent and has low financial barriers to entry, to be a major incentive. In order to support the goal of attracting such companies, the New Zealand Government created a strategic investment fund in 2004 for overseas companies that construct and bring a facility valued in excess of US\$28.1million to operational status, or which create more than 200 jobs over a five-year period (Investment New Zealand, 2004). The attraction of investments such as these, which are targeted at creating regional and district level incentives, are the responsibility of two main economic ministries, the Ministry of Economic Development (MED)³³ and the Ministry of Research, Science and Technology (MoRST).³⁴ MED and MORST develop and deliver Government economic policy and strategy to the regional and district level via downstream agencies.

New Zealand Trade and Enterprise (NZTE) and TechNZ are two such downstream agencies. NZTE is the MED agency that delivers business related information, grants and services, whilst TechNZ is the MORST agency that delivers research and development information grants and scientific services. In districts such as South Taranaki, regional grants and other business-related assistance from NZTE and TechNZ are delivered through the Venture Taranaki Trust (VTT) and local economic development agencies (EDAs) such as the STDC Economic Development Unit. Michelle Jordan, Economic Development Manager for VTT, advised that:

³² Investment New Zealand is the government's national investment promotion agency responsible for facilitating Foreign Direct Investment (FDI) into the country, actively assisting overseas companies and investors to relocate businesses and/or establish Greenfield and Brownfield operators in New Zealand (Investment New Zealand, 2004, p24).

³³ The Ministry of Economic Development advises the Government on regional development issues and develops policy issues for regional economic development. MED's downstream agency, New Zealand Trade and Enterprise (NZTE) delivers regional economic growth strategies such as the Enterprising Partnership Fund (EPF). (New Zealand Trade and Enterprise, 2007).

³⁴ The Ministry of Research, Science and Technology (MoRST) delivers policies and strategy to the regions through the Foundation for Research Science and Technology. (FoRST). Of FoRST's budget, \$400m goes to Universities and Crown Research Institutes (CRI), the remaining \$50m is directed as SME grants through Technology New Zealand (Technz) for Research and Development (R & D) projects. (Fleming, 2008).

[t]here are multiple examples of successful FoRST / TechNZ intervention and support for South Taranaki businesses via the Regional development agency (RDA), Venture Taranaki Trust, who have facilitated grants of between \$750,000 and \$1.1 million per annum (including those from FoRST/TechNZ) into the Taranaki economy and business community over the past five years. (Jordan, 2008).

Other Government assistance in the region includes that provided to the Western Institute of Technology Taranaki (WITT), a tertiary polytechnic institute operating in the Taranaki region. WITT has partnerships with local industry such as CApENZ. CApENZ has created a unique partnership by bringing together industry and academia, i.e. the Engineering Taranaki Consortium (ETC) and WITT, to develop and deliver industry specific training courses and skills. For example, demand for skilled engineers is high in South Taranaki, a result of the huge dairy and food processing industries, Kupe and other oil and gas exploration projects. In 2006, South Taranaki engineering staff levels were at 317 FTEs; by June 2008 they had increased more than 30 percent to 412 FTEs (South Taranaki District Council, 2008b). In addition, Work and Income NZ provides pre-employment training costs on a case-by-case basis to employees. Industry-training subsidies are also available through accredited industry training organisations.

Until 2005 STDC, did not consider economic development to be a major activity of the council, and the majority of STDC's economic development role was contracted to VTT. However, several initiatives in recent years have confirmed the Council's will to commit to an increased economic development strategy for the health of the district. For example, in June 2005 the council appointed an in-house economic development adviser to increase the level of assistance available to local businesses and SMEs. The council has also entered into a public-private partnership (2007) with Tawhiti Museum (privately owned by the Ogle family), located just outside of Hawera. The Ogles and STDC have entered into to an aggressive, risk-based strategic partnership that seeks to expand and enhance the museum's pull as a tourist attraction and South Taranaki as a tourist destination. The STDC contributed a grant of \$500,000 towards the \$1 million cost of expanding the museum.

More recently, in October 2008, the STDC ratified a new range of business incentives aimed at assisting businesses relocating to South Taranaki. Because of the perceived remote location of South Taranaki, few businesses are prepared to relocate into the district unless they are able to utilise its natural comparative or competitive advantages. STDC

recognised this and has provided market research and feasibility support to inward relocating and existing businesses. Since May 2008, \$35,000 in feasibility grants have been allocated by STDC to two greenfield manufacturing businesses wishing to establish in South Taranaki, with the potential to employ 30 FTEs (*ibid*).

