INDEPENDENT BC

SMALL BUSINESS AND THE BRITISH COLUMBIA ECONOMY

FEBRUARY 2013

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shift

INDEPENDENT BC: Study Design and Essential Findings

PHASE I

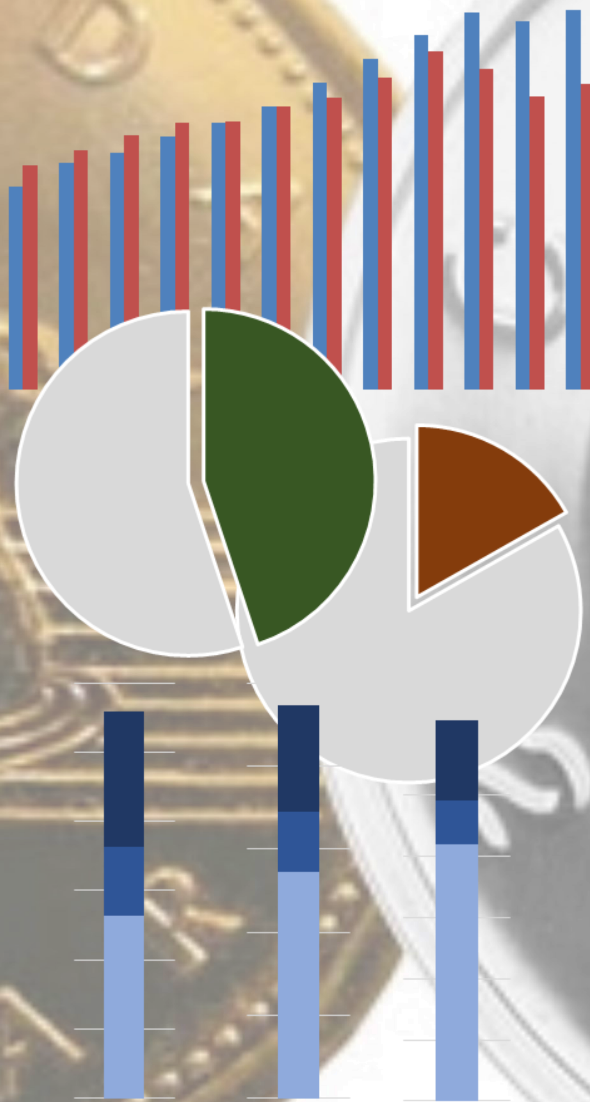
MARKET SHARES OF INDEPENDENTS AND CHAINS

PHASE II

ECONOMIC IMPACTS OF INDEPENDENTS AND CHAINS

PHASE III

ECONOMIC IMPACT OF A 10% SHIFT



BC independent retailers and restaurants have been strongly impacted by recent economic conditions.

Independents achieve greater market share in five other provinces and nationwide.

BC independent retailers and restaurants recirculate more than 2.6 times as much revenue in the local economy as chain competitors.

BC independents produce more jobs and spend more on wages than chain competitors with equal revenue.

A shift of just 10% of the market from chains to independents would produce 31,000 jobs paying $940 million in annual wages to BC workers.

This 10% shift represents little more than a move to the national average for independent business market share.

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INTRODUCTION

Civic Economics is pleased to present the Canadian Union of Public Employees – British Columbia with this study of the economic benefits of independent businesses in the province and the prospective economic impact of a 10% shift in market shares from chains to independents.

BACKGROUND TO THE STUDY

This study follows a series Civic Economics has conducted since 2002 in a diverse mix of communities in the United States, including the following:

- Austin, TX
- Bainbridge Island, WA
- Chicago, IL
- Grand Rapids, MI
- Las Vegas, NM
- Louisville, KY
- Milwaukee, WI
- New Orleans, LA
- Ogden, UT
- Phoenix, AZ
- Pleasanton, CA
- Raleigh, NC
- Salt Lake City, UT
- San Francisco, CA

While these studies approached the issue in various ways according to the needs of each community, the unifying theme of each has been a measure of the degree to which independent businesses provide enhanced economic benefits to their communities relative to chain competitors. And regardless of the location of the study, the business sectors studied, or the breadth and depth of each study, the essential finding has been consistent:

> *Independent businesses provide their communities with substantial, quantifiable economic benefits relative to their chain competitors, and modest changes in purchasing habits can produce outsized impacts.*

In British Columbia, the Canadian Union of Public Employees (CUPE-BC) has developed a consistent and effective effort to promote independent businesses in the province, and commissioned this study to provide a Canadian look at the issue.

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LEARN MORE ONLINE

A description of previous studies can be found at:

http://civiceconomics.com/projects/featured-projects/the-civic-economics-of-retail/

Complete documents for many studies can be found at:

http://civiceconomics.com/library/

SCOPE OF THE STUDY

This analysis was conducted in three phases.

I

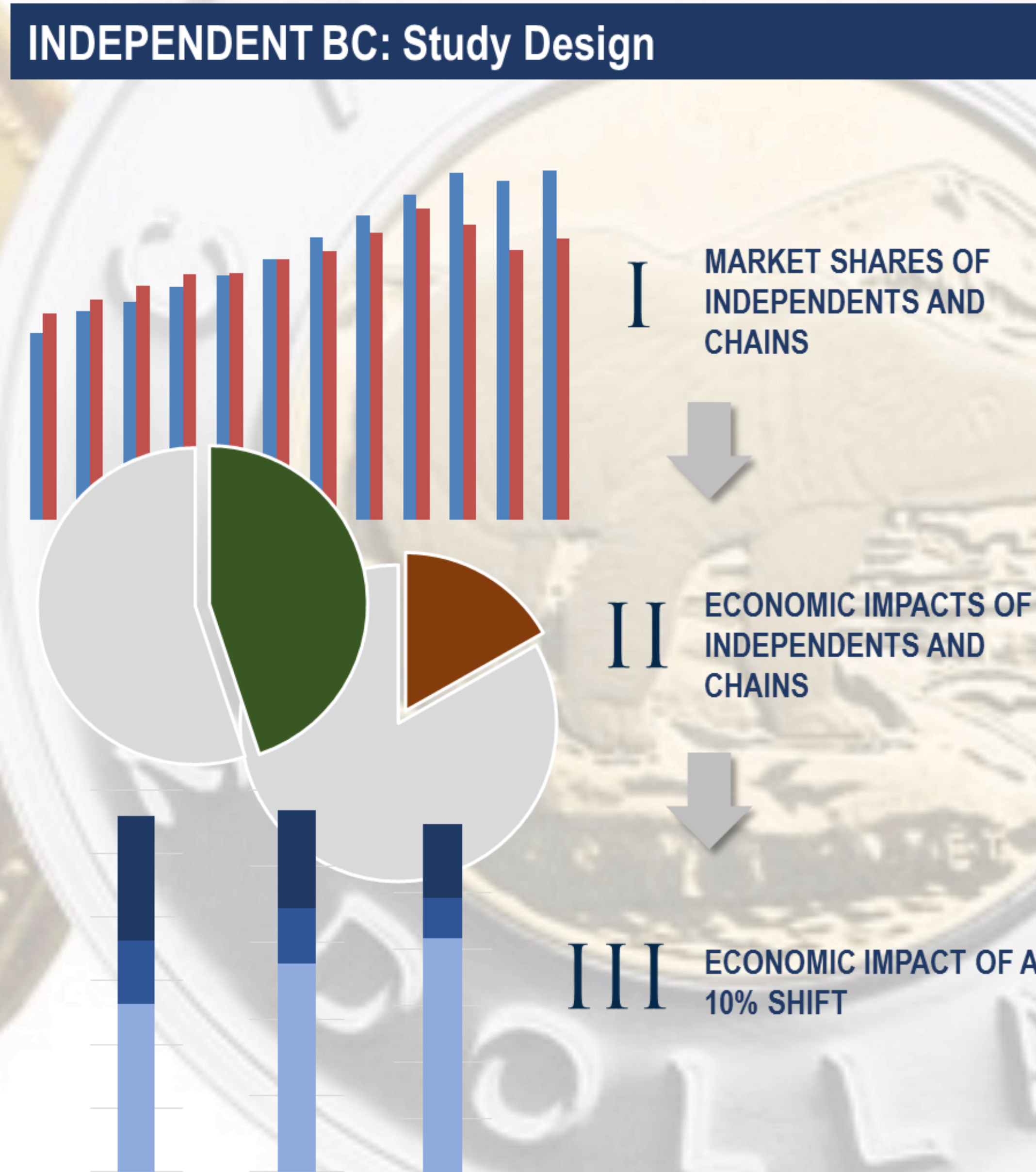
In Phase I, Civic Economics studied data from Statistics Canada to chart market share trends in British Columbia, Canada. Canada maintains reasonably detailed statistics in retail, allowing an understanding of how British Columbia fares relative to the rest of the nation. This analysis further provides the basis for the impact analysis in Phase III. *The Phase I discussion begins on page 3.*

II

In Phase II, Civic Economics surveyed independent retail and restaurant businesses in British Columbia to identify the proportion of revenue each recirculates in the local economy through wages and benefits to owners and employees, procurement of goods and services from other local businesses, and charitable giving. BC results were incorporated with recent compatible survey data compiled by Civic Economics in ten United States communities. For comparison purposes, we analyzed public records to identify the same for major chain competitors in the province. The end result of this analysis is a measure of the extent to which independents contribute to the health of the provincial economy in excess of their chain competitors. *The Phase II discussion begins on page 11.*

III

In Phase III, we combine the findings developed above to quantify the economic impact to be expected from a 10% shift in market share from chain stores and restaurants to British Columbia independents. *The Phase III discussion begins on page 16.*



I

PHASE I: MARKET SHARES OF INDEPENDENTS AND CHAINS IN BRITISH COLUMBIA

This study begins with an analysis of the market shares captured by independent retailers and restaurants in British Columbia and elsewhere in Canada. This analysis of current and historical trends is designed to provide an understanding of the forces impacting BC independents and to place their performance in a national context.

METHODOLOGY

Market shares for retailers were calculated using data provided by Statistics Canada. The agency provides retail sales by chains and independents, defining a chain as a business with four or more outlets under common ownership. While this definition is stricter than that typically used by shop local advocates, it provides a consistent definition across Canada.

