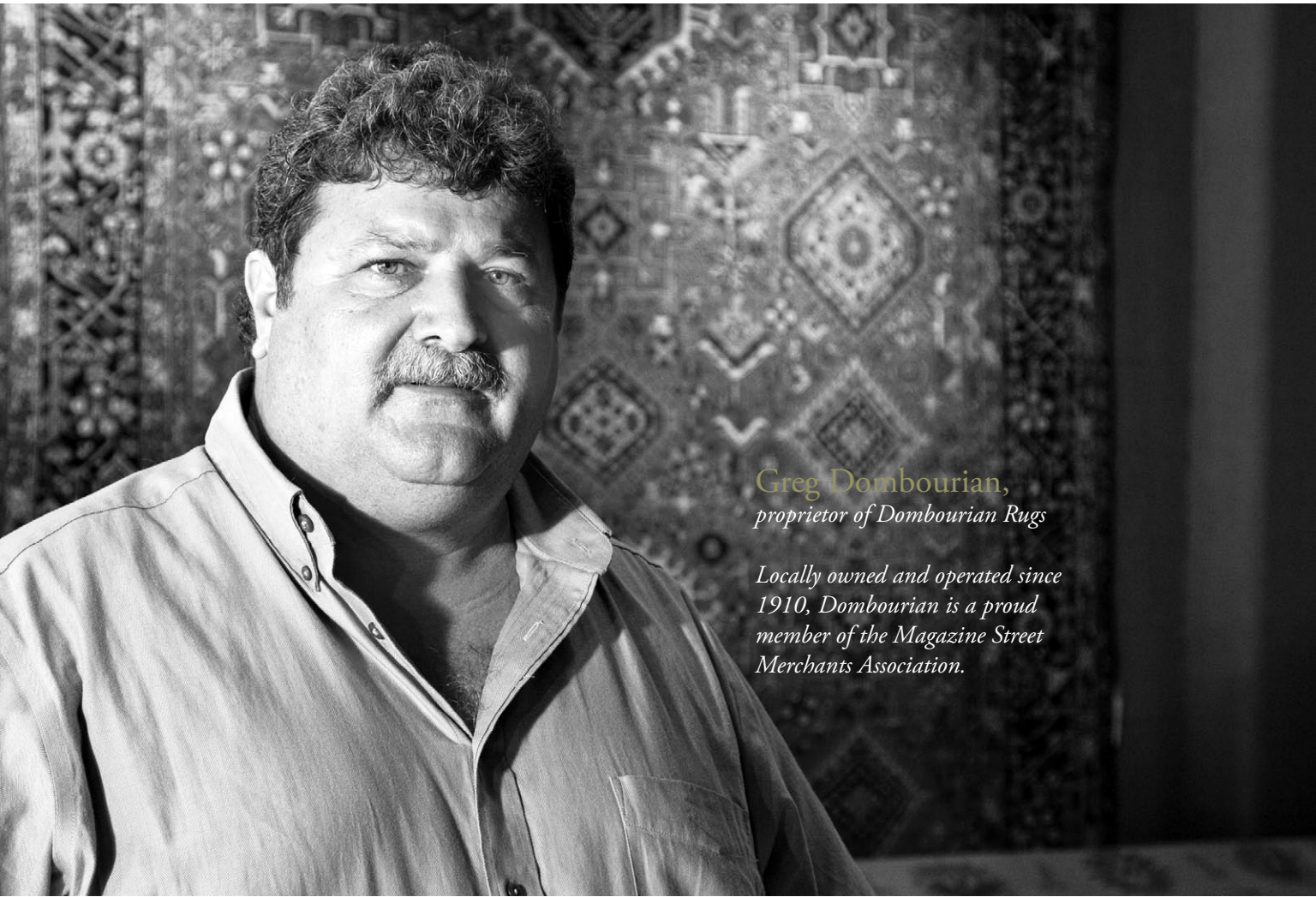


THINKING OUTSIDE THE BOX

A Report on Independent Merchants
and the New Orleans Economy
September, 2009

The Urban Conservancy
in partnership with
Civic Economics



*Greg Dombourian,
proprietor of Dombourian Rugs*

*Locally owned and operated since
1910, Dombourian is a proud
member of the Magazine Street
Merchants Association.*

