BIG BOXES IN OUR TOWN?

AN INTRODUCTION TO IMPACT ANALYSIS

Over the last several years, Civic Economics has had the opportunity to study the economics of local retail and service provision in a variety of settings.

In Austin and Chicago, we literally followed the money to see what becomes of each retail dollar. With the cooperation of local merchants, we were able to track each dollar from the cash register to employees, owners, and suppliers, law firms and banks, local publications and little league teams. We followed the revenues of chain retailers, too, drawing on a range publicly available data.

Reporting on these studies rightfully emphasizes the key finding: Local merchants generate substantially greater local economic impacts than do their chain competitors, a differential we called the Local Premium. But we were struck by the broad range of that differential from case to case, from 27% for restaurants in Chicago to 300% for books and music in Austin.

In Gunnison, Colorado and Homer, Alaska, we were asked to look forward, projecting the economic and fiscal impacts of proposed big box "superstores" offering both groceries and general merchandise. On the surface, the two communities appear quite similar: small, isolated towns in glorious settings with strong tourist sectors. We studied each market in detail, evaluating the availability and price of goods and the shopping habits of locals and visitors. We also studied the business practices of the proposed chain retailers, Wal-Mart in one and Kroger's Fred Meyer in the other. Finally, we modeled the expected changes in the retail market.

In one community, the impacts were dramatic and negative: modest increases in sales tax revenue were offset by lower retail employment and wages and displacement of local shops with strong local linkages. In the other, the impacts were dramatic and positive: increases in sales tax revenue were enhanced by greater employment and wages.

Civic Economics has also been invited to take less formal looks at retail economics in an extraordinary range of communities, from the Hamptons to New Orleans, Flagstaff and Phoenix, Portland and Vancouver, Madison, Wisconsin and Brownwood, Texas. In all this traveling and researching and modeling, one thing has become clear:

Each community is unique, and only with a careful evaluation of local retail economics can local leaders make wise decisions regarding retail alternatives.

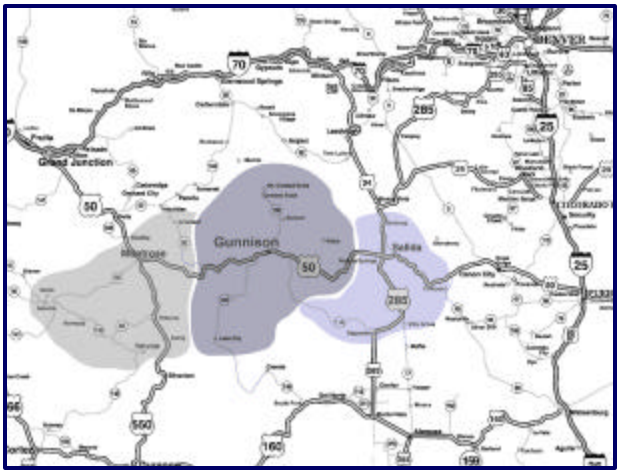
THE PROCESS

This paper is intended to provide an introduction to the process of making that evaluation in your community. Civic Economics has developed a unique, data-driven methodology for the analysis.

STEPS IN THE ANALYSIS OF RETAIL IMPACTS		
SECTION I: THE STATE OF LOCAL RETAIL	**SECTION II: PROSPECTS FOR LOCAL RETAIL**	**SECTION III: THE IMPACT OF BIG BOX RETAIL**
How is the local retail sector performing today?	What will likely happen to local retail in the coming years?	How would changes impact the local economy?

Civic Economics begins with a comprehensive review of the local retail market.

- The boundaries of **Retail Trade Area** served by your community are determined by a variety of factors, including population, distance, road networks, and topography. In Colorado, for example, the Continental Divide presents a significant obstacle to consumer mobility. In Alaska, by contrast the deep waters of Kachemak Bay are routinely crossed by shoppers distant roadless areas.



- We must also look at the attractiveness of retail offerings in competitor communities. **Retail Pull Factors** calculate the drawing power of the various markets in the region while **Comparison Shopping** provides an objective measure of the value gained by traveling to other communities to shop.

- The final step before modeling economic impacts into the future is to look ahead at changes on the horizon. Civic Economics models a variety of demographic and economic trends, and can take into account foreseeable changes such as highway improvements or large-scale developments in the pipeline.

Armed with this information, Civic Economics can project the **Base Case**, forecasting retail activity to be expected without the proposed superstore retailer. Once that is complete, the analysis can move forward to incorporate the superstore into the model.

THE CIVIC ECONOMICS RETAIL IMPACT MODEL

The Civic Economics retail impact model is developed in four steps:

1. ANALYSIS OF BIG BOX BUSINESS PRACTICES

Identify projected big box sales in specific general retail segments and groceries	**• Break down actual sales on a per square foot basis for general retail.** **• Apply local supermarket average sales per square foot for groceries** **• Project square footage and sales for each in the proposed big box store**

GLOSSARY: ***Sales per Square Foot*** is a standard measure of retail performance. ***General Retail***, as used here, is a cluster of segments to be offered by big box.