These data provided an opportunity to chart market shares back to 1999, both nationwide and in most provinces. Further detail is provided for British Columbia.

Statistics Canada does not provide comparable chain and local numbers for the restaurant industry, so Civic Economics applied a methodology the firm developed in previous studies. We began with a list of the largest 200 restaurant chains in Canada, provided by the research firm Technomics. We calculated average sales per establishment for each of these major chains and further classified each as full service or limited service (fast food). After identifying every British Columbia location of each of these chains, we were able to estimate the total sales of these major chains in the province, which we have expressed as a share of total restaurant sales, as well as a further breakdown by limited service and full service restaurants.

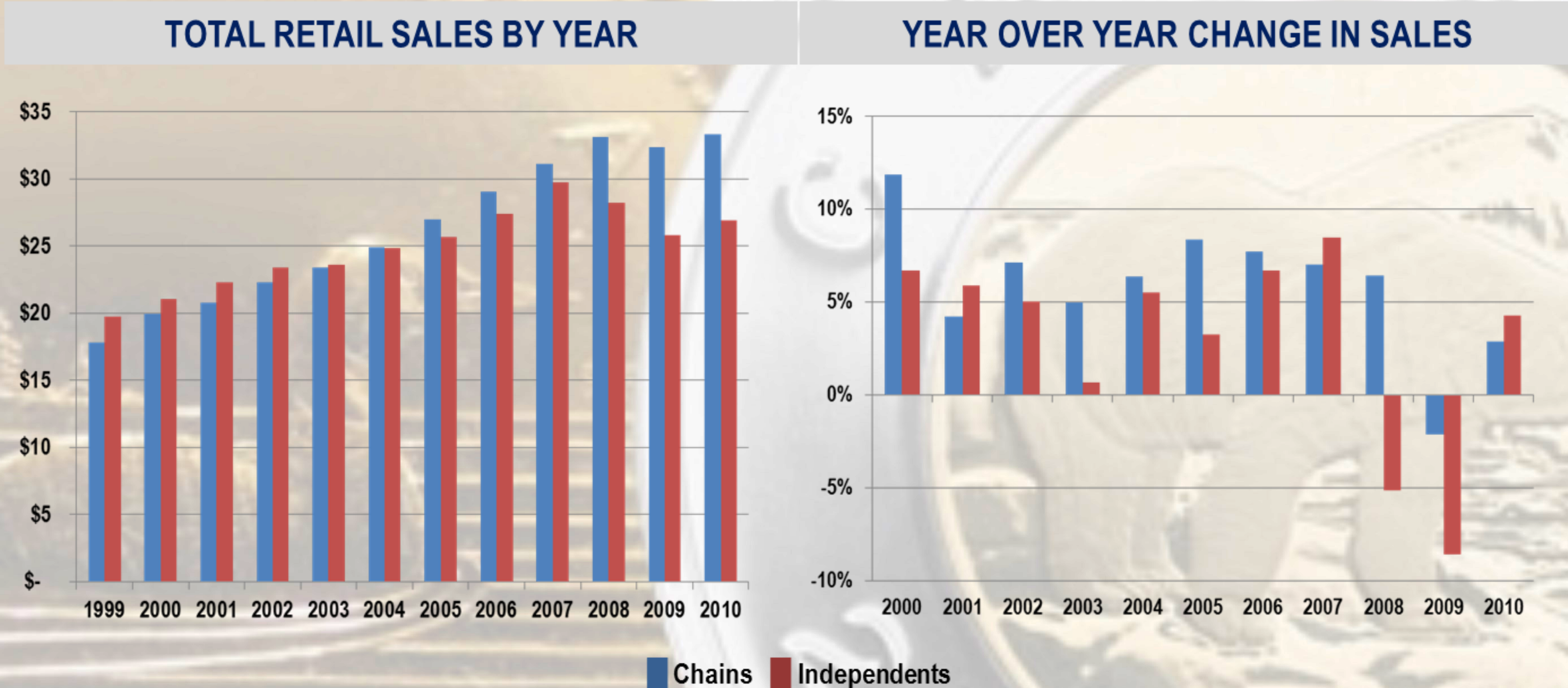
ESSENTIAL FINDINGS FROM PHASE I

- BC independent retailers and restaurants have been more strongly impacted by recent economic challenges than have their chain competitors.
- Independents achieve greater market share nationally than in BC, with Quebec independents capturing the highest share of sales.
- A 10% gain in market share for BC independents is only somewhat greater than either of the following two outcomes:
    - Returning to the market share enjoyed in 1999, or
    - Matching the national market share for independents.

PHASE I CHARTS ON THE FOLLOWING PAGES

1 RETAIL SALES AND SALES CHANGE BY STORE TYPE (In $ Millions)

British Columbia, 1999-2010

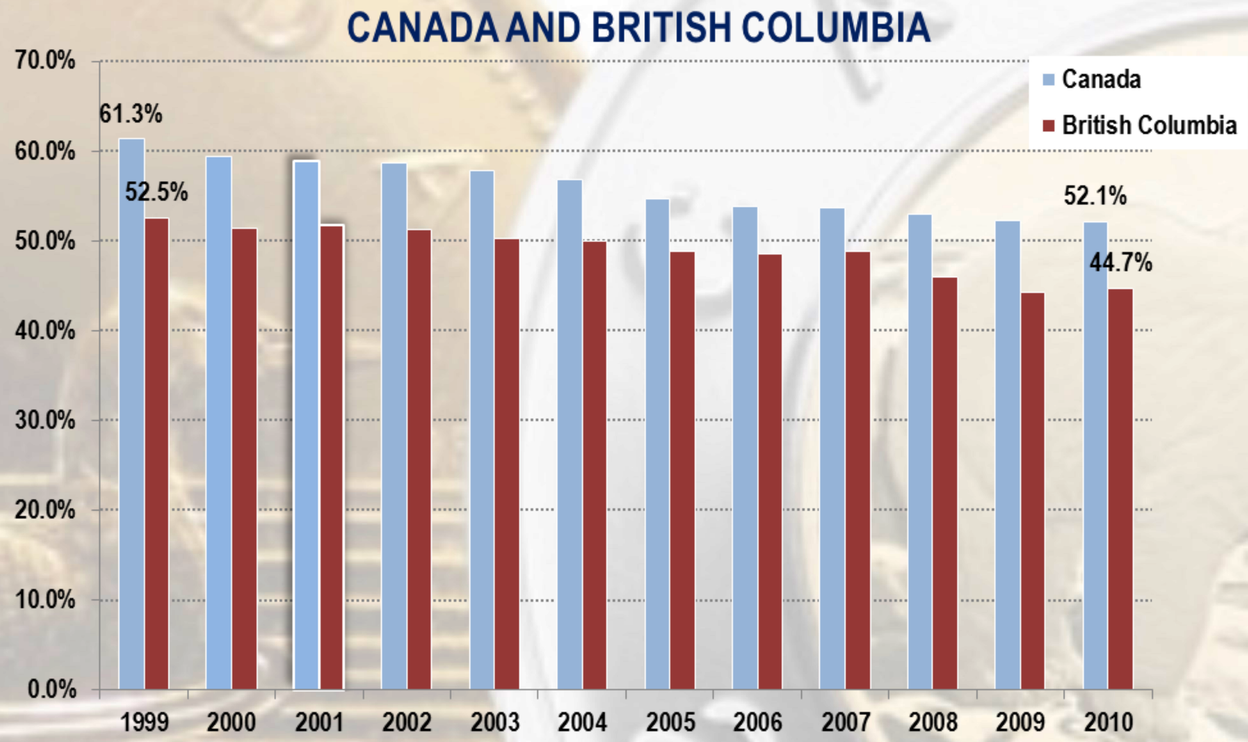


Source: Statistics Canada

Independent retailers in British Columbia captured a slight majority of the total market as recently as 2003. While that advantage slowly eroded over the period studied, recent economic challenges have had an outsized impact on independents. In 2008 and 2009, in fact, they saw a decrease in revenues, ceding market dominance to chains. In 2010, the last year for which data are available, independents began to regain their footing, enjoying a greater gain in revenues than did chains.