IT IS THE **MISSION** OF THE URBAN
CONSERVANCY TO PROVIDE
RESEARCH, EDUCATION AND
ADVOCACY TO **PROMOTE THE
WISE STEWARDSHIP OF THE
URBAN BUILT ENVIRONMENT
AND LOCAL ECONOMIES**

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Magazine Street in New Orleans, in its four mile run from the Central Business District to Audubon Park, represents one of the city’s most vibrant commercial corridors. Merchants on Magazine Street offer goods and services to meet every need, from dollar stores to designer boutiques, from junk stores to internationally recognized auction houses, not to mention a range of culinary options for every budget and occasion.

Introduction

Magazine Street represents a form of urban development characterized by narrow streets with a decidedly pedestrian orientation, a focus on serving adjacent neighborhoods, smaller storefronts opening onto the sidewalk, and a rich mix of local proprietors focused on serving a local market.

In years past, right up to Hurricane Katrina, New Orleanians were served by a number of similar commercial corridors and districts. However, time and the storm have severely damaged other urban commercial areas, including such distinct areas as Gentilly, St. Claude Avenue, and Oretha Castle Haley Boulevard, to name just a few.

Since Katrina, the people of New Orleans have debated the best way to restore commercial services to the entire city. Two strategies present the most immediate prospects for success:

1. The suburban model requires the development of large-format retail on large parcels, anchored by general merchandise and home improvement warehouses augmented by a mix of junior anchor and small in-line spaces.
2. The urban model involves the restoration and rejuvenation of existing commercial corridors like those named above.

This study was undertaken to provide the people and policy makers of New Orleans with tangible economic guidance in choosing between strategies to restore commercial services to the entire city.

Prior Research

The underlying methodologies for this study have been developed in previous Civic Economics studies in Austin (2002), Chicago (2004), San Francisco (2007), Phoenix (2007) and Grand Rapids (2008).

In the Liveable City study in Austin, the study compared revenue and expenditures at two local merchants against those at a competitive chain store slated for a publicly-subsidized development across the street. In that case, the local retailers were found to generate three times the local economic activity as the chain store.

Building on that study, the Andersonville Study of Retail Economics in Chicago conducted similar analyses of ten local retailers, restaurants, and service providers and their chain competition. While the impact differential varied among firms and sectors, the results were again striking, with locals producing an average of 70 percent more local

economic activity than chains on comparable revenue. The Andersonville Study further reviewed impacts on a per-square-foot basis, and found similar economic advantages provided by local firms. (www.AndersonvilleStudy.com)

In 2007, Civic Economics worked with business coalitions in San Francisco to broaden these studies, focusing on the market shares held by independent businesses and extrapolating economic impacts to be gained by increasing local market shares by just 10 percent.

That change, in a city of already strong independents, would generate an annual economic impact of nearly \$200 Million and create 1300 jobs with over \$70 Million in payroll.

(www.CivicEconomics.com/SF)

In 2008, Civic Economics undertook the broadest study to date in Grand Rapids, Michigan. We had the opportunity to analyze market shares of chains and locals in four lines of goods and services, survey a number of local businesses in each for comparative impact purposes, and forecast the local impact of a 10 percent shift in consumer purchasing from chains to locals. The findings: \$137 Million in additional local economic activity, with more than 1,600 jobs generating \$53 Million in wages. (CivicEconomics.com/localworks)

This study expands on the earlier study to provide New Orleanians with analysis of these issues.

locally-owned businesses generate as much as two- to three- times the local economic activity as do chains.

This study set out to take a new approach, comparing the local recirculation of dollars by Magazine Street merchants with that of a large general merchandise store such as a SuperTarget.

Scope of the Study

Civic Economics was retained by The Urban Conservancy to continue a line of research we began in 2002, evaluating the comparative economic impact of local businesses and their chain competitors.

Prior studies have confirmed that, to varying degrees, locally-owned businesses generate as much as two- to three-times the local economic activity as do chains. This study set out to take a new approach, comparing the local recirculation of dollars by Magazine Street merchants with that of a large general merchandise store such as a SuperTarget.