The STDC has often taken a less aggressive stance. For example, the council has been reluctant to entertain the purchase, development or rezoning of areas for industrial land or housing sub-divisions. In May 2008, however, the council moved to rezone industrial, commercial and residential tracts of the Hawera area, the first substantial changes for over 30 years (see appendix 2 containing a map of the rezoned area). In contrast, the Otorohanga District Council took an aggressive stance in 1996, through direct intervention, establishing a mid-size industrial park and offering cash discounts of between \$3,000 and \$5,000 as incentives for industrial site purchases. As well as the industrial park, the Otorohanga District Council financed and completed a housing sub-division, assisting the stabilisation of the town population, which in turn assists the retail SMEs (Parvill, 2006).

9.3 The Case for Incentives Use in South Taranaki

According to the STDC report on the use of incentives, the district's economy will remain vibrant and healthy only if there is a good mix of businesses and growth, without significant reliance on any one business (South Taranaki District Council, 2008b). Currently, South Taranaki District's economy is almost solely reliant on very large dairy and meat processing industries (South Taranaki District Council, 2008a, p4). The STDC report went on to suggest that a district (local) council should endeavour to see that these major wealth creators are made as comfortable as possible and offer streamlined processes such as a single referral person within councils and rapid consent processing in their district. In the South Taranaki District, most land suitable for dairying is utilised, leaving little room for further expansion of dairy processing except through increased production, which leaves the industry relatively static and vulnerable to processing being diverted to newer plants elsewhere. In contrast, the Canterbury and Southland regions experienced high growth in dairying on former sheep farms in the districts, so the processing industry was constantly adding new capacity with simultaneous demand for associated services. This contrasted with the South Taranaki experience after the Kiwi/Fonterra Dairy Company

merger in 2001,³⁵ where approximately 70 to 100 senior executive positions were transferred from Whareroa (near Hawera, South Taranaki) to Hamilton and Auckland. In addition, middle to senior managers, business owners and the better educated moved from Hawera to New Plymouth and other large centres. Whilst some of these people still commute to South Taranaki for work (e.g. 50 percent of Ballance Agri-Nutrients staff commute from outside South Taranaki), the fact that they no longer live in the District removes much of the spending power from the community. This affects a range of businesses, but more so SMEs, schools and medical services in the district.

The departure of these senior executives and other high net worth individuals, many of whom placed their upmarket homes on the market at about the same time, depressed the real estate market for approximately two years (Metcalf, 2007). It was, therefore, clear that heavy reliance on a few large businesses has made the South Taranaki District's economy vulnerable to external influences, largely because a global company has little regard for local outcomes unless they directly influences its bottom line.

In order for the district to remain viable and healthy it needs not only population growth, but also the diversity of those in the higher income brackets to drive economic demand growth and ensure the retention of essential services, sports, recreation and other social infrastructure. The creation of incentives and their strategic application can be used by local councils to assist and encourage businesses to locate in rural districts, thereby attracting individuals from these higher income brackets to return to these districts and retain those who remain there.

Table 29 shows that many of the neighbouring district councils already provide incentives to prospective businesses locating in their districts.

³⁵ The Kiwi-Fonterra merger created the world's 14th biggest dairy company, accounting for 95% of the NZ industry and New Zealand's only company of global scale. (MAF, 2001).

Table 29: New Zealand Councils Offering Incentives

Council Name	Forms of Incentives Provided
Porirua District Council	Rate rebate Incentives
Otorohanga District Council	Cash discounts Time payment
Wanganui District Council	Single staff dedicated to the project Feasibility subsidy Rent holiday Rate subsidy
Gisborne District Council	Land subsidy Water rate reduction
Upper Hutt City Council	Rate rebate Single staff dedicated to the project
Tauranga District Council	Feasibility subsidy
Rangitikei District Council	Feasibility subsidy
Hutt city Council	Rate rebate Single staff dedicated to the project
Kawarau District Council	Rate rebate
South Taranaki District Council	Rate rebate Feasibility subsidy Single staff dedicated to the project Rate subsidy Infrastructure subsidy

Source: South Taranaki District Council, 2008b.

Of the eleven councils surveyed, only two had no formal incentives of any sort. These were The Far North District Council and Rotorua City Council. However, the Far North Council intimated that they would consider some sort of arrangement depending on the situation. For South Taranaki to effectively compete with these other districts, it is pertinent that some forms of incentives are developed to try to level the playing field in relation to competing districts.

The following chapter suggests policies, initiatives and strategies that may be considered by territorial local authorities, regional councils and central government to help address the economic development challenges facing rural districts.

CHAPTER TEN: CONCLUSIONS AND RECOMMENDATIONS

10.1 Introduction

It is apparent that the significant changes which occurred in the South Taranaki District economy cannot be attributed to any single factor. However, this study identifies three main factors, which significantly and directly affected rural retail SMEs:

1. a declining rural and urban population with changing demographics;
2. the arrival of large-scale supermarkets which, over time, was followed by large scale retail chains and the subsequent erosion of SME market share; and
3. economic 'spikes' caused by sporadic energy exploration and development.