2 RETAIL MARKET SHARE CAPTURED BY INDEPENDENTS

Total Retail Sales (Including Auto Sales and Gas Stations), 1999-2010

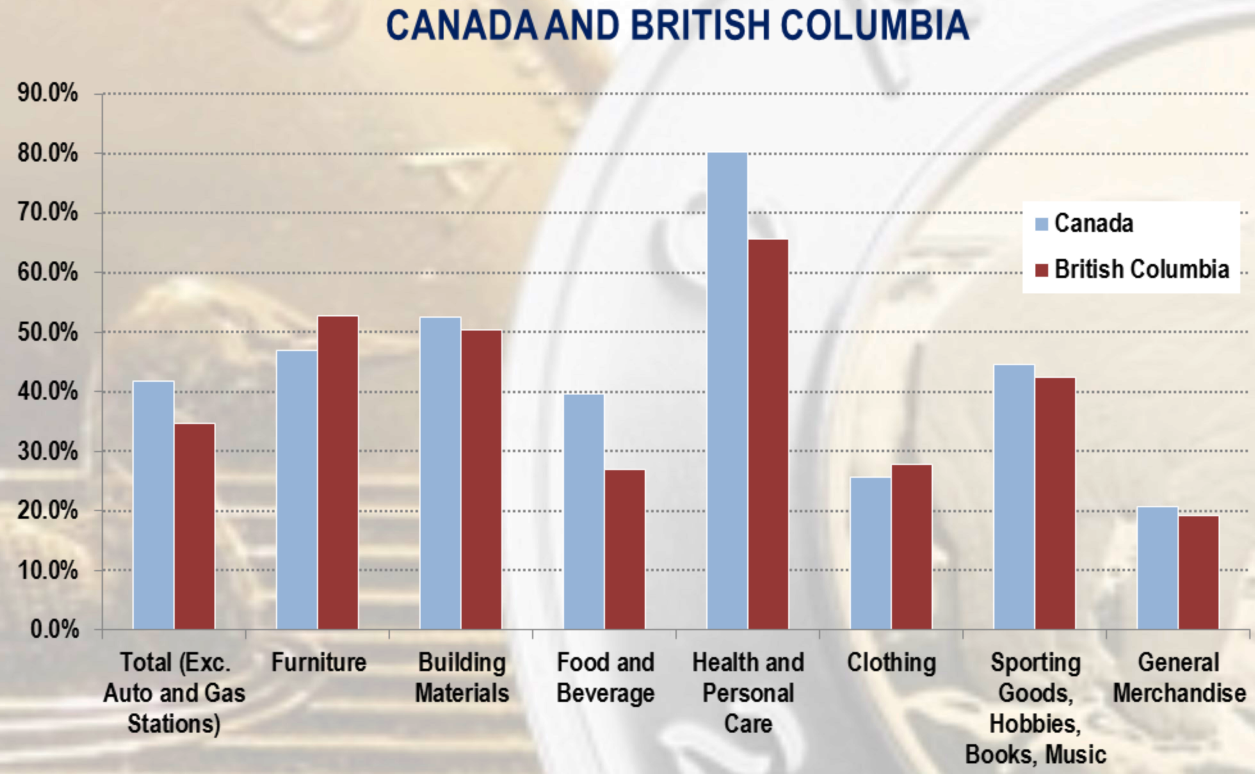


Source: Statistics Canada

Throughout the study period, dating to 1999, independent retailers in British Columbia have captured a smaller share of the market than they have nationwide. In a similar study in the United States, by contrast, independents in the northwestern states of Oregon and Washington fare notably better than the national average. This chart does, however, point to two interesting opportunities for independent businesses and consumers in BC. A 10% shift in market share from chains to independents would bring BC nearly in line with national averages and would, similarly, bring BC independents back to the market conditions they enjoyed as recently as the 1990s.

3 RETAIL MARKET SHARE CAPTURED BY INDEPENDENTS

Canada and British Columbia, By Retail Category and Year, 2010

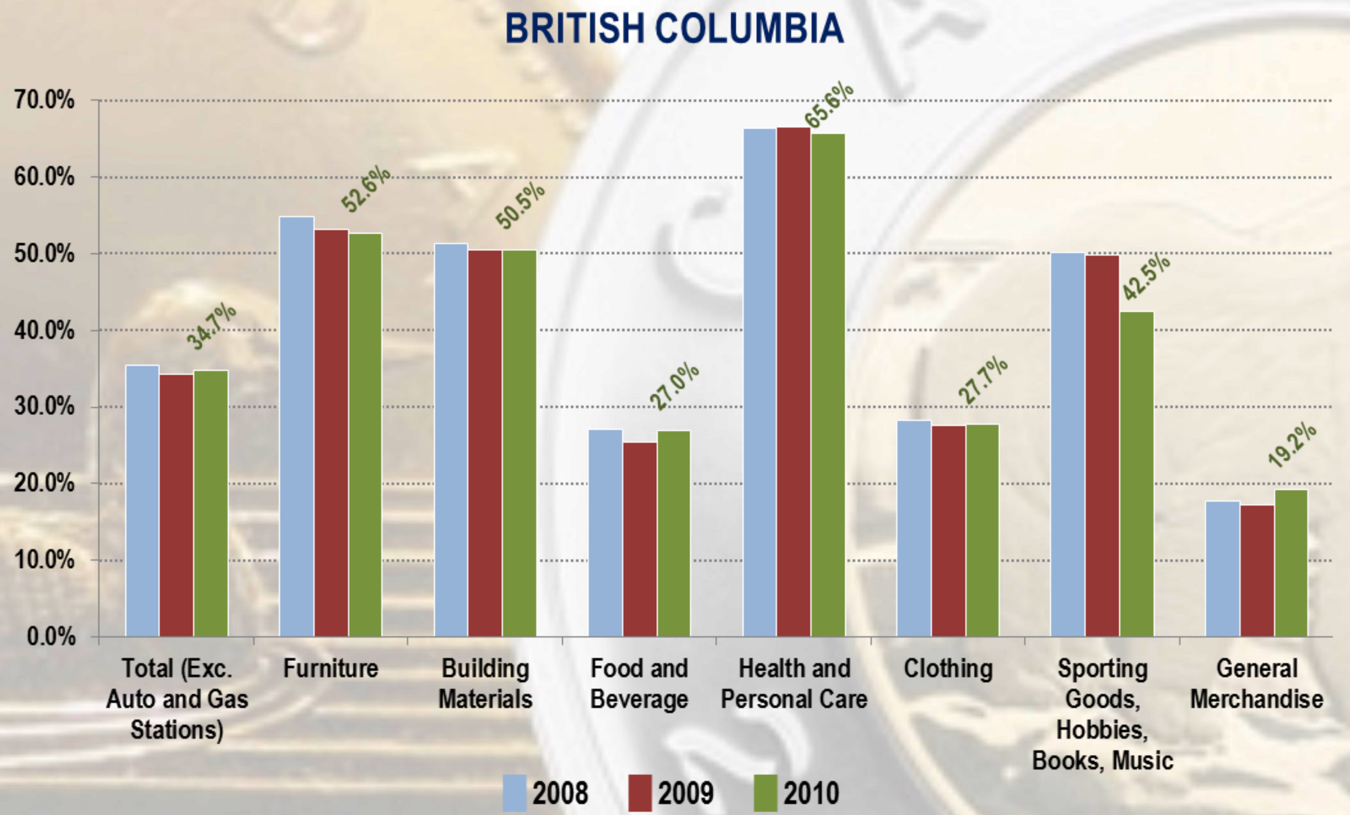


Source: Statistics Canada

Canadian independent retailers generally outperform their British Columbia peers in market share. The exceptions are found in Furniture Stores and Clothing & Accessories Stores.

4 RETAIL MARKET SHARE CAPTURED BY INDEPENDENTS

British Columbia. By Retail Category and Year, 2008-2010

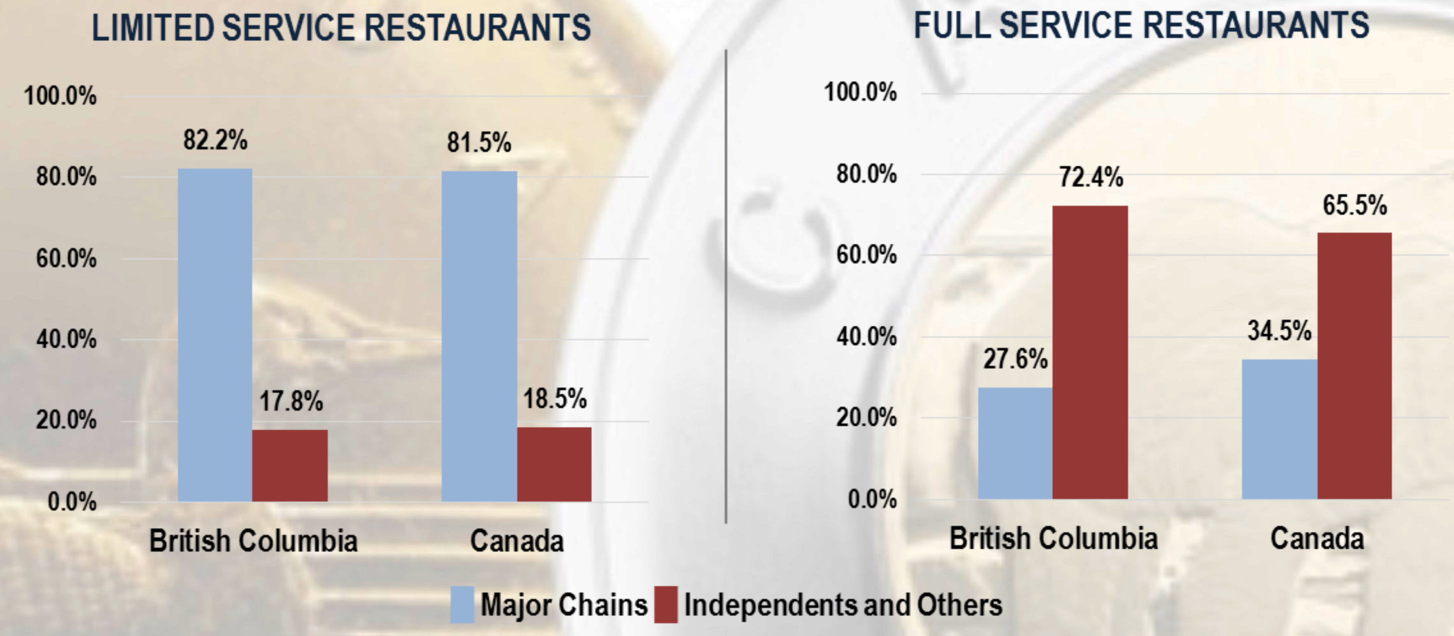


Source: Statistics Canada

Over the most recent three year period for which data are available, BC independent retailers have seen modest erosion in market shares; even registering an uptick in total market share in 2010. While most sectors were relatively stable over that period, Sporting Goods, Hobbies, Books, and Music Stores saw a substantial decline in 2010.