Our prior research has identified four ways in which locally-owned firms typically exceed that of chains:

1. Labor costs paid to local residents
2. Profits retained in the community by local residents
3. Purchase of goods and services from other local businesses
4. Charitable giving within the local community

We surveyed Magazine Street businesses. Fifteen (15) businesses provided us with highly confidential financial information about revenues and expenses. These businesses represent a range of goods and services and occupy a collective total of 40,000 sq. ft. of space along the corridor, approximately 27,000 sq. ft. of which is dedicated retail or customer-serving uses.

For comparison purposes, Civic Economics analyzed revenues and expenses associated with an average SuperTarget. Publicly available documents allow us to sort total revenue for Target into four broad lines of goods, into which we also sorted the participating Magazine Street businesses.

- Consumables & commodities
- Electronics, entertainment, sporting goods, toys
- Apparel and accessories
- Home furnishings and décor

Generic SuperTarget Store

Civic Economics began the study by analyzing publicly available data to identify revenue and expense patterns for a generic SuperTarget store. The average supercenter format Target occupies 179,000 square feet and achieves sales of \$282.51 per square foot, yielding total store revenue of approximately \$50 Million.

SuperTarget Store Sales Estimates – 2008	
Consumables & Commodities	\$18,486,030
Electronics, Entertainment, Sporting goods & Toys	10,991,694
Home Furnishings & Decor	10,492,071
Apparel & Accessories	9,992,449
Total Sales	\$49,962,244

SUPER TARGET STORES, INC. 2008 10-K

Revenue from four broad lines of goods:

Consumables & Commodities includes the range of merchandise typically found in a supermarket. Unfortunately, the company does not reveal enough information to confidently allocate square footage to each line of goods.

Estimating the proportion of that revenue that recirculates locally is more difficult. Publicly traded firms reveal little operational data beyond that required by the federal regulations and the informational needs of shareholders. However, Target Stores, Inc., provides a great deal of additional information to facilitate our analysis.

The accounting category of "Sales, General, and Administrative" includes all significant expenses reasonably expected to occur in the communities in which the company operates stores. SG&A expenses constitute just over 20 percent of company wide retail revenues, including online sales. From that figure, Civic Economics deducted the following items:

- Rent - Occupancy costs are not typically included in an economic impact analysis and, for the same reasons, we do not include them here. This is true for both local firms and Target.
- Headquarters Employment - Civic Economics estimated labor expenses for Target's 12,000 Minneapolis headquarters employees.
- Advertising - Target, like most national retailers, conducts very little advertising that is truly local. Rather, it purchases advertising spots on a national market and distributes printed circulars to local newspapers for delivery.

From those deductions, Civic Economics estimates that, of the \$50 Million in revenue associated with a generic SuperTarget store, approximately 16 percent is recirculated locally through wages paid to local employees.

Of course, that number is an estimate and may be as much as a percentage point higher or lower.

All Lines of Goods

The next step in our analysis is to develop comparable recirculation numbers for a range of locally owned merchants offering lines of goods in competition with Target. To do this, Civic Economics undertook to survey merchants doing business on or near the Magazine Street corridor in New Orleans.

We have conducted similar surveys in Austin, Chicago, and Grand Rapids, and have learned to anticipate limited participation. This is due to the extremely intrusive nature of the survey, which requires participating merchants to reveal highly confidential data. In this case, participants were requested to reveal the allocation of space within their properties in addition to financial information.

In particular, we sought to quantify the following local expenditures as a share of firm revenues:

- Profit - The amount of money paid to locally-based owners of the business, including those actively involved in the operations and more passive investors.
- Labor - The amount of money paid to local residents employed in the business. This frequently includes a salary paid to owners, which is in addition to locally distributed profits.
- Goods - The amount of money spent to procure locally-produced goods, both for resale and for internal use.
- Services - Money spent to procure services from local providers, including lawyers, accountants, etc.
- Charity - The amount donated to local nonprofit organizations.

Responses to the survey represent 2008 revenues and expenditures.

