

# *The ANDERSONVILLE STUDY of Retail Economics*

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Chicago, Illinois



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**CIVIC ECONOMICS**  
CREATIVITY · OPPORTUNITY · PROSPERITY

## HIGHLIGHTS OF THE ANDERSONVILLE STUDY

In a study comparing the economic impact of ten Andersonville businesses and their chain competitors, it was found that:

### **Locally-owned businesses generate a substantial Local Premium in enhanced economic impact.**

- For every \$100 in consumer spending with a local firm, \$68 remains in the Chicago economy.
- For every \$100 in consumer spending with a chain firm, \$43 remains in the Chicago economy.
- For every square foot occupied by a local firm, local economic impact is \$179.
- For every square foot occupied by a chain firm, local economic impact is \$105.

### **Consumers surveyed on the streets of Andersonville strongly prefer the neighborhood over agglomerations of common chain stores.**

- Over 70% prefer to patronize locally-owned businesses.
- Over 80% prefer traditional urban business districts.
- Over 10% of respondents reside outside the City of Chicago.

### **The study points to clear policy implications.**

- Local merchants generate substantially greater economic impact than chain firms.
- Replacement of local businesses with chains will reduce the overall vigor of the local economy.
- Changes in consumer spending habits can generate substantial local economic impact.
- Great care must be taken to ensure that public policy decisions do not inadvertently disadvantage locally owned businesses. Indeed, it may be in the best interests of communities to institute policies that directly protect them.

[www.AndersonvilleStudy.com](http://www.AndersonvilleStudy.com)

## EXECUTIVE SUMMARY

### Abstract:

The Andersonville Development Corporation, with the support of The Andersonville Chamber of Commerce and funding by Andersonville Special Service Area #22, retained Civic Economics to evaluate the economic impact of the neighborhood's locally-owned businesses and compare that with the impact of competitive chains. With the active participation of ten local firms, economic impacts were determined for each. Economic impacts for ten chains were then determined. To account for differences in revenue and size, those impacts were adjusted to two measures: impact per \$100 revenue and impact per square foot. Because the locally-owned businesses and national chains were found to generate comparable revenue per square foot of retail space, the local firms were found to generate 70 percent greater local economic impact than chains per square foot, or 58 percent by revenue.

Andersonville is a neighborhood on Chicago's north side. Its primary thoroughfare, Clark Street, bisects the neighborhood and serves as its commercial center. The commercial district is distinctive for its quaint facades and greenery, its history as a Swedish settlement, its current diversity, and the notable dearth of chain outlets among its countless shops, restaurants, and service providers. However, national chains have expressed interest in the community as disposable income continues to increase. These national chains



are able to pay above present market value on their leases, which has begun driving commercial rental rates up and longstanding local businesses out.

The Andersonville Development Corporation (ADC), the Andersonville Chamber of Commerce (ACC) and Andersonville Special Service Area provide economic and market development services to the area. Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and, coincidentally, Andersonville.

Civic Economics previously conducted a widely cited study in Austin, Texas, assessing the economic impact of a publicly subsidized Borders Books & Music store seeking to locate across the street from locally-owned Book People and Waterloo Records. In those unique circumstances, it was demonstrated that the

local merchants generated three times as much local economic activity as the chain store, adjusted for revenue. That study, known as the Liveable City Study, has been replicated in two very different circumstances with similar findings: Maine's Mid-Coast region and Toledo, Ohio.

ADC retained Civic Economics to build upon that research, studying the role of Andersonville's diverse business community in the Chicago economy. ADC recruited ten local businesses to participate fully in the study, opening their books to the firm to facilitate a complete economic impact analysis of each. Civic Economics then prepared economic impact analyses of ten chain competitors selected in consultation with ADC and with consideration given to data availability. We adjusted those impacts to account for variations in revenue and square footage, and, to further explore the meaning of the data, businesses were categorized into three segments: restaurants, retailers, and service providers.

ADC also conducted a Customer Preference Survey of 512 randomly selected shoppers within the neighborhood during the month of May 2004. While this was an unscientific survey it provided interesting background information about where patrons are drawn from and why they choose to shop in Andersonville. Just under 40 percent of survey respondents came from outside the two main zip codes for the Andersonville area, and ten percent were from outside the City of Chicago. These visitors bring money into the district and into the city.

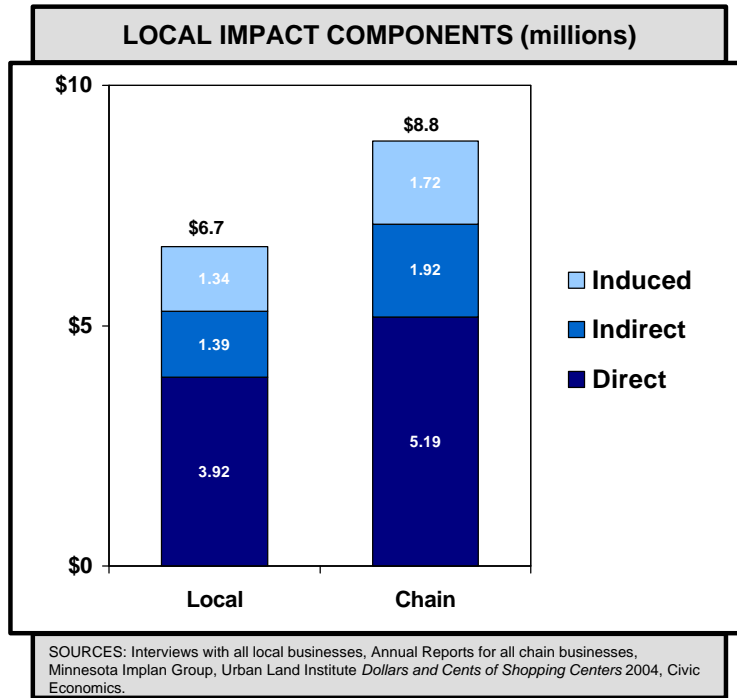
When asked to express a preference on the type of business shoppers patronize, over 70 percent preferred locally-owned businesses while less than three percent preferred chain businesses. Additionally, an overwhelming 80 percent of respondents identified Andersonville's traditional neighborhood district, with locally-owned independent businesses, as their preferred shopping environment.

These results lend support to the preexisting belief in the neighborhood that the unique businesses and layout of Andersonville are a draw, attracting people from both inside and outside the region. Visitors are consciously choosing this type of commercial district over others.



### Aggregate Economic Impacts

Using the City of Chicago as the relevant jurisdiction, economic impacts were calculated and aggregated (all local businesses and all chain businesses). Including direct, indirect, and induced effects, we found that the ten local firms generate a combined \$6.7 million in annual economic impact compared to \$8.8 million for the ten chains.