RESOURCES: Discussions with company officials; ESRI-BIS, Annual Reports, Civic Economics

2. ANALYSIS OF REGIONAL RETAIL ACTIVITY

Identify current and projected supply and demand in specific general retail segments and in supermarkets	**• Calculate surplus/deficit retail activity** **• Incorporate population growth and increased cost of living** **• Assume no changes in composition of local retail**
Calculate employment associated with sales for big box and for existing local merchants	**• Using actual retail employment locally and company-wide averages for others**

GLOSSARY: Some of these terms have a different meaning in common usage. ***Supply*** refers to actual retail sales. ***Demand*** refers to expected retail sales based on average per capita spending patterns. ***Surplus*** is said to exist where supply exceeds demand, or where total sales are greater than can be accounted for by residents. ***Deficit*** is said to exist where demand exceeds supply. A deficit indicates ***leakage***, or residents making purchases elsewhere.

RESOURCES: ESRI-BIS; Annual Reports; Civic Economics

3. FORECASTING THE EFFECT OF BIG BOX

Forecast the ability of a big box to promote import substitution and nonresident spending	• Incorporate surplus/deficit retail sales
	• Two Variables:
	  • Increased local shopping by residents due to big box
	  • Increased local shopping by nonresidents due to big box

Group forecasts according to LOW, MEDIUM, and HIGH increases in total sales	• LOW: Big box generates minimal new sales; most sales diverted from other local merchants • MEDIUM: Most likely mix of new and diverted sales • HIGH: Big box generates maximum new sales; less diverted from other local merchants

GLOSSARY: ***Import Substitution*** refers to addressing leakage by purchasing locally what used to be purchased elsewhere and brought in.

RESOURCES: ESRI-BIS; Annual Reports; Civic Economics

4. ECONOMIC IMPACT ANALYSIS

Calculate impacts on retail sales in specific general retail segments and supermarkets	• As scenarios move from low to high, total sales increase
Calculate impacts on employment in specific general retail segments and supermarkets	• Assume employment changes proportional to sales increases and decreases
Calculate impacts on sales tax revenues	• Local sales tax revenues rise and fall with total sales in the jurisdiction

RESOURCES: ESRI-BIS; sales tax records; Civic Economics

At this point, Civic Economics is able to project economic impacts for a variety of scenarios. While the model and the calculations may appear hopelessly complex, the essential impact findings are calculated according to the following simple formula:

[Forecast Total WITH Big Box] — [Forecast Total WITHOUT Big Box]

Impact findings are reported in an easily understood tabular format. The following example is from a completed study:

GENERAL RETAIL IMPACTS			Increased Sales Attributable to Supercenter		
			Low	Medium	High
			1.6%	3.2%	4.9%
Economic Impacts	Current Year	Change in Jobs	-3	**+2**	+6
		Increased Sales ($ Milions)	2.62	**3.39**	4.12
		Increased Sales Tax Revenue	$69,000	**$86,000**	$106,000
	2009	Change in Jobs	-6	**0**	+7
		Increased Sales ($ Milions)	6.02	7.02	7.96
		Increased Sales Tax Revenue	$155,000	**$179,000**	$203,000

GROCERY IMPACTS			Increased Sales Attributable to Supercenter		
			Low	Medium	High
			6.5%	13.0%	19.5%
Economic Impacts	Current Year	Change in Jobs	-29	**-16**	-3
		Increased Sales ($ Milions)	3.99	**6.13**	8.23
		Increased Sales Tax Revenue	$114,000	**$175,000**	$236,000
	2009	Change in Jobs	-36	**-19**	-3
		Increased Sales ($ Milions)	5.45	**8.09**	10.74
		Increased Sales Tax Revenue	$155,000	**$231,000**	$306,000

COMBINED IMPACTS			Increased Sales Attributable to Supercenter		
			Low	Medium	High
Economic Impacts	Current Year	Change in Jobs	-32	**-14**	+3
		Increased Sales ($ Milions)	6.61	**9.52**	12.35
		Increased Sales Tax Revenue	$183,000	**$261,000**	$342,000
	2009	Change in Jobs	-42	**-19**	+4
		Increased Sales ($ Milions)	11.47	**15.11**	18.70
		Increased Sales Tax Revenue	$310,000	**$410,000**	$509,000

CONCLUSION

Whether your community is large or small, rich or poor, growing or stagnating, rest assured you are on the radar of any number of big box retailers. These corporations are forever on the lookout for new sites and new markets. Sooner or later, they are coming to your town.

How will your community respond when the new retailer is announced? Big box retail is perhaps the single most divisive and emotional issue facing American communities today. Factions will emerge with strong arguments for and against the development.

"Our town is open for business; it's grow or die."

"We must preserve the unique character of our town."

"If we don't allow it, this project will just go to River City and take our business there."

"This project will kill our downtown and our local merchants."

Both sides will present compelling anecdotal and analytical evidence. Studies will be marshaled to predict ruinous consequences either way. In this environment, policymakers are presented with a difficult choice certain to alienate and infuriate a large number of people. Worse, they are expected to weigh evidence of questionable relevance, developed in different circumstances, often from biased analysts.

Get the facts. Civic Economics offers a rational approach to the problem, offering a neutral, data-driven analysis of the unique circumstances in each community. Only a comprehensive retail impact assessment can provide answers tailored to your community. Moreover, such an assessment turns an emotional battleground of ideas into a rational discussion of policy alternatives.

We don't promise an easy choice, there will be tradeoffs involved; we do promise to make those tradeoffs clear. Let Civic Economics provide the facts.

To learn more about our approach to retail impact analysis:

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