5 RESTAURANT MARKET SHARES

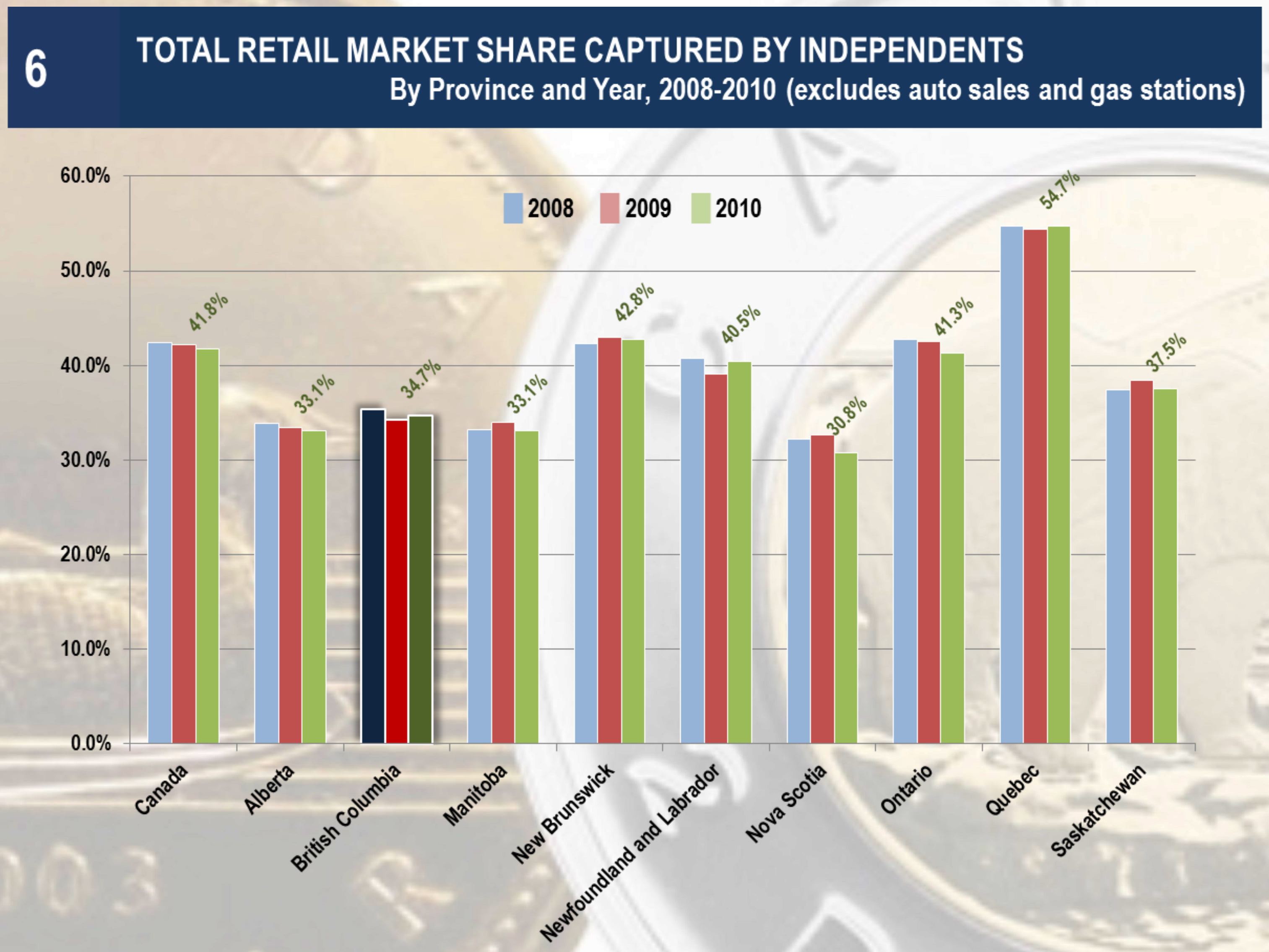
For British Columbia and Canada, 2010



SOURCE: Statistics Canada; Technomic Top 200 Restaurant Chains 2008

Because Statistics Canada does not identify independents and chains in the restaurant business as they do in retail, Civic Economics developed a proxy measure based on the number of British Columbia locations and average store sales of the top 200 restaurant chains in Canada, as ranked by Technomic. For the purposes of this analysis, market share not captured by the top 200 is treated as “Independents and Others.” To provide more meaningful data, we further separated restaurant chains between “limited service,” typically thought of as fast food, and “full service.”

Independents full service restaurants in BC serve a larger share of the market than do their peers nationwide, helping to develop and maintain the unique produce and culinary styles of Canada’s west coast. Among limited service restaurants, traditionally dominated by large chains, BC independents far only a bit worse than the national average.



Source: Statistics Canada *(Insufficient data for other provinces and territories)*

Comparing British Columbia to other provinces for which data is available presents somewhat surprising findings. While northern coastal states in the United States show much higher than average independent market share, the same is not true in Canada. Quebec, perhaps due to language and cultural distinctions, presents the strongest independent retail sector.

7 RETAIL MARKET SHARE CAPTURED BY INDEPENDENTS

By Province and Year, 2008-2010

Source: Statistics Canada *(Insufficient data for other provinces and territories)*

Chart 7 presents a breakdown of the data on the previous page. The strongest independent retail segment in BC is in Furniture & Home Furnishing Stores, an area in which the province enjoys a distinct style and opportunities for craftsmanship. Food & Beverage Stores represent the weakest independent segment in BC, perhaps highlighting an opportunity for growth built on the region’s ample produce and distinctive culinary style.

II PHASE II: ECONOMIC IMPACTS OF INDEPENDENTS AND CHAINS IN BRITISH COLUMBIA

Having established the proportion of the market currently captured by independents in a number of sectors, we move on to assess the relative economic impacts of independents and their chain competitors.

METHODOLOGY

Phase II is built upon extensive surveys of independent businesses in British Columbia and in ten American communities, all conducted in 2012. The survey instrument (Appendix 1) seeks to identify the proportion of operating revenue a business recirculates in the local economy in the form of profits and wages paid out to local residents (here, residents of BC), the procurement of goods and services from other BC businesses both for internal use and for resale, and charitable giving to BC based organizations. Over 140 surveys were assemble, including 12 from BC businesses, and organized into retail and restaurant sectors.

To obtain comparison information about competitor chains, Civic Economics reviewed public data from filings to securities agencies in both Canada and the United States. Retail chains analyzed include: Loblaws, Barnes & Noble, Home Depot, Office Max, and Target. Restaurant chains include Darden, McDonald's, and PF Changs.

For both independents and chains, Civic Economics applied provincial level multipliers provided by Statistics Canada to estimate the direct, indirect, and induced impacts of the revenue recirculated in the provincial economy. Impacts are expressed as in increments based on $1 million in revenue. Identical multipliers were applied for both independents and chains. A description of Statistics Canada multipliers can be found at:
www5.statcan.gc.ca/bsolc/olc-cel/olc-cel?lang=eng&catno=15F0046X

ECONOMIC IMPACTS IN A NUTSHELL

There are three types of effects measured with a multiplier: the direct, the indirect, and the induced effects. The **direct** effect is the known or predicted change in the local economy that is to be studied. In this case, that is the change in retail sales. The **indirect** effect is the business to business transactions required to satisfy the direct effect. Finally, the **induced** effect is derived from local spending on goods and services by people working to satisfy the direct and indirect effects.

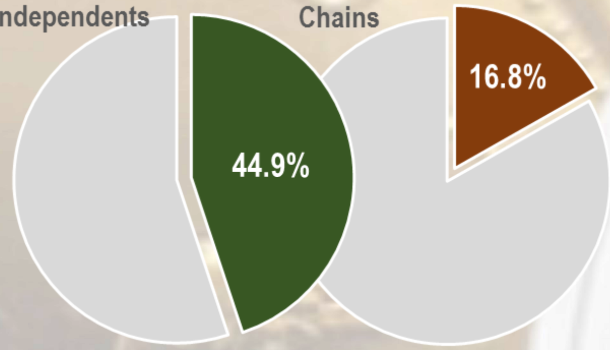
ESSENTIAL FINDINGS FROM PHASE II

- BC independent retailers and restaurants together recirculate more than 2.6 times as much revenue in the local economy as chain competitors.
    - For retailers, locals recirculate 45% compared to just 17% for chains
    - For restaurants, locals recirculate 65% compared to just 30% for chains