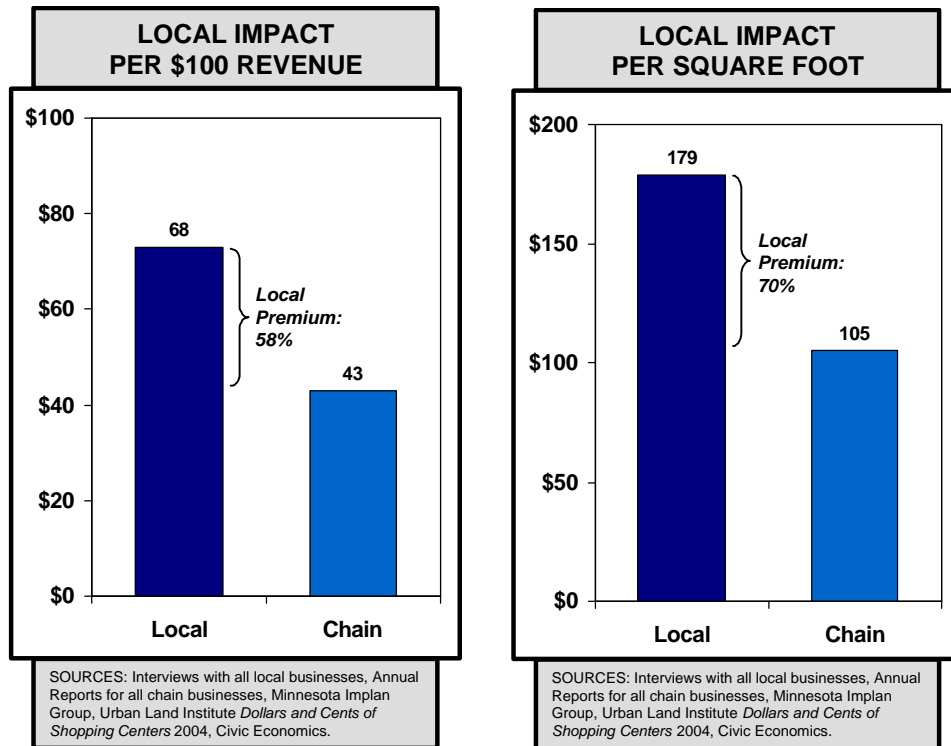
In this case, *direct* effects reflect the first round of local spending, such as wages and benefits, profits to local owners, local procurement, and charitable contributions. *Indirect* and *induced* effects reflect the continuing circulation of that first round of spending by businesses and individuals respectively.

Local economic impacts for businesses that serve a local market are primarily made up of four components: labor, profit, procurement, and charity.

Looking only at the chart above, the simplest policy conclusion jumps to the fore: these ten chain businesses create greater economic impact than the ten local firms. However, the following pages demonstrate that this simple assumption neglects to account for two essential variables: the revenue and square footage of each business. These variables, as we shall see, thoroughly erase the apparent economic impact advantage of chain businesses.

### Adjusted Economic Impacts

Among the firms studied, chain businesses took in an average of over twice the revenue and occupied twice the square footage of the locals. Therefore, it was necessary to adjust raw economic impact values to account for these substantial differences. When those adjustments are made, the apparent economic impact benefit of the chain businesses is completely erased. The fact that locally-owned businesses (\$263 revenue per square foot) and national chains (\$243 revenue per square foot) generated comparable sales per square foot of retail space negates any size advantage the chains have over their locally-owned competitors.



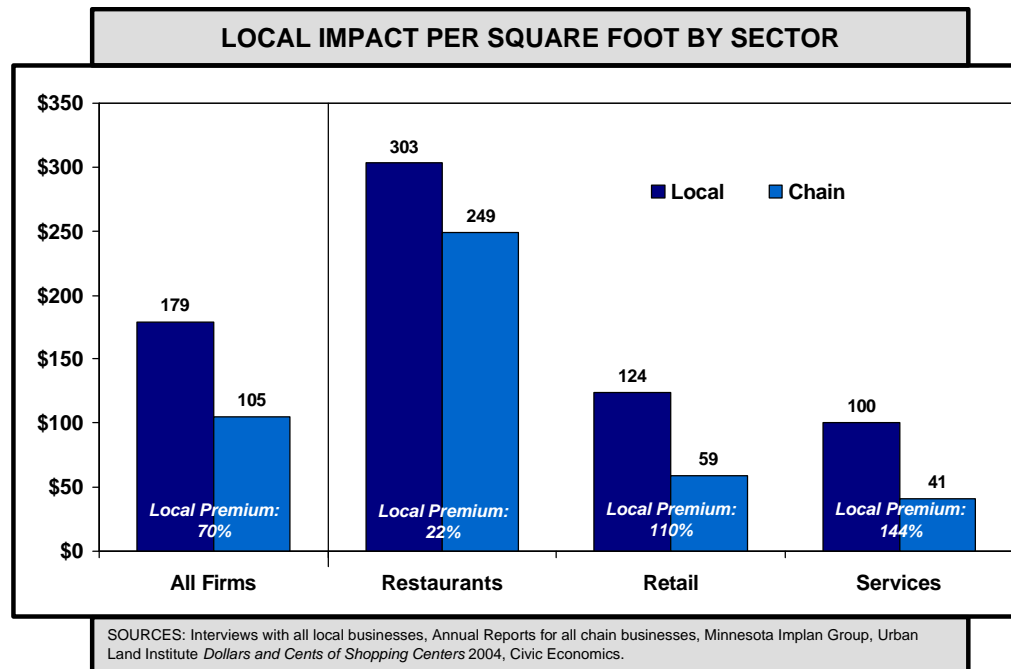
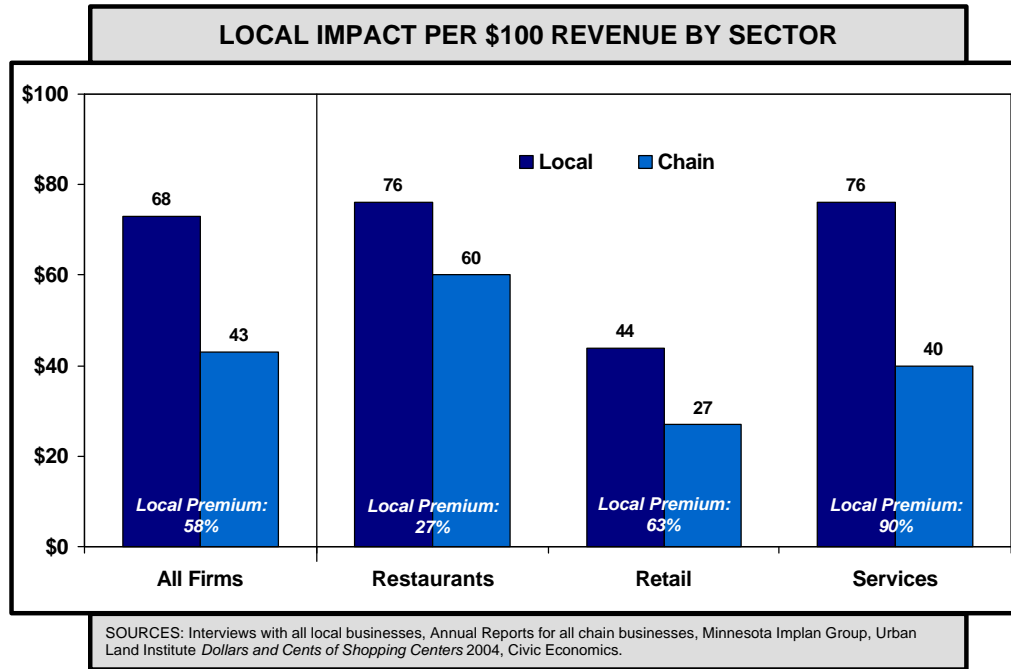
For every \$100 in consumer spending with chain firms, \$43 will remain in the local economy; if that same spending occurs with a locally-owned firm, that value jumps by 58 percent, to \$68. Similarly, for every square foot of space occupied by a chain, the local economic impact is \$105; if a local firm occupies that same space, impact jumps by 70 percent, to \$179.

This Local Premium represents the quantifiable advantage to the city provided by locally-owned businesses. Whether measured as a share of revenue or by square footage, local firms generate a substantial Local Premium over their chain competitors. That means more money circulating in the local economy, which may mean more home improvement, more in the collection plate, and more in taxable transactions to fund city services.

Across the board, locally-owned businesses substantially exceed their chain competitors in all four components. For example, local firms spent an average of 28 percent of revenue on labor compared to 23 percent for chains. Additionally, eight of the ten local firms are owned by Chicago residents, so profits largely remain in the city. Local firms procure local goods and services at more than twice the rate of chains. Finally, locally-owned firms in the study contribute more to local charities and fundraisers than do their national counterparts and, although this provides the smallest local advantage of the four categories, this difference is important to the community.

