

Economic Impact Analysis: A Case Study

Local Merchants
vs.
Chain Retailers

EXECUTIVE SUMMARY



Prepared for

liveablecity

by

CIVIC **ECONOMICS**
CREATIVITY · OPPORTUNITY · PROSPERITY

December 2002

EXECUTIVE SUMMARY - ECONOMIC IMPACT ANALYSIS

Local Merchants vs. Chain Retailers

EXECUTIVE SUMMARY

Civic Economics (CivEc) is pleased to present this Economic Impact Analysis assessing the economic activity generated by local merchants relative to a chain merchant carrying comparable lines of goods. Economic impact, for the purposes of this case study, is based on locally focused expenditures of the merchants, including such items as labor, profits, goods, and services.

The Context

American communities from coast to coast have wrestled with the implications of national chain retail. Despite national interest, however, CivEc has identified a near absence of objective, fact-based analysis of the phenomenon. This report is designed to enhance the discussion by providing a credible and quantifiable analysis.

The area of Sixth Street and Lamar Boulevard in central Austin provides an outstanding opportunity to study the dynamics of retail competition. The following analyses are put forth as a case study of the interaction among co-locating chain and local merchants in similar lines of goods.

Schlosser Development Corp. presently controls the two blocks between Fifth and Sixth to the east of Lamar as well as the previously developed block to the south, containing Office Max, Starbucks, and an AT&T Phone Store.

Under the present proposal, the offices and flagship store of Whole Foods Market will occupy the prime block of the Schlosser site. Schlosser proposes to anchor the eastern block with a Borders Books & Music store. Should the development proceed as presently structured, Schlosser will additionally take on leasing responsibilities at the present Whole Foods and BookPeople complex.

According to published sources, the combined Schlosser properties have been granted incentives with a total value of over \$2.1 Million. These include fee waivers, water and wastewater infrastructure reimbursements, drainage improvements, and a temporary use of right-of-way fee waiver. The projects have thus far received approximately \$710,000 of these incentives. Additionally, the developers have entered into an agreement with Austin Energy for the provision of a chilled water facility valued at approximately \$3.5 Million.

EXECUTIVE SUMMARY - ECONOMIC IMPACT ANALYSIS

Local Merchants vs. Chain Retailers

PRINCIPAL FINDINGS: THREE ESSENTIAL FACTS

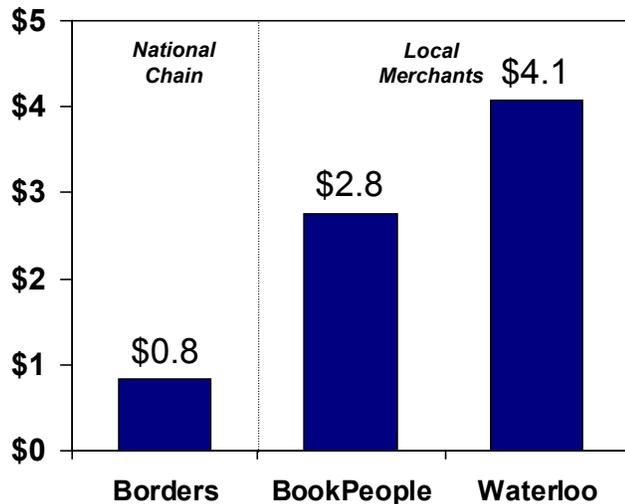
FACT: Local merchants generate substantially greater economic impact than chain retailers.

CivEc initially compared the local economic impact of three freestanding stores, a typical Borders, and the existing and known quantities of BookPeople and Waterloo.

Three distinctions account for the dramatic difference seen in the chart at right:

1. Local merchants spend a much larger portion of total revenue on local labor to run the enterprise and sell the merchandise.
2. Local merchants keep their modest profits in the local economy.
3. Local merchants provide strong support for local artists and authors, creating further local economic impact.

Annual Economic Impact per Store
(millions in 2002)



FACT: Development of urban sites with directly competitive chain merchants will reduce the overall vigor of the local economy.

Development of a Borders store at Sixth and Lamar will reduce the vigor of the Austin economy. In this analysis, CivEc reviewed three scenarios to account for the range of impacts possible. In all three, Borders triggers a decline in local economic activity despite increasing total sales of books and music at the corner.

Competitive Effects:
Borders Impact over Five Years
Total book and music sales **increase**
Economic returns **decrease**

CivEc puts forth two alternative outcomes in which the neighborhood and the Austin economy will be enhanced:

1. New merchants bring a new line of goods to the market, attracting additional consumer traffic to the area to the benefit of neighboring merchants. For example, former plans called for a cinema at the site. This would have offered a product previously unavailable at Sixth and Lamar, drawing additional prospective customers for all neighboring merchants.

EXECUTIVE SUMMARY - ECONOMIC IMPACT ANALYSIS

Local Merchants vs. Chain Retailers

2. New merchants bring a complementary line of goods to the market, leading to increased browsing among merchants with similar but unique lines of goods. For example, there exists in the neighborhood a cluster of antiques and home goods shops. Shoppers for these goods are induced to visit several merchants, as unique yet related items are offered in each shop.

As presently configured, the City of Austin is asked to subsidize a development that actually does damage to the local economy.

FACT: Modest changes in consumer spending habits can generate substantial local economic impact.

For every \$100 in consumer spending at Borders, the total local economic impact is only \$13. The same amount spent with a local merchant yields more than three times the local economic impact.

If each household in Travis County simply redirected just \$100 of planned holiday spending from chain stores to locally owned merchants, the local economic impact would reach approximately \$10 Million.



EXECUTIVE SUMMARY - ECONOMIC IMPACT ANALYSIS Local Merchants vs. Chain Retailers

ABOUT THE PROJECT PARTICIPANTS

LiveableCity Austin is an inclusive network of individuals working together to create a community consensus to promote policies that address the long term social, environmental and economic needs of the people of Austin.



Civic Economics (CivEc) is an economic analysis and strategic planning consultancy with offices in Austin and Chicago.

BookPeople and Waterloo Records and Video provided additional funding and research support for this study.

For further information about the project participants or this Economic Impact Assessment, please contact:

Dan Houston, Partner
Civic Economics
512.587.7964
dhouston@CivicEconomics.com
www.CivicEconomics.com

Mark Yznaga, Executive Director
LiveableCity Austin
512.657.4762
myznaga@texas.net
www.LiveableCity.org