Local Works: Examining the Impact of Local Business on the West Michigan Economy
by Civic Economics, September 2008

This study concludes that if residents of Grand Rapids and surrounding Kent County, Michigan, were to redirect 10 percent of their total spending from chains to locally owned businesses, the result would be $140 million in new economic activity for the region, including 1,600 new jobs and $53 million in additional payroll. The study calculates the market share of independent businesses in four categories: pharmacy (41%), grocery (52%), restaurants (50%), and banks (6%). It analyzes how much of the money spent at these businesses stays in the area compared to national chains. Local restaurants, for example, return more than 56% of their revenue to the local economy in the form of wages, goods and services purchased locally, profits, and donations. Chain restaurants return only 37%. Measuring the total economic impact of this difference, including indirect and induced activity, the study estimates that $1 million spent at chain restaurants produces about $600,000 in additional local economic activity and supports 10 jobs. Spending $1 million at local restaurants, meanwhile, generates over $900,000 in added local economic activity and supports 15 jobs. The study also analyzes the economic impact of independent vs. chain businesses on a square footage basis, noting, "In a largely built-out city like Grand Rapids, policy dictates seeking the highest and best use of available properties, and this analysis strongly supports the idea that local firms should be the preferred tenants for city sites."

The San Francisco Retail Diversity Study
by Civic Economics, May 2007

This study finds that San Francisco remains a stronghold for locally owned businesses, which generate sizable benefits for the city's economy. The study has three parts. The first calculates market shares for independents and chains in several categories: bookstores, sporting goods stores, toy stores, and casual dining restaurants. In all four categories, independent businesses capture more than half of sales within the city of San Francisco, a much larger share than they have nationally. The second part examines the economic impact of locally owned businesses versus chains. It finds that local businesses buy more goods and services locally and employ more people locally per unit of sales (because they have no headquarters staff elsewhere). Every $1 million spent at local bookstores, for example, creates $321,000 in additional economic activity in the area, including $119,000 in wages paid to local employees. That same $1 million spent at chain bookstores generates only $188,000 in local economic activity, including $71,000 in local wages. The same was true in the other categories. For every $1 million in sales, independent toy stores create 2.22 local jobs, while chains create just 1.31. The final part of the study analyzes the impact of a modest shift in consumer spending. If residents were to redirect just 10 percent of their spending from chains to local businesses, that would generate $192 million in additional economic activity in San Francisco and almost 1,300 new jobs.

The Andersonville Study of Retail Economics
By Civic Economics, October 2004

This compelling study, commissioned by the Andersonville Development Corporation, finds that locally owned businesses generate 70 percent more local economic impact per square foot than chain stores. The study's authors, Dan Houston and Matt Cunningham of Civic Economics, analyzed ten locally owned restaurants, retail stores, and service providers in the Andersonville neighborhood on Chicago's north side and compared them with ten national chains competing in the same categories. They found that spending $100 at one of the neighborhood's independent businesses creates $68 in additional local economic activity, while spending $100 at a chain produces only $43 worth of local impact. They also found that the local businesses generated slightly more sales per square foot compared to the chains ($263 versus $243). Because chains funnel more of this revenue out of the local economy, the study concluded that, for every square foot of space occupied by a chain, the local economic impact is $105, compared to $179 for every square foot occupied by an independent business.

The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine [PDF]
by the Institute for Local Self-Reliance and Friends of Midcoast Maine, September 2003.

Three times as much money stays in the local economy when you buy goods and services from locally owned businesses instead of large chain stores, according to this analysis, which tracked the revenue and expenditures of eight locally owned businesses in Midcoast Maine. The survey found that the businesses, with had combined sales of $5.7 million in 2002, spent 44.6 percent of their revenue within the surrounding two counties. Another 8.7 percent was spent elsewhere in the state of Maine. The four largest components of this local spending were: wages and benefits paid to local employees; goods and services purchased from other local businesses; profits that accrued to local owners; and taxes paid to local and state government. Using a variety of sources, the analysis estimates that a national big box retailer operating in Midcoast Maine returns just 14.1 percent of its revenue to the local economy, mostly in the form of payroll. The rest leaves the state, flowing to out-of-state suppliers or back to corporate headquarters. The survey also found that the local businesses contributed more to charity than national chains.

Economic Impact Analysis: A Case Study [PDF]
by Civic Economics , December 2002.

This study examines the local economic impact of two locally owned businesses in Austin, Texas---Waterloo Records and Book People---and compares this with the economic return the community would receive from a Borders Books store. The study finds that spending $100 at Borders creates $13 worth of local economic activity, while spending $100 at the local stores generates $45 in local economic activity. The difference is attributed to three factors: a higher local payroll at the independent stores (because, unlike Borders, none of their operations are carried out a an out-of-town headquarters office); the local stores purchased more goods and services locally; and the local stores retained a much larger share of their profits within the local economy.

The Multiplier Effect Quantified

First is an economic impact study done by Civic Economics in Austin, Texas (population 657,000). It revealed that each dollar spent at two locally owned book and music stores, Book People and Waterloo Records, creates more than three times the local economic activity of dollars spent at a typical Borders Books & Music Corp. store.