### Economic Impacts by Sector

In order to gain a fuller understanding of these results, businesses were further categorized as restaurants, retailers, and service providers. This further analysis reveals that the Local Premium ranges from 144 percent per square foot among service providers to 63 percent among retailers and 22 percent per square foot among restaurants.





These differences are largely accounted for by one factor: labor costs. Restaurants, for example, are heavily dependent on employed labor. Locally-owned restaurants tend to employ more workers, have them work slightly longer hours, and pay them slightly more than their chain competitors. Local service providers, at the other end, are heavily dependent on the labors of the owner while their chain competitors rely more on employees, resulting in the most substantial Local Premium.

### **Policy Implications**

A careful reading of the data demonstrates that locally-owned businesses provide substantial economic benefits to the city, benefits that are in danger of being measurably diluted by increasing chain competition. While fair competition and consumer choice are the touchstones of urban economics, great care must be taken to ensure that public policy decisions do not inadvertently disadvantage local firms. Indeed, it may well be in the best interests of communities to institute policies that protect them.

Andersonville is a model for prosperous communities nationwide. There, Chicagoans offer a wide array of products and services, keep local dollars in the local economy, and contribute to Chicago's privileged place among American cities. But Andersonville and the dozens of neighborhoods like it are particularly threatened by the proliferation of chain businesses.

Future public policies in Chicago must seek to protect and promote the Andersonville model rather than facilitate its demise. Equally important is the matter of consumer choice. With each purchase, consumers put into play their hard earned dollars; the consumer's decision to patronize a local firm versus a chain competitor ripples through the economy with dramatic results.

## COMPLETE REPORT

The complete analysis is presented in four sections as follows:

- **INTRODUCTION AND BACKGROUND** – putting the Andersonville Study in context, describing previous related studies and the origins of this one
- **METHODOLOGY** – outlining the analytical process followed by Civic Economics
- **FINDINGS** – presenting the results of this analysis through four steps:
  - Components of Local Economic Impact
  - Aggregate Economic Impacts
  - Adjusted Economic Impacts
  - Economic Impacts by Sector
- **POLICY IMPLICATIONS** – describing some practical applications of these findings for consideration by policy makers and consumers

## INTRODUCTION AND BACKGROUND

Civic Economics, the Andersonville Development Corporation, the Andersonville Chamber of Commerce, and Andersonville Special Service District Number Twenty-Two collaborated on this study, designed to evaluate the regional economic role played by independent businesses in this dynamic district on Chicago's North Side.

In short, the study was designed to calculate the economic impact of Andersonville's locally-owned businesses and assess the economic impact of increasing chain store activity in the region. Ten Andersonville businesses agreed to participate fully in the study, opening their books to analysts at Civic Economics in order to allow a thorough understanding of their revenue and expenses. In addition, the study included a survey of consumers visiting the Andersonville area.

Battles between national chains and local merchants have been raging for some time now. The argument for supporting local merchants has often been an emotional one, pleading for support in the name of intangible qualities associated with buying local: superior customer service, involvement in community affairs, wider range of quality goods, and personal attention. While these factors are important, the economic benefits that chains are able to claim, such as employment numbers and sales tax collections, may overwhelm even well intentioned and informed public officials who believe chain stores benefit the community more than do locally-owned stores.

The partners at Civic Economics contended that the emotional argument put forth by local merchants should be supplemented by solid economic research. We suspected that while the large national chains generated more revenue from sales, much of this money left the region in which it was generated. Civic Economics found a perfect test case in Austin, Texas to explore the theory.

### Background - The Liveable City Study and beyond

The Andersonville Study is designed to build on a series of research that began in Austin, Texas in 2002. There Civic Economics was hired by the Austin Independent Business Alliance and nonprofit Liveable City to design and execute a limited study evaluating the likely economic impact of a big box outlet proposed for a corner already occupied by large local merchants selling identical goods.



Austin has faced a range of contentious choices in recent years. The community spirit has long been defined by the city's quirky personality, but explosive growth has dramatically changed the city. Contemporary notions of prosperity have threatened to transform Austin into another Houston or Dallas, with live music

and technological prowess reduced to economic development and tourism marketing hooks.

However, these forces have met with strong local resistance. One recent battleground was the intersection of Sixth & Lamar, at the western edge of the historic urban core. There, in the shadow of beloved local merchants BookPeople and Waterloo Records, a developer proposed to erect a strip center anchored by Borders Books & Music. Moreover, the city's complex smart growth ordinance resulted in development incentives exceeding \$2 Million. Opposition to the development was emotional and shrill, providing little basis on which prudent city officials might step in and change the outcome.

The Civic Economics partners saw an opportunity to inject facts into the dialogue, providing public officials with a legal basis on which to act. We formulated a methodology and presented the idea to the local merchants involved. The merchants signed on, and additional funding and public relations support for the study were provided by Liveable City and the Austin Independent Business Alliance.

While the study began with no preconceived notions, the findings were remarkable:

*For every \$100 in consumer spending at Borders, the total local economic impact is only \$13. The same amount spent with BookPeople or Waterloo Records yields more than three times the local economic impact, or \$45.*

Building on that analysis, Civic Economics formulated three essential findings:

- Local merchants generate substantially greater economic impact than chain retailers.
- Development of urban sites with directly competitive chain merchants will reduce the overall vigor of the local economy.
- Modest changes in consumer spending habits can generate substantial local economic impact.

Since the release of the Liveable City Study<sup>1</sup>, the work has been replicated in two communities. The Institute for Local Self-Reliance found nearly identical results in a study of retail activity in Mid-Coast Maine<sup>2</sup>, and the University of Toledo<sup>3</sup> Urban Affairs Center found comparable results in a study of bookstores in Lucas County, Ohio. However, given the narrow focus of these studies, there has been no clear and accepted consensus regarding the applicability of these findings in other settings. Indeed, Civic Economics has repeatedly cautioned against

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<sup>1</sup> Available for download at [http://www.civiceconomics.com/Andersonville/Lamar\\_Retail\\_Analysis.pdf](http://www.civiceconomics.com/Andersonville/Lamar_Retail_Analysis.pdf)

<sup>2</sup> Available for download at <http://www.newrules.org/retail/midcoaststudy.pdf>

<sup>3</sup> Available for download at <http://uac.utoledo.edu/Publications/Toledo-Merchant-Study-04.pdf>

assuming the Liveable City findings were universal, given the unique attributes of the local merchants studied.

### **Civic Economics In Andersonville**

The Andersonville neighborhood on Chicago's north side presents an ideal extension of the work begun in Austin. With its cohesive neighborhood organizations, dedicated and involved residents, and dense, thriving commercial district, Andersonville was an able and enthusiastic test subject.

Andersonville has become one of Chicago's most popular neighborhoods. From its beginnings as a Swedish enclave through today, its Clark Street core of unique, locally-owned businesses has been one of the main drivers of the community's success. However, its appeal is attracting increased interest from numerous chain stores looking to locate an outlet on Clark Street. Both residents and business owners are deeply concerned that the possible change in the neighborhood's character would be detrimental to both the quality of life and the commercial viability of the community.

The Andersonville Development Corporation and the Andersonville Chamber of Commerce were in search of empirical data to show whether a strategy of encouraging locally-owned, independent businesses was prudent and economically sound. The Development Corporation retained Civic Economics to study the impact of existing local businesses and compare that to prospective national competitors. This study was designed to provide more definitive answers required for the formulation of new urban development policies and the preservation of Andersonville's economic vitality.

### METHODOLOGY

The Andersonville Study of Retail Economics was designed to measure the economic impact of twenty businesses, ten locally-owned firms operating in Andersonville and ten chain firms loosely identified as competitors or prospective competitors.