10.2 The Changing Urban Population

Urban population decline is not restricted to New Zealand, as is shown by the examples of Donald in Australia, and Silver City in New Mexico. Silver City experienced population decline when mines in the rural areas closed at the same time that Wal-Mart arrived. This severely affected many Silver City SMEs and resulted in an exodus of residents and redundant miners from the town in a search for stable employment in a manner similar to the displaced dairy factory workers and families in South Taranaki.

However, urban decline remains a significant issue in South Taranaki and in Silver City. The population decline in both rural and urban districts has resulted in the centralisation of banking, insurance, rail, post offices and health services in the districts' rural towns, and in rural New Zealand generally. SME businesses such as butchers, bakers and hardware retailers closed entirely. Urban decline impacted on services, the local social and physical infrastructure, and ultimately a spectrum of SME businesses. Collits argues that one of the key trends of the last twenty years has been the continued steady growth of regional centres, often at the expense of smaller towns (Collits, 2000). This has certainly been true in small South Taranaki towns such as Patea and Kaponga, as demonstrated in Chapter 6, while Hawera suffered from the arrival of BBRs.

The STDC seeks to retain the existing population base and attract businesses and skilled labour into South Taranaki by the use of selective incentives. By association, this assists the retention of CBD SMEs through increased population and demand for services and goods. The economic benefit of securing population growth flows through the district economy. However, as population decline increases, a ‘business loss of opportunity’ occurs which, as noted by Collits, drives those that are entrepreneurially inclined to larger population centres that display positive growth (*ibid*). Often it is the younger age group departing; those remaining tend to be older without children, providing an ‘age time bomb’ for the future.

10.2.1 The Changing Structure of the Rural Population

The STDC recognises the problem of long-term rural population loss. The initial catalysts for depopulation were the dairy factory closures. However, ongoing farm amalgamation, and labour replacement by factors such as technology and increased mobility have all impacted on rural population levels. This results in school amalgamations and closures and the loss of rural infrastructure and social capital.

Internationally, similar depopulation problems occur, e.g. Donald, Australia. While some catalysts can be different in nature (e.g. droughts and plagues of mice, as well as farm amalgamation), the results are the same, impacting on the town’s SMEs. The amalgamation of farms in turn reduced rural labour levels, which in turn reduced rural spending which impacted on the town, causing the closure of many retailers, services and social infrastructure (Harris, 2007).

On the other hand, an increasing population may not always be a solution as shown in Durango and Taos. Durango’s increasing population provoked local residents, who became concerned as growth affected land use and the region’s economy while increased population in the Taos town pushed land prices up to the detriment of the locals.

10.3 The Impact of Large Scale Retail Operations on SME Retail Businesses

It is ironic that Heaton Barker, in 1922, concerned at the buying power and competition of large New Zealand grocery chain stores of the day, started the Four Square group to enable small grocers to compete. This group later became Foodstuffs (Auckland), which along with Progressive Enterprises Ltd forms the present supermarket duopoly in New Zealand. In Australia, NARGA expresses similar concerns to those of Barker almost 90 years ago, suggesting that by 2010, 85 percent of the market would be in the hands of supermarkets (National Association of Retail Grocers of Australia, nd). Similarly, in the UK, it was reported that in 2005, supermarkets had captured 74 percent of the grocery trade. Stone suggested that when a Wal-Mart came to town in the USA, businesses selling the same merchandise as the discounter usually lose sales. Unfortunately, the discounters usually saturate the market with their stores, which cause some towns' trade areas to shrink to a smaller size than before (Stone, 1995, p23).

In the case of South Taranaki's SME retailers, their demise was a result of continual decline in rural and urban population caused initially by the closures of the myriad dairy processing factories. However, in 1964 the arrival in Hawera of Tom's Supermarket signalled a radical change in retailing practice. Accompanied by increasing convergence and severe competition for market share (see chapter six), the opening of this supermarket ensured that the South Taranaki retail scene had changed forever. The arrival of a further eight large BBRs into a town of fewer than nine thousand people ensured that any competing SMEs would, to a large degree, be overwhelmed. As seen earlier in this study, this pressure on SMEs in the Hawera CBD is anecdotally confirmed by the increased number of retailers who closed after the arrival of the BBRs. However, it must be noted that other influences also played a role, such as retirement, legislative change, periods of economic recession and changing consumer demand as described in chapter six.

10.4 Economic Impact of Sporadic Energy Exploration and Development

The discovery and exploitation of oil and gas has been a significant influence in the Taranaki region for many years and is considered the second major economic driver for the Taranaki region.