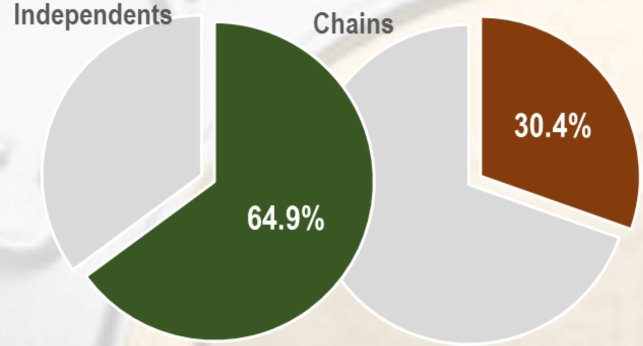
PHASE II CHARTS ON THE FOLLOWING PAGES

8 PROPORTION OF REVENUES RECIRCULATED IN THE BC ECONOMY: Retail, Restaurants, Combined

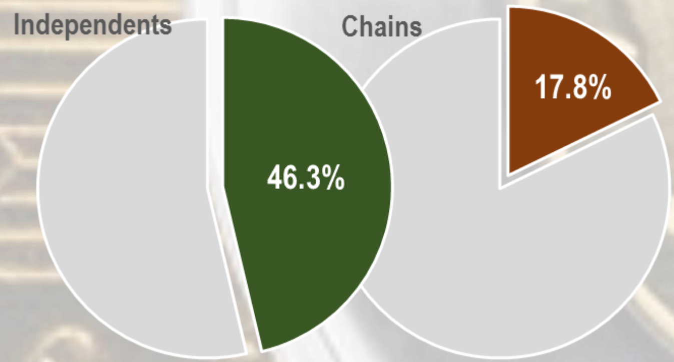
ALL RETAIL SEGMENTS



ALL RESTAURANT SEGMENTS



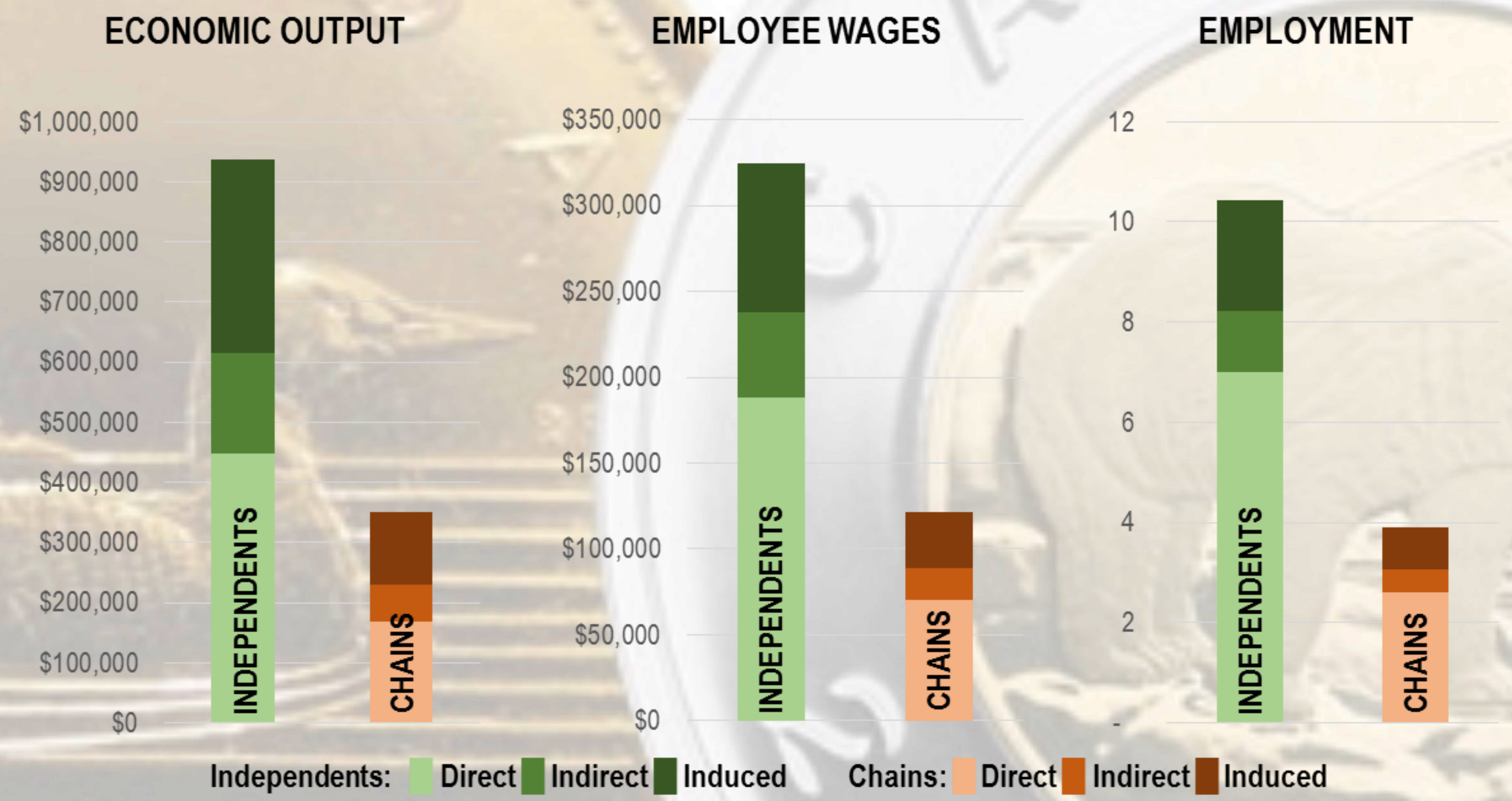
RETAIL AND RESTAURANTS COMBINED, WEIGHTED



Altogether, independents recirculate 2.6 times as much revenue as chains

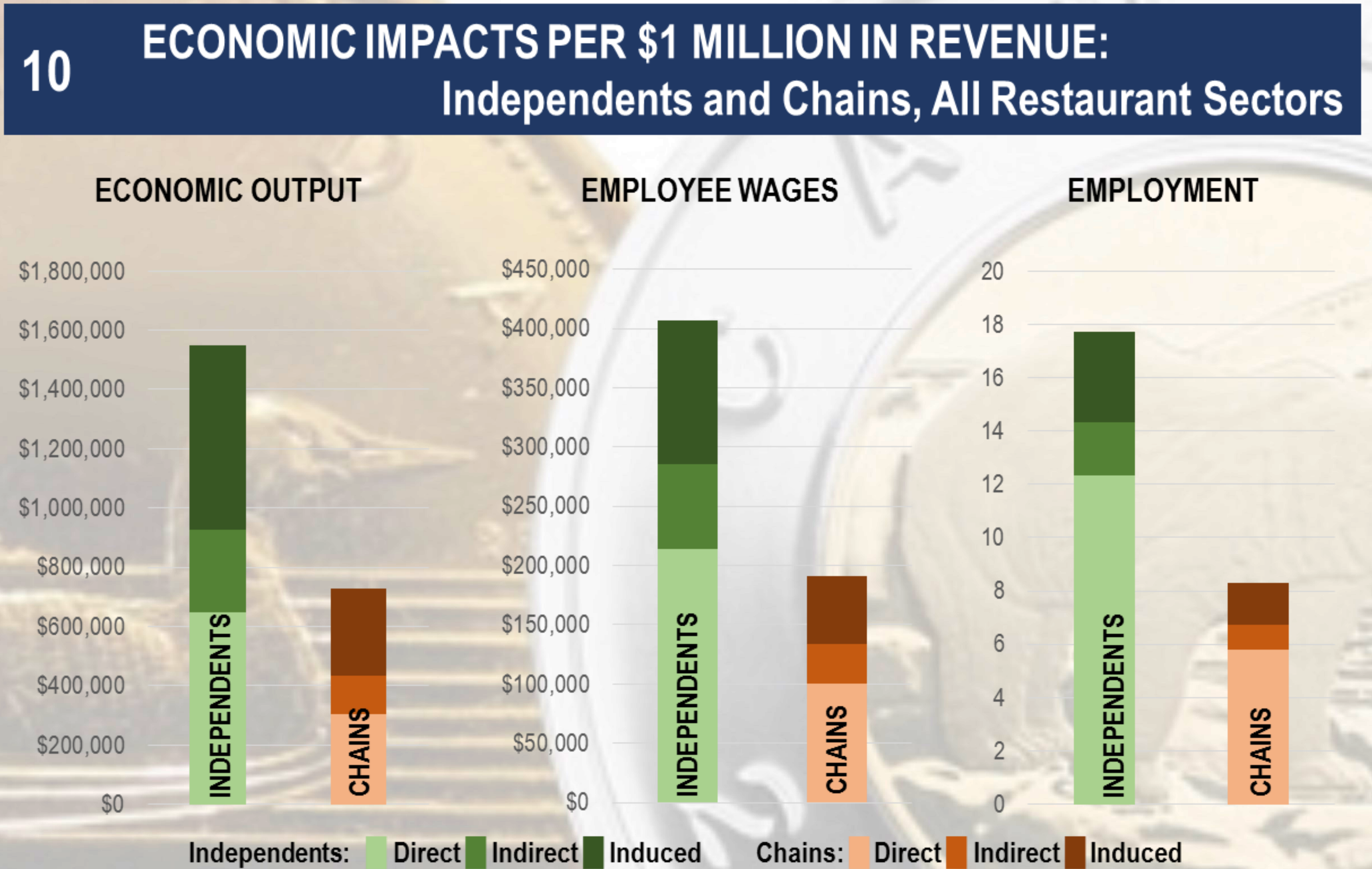
SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011)

9 ECONOMIC IMPACTS PER $1 MILLION IN REVENUE: Independents and Chains, All Retail Sectors



SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

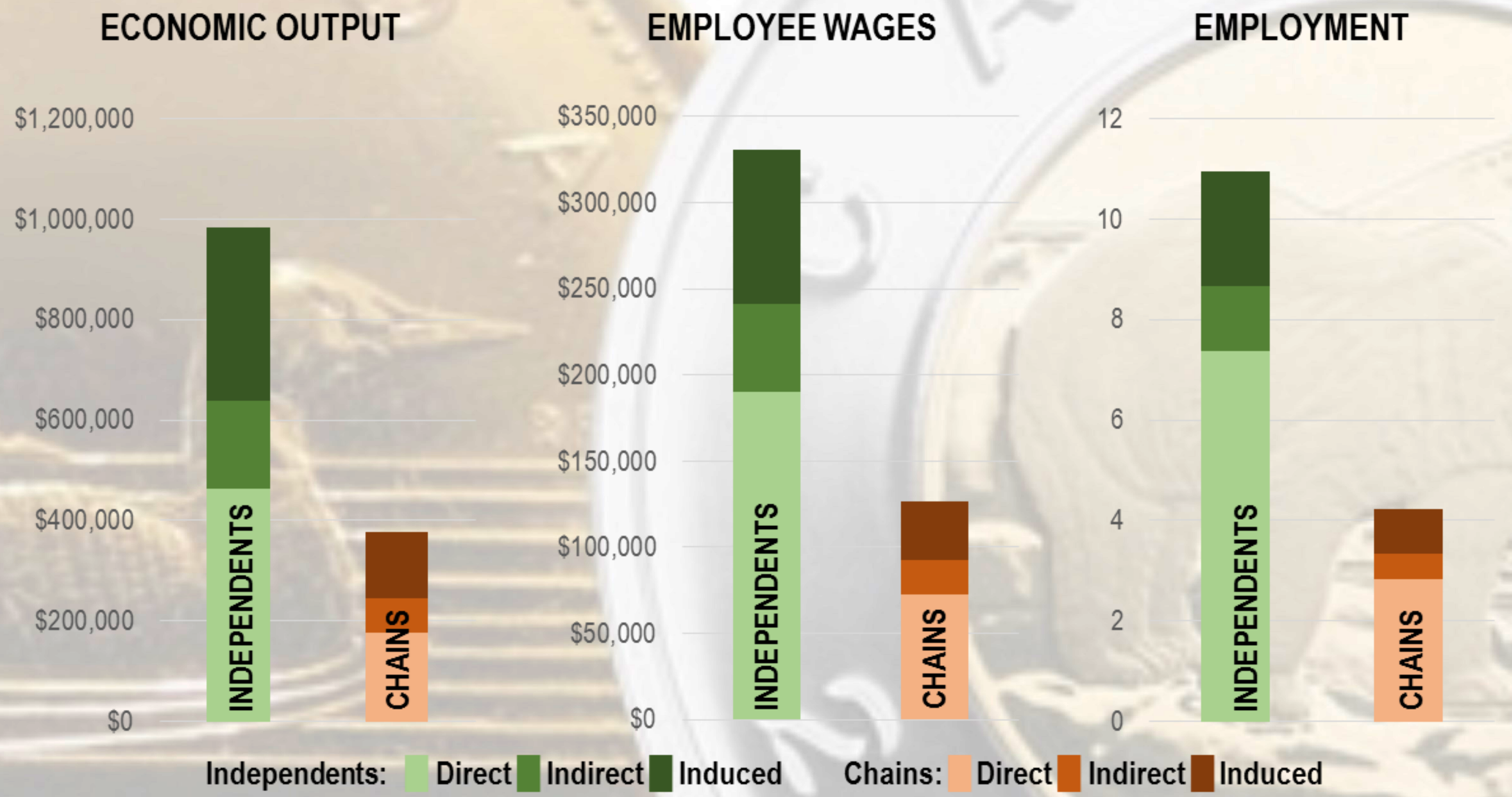
Among retailers, independents generate total economic impacts per $1 million in revenue far in excess of their chain competitors. These differences approach 3:1 in economic output, employee wages, and employment.



SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

For restaurants, the impact differential between independents and chains is narrower than for retailers. This is generally due to the labor intensity of the restaurant business; even the most efficient restaurants require sizeable staffs and thus sizeable spending as a share of revenue. Nonetheless, independents generate economic impacts more than double that of their chain competitors.

11 ECONOMIC IMPACTS PER $1 MILLION IN REVENUE: Independents and Chains, All Sectors



Independents create more jobs and spend more on wages than chains

SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

III

PHASE III: ECONOMIC IMPACTS OF A TEN PERCENT SHIFT OF MARKET SHARE

The study concludes with an analysis of the potential economic impact in British Columbia from a 10% shift in retail and restaurant market shares from chains to independents. A 10% shift poses an attainable goal in BC, largely reached if independents match national market shares or regain 1999 market shares.

METHODOLOGY

Impacts in Phase II were calculated based on increments of $1 million in total sales for both independents and chains and by retail or restaurant sector. Here, we quantify the total sales that would move from chains to independents in a 10% shift in each sector, then compare the economic impacts of that activity in both independents and chains. The difference, then, is the gain (or loss) in economic activity, wages, and employment to be anticipated from such a shift.

For example, in the Clothing & Accessories Stores sector, a 10% shift would raise the current independent market share from 27.7% to 37.7%, which entails a shift of $353 million in sales from chains to independents. Because independent clothing stores recirculate 39.3% of all revenue in the provincial economy, compared to just 13.6% for chains, a 10% shift would directly inject an additional $91 million into the BC economy and create a net of 1,400 jobs. With indirect and induced impacts, the shift would produce a total impact of $189 million and create a net of 2,100 jobs.

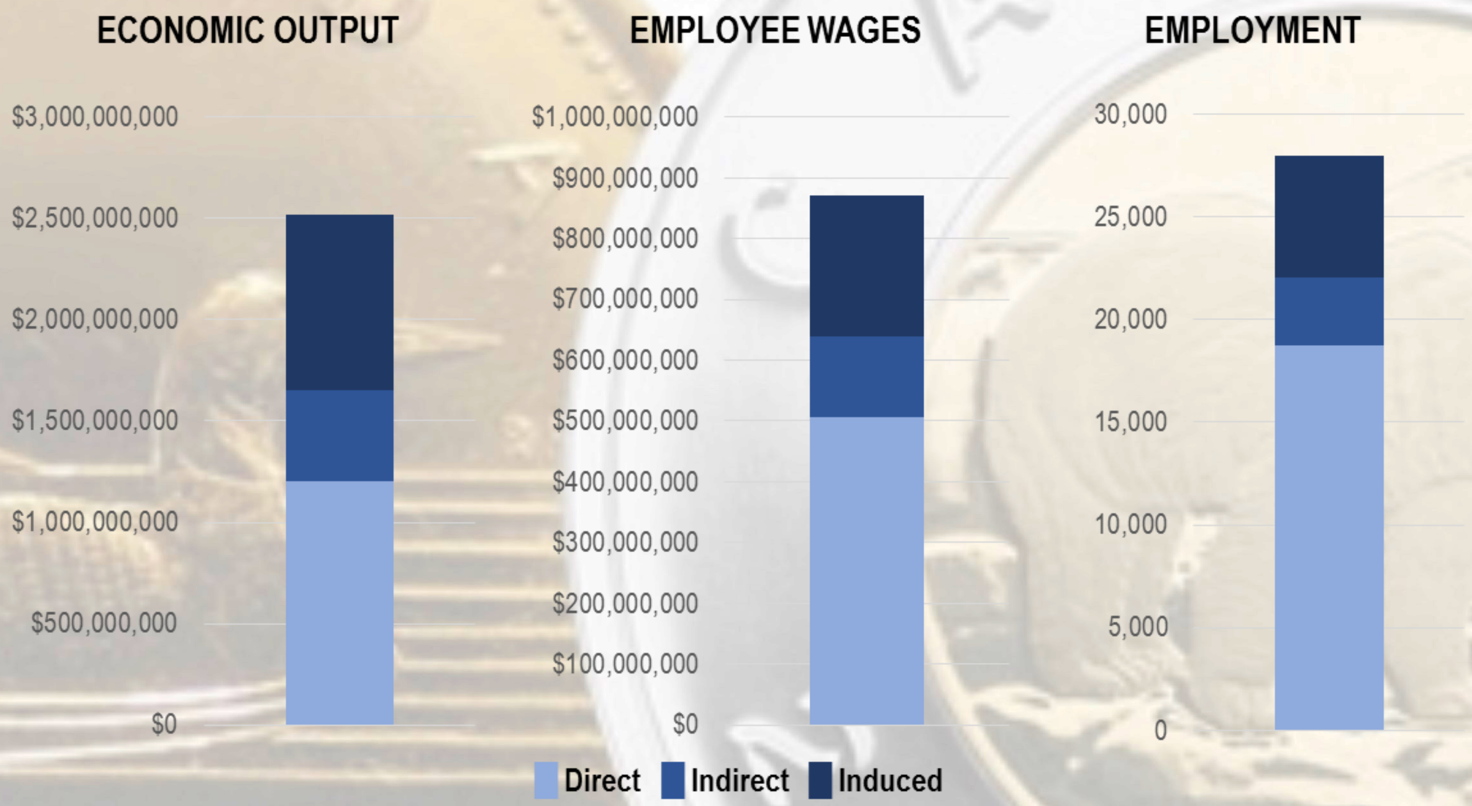
These calculations were performed for each retail and restaurant sector.

ESSENTIAL FINDINGS FROM PHASE III

- A shift of just 10% of the market from chains to independents would produce 31,000 jobs paying $940 million in annual wages to BC workers.
    - That shift among retailers creates 28,000 jobs paying $870 million in wages.
    - Among restaurants, it creates 3,000 jobs paying $70 million in wages.
- A 10% shift is an attainable goal in British Columbia.
    - If BC independents simply gained the market share independents achieve on a national level, the goal would be nearly achieved.
    - Similarly, if BC independents regained the market share they enjoyed as recently as the 1990's, the goal would be nearly achieved.

PHASE III CHARTS ON THE FOLLOWING PAGES

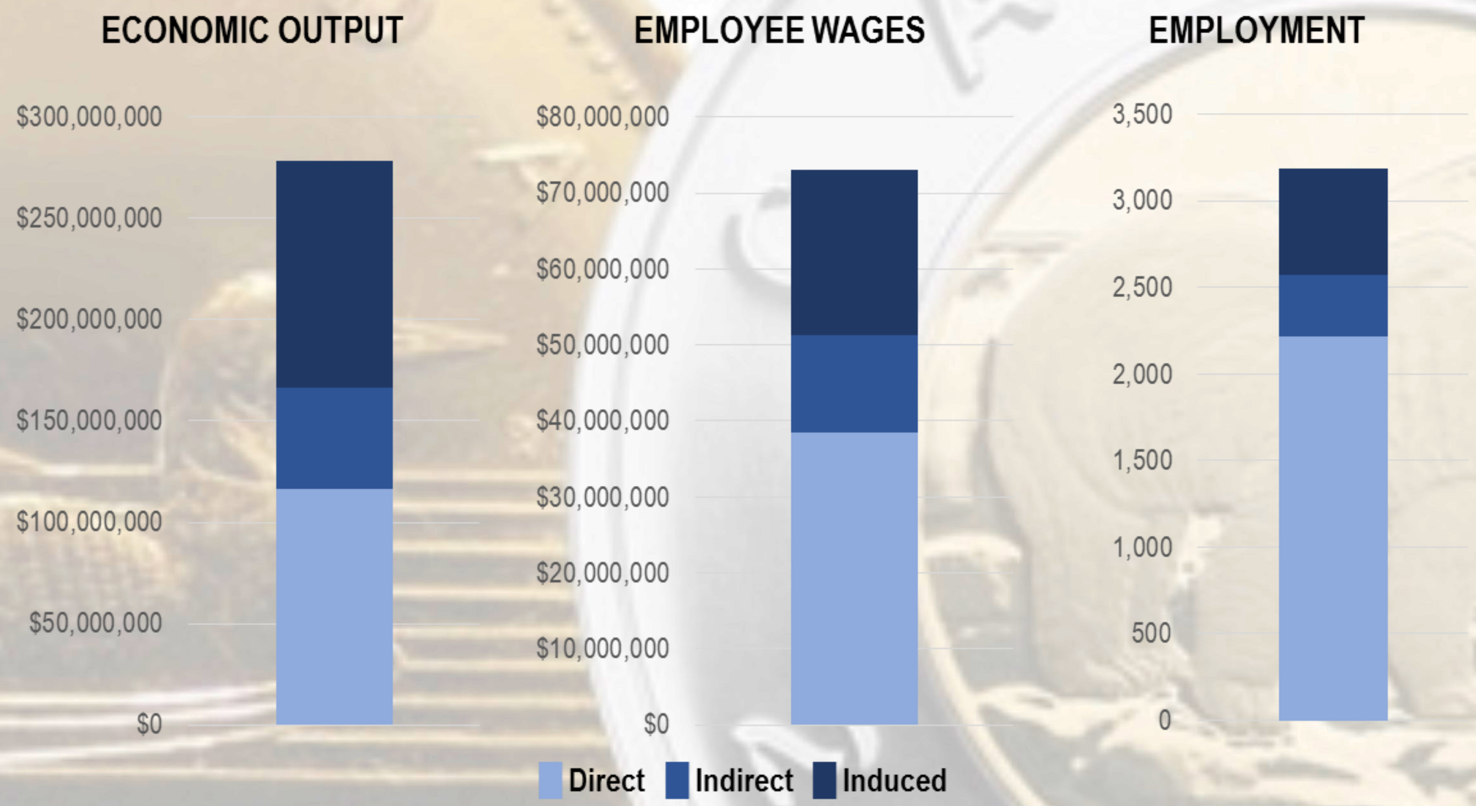
12 NET ECONOMIC IMPACTS OF A 10% SHIFT IN SPENDING: All Retail Sectors