The first step in this process was to pick the actual companies from Andersonville that would comprise our local components. After consultation among the Andersonville Development Corporation, Andersonville Chamber of Commerce, and Civic Economics, it was decided that the companies should meet the following criteria:

- Located within the physical boundaries of the Development Corporation and Chamber of Commerce service areas
- Representative of the variety of retail, restaurant, and service firms that serve the neighborhood
- Drawn from throughout Andersonville’s mile-long Clark Street commercial corridor
- Representative of the cultural and ethnic diversity of the community

Additionally, as there are several locally-owned franchises that serve the community, we decided that at least one locally-owned franchise should be included to ascertain where these firms fit in the local-chain dynamic.

Once these ten local firms were chosen, chain competitors were identified. The national competitors were chosen using the following guidelines:

- Offering the same general product line or service as a local firm
- Not located in Andersonville
- Publicly held, to ensure the availability of data
- Not headquartered in Chicago

The following chart shows the local and chain businesses ultimately selected for participation in the study:

ANDERSONVILLE STUDY FIRMS BY SECTOR			
	Restaurant	Retail	Service
Local	Andies M Henry Star Gaze Swedish Bakery	Chicago Aquarium White Hen Women & Children	Joel Hall Toujours Visionary
Chain	Applebee's Denny's Olive Garden Panera	Petco Convenience Store Borders	Cinemark Supercuts Pearle



Three notes are appropriate regarding the chain businesses selected for study. Many of these corporations operate a mix of corporate-owned and franchised outlets; in those cases, the analysis covers only corporate outlets. For Cinemark, calculations assume a four-screen facility. Due to difficulties separating corporate and franchised convenience stores, we formulated data for a hypothetically average, corporate-owned convenience store of 2,000 square feet.

After the local and national matches were made, the interview process began to gather the data needed from the local companies. These interviews were conducted face to face with owners or representatives of the local businesses. Worksheets were designed to elicit total revenue and expenditure patterns for each firm, including supplier locations and employee residence.

These owners provided data, which we treated as confidential, addressing the four primary areas where these firms expend funds locally: labor, profit, procurement, and charity.

As this process moved along, comparable data for the national competitors were derived from a variety of reliable sources. Because all the firms chosen are publicly held, a wide variety of data were readily available. The majority of the data were drawn from Annual Reports to stockholders and 10K filings with the Securities and Exchange Commission. Where gaps needed to be filled, the following additional sources were consulted:

- Urban Land Institute's *Dollars and Cents of Shopping Centers: 2004*
- U.S. Economic Census
- Hoover's Online

After all data were collected, the numbers were inserted into a model developed by Civic Economics using IMPLAN multipliers for the City of Chicago. The model allows us to calculate the economic impact on the city for each business, and show it in various ways, including as a percent of revenue and per square foot of retail space. The results illustrate the differential impact of local firms and their national rivals. Because land use decisions and economic development policy are largely municipal functions, the City of Chicago was selected as the relevant jurisdiction.

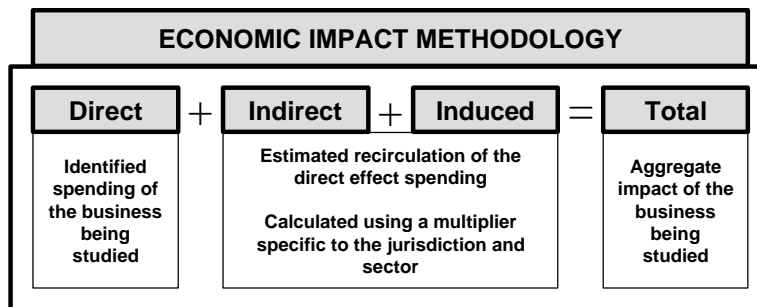
The Andersonville Development Corporation also conducted a Patron Preference Survey of 512 randomly selected shoppers within the neighborhood during the month of May 2004. While this survey was not scientifically formulated, it provided detailed background information about where patrons are coming from and why they choose to shop in Andersonville.

## Economic Impact Analysis

Civic Economics builds its economic impact analyses around tools and data provided by the Minnesota Implan Group, publishers of IMPLAN software and datasets. The following provides a brief description of the analysis process.

For this analysis the study aims to measure the amount of money spent on retail goods and services that remain in the local economy after consumer purchases. Therefore, Civic Economics began impact calculations not with the revenues of the firms studied but with their expenditures. Conventional application of multipliers assumes that comparable retailers have comparable impacts. The modified model utilized here follows the revenues of each business one step further to identify the actual local expenditures of that firm. This allows us to determine true economic impacts.

In this study, total economic impact is the sum of three effects: direct, indirect, and induced. The box below describes our modified methodology for using multipliers to isolate only dollars kept local.



In this case, *direct* effects reflect the first round of local spending, such as wages and benefits, profits to local owners, local procurement, and charitable contributions. *Indirect* and *induced* effects reflect the continuing circulation of that first round of spending by businesses and individuals respectively.

Our analysis started with the direct effect spending, which was gathered from interviews with local companies and careful study of chain store corporate filings. Using this as the base, indirect and induced effects are calculated by way of multipliers, which capture the size of these effects as a ratio of total change in economic activity relative to direct effects. Multipliers provided by IMPLAN estimate indirect and induced effects and adjust for predictable leakage from the jurisdiction.

**FINDINGS**

The Andersonville Study of Retail Economics has produced a treasure trove of data. Civic Economics interviewed individual business owners to determine revenue and spending patterns for all ten local firms, and estimated the same data for chain businesses. To distill this massive dataset to an accessible form, we have organized it as follows:

- Aggregate Findings, including all local and all chain businesses
- Impact per \$100 of Revenue, allowing a fair comparison based on consumer spending at each business
- Impact per Square Foot, allowing a fair comparison based on the space occupied by each business
- Sector Findings, grouping businesses as Restaurant, Retail, or Service

Table 1 provides a summary of key data for the analysis:

Table 1

LOCAL IMPACT SUMMARY				
Local Businesses	Restaurants	Retail	Services	Total
	Star Gaze, Andies, Women & Children, Visionary, Joel Hall, Swedish Bakery, Chicago Aquarium, Toujours M Henry White Hen			
Total Revenue	\$ 5,406,000	\$ 2,310,500	\$ 2,050,000	\$ 9,766,500
Retail Square Footage	13500	8100	15500	37100
Revenue per Square Foot (psf)	\$ 400	\$ 285	\$ 132	\$ 263
Total Local Impact	\$ 4,090,402	\$ 1,005,570	\$ 1,555,887	\$ 6,651,859
Local Impact per \$1 Revenue	0.76	0.44	0.76	0.68
Local Impact per Square Foot	\$ 303	\$ 124	\$ 100	\$ 179
Chain Businesses	Restaurants	Retail	Services	Total
	Applebees, Olive Borders, Petco, Pearle, Cinemark, Garden, Panera, Average C-Store Supercuts Denny's			
Total Revenue	\$ 9,306,994	\$ 8,962,896	\$ 2,212,222	\$ 20,482,112
Retail Square Footage	22330	40500	21500	84330
Revenue per Square Foot (psf)	\$ 417	\$ 221	\$ 103	\$ 243
Total Local Impact	\$ 5,550,439	\$ 2,392,347	\$ 886,856	\$ 8,829,641
Local Impact per \$1 Revenue	0.60	0.27	0.40	0.43
Local Impact per Square Foot	\$ 249	\$ 59	\$ 41	\$ 105
SOURCES: Interviews with all local businesses, Annual Reports for all chain businesses, Minnesota Implan Group, Urban Land Institute <i>Dollars and Cents of Shopping Centers</i> 2004, Civic Economics.				

In the pages that follow, we will review this data in aggregate (all local and all chain businesses), and by sector. We cannot, however, reveal detailed data for any participating business.

## Components of Local Economic Impact

The lion's share of the local economic impact of retail and service businesses is attributable to four factors: labor, profit, procurement, and charity.