Since the original Kapuni discoveries and development in South Taranaki in the late 1950s, there have been a large number of on shore and off shore wells and processing sites established in the District. The most recent, the \$1.2 billion Kupe development, will be completed in late 2009 and will provide jobs for twenty FTEs. The oil and gas sector has, over time, been characterised by sporadic spikes of expenditure on exploration and development. For New Zealand these petroleum products reduce both imports of foreign oil and products and enable the government to collect royalty and tax payments for exploration and development, which in turn produces an impressive short term boost for local economies such as that in South Taranaki.

However, the South Taranaki economy experiences positive and negative impacts. Because the industry is geared primarily to the export of crude, gas and other forms of distillate, there are few companies that can add value to oil and gas to create wealth in the South Taranaki District. One example is Ballance Agri-Nutrient Ltd at Kapuni, which produces nitrogenous urea extracted from natural gas and employs a significant workforce in the district.

Downstream from the oil and gas industry, South Taranaki businesses accrue benefits and skills. One example is the engineering companies that gained critical skills related to energy and other large development projects over time. When major projects are underway, multiple contractors, engineers, tradespeople, accommodation and entertainment providers, transport operators, restaurateurs and retailers all benefit from the surge in demand and the discretionary spending of the work force. In contrast is the impact on wages and staff losses. Wages are pushed up as contractors pay incentive rates to acquire skilled, competent tradespeople for these short-term projects. As local businesses need to retain a core of tradespeople, wage rates and service costs move upwards to protect against the poaching of staff. These costs are passed onto locals across the spectrum.

However, wage levels remain elevated long after the development has been completed, causing sustained inflation in wages, goods and services.

Because of the massive financial investment and the size of physical infrastructure required in the oil and gas industry, it is very difficult to establish downstream oil and gas SME businesses that would benefit a local economy. Plant shutdowns and maintenance do allow SME engineers and tradesmen to provide a range of localised symbiotic services over the projects' lifetime, however. At the Kupe project's peak, approximately 400 workers are employed on site. Such a large workforce (mostly imported into Taranaki for the Kupe project) tends to overwhelm accommodation and other services in the smaller centres, and it is difficult for councils to manage the severe increase for infrastructure demand such as large amounts of water and electricity. On completion of similar large petroleum projects in North Taranaki, the Mayor of New Plymouth commented that "house prices dropped and schools started emptying" (Chamberlain, 2002, p36). It is this stop-start nature of the oil and gas industry that plays havoc in rural districts. By the end of 2009, Kupe's work force of 400 plus, with their associated demand for services and goods, will have disappeared from South Taranaki, leaving elevated wage levels and very little value-added ongoing local work. A large number of local skilled workers will leave the district along with the petroleum companies to work on other projects. However, given the sporadic nature of oil and gas exploration, in five, ten or even twenty years the cycle is likely to repeat itself.

As demonstrated throughout this study, the above and similar factors have been shown to occur in other countries as well as New Zealand. This paper has also shown how economic development agencies overseas managed the process of large projects closing and industries transforming such as the mines closing in New Mexico, the rural depopulation in Victoria, and the arrival of BBRs in rural communities in the USA. It is a combination of these collective events and in some cases economic pain gathered over time by the relevant EDAs, local councils and organisations at local State or central government level that can be used to arrive at policies, strategies and interventions that could be modified or adjusted to suit the New Zealand experience. These programmes, policies and strategies can be targeted on three levels to ensure that the maximum benefit is applied to the area of need. These levels are discussed below.

10.5 The Use of Local EDAs

After discussions and interviews with EDAs in the USA and Australia, it became apparent that the most successful method of economic assistance was implemented by local practitioners and EDAs, which acted as an interface to deliver localised economic development solutions and assistance directly to businesses, based on discussions and consultation with those businesses. One such example is the Silver City economic development unit working in conjunction with the Western New Mexico University and the local business association, which developed and delivered a series of stimulation packages to the Silver City CBD retailers. Examples in Silver City include the Taste Silver City café and restaurant promotion, the Silver City Film Festival, and, in Durango, the Bounty of the County promotion.

The local EDAs' approach of acting as an interface with local businesses and councils evolved through trial and error. It was decided and proven that without an effective two way conduit for communication between these parties, any economic initiative would break down and not be sustained. Durango City, Silver City, Taos and Donald all had effective EDAs and staff with local knowledge. This point and a close working relationship with the local government, such as city or district councils, appears to be a vital step in the process of identifying trends and thwarting problems. This can only take place if confidence and a rapport are established between EDAs, businesses, business associations and groups such as Chambers of Commerce and Main Street associations. This enables a bottom up dialogue with the local council. Therefore, policies that include these characteristics would be desirable for any council or organisations considering coalface economic development.