In total, we received 15 complete surveys with all essential data provided. Of those, 14 fall squarely within one of the lines of goods for which we know total revenues for an average SuperTarget:

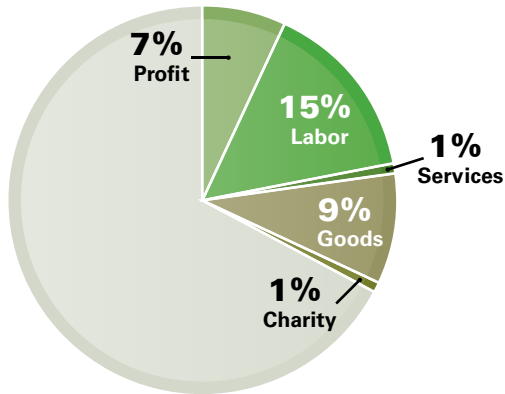
- Consumables & commodities
- 2 respondents
- Electronics, entertainment, sporting goods, & toys
- 3 respondents
- Apparel & accessories
- 5 respondents
- Home furnishings & decor
- 4 respondents

There were outlier responses, with unusually high or low values for particular data points. However, given the small sample, we did not exclude any of these responses from the analysis. Moreover, the sample size prevents us from revealing the names of participating businesses for fear of revealing information provided to us under a strict confidentiality agreement.

The BIG Benefit

The chart below represents the local expenditures, as a share of revenue, for all 15 participating businesses

All Lines of Goods



Total Local Recirculation of Revenues: 32.1%

Source: Survey of Magazine Corridor Merchants

A City Developing its Assets

The following charts show a further breakdown of that recirculation as a share of revenue, identifying values for each broad line of goods.

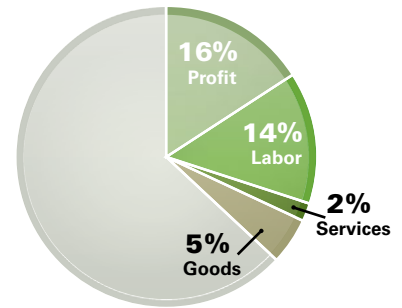
Electronics, Entertainment, Sporting Goods, and Toys



Total Local Recirculation of Revenues: 35.2%

Source: Survey of Magazine St. Merchants

Apparel and Accessories



Total Local Recirculation of Revenues: 37.1%

Source: Survey of Magazine St. Merchants

Total recirculation of revenue for a hypothetical SuperTarget store is 16%. Businesses participating in this survey return dollars to the New Orleans economy at approximately twice that rate.

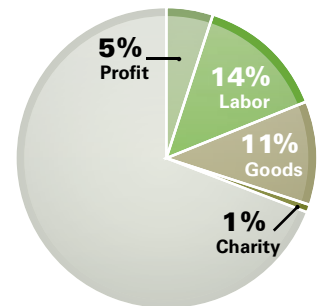
Home Furnishings and Decor



Total Local Recirculation of Revenues: 24.1%

Source: Survey of Magazine St. Merchants

Consumables and Commodities



Total Local Recirculation of Revenues: 29.6%

Source: Survey of Magazine St. Merchants

These findings, which are consistent with earlier studies in other American cities, demonstrate again that locally-owned businesses provide a local economy with tremendous returns compared to their chain competitors. As a share of revenue, Magazine Street merchants surveyed keep twice as much of their revenue local as do chain competitors.

Policy Considerations

On any given transaction, the difference may appear small, but carried throughout the \$3.8 Billion Orleans Parish records annually in retail sales (2008, Claritas) the impact is astounding. For example, if all Orleans Parish retail transactions in 2008 had taken place at locally owned businesses, \$1.2 Billion of that would have remained in the local economy – providing more opportunity to local residents.

By contrast, had those transactions taken place at chains, only \$600 Million would have remained locally. At the regional level the potential additional activity is even more substantial. The seven parishes of the New Orleans-Metairie-Kenner Metropolitan Area generate \$14.6 Billion in retail sales annually.

Therefore, the difference between an all-local retail economy and an all-chain one is \$2.35 Billion dollars in local recirculation in the New Orleans area. The reality is somewhere between these extremes, but the clear implication is that local business matters, especially in a rebuilding and growing city like New Orleans. Indeed, without knowing current market shares, we can say the following:

If Orleans Parish consumers, including residents, institutions, and visitors, were to shift just 10 percent of all retail activity from chains to local merchants, the result would be equivalent to injecting an additional \$60 Million annually into the local economy.*

At the metropolitan level, the same 10% shift would inject an additional \$235 Million into the regional economy every year.