Spending on local labor comprises a larger share of operating costs for a locally-owned establishment than for an outlet of a national chain. While the latter are able to consolidate administrative functions such as bookkeeping and marketing at national headquarters, independents must carry out those functions in-house or outsource within the community. Additionally, economies of scale and carefully engineered store layouts may allow national chains to employ fewer onsite staff than do locally based firms. In this study the local firms spent, on average, 29 percent of total revenue on labor costs while the national chains spent 23 percent of revenue on labor.

Secondly, a larger portion of profits earned by local ownership will remain in the local economy. Purchases of goods, services, and meals at chain outlets generate profits for the corporation, which then either reinvests in global operations or distributes a portion of profits to shareholders. In either case, chain stores profits circulating in the local economy are nominal.

Third, locally-owned businesses procure a wider array of goods and services in the local marketplace. These include goods for resale, business supplies, and professional services, among others. For the local and chain firms studied here, local procurement was roughly twice as high for local businesses (6.0 percent of total revenue) as their chain competitors (2.9 percent of total revenue).

A smaller yet significant share of the local advantage is charitable giving. The owners and employees of local firms generally live in and around their business locations and are more likely to give back to their own backyard. National firms may be more likely to donate to charities near to corporate headquarters or other large corporate facilities.

### Aggregate Economic Impacts

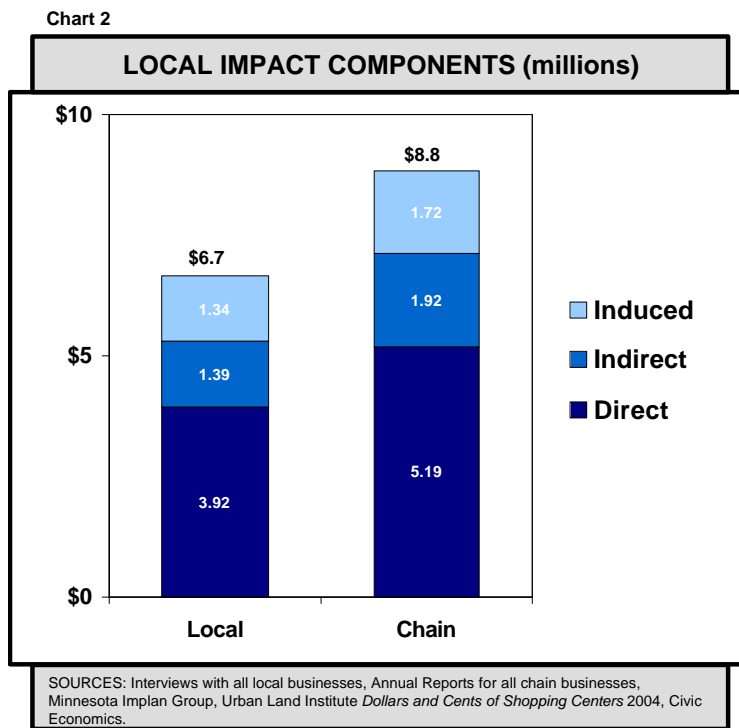
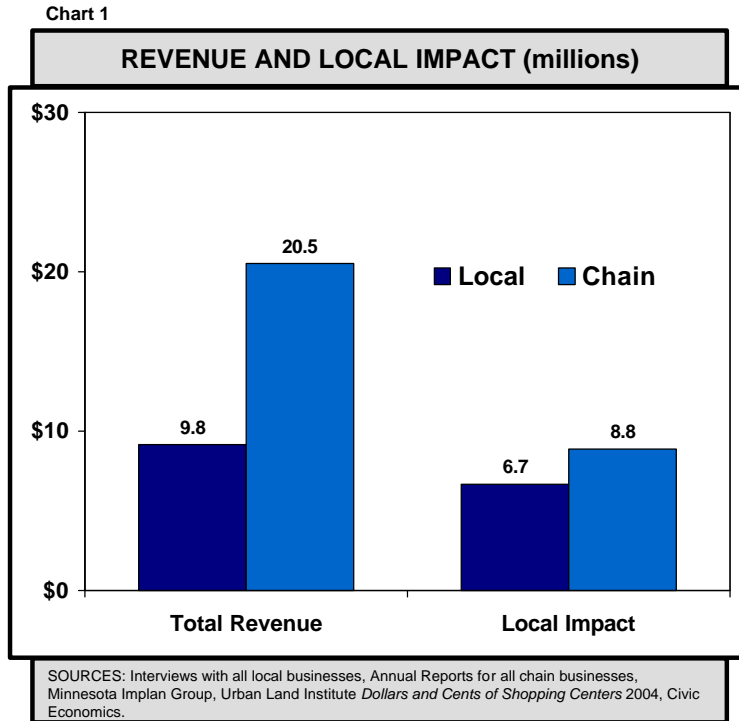
Local impacts were first determined without making adjustments for differences in revenue and square footage. In general, the chain businesses studied draw higher total revenue and occupy larger spaces, though sales per square foot are comparable.

Chart 1 shows the total local economic impact of our ten local businesses and of their ten chain competitors. While the local firms generate an economic impact of \$6.7 Million on revenue of \$9.8 Million, the chains would generate a local economic impact of \$8.8 Million on revenue of \$20.5 Million.

Chart 2 provides more detail, revealing the components of the impact calculation: direct, indirect, and induced.

In this case, *direct* effects reflect the first round of local spending, such as wages and benefits. *Indirect* and *induced* effects reflect the continuing circulation of that first round of spending by both businesses and individuals. For more detail on economic impact analysis and the meaning of these components, please review the Methodology section of this document on page 10.

In each chart, the simplest policy conclusion jumps to the fore: these ten chain



businesses create greater economic impact than the ten local firms. However, the following pages demonstrate that this simple assumption neglects to account for two essential variables: the revenue and square footage of each business. These variables, as we shall see, thoroughly erase the apparent economic impact advantage of chain businesses.

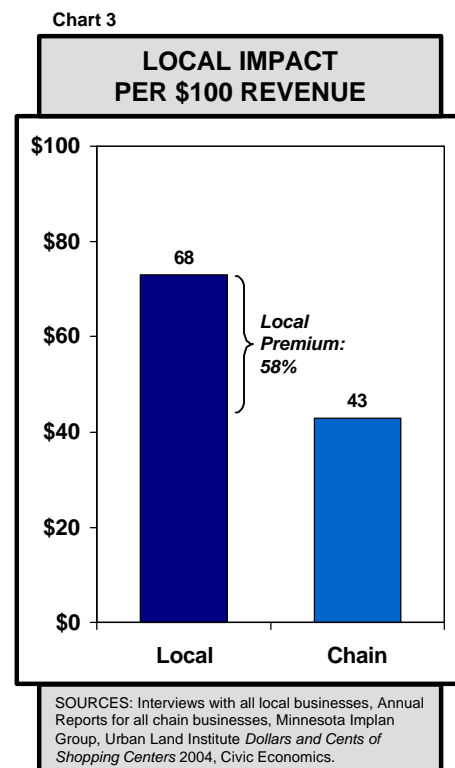
### Adjusted Economic Impacts

In order to evaluate the true economic impact of any business, it must be placed in the context of the local economy, in this case the City of Chicago. Two important considerations must be added into the calculus: revenue and store size. For each factor, we have calculated a Local Premium, reflecting the additional economic impact of local firms expressed as a percentage increase over the impact of competitor chain firms.

**By Revenue:** Chart 3 illustrates the economic impact of local and chain businesses adjusted for total revenue, revealing that \$100 in consumer spending with a mix of local businesses generates \$68 in local economic impact. By contrast, the same \$100 spent with competitor chains generates only \$43 in local economic impact. The Local Premium in economic impact is a striking 58 percent relative to chains.