10.5.1 District Council

The case studies included in this paper show that city or district councils with the will to enact policies and strategies that combine strong leadership and guidance, in tandem with EDAs and business associations, can lead to the economic renaissance of depressed CBDs. For example, the depressed Durango CBD was in a state of general disrepair for some years after Wal-Mart, K-Mart and other large retailers attracted symbiotic retailers to the new malls and strip developments away from the CBD. Durango's initial policy of attracting factory outlets to empty retail space was short-lived, as business conditions and

the economy changed rapidly. However, when the Council EDAs utilising Federal and state subsidies (after consultation with business organisations and businesses) proposed a mix of policies and strategies designed to encourage SME owners and owners of premises to renovate and change to a tourism focus, this resulted in a healthy mix of SME and tourism-based service providers in the CBD. Over time, Durango's fine tuning of economic development strategies and some risk investment in infrastructure, such as purchasing and operating a downtown bus line (since divested), resulted in a much re-invigorated CBD with a strong base of retail SMEs.

10.5.2 Regional and Central Government

This is a difficult area, as policies which are directed at a national, state/provincial level are often so burdened by bureaucracy, such excessive paper work and required reporting systems, that when they reach the coalface at the SME level they can bear little resemblance to the original plan. To overcome this problem, New Mexico State Governor Bill Richardson made a point of having regular conferences of both regional and localised EDAs and practitioners to ensure that any economic policies and implementation strategies were effective by minimising or preferably eliminating excessive bureaucracy. The New Mexico state policy on assistance for filmmaking in the state is one such example.

10.6 Recommendations

As posited at the outset of this paper, the conundrum facing the STDC and other rural councils is how to determine (and adopt) realistic and economic steps that can be taken to support SME retail business in rural areas facing the challenges of population destabilisation, an influx of BBRs and, in the case of South Taranaki, sporadic spikes of oil and gas development.

The evidence and data collected in this paper appear to indicate that factors impacting on rural retail SMEs such as farm amalgamations, BBRs and population change are not restricted to rural New Zealand, but are in fact both international and seemingly specific to their local area. Some, such as farm amalgamation, are an entrenched trend being experienced by many regions' economies and cannot readily be altered by tactical responses. Thus, given these inevitable processes mentioned above, there is a need to

arrive at flexible local solutions and strategies to manage the less than perfect process of economic development. Durango was flexible enough to respond to the failure of the initial strategy of filling empty retail space with outlet shops. It continued to investigate strategies until a suitable focus could be devised and encouraged, which in this case was the enhancement of the Durango tourism potential.

District Councils can assist by providing conditions which encourage the stabilisation of populations and businesses such as those incentives used by the Durango State and Central Government to regenerate the CBD, and by the Town of Taos which limited BBR and fast food signage in the CBD to protect historical heritage values. These, in turn, enabled niche SME retailers to co-exist alongside BBRs so as to provide a healthy, symbiotic mix of retail businesses. However, councils cannot turn back the retail clock and must take the current trends into account when they try to forecast future trends. Like CBDs, the retail scene has changed considerably and will continue to evolve with BBRs either eyeing smaller communities or widening their market convergence to maintain market share. Councils will need to be able to adapt policies and negotiate entry strategies that prevent the annihilation of SMEs but offer a symbiotic relationship between the SME and BBR businesses. Two examples are Durango City and the Town of Taos, both of which acquiesced to the development of a Wal-Mart in their towns but which required them to comply with certain architectural and horticultural requirements. For example, Durango City required that the Wal-Mart plant trees and make other enhancements to the exterior of its mega Wal-Mart whist in Taos, permission was denied for a mega Wal-Mart to be built in the historic town centre. Instead, that Wal-Mart had to be built on the town's outskirts.

In New Zealand, EDAs, Councils and the Ministry of Economic Development can all assist by encouraging the establishment and growth of SMEs in districts to utilise a natural advantage or point of difference. A small proportion of SMEs will inevitably become industry gazelles,³⁶ morphing over time into medium to large enterprises and enhancing the stability of a district. Thus, the active encouragement of SME start-ups and provision of support to retain existing mega businesses³⁷ will enable diversification and a broadening of the economic base. These measures have the potential to provoke a reversal, or at least halt

³⁶ Gazelles are entrepreneurial SMEs that drive innovation and economic growth.

³⁷ In South Taranaki, examples of mega businesses include, Fonterra, Origin Energy, Kupe, Riverlands, Silver Fern Farms (PPCS) and Yarrows (the Bakers) Ltd.

the existing population and business decline. A successful example is Durango City, which utilised state and local tax breaks and incentives, such as the Lodgers Tax to assist owners to renovate the City CBD. This assisted the change of the town's focus to tourism. Policies need to be flexible and relatively easily implemented, with minimal bureaucracy and regular consultation with affected parties. New Mexico Governor Bill Richardson's regular economic development meeting with EDAs and business owners is one example of consultation with the aim of effective implementation and a minimisation of bureaucracy.