28,000 jobs paying $870 million in wages to BC workers

SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

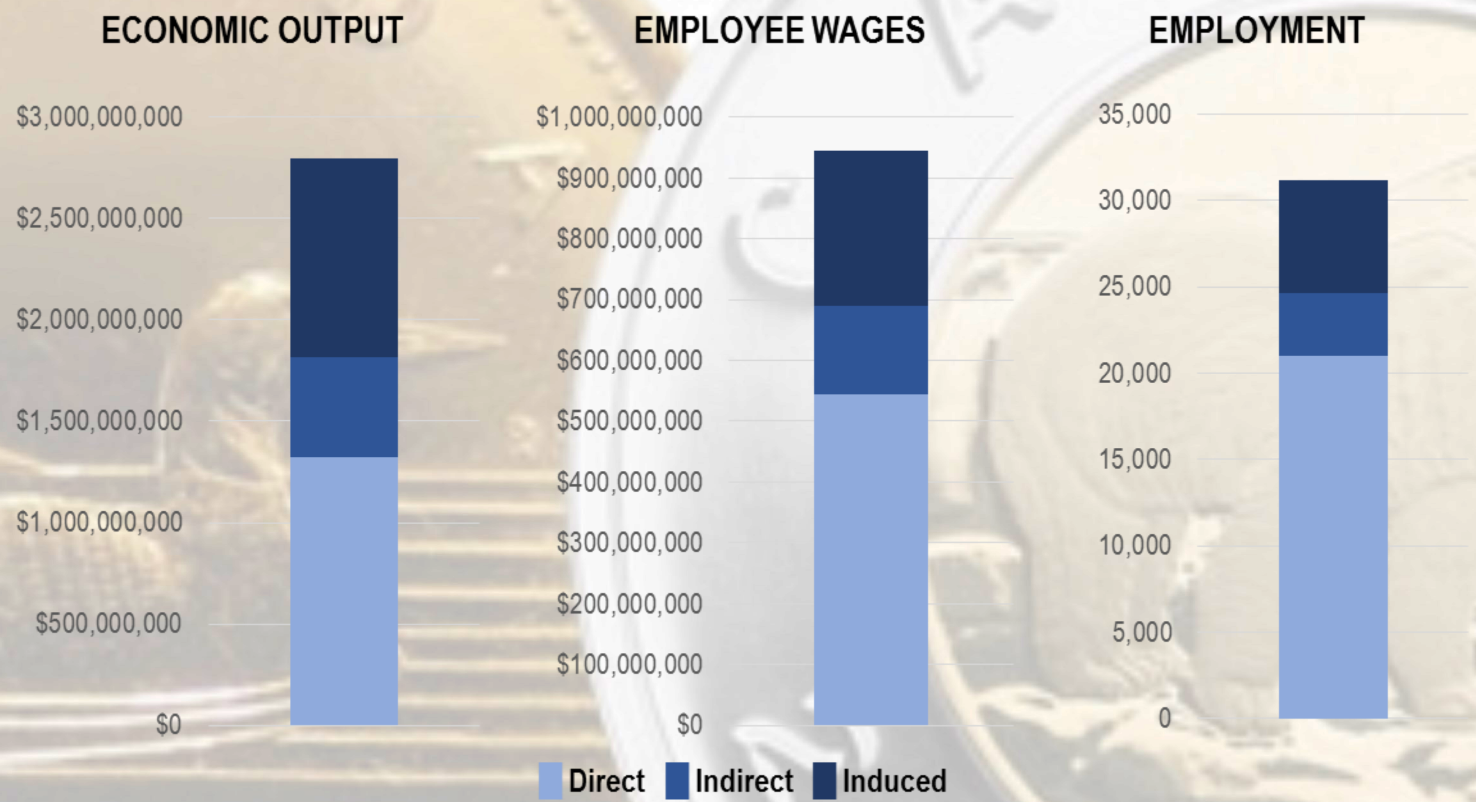
13 NET ECONOMIC IMPACTS OF A 10% SHIFT IN SPENDING: All Restaurant Sectors



3,000 jobs paying $70 million in wages to BC workers

SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

14 NET ECONOMIC IMPACTS OF A 10% SHIFT IN SPENDING: All Sectors



31,000 jobs paying $940 million in wages to BC workers

SOURCE: Civic Economics, surveys of independent businesses in British Columbia and ten United States communities (2012); Annual filings of competitive public companies in Canada and the United States (2011); IMPLAN

CONCLUDING THOUGHTS

Civic Economics wishes to thank the membership and leaders of CUPE-BC for their leadership on this important issue and for commissioning this study. British Columbia is among the most beautiful and prosperous places on earth, and we are pleased to have had this opportunity to make it a bit more so.

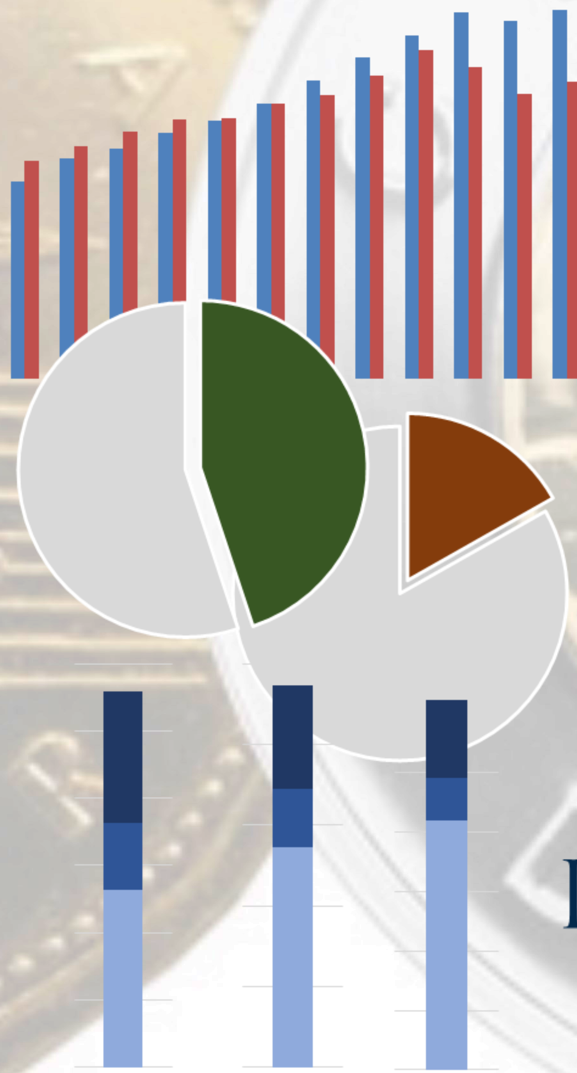
In every study, there is at least one finding to surprise us. In this case, we anticipated that independent businesses in BC would capture a larger share of the market than their peers across the nation, just as we have found in the Northwestern states of the United States. That, however, is not the case, though it does point to a golden opportunity.

If the people of BC simply supported independents at the same level as the nation does, a 10% shift in market shares from chains to independents would be nearly complete. And that modest shift promises substantial rewards for the province and its people:

31,000 jobs paying $940 million in wages.

If only all economic development challenges were so easy.

INDEPENDENT BC: Essential Findings



I

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II

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BC independents produce more jobs and spend more on wages than chain competitors with equal revenue.

III

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This 10% shift represents little more than a move to the national average for independent business market share.

CONTACTS

For more information about **BC BUSINESS: INDEPENDENTS AND THE BRITISH COLUMBIA ECONOMY**, please contact the following:

CUPE BC, the British Columbia division of the Canadian Union of Public Employees, is the largest labour union in B.C., representing more than 85,000 workers in municipalities, education, libraries, universities, colleges, social services, health care, public utilities, transportation, emergency services and airlines. CUPE National is Canada's largest union, representing around 600,000 members across Canada.

CUPE BC president Barry O'Neill developed the Ten Percent Shift campaign to support local economies after he toured communities across BC to learn why towns and cities are struggling. Working with CUPE members, local governments, Chambers of Commerce and business owners, the Shift is making a difference in how British Columbians understand how local economies work.

Contact:

Clay Suddaby, Communications
604.313.1138
csuddaby @ cupe.ca

www.CUPE.BC.ca
www.TenPercentShift.ca

Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. Since its establishment in 2002, the firm has earned a reputation for the creative application of industry-standard analytical tools to promote sustainable prosperity.

Contact:

Dan Houston, Partner
512.853.9044
dhouston @ CivicEconomics.com

www.CivicEconomics.com

APPENDIX 1: British Columbia Independent Business Survey Instrument

The following survey was made available at surveymonkey.com in October and November of 2012. A total of 12 British Columbia businesses completed the survey and qualified for inclusion in the dataset for Phase II of the study.

Thank you for your interest in participating in this survey of independent businesses in British Columbia. The goal of this survey is to quantify the proportion of revenue that your firm recirculates in the BC economy.

If you begin the survey with basic accounting materials in front of you, it should take no more than 10-30 minutes to complete. The essential questions ask about the proportion of operating revenue that you dedicate on five categories of expenditure. So, for example, if employee wages and benefits paid to BC residents costs you $150,000 and your operating revenues are $1 million, then select 15% from the drop-down menu.

Please note the following:

Participation in this survey is limited to independent, BC-owned businesses engaged in storefront retail trade or the operation of eating and drinking establishments with all locations in British Columbia. Motor vehicle dealers and gasoline stations will not be included.

All responses will remain confidential, and answers will be aggregated. The names of participating businesses will be included in study documentation only if there are enough to maintain the privacy of your business data.

To see a summary of related studies completed by Civic Economics, please visit http://civiceconomics.com/projects/featured-projects/the-civic-economics-of-retail/

Again, we thank you. Should you encounter difficulties in completing this survey, please contact dhouston@CivicEconomics.com.