Consumer spending in large retail markets is relatively inelastic; that is, the presence of any given business will not change total consumer spending over an extended period of time. For example, it may well be that the arrival of a new Olive Garden in a location such as Andersonville will briefly generate greater restaurant sales in the area, but it cannot be assumed that it will increase overall restaurant sales in the city. The reason for this is simple: household discretionary spending is a function of household income, not a function of choices. Because sales tax revenue is a function of retail sales activity, the chain stores studied here are largely revenue neutral in that regard.

We do recognize that certain businesses are an essential component of a city's tourist matrix, contributing to the attraction of visitors and their money. The chain businesses studied here are quite common and unlikely to generate additional sales activity in the City. On the other hand, it is clear that the unique mix of firms in Andersonville does bring shoppers from beyond the City. The Patron Preference



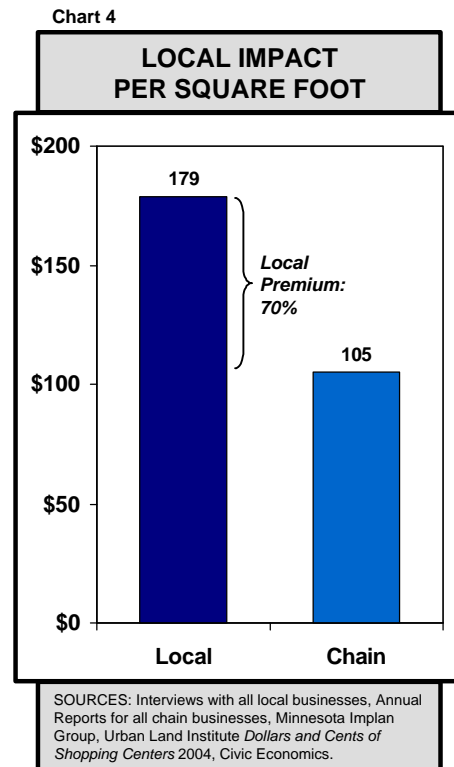


Survey conducted in coordination with this study revealed that the primary attractions of Andersonville are its mix of local businesses and traditional urban setting. The area draws spending into the city, which cannot be said of an agglomeration of common chain stores. Indeed, 10 percent of all respondents reside outside the City of Chicago.

**By Size:** Chart 4 illustrates the economic impact of local and chain businesses adjusted for total square footage. For every square foot occupied by local businesses, the economic impact in the City of Chicago reaches \$179. By contrast, for every square foot occupied by chains, the economic impact reaches only \$105. The Local Premium is a striking 70 percent relative to the chains.

The chain firms studied here occupy spaces twice as large as their local competitors. They also achieve total sales roughly twice as high. Local and chain businesses in the study attain comparable sales per square foot, \$263 for locals and \$243 for chains. This figure will surprise many, and it is of significance in evaluating the economic impact of chains.

Urban policy makers pay close attention to real estate occupancy and absorption rates, as improvements in these measures reflect the health of the local real estate market. National chains are often believed to improve these measures, if only because they occupy more space per outlet. Returning to the example of the typical Olive Garden, on opening day the restaurant has occupied 8,200 square feet of space. However, if the revenue to support that square footage is merely diverted from other businesses in the area, its impact on occupancy and absorption will be negated over time.



So, where policy makers might be tempted by the aggregate impacts outlined above, adjustments for revenue and size dispel the notion that chains will generate greater sales tax revenue or more effectively utilize the city's real estate. The gradual replacement of local firms with chain competitors instead produces serious negative consequences, denying the community and its citizens the benefits of the Local Premium.

### Economic Impacts by Sector

Given the variety of businesses participating in this study, Civic Economics was given a unique opportunity to see how outcomes differ by the nature of the business. In this case, we have sorted firms into three sectors: Restaurant, Retail, and Services.

- Local restaurants include Star Gaze, Andies, Swedish Bakery, and M Henry; competitors include Applebee’s, Olive Garden, Panera Bread, and Denny’s.
- Local retailers include Women and Children First, Chicago Aquarium and Pond, and White Hen; competitors include Borders, Petco, and a hypothetical company-owned convenience store.
- Local service providers include Visionary Eye Care, Joel Hall Dancers, and Toujours Spa and Salon; competitors include Pearle Vision, Cinemark, and Supercuts.

As with the analyses above, we adjusted these impact analyses to account for variations in revenue and square footage. The aggregate Local Premium is substantial, whether adjustment is made for revenue or size; however, these variables play out quite differently when the data is broken out by sector.

Chart 5 illustrates the economic impact per \$100 of revenue across the three sectors.

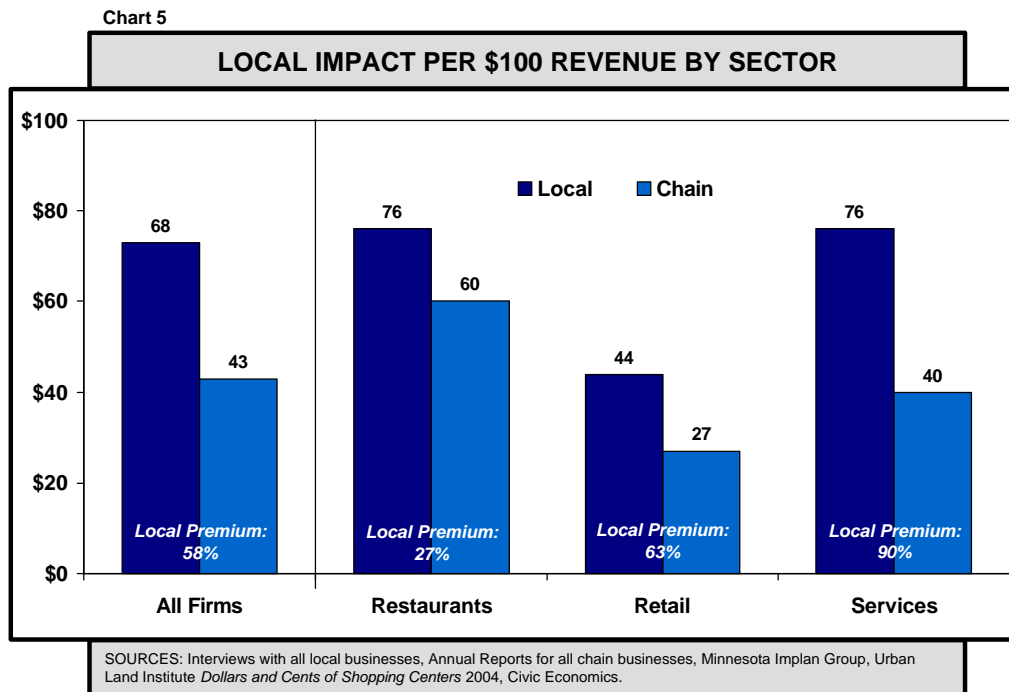
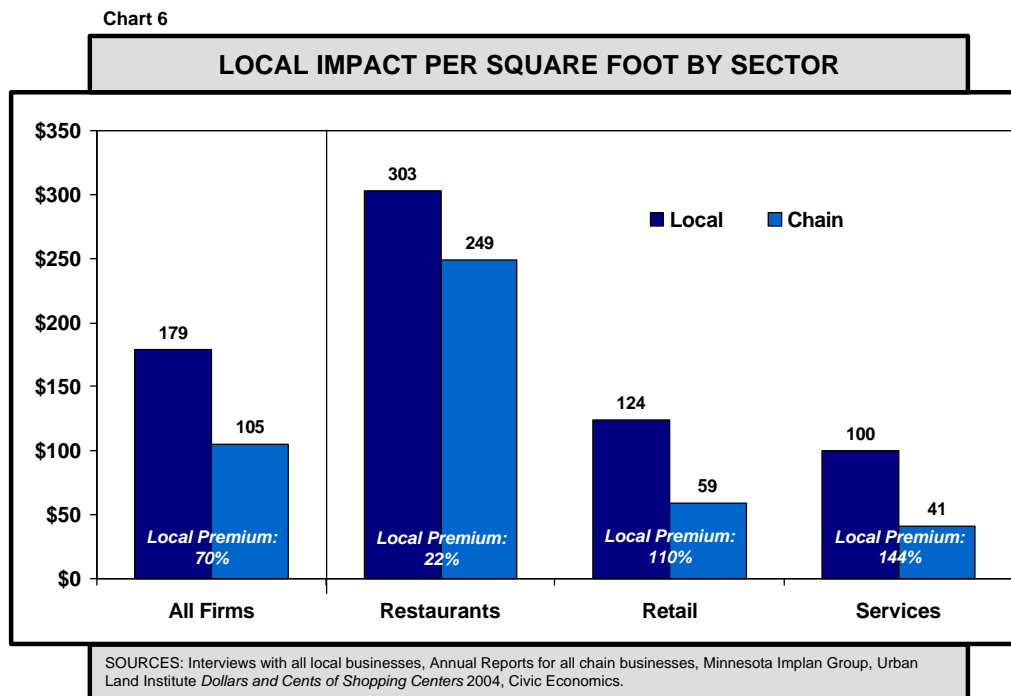