The success of any such initiatives will be tempered by the increasing reality that external markets are needed to balance the current localised focus of companies. These markets bring external revenue into a community and district. District councils, in tandem with regional and central governments, must consider the overall picture in rural districts where BBR businesses are located.

The reverse currently occurs with most BBRs. In other words, the economic and social impacts of these companies' operations on the local community and its economy are not priorities, as the profits of these companies are generally repatriated off shore. This emphasises the need for a mix of localised SME/BBR businesses to assist in keeping a local economy balanced and healthy.

Because of South Taranaki's comparative and competitive advantages in dairy and meat processing, oil and gas and specialised engineering, the growth of such business offer significant opportunities for niche business activity. These specialist areas are discussed in chapter three.

The Taranaki region recognises the importance of this sector. For example, central government provides FoRST and NZTE agencies, while VTT the regional EDA, CApENZ and WITT all combine to enhance the region's engineering capacity. At the coalface, the STDC Economic Development Unit has formed an engineering cluster to assist entrepreneurial engineering.

An opportunity exists for the large numbers employed in these specialist industries, along with improved synergies between secondary schools, polytechnics and industry, to increase the numbers of skilled workers in the district and also provide the potential for the establishment of a tertiary institute in the South Taranaki District. The importance of a local tertiary institution was highlighted in the US case study communities, all of which are small towns. These case studies showed that a tertiary institution increased the retention of young people, improved education and skill levels, generated significant levels of employment and exerted a strong, positive influence on the local economy.

In South Taranaki, there is an opportunity to support local SMEs (and as a result, the economy) by establishing a coherent partnership between WITT, STDC, the local schools and industry. The council has a key role to play because of its ability to conduct open dialogue with central government and accordingly gain access to various regional funding streams. It also provides a vital conduit for helping smaller players cope with the sometimes overwhelming bureaucracy that is beyond their ability to comprehend and manage. In order to succeed, the council needs to position itself so that it has credibility and support in the variety of roles it needs to play in offering such support and assistance.

In the opinion of the author of this paper, the combination of the roles and tools set out below form the basis for a relevant strategy to enable local councils, such as the STDC, to play a significant and proactive role in any economic turnaround process. Many of the specific initiatives, which can be deployed in South Taranaki, can be found in the case studies, albeit modified for application to rural New Zealand. Table 30 lists examples of potential initiatives suggested by the author:

Table 30: District Council's Role in Economic Development

Financial
Levy a lodgers tax as in operation in Durango and Silver City (for the renovation and promotion of the CBD) as well as the provision of some funding for the Chamber of Commerce. It should be noted, however, that the case for levying such a tax was not well received when proposed for the redevelopment of the Auckland Stadium.

Levy a regional petrol tax ³⁸ for use by district councils for local projects, an option which has been enacted by the current Labour Government (Oct 2008)
Support SME economic gazelles by one to one seed funding. To encourage development of value-added processes or the investigation of opportunities, which cannot be accessed through government grants.
Consider rates and infrastructure incentives for subdivisions and new housing. Such incentives could include a caveat similar to that implemented in Donald, which requires that only local contractors be employed to erect buildings on those sites. A similar caveat in South Taranaki would have avoided the situation where all four new residential houses granted consent in December 2007, were built by non-local building firms. Siphoning revenues from these buildings to businesses outside of South Taranaki meant that the district reaped little or no economic benefit.
Legislative
Use covenants to control landscaping and building styles for BBRs and, in particular, to prevent ghostboxes occurring in CBD areas, and potentially to limit or control strip mall development.
Re-examine signage regulations. For example, whilst the characteristic standard signage of fast food outlets such as KFC, McDonalds, Subway and Pizza Hut already exist in towns such as Hawera, consideration could be given to requiring them to comply with local signage regulations so as to eliminate or minimise the incongruity which they generate.

There are also a number of strategies involving human capital, which influences the economic health of SMEs. As demonstrated in the case studies in this paper, events held locally assist in highlighting micro businesses. The organisation and promotion of such events has played an important part in the local economies. In Durango and Silver City, the local councils were involved in supporting these events, in part funded through the Lodgers Tax. Table 31 lists the author's suggestions for non-financial incentives.

³⁸ As widely reported in the media, a new petrol tax is being imposed on Auckland motorists from July next year Aucklanders will pay an extra two cents a litre, increasing to 9.5 cents from around 2011.