(* in the form of recirculated dollars that would otherwise have left the area)

Land Use Considerations

The survey data and analysis present another issue for consideration. Civic Economics asked each participating business to provide data about the size and use of its facilities. Our goal was to quantify sales per square foot, a common measure of commercial success in the retail sector, to identify opportunities for the most productive use of land in a rebuilding New Orleans.

For local businesses, Civic Econ-

omics looked at space dedicated to retail services, excluding additional spaces. This was done to account for the odd configurations of many Magazine Street spaces, with deep narrow storefronts and often additional rental space on upper floors or outbuildings. A more conventional, purpose-built store like Target, by contrast, dedicates nearly all space to retail purposes, so this analysis uses the full 179,000 square feet.

Participating businesses report total sales per square foot of \$587 per retail square foot. Therefore, 179,000 square feet would generate an estimated \$105 Million in annual sales revenue across as many as 100 individual stores. Buildable ground floor space on a typical Magazine Street block is 20-25,000 square feet, so these businesses would occupy roughly four blocks, fully built out on both sides of the street.

Average Target store

Size: 179,000 square feet

Sales: \$282.51 per square foot

Revenue: \$50 million

Recirculation: \$45 per square foot.

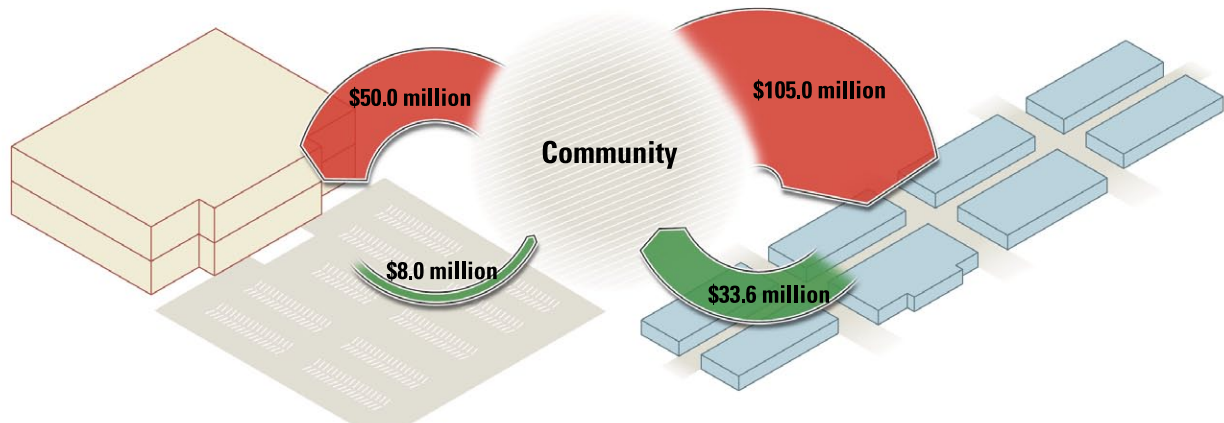
Local merchants

Size: Similar comparison to average Target

Sales: \$587 per square foot*

Revenue: \$105 million*

Local recirculation: \$188 per square foot†



Parking: Roughly 300,000 square feet – nearly seven acres in a surface lot configuration

Parking: Mostly on-street and other existing

*Sales data from participating businesses in survey.

† Recirculation to community of wages, profits, procurement of goods and services, and charitable giving

Converting the local recirculation figures from the previous section to account for the full 179,000 square feet yields an estimated local recirculation of \$188 per square foot. For the entire four block stretch illustrated above, total local recirculation in the form of wages, profits, procurement of goods and services, and charitable giving reaches \$33.6 Million per year. The same calculations for the hypothetical SuperTarget store yield total sales of \$50 Million, with local recirculation of only \$45 per square foot or a total of only \$8 Million annually.