CONFIDENTIALITY AGREEMENT:

Civic Economics has been retained by an organization in your community to study the performance and economic impact of independently owned business. The survey you will undertake is designed to assist us in that endeavor.

We realize the information sought in this survey is highly sensitive and proprietary, and we appreciate your willingness to participate. Information gathered in this survey will be handled with the utmost confidentiality by Civic Economics. Your answers will be shared with no one other than the partners in the firm, and data will be reported only in aggregated form.

If you have any questions about this survey and the confidentiality of your submission, please contact Dan Houston of Civic Economics: dhouston@civiceconomics.com; 512.853.9044

Part I: Business Identification

1. What is the name of your business?

2. How many locations does this business currently operate?

3. Are all locations within British Columbia?

4. What is Postal Code of the primary business location or headquarters (all six characters without spaces)?

5. What is the name of the person who completed this survey?

6. What is the title (owner, bookkeeper, etc.) of the person who completed this survey?

7. What is the e-mail address of the person who completed this survey?

Part II: Goods and Services Offered

8. In your own two or three words, describe the primary line of goods or services provided by your business:

Restaurant, Full Service Restaurant, Limited Service Drinking Establishment Motor Vehicle Parts Furniture and Home Furnishings Stores Electronics and Appliance Stores Building Material and Garden Equipment and Supplies Dealers Food and Beverage Stores Health and Personal Care Stores Clothing and Clothing Accessories Stores Sporting Goods, Hobby, Book, and Music Stores General Merchandise Stores Miscellaneous Store Retailers Non-store Retailers

Part III: Provincial Economic Impacts

The following questions address the proportion of your operating revenue that recirculates in the BC provincial economy in five ways. By operating revenue, we mean sales of the goods and services your business offers. Do not include additional revenue such as investment income or real estate.

So, for example, if employee wages and benefits paid to BC residents costs you $150,000 and your operating revenues are $1 million, then select 15% from the drop-down menu.

Please select the nearest percentage of operating revenue that went to each of the following categories in 2011 (or the most recent fiscal year for which you have data):

10. - Profits, wages, or other payments to BC resident owners and investors (if owners lost money on the business, chose 0) as a percentage of revenue:

11. - Wages and benefits paid to BC resident employees as a percentage of revenue:

12. - Procurement of goods and services from BC businesses for internal use (includes supplies and services such as office and paper supplies, law and accounting services, computer services, cleaning services, etc.) as a percentage of revenue:

13. - Procurement of goods from BC businesses for resale (such as goods made by local vendors, locally grown food, locally brewed beer, etc.) as a percentage of revenue:

14. Contributions to BC charitable organizations as a percentage of revenue:

Thank You!

Thank you for completing this important survey. The study will be complete and findings released in early 2013. If you provided an e-mail address in Part I, we will notify you.

INDEPENDENT BC: SMALL BUSINESS AND THE BRITISH COLUMBIA ECONOMY

PHASE I

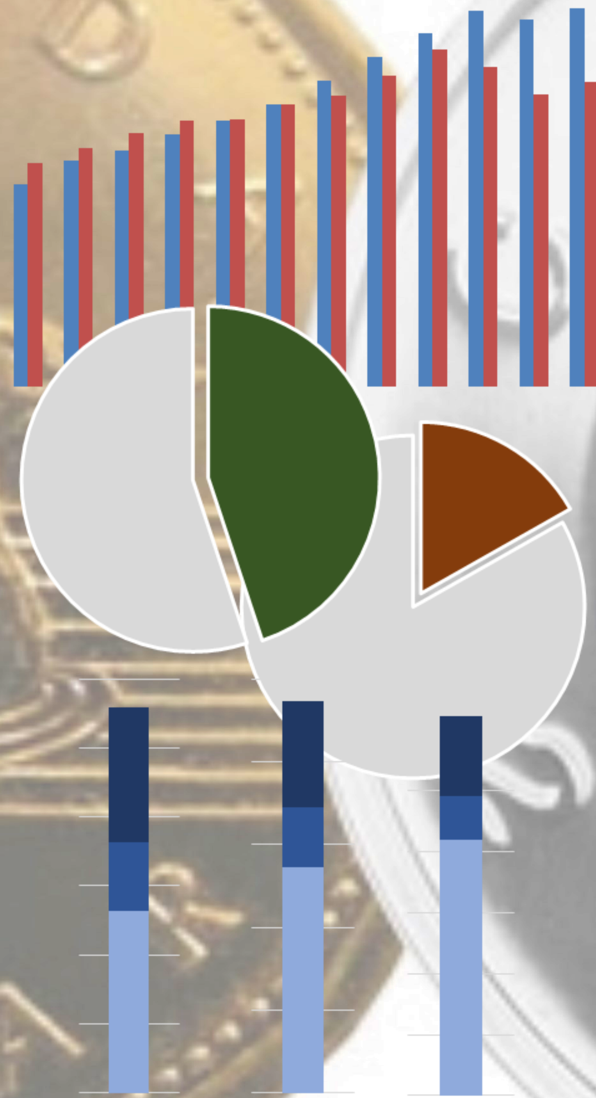
MARKET SHARES OF INDEPENDENTS AND CHAINS

PHASE II

ECONOMIC IMPACTS OF INDEPENDENTS AND CHAINS

PHASE III

ECONOMIC IMPACT OF A 10% SHIFT



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This 10% shift represents little more than a move to the national average for independent business market share.

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shift

INDEPENDENT BC: SMALL BUSINESS AND THE BRITISH COLUMBIA ECONOMY

PHASE I

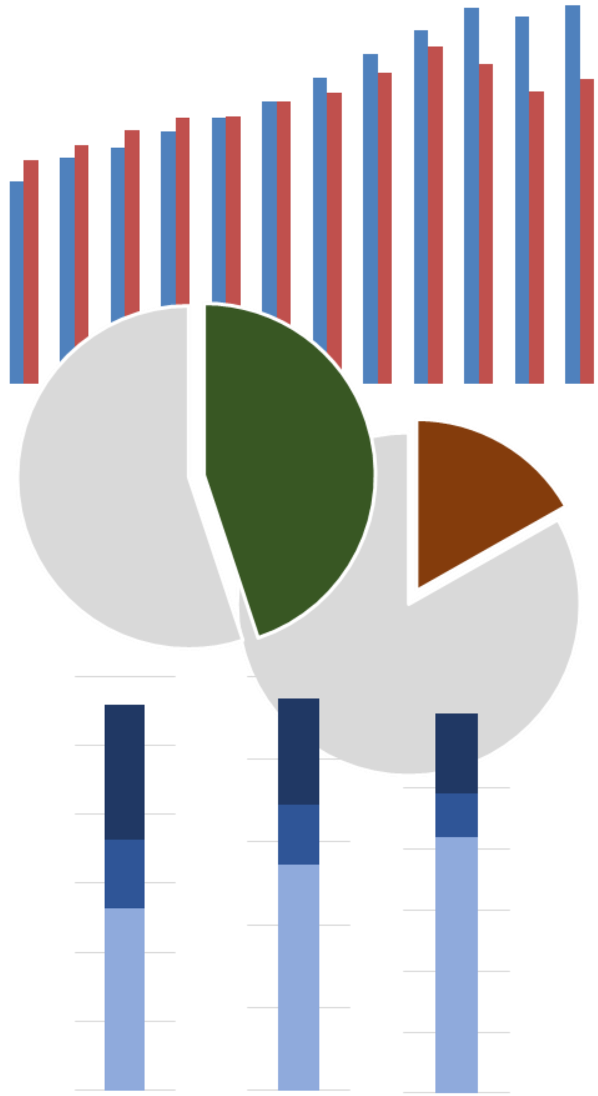
MARKET SHARES OF INDEPENDENTS AND CHAINS

PHASE II

ECONOMIC IMPACTS OF INDEPENDENTS AND CHAINS

PHASE III

ECONOMIC IMPACT OF A 10% SHIFT



BC independent retailers and restaurants have been strongly impacted by recent economic conditions.

Independents achieve greater market share in five other provinces and nationwide.

BC independent retailers and restaurants recirculate more than 2.6 times as much revenue in the local economy as chain competitors.

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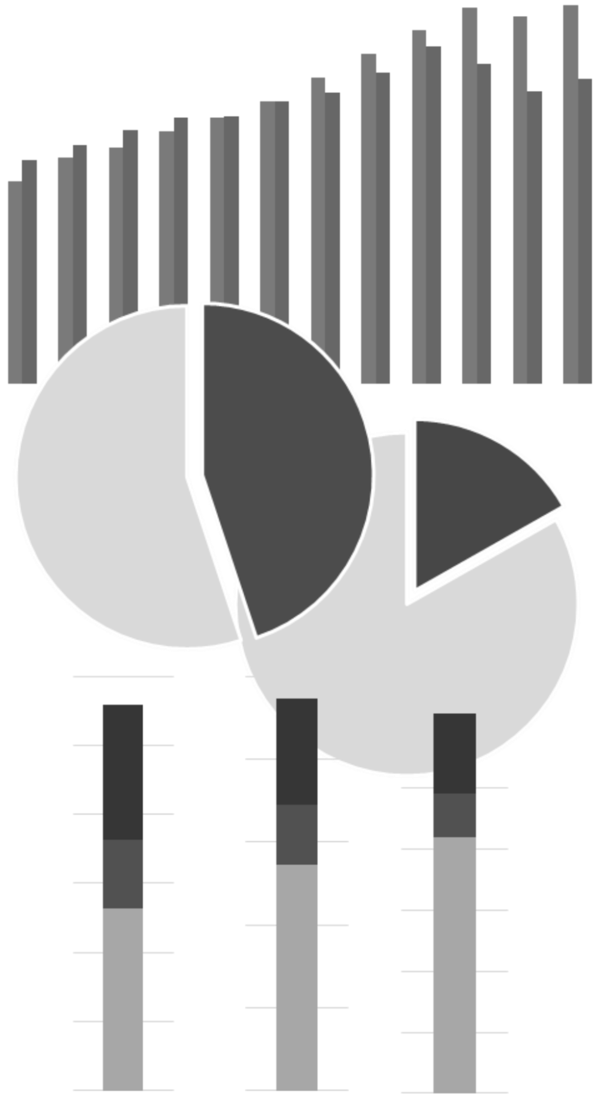

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