Table 31: District Council's Role in Non-Financial Incentives

Non-financial Incentives (Human capital-based)
Organise events similar to the Taste of Silver City and Durango's Bounty of the County to promote South Taranaki's local produce and prepared foods. This has the potential to encourage the growth of ethnic and minority-based SME micro businesses, in particular in the South Taranaki District, based on the comparative dairying advantage. (Note: this also relates to the Food Grade Kitchen proposal set out immediately following).
Create a certified food grade kitchen for SMEs to trial products at local markets. Such projects could involve one or more schools (to provide kitchen facilities), growers, chefs, food packagers and other related stakeholders. In addition, products could be promoted and sold through local farmers' markets and micro businesses. It also makes sense to align such an initiative with a two-year college/polytechnic described below.
Establish a two-year or junior college, similar to the existing New Zealand polytechnic format, based on identified, existing local strengths and needs. For example, engineering and food manufacturing could be appropriate core subjects. As demonstrated in Durango, Taos and Silver City, such tertiary institutions can operate as significant drivers in the economies and are an effective method of retaining young people and businesses in a district.
Assist SME businesses with advice on consents, departures, the Resource Management Act, and Regional Council relationships and resources.
Employ and provide access to suitably qualified staff and resources as an important part of economic assistance and development. That may include liaising with EDAs, Government Agencies and grant structures. This provides know-how and assists SMEs, large businesses and council to interface, provide ideas and the passion to drive economic change within a community.
Support a mix of SMEs by developing a strategic plan for positive change that is readily accessible, understandable and not excessively restrictive.
Assume a senior partner role (by the council) to assist local and relocating businesses investigate potential projects with synergies for the district and business community. This assists SME businesses to overcome a lack of skills and resources in initial investigations for business opportunity.
Act as intermediary (as above) to enable agreements between opposing factions for economic development and where possible to assist the role as a catalyst for social and business change.
Consider a carrot and stick strategy to minimise the empty rate for retail premises by using a mix of assistance incentives and penalties.

However, when applying these strategies, councils need to strike a balance between the commercial reality that CBD SME businesses are privately owned (and therefore have always been subject to changing retail patterns and consumer demand) and the level to which the council should be involved. Council also need to acknowledge the extent to which market forces will prevail because the CBD will assume a retail format shaped by urban-rural population, consumer demand and preference over time.

10.7 Future Research

The empty shop data recorded by the STDC Economic Development Unit have the potential to provide the opportunity to measure the impact of the arrival of a BBR in a small town.. The data capture is too recent to demonstrate any relationship between retail viability and SME survival rate as a result of BBR or supermarket arrivals in 1964, 1988 and 1994. However, it may be possible to measure the impact of the Pak n Save in 2006 opening and the opening of Noel Leeming Ltd in Hawera in October 2008.³⁹ Any subsequent effect on the three existing electronic retailers, Dimocks Ltd, Selectrix 100%,⁴⁰ and T & H Appliances Ltd could be tracked.

Therefore, there is potential for further research to be done to separate out normal business cycles and the BBR/supermarket influence on closure rates and empty shop data. Already, South Taranaki retailers other than the three named businesses report an impact of Noel Leeming on trade. For example, a local photographer advised that he had cut his range of cameras in half, as customers purchased from Noel Leeming Ltd because of the price differential. A local retailer of computers and associated equipment reported a similar impact on his business upon the arrival of Noel Leeming Ltd.

³⁹ In a personal communication, the manager of Noel Leeming Ltd Hawera, on his arrival in Hawera, advised that he expected to close two of the three local white ware competitors in Hawera as a result of Noel Leeming entering the local market. (Nesbitt, 2008)

⁴⁰ Selectrix 100% has since succumbed to a combination of increased competition from Noel Leeming Ltd and the economic downturn (late 2008 early 2009) and closed at the end of March 2009. Four FTEs have lost their jobs. (Stockwell, 2009).

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Appendix 1: Comparative Practice by Other Local Governments in New Zealand

All information included in this appendix is the result of telephone conversations with the named individuals.

Council	Incentives	Reference
Porirua District Council	<ul style="list-style-type: none"> • Uses rate rebates • Does use incentives on a case by case basis. Only if a significant employment contribution and provides a significant downstream local input multiplier (e.g. Bunning's Ltd.) 	Drew, 2008.
Hutt City	<ul style="list-style-type: none"> • Rates remission, used sparingly (twice in four or five years) • Has staff dedicated to each project 	Craig, 2008.
Far North District Council	<ul style="list-style-type: none"> • No incentives, however would consider a case by case situation 	Ellington, 2008.
Gisborne District Council	<ul style="list-style-type: none"> • Rates reduction • Water rate reduction • Offer council owned industrial land at prices under private land values. This includes all services, LIM reports, infrastructure etc (eg Bulmer Harvest – a cider manufacturer) 	Wauchop, 2008.
Upper Hutt	<ul style="list-style-type: none"> • 100% rates remission, normally for three years, but could be for as long as the Council decided (nb: this Council has almost continual inward relocation new/start pressure and suggested they were in a privileged position) 	Upton, 2008.
Wanganui District Council (Wanganui Inc)	<p>Offered on a case by case basis and includes:</p> <ul style="list-style-type: none"> • Sole liaison contact officer • 50% feasibility contribution • Rent Holliday if Council land • Lend–lease: Council may lend to incoming business a low interest loan • Assistance with services e.g. Telecom & Wanganui water • Rates reduction 	Horricks, 2008.
Kawerau District Council	<ul style="list-style-type: none"> • Rate incentives • Currently considering other incentives as decline of the timber processing industry continues 	Cannell, 2008.
Rotorua District Council	<ul style="list-style-type: none"> • No incentives, the provision of statistics and information only 	Hayward, 2008.