Chart 6 illustrates the economic impact per square foot across the three sectors.



Much of the difference in impact among the sectors is accounted for by labor costs. Moreover, these costs are heavily localized, as employees and proprietors are drawn largely from within the City of Chicago.

Among restaurants, for example, labor costs ranged from 20 percent of total revenue to 43 percent of total revenue. Labor costs at local restaurants averaged 28 percent, kept low by two operations in which owners provide substantial labor while taking little in wages and profits. At chains, labor costs averaged 34 percent, though only one operator, Denny's, exceeded the average, reporting a surprising 43 percent.

Service providers, perhaps predictably, expend a large portion of revenues on labor. However, the data make clear that locally-owned firms expend a much larger portion on labor, including both employees and proprietors. Indeed, though we did not evaluate wage and benefit rates for individual employees, it appears that the presence of an owner is a significant factor in the extraordinary Local Premium among service firms.

One last area of analysis was the impact of a locally-owned franchise in comparison to a wholly corporate-owned and operated chain store. In this case the locally franchised White Hen Pantry mirrored a nationally owned chain store in most expenditure categories with the major difference being that bottom line profit for the franchisee remained in the community. This provided a Local Premium for the locally-owned franchise, albeit much slimmer than the other locally-owned businesses present over their competitors.

## POLICY IMPLICATIONS

With so much data collected for the Andersonville Study, we are certain that interpretation will continue long after its release. However, several significant policy implications should be noted here.

### Creativity, Opportunity, and Prosperity

Civic Economics is dedicated to the pursuit of those attributes in client communities. The findings of this study demonstrate strongly that the Andersonville model (diverse offerings, human scale, locally-owned businesses) is far superior to the increasingly common suburban model (consolidated offerings, auto scale, chain businesses) in promoting those attributes.

In the age of the mobile “creative class,” American communities seek to promote and celebrate their unique attributes. Chicago has led the way in celebrating cultural diversity, neighborhood vitality, and a distinctly midwestern urbanism. These are the very attributes on display in Andersonville and those most directly threatened by the proliferation of chain businesses.

Civic Economics made no attempt in this study to evaluate wages and benefits. However, we can say with certainty that the Andersonville model of diverse local firms provides an opportunity for entrepreneurship severely constrained by chain proliferation. As yesterday’s proprietors become tomorrow’s employees, there can be little doubt that something has been lost.

The findings of this study make quite clear that local firms contribute mightily to local prosperity in comparison their chain competitors. The Local Premium identified above is a real and quantifiable demonstration of the drainage of dollars from the community by chain businesses.



Neither Civic Economics nor its Andersonville clients will argue that chain firms have no place in the city. Fair market competition plays an essential role in any economy, and consumer preferences must be respected. However, policy makers must ensure that the playing field is level, that local firms are not inadvertently disadvantaged by faulty premises or unintended consequences.

### **Urban Redevelopment and Chain Retail**

Like other major cities adjusting to new economic realities, Chicago faces the monumental challenge of redeveloping obsolete and blighted sites. The city has achieved unparalleled success in doing so. Across the city, new and rehabilitated buildings provide appealing and accessible options in the spirit of New Urbanism, filling gaps in the urban fabric and in municipal revenues. Chicago has pioneered an array of planning and development tools to achieve this success, providing public support and incentives for redevelopment projects.

However, any tour of such sites will reveal a troubling fact: chain outlets anchor many redevelopment sites. As a result, these projects introduce new, often publicly subsidized, competition to local businesses. As demonstrated in this study, that unbalanced competition siphons dollars and economic vitality from the community as consumers move spending from locals to chains.

During BookExpo 2004, held in Chicago, Civic Economics led a discussion of this phenomenon with America's leading independent booksellers. They reported common experiences from Miami to Seattle.

Developers of these sites share an urban vision of lively, pedestrian-friendly neighborhoods. Architectural renderings depict bookstores, restaurants, and coffee shops with distinctive local flourishes. Municipalities offer a variety of incentives to make the vision a reality. However, the reality often diverges in substantial ways as developers follow conventional leasing strategies, signing chain stores and formula restaurants to the most prominent storefronts. From these privileged locations, subsidized chains gain a competitive advantage over nearby independents.

We believe that cities can capture all of the advantages of redevelopment without inadvertently harming local merchants. Incentive conditions and development guidelines can promote the placement of unique local businesses in new projects. Risk to the developer can be reduced through lease guarantees or low interest financing with minimal exposure to the city. Modest changes in planning and development practice will allow the continued revitalization of Chicago without diluting the city's unique character or foregoing the Local Premium provided by local firms.

## **Public Revenue and Economic Development**

Policy makers rightfully seek to maximize public revenues without raising tax rates, and often proceed on the assumption that attracting local outlets of national chains will do that. However, the findings above demonstrate that their arrival is, at best, revenue-neutral even in the near term. Moreover, the inevitable long-term consequence of forgoing the Local Premium identified above is a gradual decrease in public revenues, as those dollars are no longer available to generate taxable transactions within the city.

Economic development policy did not focus on chain businesses until the recent economic downturn. Faced with a dearth of factory and headquarters prospects, practitioners found their best prospects in chain stores and restaurants and have portrayed these as economic development “wins.” As it must often do, Chicago can lead the way in repudiating this counterproductive approach to economic development.

Factories or corporate headquarters, which produce goods and services for export, drawing dollars into the community and clearly enhancing the local economy and tax base, are the legitimate and traditional targets of economic development policy.

Stores, restaurants, and service providers, by contrast, produce goods and services for local consumption. In general, the dollars that enter these businesses are the dollars of Chicagoans. Therefore, the appropriate measure is not how much revenue any outlet earns but rather how much of that revenue it shares with the community rather than siphons from it. The findings of this study make clear that economic development goals are actually hindered when chain businesses receive preferential treatment.

We do recognize that certain chain stores and restaurants are an essential component of a city’s tourist matrix, contributing to the attraction of visitors and their money. However, those firms are exceptional and in no case can the chain firms studied here be recognized as tourist draws. In fact, as the Patron Preference Survey demonstrates, it is traditional business districts like Andersonville that provide Chicago an edge in attracting visitors and their spending.

## **Urban Design Considerations**

Chicago’s distinct urban character is on display on Clark Street in Andersonville. Buildings are scaled to pedestrians and present a street wall that is varied yet harmonious. These buildings provide relatively small spaces for hundreds of retailers, restaurants, and service providers. Patrons are pulled along the street by diverse shop windows and signage.