The study was initiated to provide hard data with which to evaluate a potential 25,000 square foot Borders store as part of a new retail development on the same block as those independent businesses. The two local retailers opened their books for the study. Civic Economics utilized numerous sources to determine the Borders impact, including interviews with former employees, the company's public records, and studies of similar stores conducted by Bank of America.

The factors accounting for the difference in community payback are familiar to our readers, but we 're glad to bolster the empirical evidence behind common sense:

1) the local businesses have larger payrolls, employing their own ad writers, buyers, accountants, and other positions that chains centralize in a single headquarters.

2) locally owned businesses make more of their own purchases locally.

3) more of the profits at locally owned businesses recirculate in the community.

The study also included the competitive impact of the proposed Borders store and projected that half of Borders' sales would be siphoned from Waterloo and Book People. The development that includes Borders is slated to use $2.1 million in public subsidies--another hole blown in the myth of the "free market."

Bigger Isn't Better for Economic Return

The second study demonstrates that growth does not necessarily mean increased net revenue--in fact, many types of development actually drain local economies. Tischler & Associates studied various types of residential and commercial developments in Barnstable, Mass (population 48,000) and compared the tax revenue they generated with the cost of providing additional required services. The findings? Big box retail, shopping centers, and fast-food restaurants cost taxpayers more than they produce.

The biggest drain is fast-food restaurants with a net annual deficit of $5,168 per 1,000 square feet, with big box retail developments at a loss of $468 per 1,000 square feet, and shopping centers at $314 per 1,000 square feet.

Smaller specialty retail (not big box "category killers") was found to generate positive returns, returning $326 per 1,000 square feet to the community. Other
positive producers include business parks, offices, and hotels.

So why the higher costs from big box and fast food development? The biggest expenses generated came from higher road maintenance costs and greater demand for public safety services--especially police calls for commercial crime.

Hidden Costs

One commmunity that openly embraced chain superstores in the past decade was was Pineville, NC. But Pineville now has put the brakes on such development growth. It recently tightened its zoning rules and turned down two retail developments, including a Wal-Mart Inc. "supercenter."

The decision came after city officials had to raise taxes to subsidize all the added public costs generated by big box stores and strip development. They projected that Wal-Mart would create the need to hire two new police officers at a cost of $120,000 per year, far exceeding the municipal revenue the store would generate. Commercial properties account for 96 percent of all police calls in Pineville. Even though a growing number of communites now charge impact fees for the initial costs generated by big box developments, the public pays for their ongoing drain on resources.

Stacy Mitchell, senior researcher at the New Rules Project explains why locally-owned businesses typically create less demand for police services. "Criminals passing through seem to prefer the anonymity of a Wal-Mart store along the highway to the intimacy of Bob's Hardware on Main Street. Local retailers don't usually call the police for every bad check or shoplifting incident, while chain stores often have a policy of prosecuting every offense."

Many more communities are coming to grips with the public law enforcement costs created by big box stores. In East Lampeter, Pennsylvania, District Justice Ronald Savage has added two days to the monthly court calendar just to deal with crimes at Wal-Mart, which account for about one-quarter of the town's non-traffic citations, criminal misdemeanors, and felony complaints.

Updates-- September 25, 2003:

* Once the people of Austin learned the true costs of the proposed public subsidy for the Borders development, the subsidy was blocked. Left to try to compete in a free market against a successful local business, Borders decided it could not -- the store was not built.

* A survey published in September, 2003 produced results nearly identical to those in Austin regarding the multiplier effect for dollars spent at locally owned businesses. The analysis by the Institute for Local Self-Reliance and Friends of Midcoast Maine tracked the revenue and expenditures of eight locally owned businesses in the Maine towns of Rockland, Camden, and Belfast and compared their economic impact to that of two corporate chains; Target and Wal-Mart. The local businesses represented a range of goods and services, and collectively employed 62 people and had sales of $5.7 million in 2002.

The survey found that the businesses spent 44.6 percent of their revenue within the surrounding two counties. Another 8.7 percent was spent elsewhere in the state of Maine. The four largest components of this local spending were: wages and benefits paid to local employees; goods and services purchased from other local businesses; profits that accrued to local owners; and taxes paid to local and state government.

All eight of the surveyed businesses banked with locally owned banks. They purchased some inventory from local manufacturers, advertised in local newspapers, and hired local accountants, printers, internet service providers, and repair people.

The other 46.7 percent of their revenue left the state. This out-of-state spending included inventory purchased from out-of-state companies, mortgage interest, rent, credit card fees, supplies, insurance, and equipment leasing.

A similar expenditure profile was created for a big box retailer. Because national retailers do not reveal detailed financial information, the study estimated expenditures (payroll, supplies, services, utilities, taxes, etc.) based on national data, statements by company officials, and employment and property tax information on one of its Maine outlets.

The survey found that the chain returns 14.1 percent of its revenue to the local economy, mostly in the form of payroll. The analysis concludes that expanding local businesses would be a better economic development strategy for the region than bringing in large chains.

The survey also found that the local businesses contributed 0.4 percent of their gross revenue to charity. That's four times as much, relative to overall sales, as Wal-Mart gave to charity in 2002, and twice as much as Target gave.