Tauranga (Priority One)	<ul style="list-style-type: none"> Partly funded (with landowners and developers) feasibility studies into a food manufacturing and innovation park, and an ICT Technology Park. Also putting a chunk of retained members' contributions towards a feasibility study for a major marine refit precinct in Tauranga, which will ultimately attract refit businesses from Australia and Europe. 	Coker, 2008.
Otorohanga District Council	<ul style="list-style-type: none"> Has in the past offered industrial land on an extended five year credit basis, along with cash discounts of \$3,000 to \$5,000 dollars on industrial lots. 	Pevril, 2008.
Rangitikei District Council	<ul style="list-style-type: none"> Rangitikei District Council is considering commissioning a feasibility study for warehousing and storage facilities in the Marton District 	Dombroski, 2008.

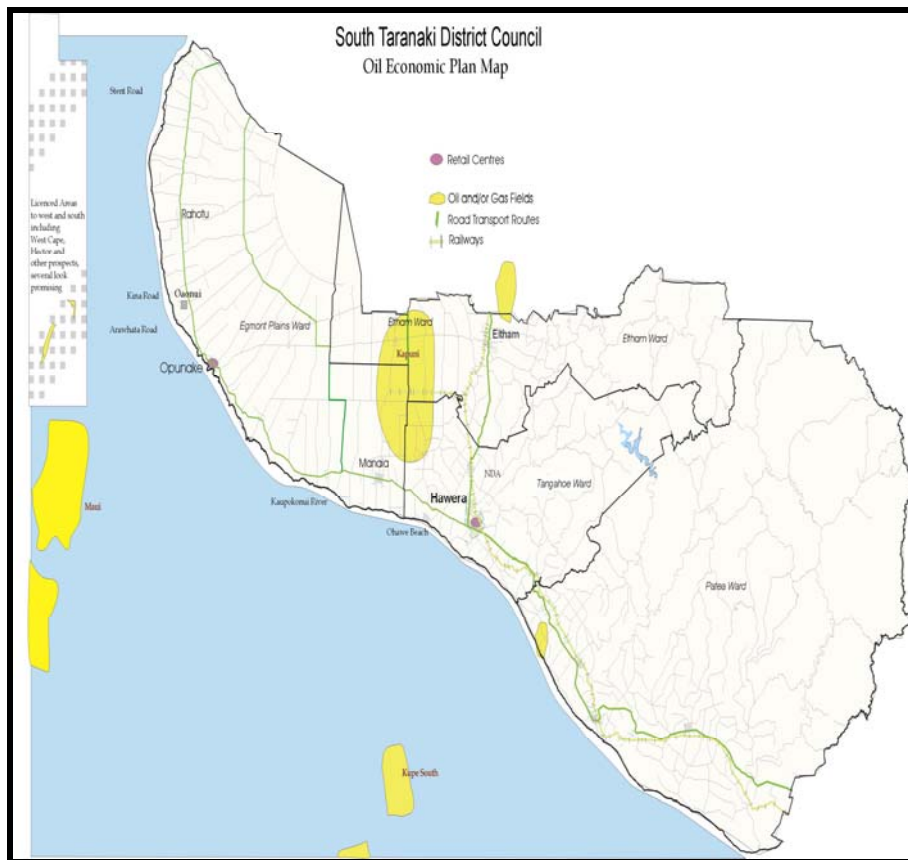
Appendix 2

The following table lists the dates when South Taranaki dairy processing sites closed or were amalgamated to eventually form a single processing entity, known as Kiwi Dairy Co in 1992. (Richards and Richards, 1995)

Factories	Closed
Alton	1984
Awatuna	1989
Cape Egmont (Pungarehu)	1974
Eltham (2 Factories)	1965
Hawera (Glover Road)	1967
Hurleyville	1963
Ihaia	1962
Joll Group (JG Factories*)	1963
Kakaramea	1976
Kaponga	1966
Kaupokanui	1963
Mangatoki	1966
Manutahi	1967
Meremere	1967
Mokoia	1968
Ngutuwera	1960
Oaonui	1974
Ohangai	1967
Opunake	1974
Pihama	1967
Rahotu	1981
Riverdale	1965
Warea	1977
Waverley	1979
Whenuakura	1979

Appendix 3

Oil and Gas Fields, Taranaki



Source: South Taranaki District Council, 2008b.