If chain competitors supplanted the local businesses of Andersonville, that streetscape would be dramatically and adversely affected. The chains studied here average twice the square footage of the locals. Shop windows, entrances, and signs would thus be stretched twice as far apart. Small structures that have served the neighborhood for decades would be rendered obsolete, either abandoned or replaced by larger formulaic structures.

Perhaps more importantly, Andersonville shares these attributes with dozens of neighborhoods throughout the city, all of which are similarly under assault. While generic agglomerations of chain stores are widely available throughout the metropolitan area, these traditional urban districts offer a distinct character that cannot be replicated.

The Customer Preference Survey conducted by the Andersonville Development Corporation highlights this distinction. When asked to express a preference on the type of business shoppers choose to patronize, over 70 percent chose locally-owned businesses while less than three percent chose chain businesses. Additionally, an overwhelming 80 percent of respondents identified Andersonville's traditional neighborhood district as their preferred shopping environment.

These results back up the belief in the neighborhood that Andersonville's unique businesses and layout are a draw, attracting people from both inside and outside the region. Indeed, among survey respondents, over 10% were from outside the City of Chicago. Districts such as Andersonville provide the City with a unique advantage, drawing patrons from throughout the region and offering tourists an experience they are unlikely to find at home.

### **The Economic Impact of Consumer Choices**

The Andersonville Study was crafted to provide policy makers with the information they need for rational decision-making. However, we would be remiss if we failed to address another critical audience with the power to make a substantial difference in the economic health of Chicago: consumers.

From a bottle of soda to a night on the town, from books and fish to eye care and dance lessons, the businesses studied here offer a range of goods and services that ordinary Chicagoans purchase every day. With each purchase, consumers put into play their hard earned dollars; the consumer's decision to patronize a local firm versus a chain competitor ripples through the economy with dramatic results.

The ten local firms participating in this study generate nearly \$10 Million in revenue each year. Of that sum, roughly \$6.8 million remains in Chicago. Were consumers to abandon these firms and direct that \$10 million in spending to their chain competitors, only \$4.3 million would remain. The missing millions would have flown off to corporate offices outside the region. Once siphoned away, that

money cannot go to employ Chicagoans, to improve Chicago homes, or to support Chicago churches and charities.

In one of the largest urban economies in the nation, these few million dollars may seem insignificant. Yet it must be remembered that we have studied here only ten small businesses in one Chicago neighborhood. The \$10 Million in revenue we followed here is but a drop in the city's total sales of goods and services, which is measured in the tens of billions.

While we cannot make claims about the applicability of these exact figures beyond the businesses studied here, it is clear that the purchasing decisions of Chicago consumers determine the fate of billions of dollars. Whether that money stays or goes is dependent upon the individual shopping choices of individual consumers.

### **The Bottom Line**

Andersonville is a model for prosperous communities nationwide. There, Chicagoans offer a wide array of products and services, keep local dollars in the local economy, and contribute to Chicago's privileged place among American cities. But Andersonville and the dozens of neighborhoods like it are particularly threatened by the proliferation of chain businesses.

Public policy in Chicago must seek to protect and promote the Andersonville model rather than facilitate its demise. Indeed, it may be in the best interests of communities to institute policies that directly incentivize them.

## ABOUT THE STUDY

### About Andersonville

Andersonville is a distinctive neighborhood on the north side of Chicago. Locally-owned businesses have been a primary element in its success throughout its history. First established as a farming community in the 1850s, the retail district began as an enclave of small businesses when Swedes moved north to escape the neighborhoods that had been ravaged by the Great Chicago Fire in 1871. The residential community remained primarily Swedish for decades, until, like many established groups, the Swedes began migrating to the suburbs in the 1950s.



In 1964, the small business owners banded together to organize a huge parade, led by Mayor Richard J. Daley, in a celebration to rededicate the neighborhood to its Swedish roots. In the mid-1980s, the neighborhood was experiencing disinvestment in the commercial district. The business owners again organized, with the help of locally-owned banks, and provided financing for new start-ups to revitalize the district, as well as community-wide marketing. The combined efforts drew key new local enterprises onto Clark Street, and with them came renewed interest in Andersonville's residential areas.

Today, Andersonville is one of Chicago's most popular neighborhoods. It is still considered one of the most concentrated areas of Swedish culture in the United States and is home to the renowned Swedish American Museum. In addition, Andersonville hosts a diverse assortment of devoted residents and businesses, including one of Chicago's largest gay & lesbian communities, a large collection of Middle Eastern restaurants and bakeries, and a thriving Hispanic commercial area on its north end.

Discover the small-town charm of Chicago's Andersonville neighborhood. A great place to start is the website of the Andersonville Chamber of Commerce, [www.Andersonville.org](http://www.Andersonville.org).

## About Civic Economics

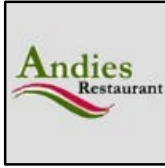
Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. Since its founding in 2002, the firm has established itself as a leader in progressive economic development, taking its unique vision of sustainable prosperity across the USA and Mexico.



More importantly, the firm has emerged at the center of a network of planners and independent businesses promoting reasoned analysis of the evolving American retail scene. We've provided information and counsel to dozens of civic organizations in the USA and Canada. Our observations have appeared in news outlets from New York Times to San Diego. We have developed an unmatched understanding of the dynamics of local retail and service provision, a library of best practices information, and a network of contacts from business, government, and civic organizations nationwide.

Learn more about the firm and "*The Civic Economics of Retail*" by visiting us online at [www.CivicEconomics.com](http://www.CivicEconomics.com).

## Participating Firms



**Andies Restaurant** is a family owned restaurant serving Mediterranean, Lebanese, and Greek foods. Owner Andie Tamras has been serving Andersonville residents and visitors for 30 years. He participates in many local fundraisers and enjoys being a community destination for many holiday meals.



**The Chicago Aquarium and Pond Company** meets all the needs of the pond and aquarium hobbyist. It was started back in 1981 and owners Harold Ellis and Ken Riley have lived above their shop since 1988. As such, they are invested in Andersonville in both their professional and personal spheres.



**The Joel Hall Dancers and Center** was founded in 1974 by Joel Hall and Joseph Ehrenberg. Offering over 150 weekly classes for dancers of all ages, the studio reaches out to those who would not otherwise be exposed to the arts for classes, educational outreach programs and performances.



**M Henry** is a recent addition to the Andersonville scene. This restaurant features a breakfast and brunch menu that puts a modern spin on some classic dishes. Owner Michael Moorman chose a location at the northern end of the neighborhood, expanding the geographic diversity in Andersonville.



**Star Gaze** is a restaurant and bar catering primarily to the neighborhood's lesbian population. The community minded owners donate time and space to many nonprofit organizations that cannot afford those expenses.



**Swedish Bakery** is the ultimate neighborhood sweet shop. Traditional Swedish products are featured, as well as a selection of other European and old fashioned American items. An expansion in 1989 tripled the size of the Swedish Bakery, raising employment from 19 to its current 55 employees.



**Toujours Spa and Salon** is another recent addition to Andersonville. This upscale salon and spa provides a service more commonly found downtown. The quality of work provides residents of Andersonville an amenity they once had to travel outside the neighborhood to enjoy.



**Visionary Eye Care** is a full service eye care facility, providing a unique health service and a full range of stylish eyewear. Drs. Michael Cizek and Barbara Butler-Schneider and all their employees live in Andersonville.



**White Hen Pantry** is the locally-owned outlet of a well-known convenience store franchisor. Owner Cecilia Lemus was an employee at the store before recently purchasing the franchise rights.



**Women and Children First** is one of the largest feminist bookstores in the country, with over 30,000 books, and plays host to many book signings and events from local, regional, and national figures. Co-owner Ann Christopherson has been a vocal proponent of independent bookstores and retailers throughout the country and has recently served as President of the American Booksellers Association.

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To learn more about the Andersonville and to obtain copies of study documents, please visit *www.AndersonvilleStudy.com*.