In addition, while the eight blocks of Magazine Street merchants would utilize mostly on street and other existing parking, a large format supercenter like a Super-Target typically requires roughly 300,000 square feet of parking, nearly seven acres in a surface lot configuration. The current Wal-Mart Supercenter on Tchoupitoulas Street is roughly the same size of the hypothetical SuperTarget used for analysis here, and its total site sprawls across 12 acres on the New Orleans riverfront.

This widely divergent contribution of land use to the local economy is especially important in New Orleans. The commercial district at Gentilly and Elysian Fields presents an excellent example. The existing area would be completely swallowed by just two buildings as big as a SuperTarget or a Wal-Mart Supercenter. The Gentilly Woods Shopping Center recently acquired by the New Orleans Redevelopment Authority, at roughly 13 acres, could accommodate only one supercenter, providing little opportunity for New Orleanians to capture the benefits of redevelopment.

Conclusion

Civic Economics appreciates this opportunity to analyze current and prospective retail economics in New Orleans. We believe the findings detailed above provide New Orleans residents and policy makers with ample reason to provide conscious support for independent businesses in the rebuilding city. Magazine Street and its diverse businesses provide an example of small business doing big things, generating higher revenue per square foot than a leading chain competitor and providing greater benefits to the local economy while they are at it.

This study did not provide the opportunity to analyze market shares of locals and chains in the rapidly evolving New Orleans retail economy. However, if the results above hold true across the community, we can say the following:

If New Orleans consumers, including residents, institutions, and visitors, were to shift just 10 percent of all retail activity from chains to locals, the result would be the equivalent of injecting an additional \$60 Million annually into the local economy in the form of recirculated dollars that would otherwise have left the area. At the metropolitan level, which constitutes seven parishes, the same 10 percent shift would inject an additional \$235 Million into the regional economy.

These findings provide the basis for a strengthened education and awareness campaign aimed at New Orleans residents and visitors. New Orleanians have always enjoyed the benefits of small-scale, neighborhood-focused retail convenient to homes and businesses. The city before Katrina was blessed with numerous commercial corridors,

some thriving and some struggling but these corridors were always closely associated with the adjacent community of residents.

As redevelopment progresses in storm-damaged areas of the city, policy makers will be confronted with stark choices between traditional urban retail districts such as existed before or wholesale redirection of commercial activity to large format chain stores.

We believe this study provides a strong basis for emphasizing the former. In the portions of the city that were largely built-out before the storm, the advantages of compact, traditional commercial districts become far greater, with each square foot of independent business generating four times the recirculation of dollars in the local economy.

Executive Summary

Civic Economics was retained by The Urban Conservancy to expand upon research begun in 2002, evaluating the comparative economic impact of local businesses and their chain competitors. Prior studies have confirmed that, to varying degrees, locally-owned businesses generate as much as two- to three-times the local economic activity as do chains. This study set out to take a new approach, comparing the local recirculation of dollars by Magazine Street merchants with that of a large general merchandise store such as a SuperTarget.

Findings

The average supercenter format Target occupies 179,000 square feet and achieves sales of \$282.51 per square foot, yielding total store revenue of approximately \$50 Million.

Participating businesses report total sales per square foot of \$587 per retail square foot. Therefore, 179,000 square feet would generate an estimated \$105 Million in annual sales revenue across as many as 100 individual stores.

Total recirculation of revenues for the hypothetical SuperTarget store was 16 percent and total recirculation of revenues for Magazine businesses was 32.1 percent. Therefore, in aggregate, locally-owned participating businesses return dollars to the New Orleans economy at approximately twice that rate.

If New Orleans consumers, including residents, institutions, and visitors, were to shift just 10 percent of all retail activity from chains to locals, the result would be the equivalent of injecting an additional \$60 Million annually into the local economy in the form of recirculated dollars that would otherwise have left the area. At the seven-parish metropolitan level, the same 10 percent shift would inject an additional \$235 Million into the regional economy.

Land Use Considerations

The findings detailed above provide New Orleans residents and policy makers with ample reason to provide conscious support for independent business in the rebuilding city, including a strong education and awareness campaign aimed at New Orleans residents and visitors to cultivate “conscientious consumers.”

An important land use consideration is parking. While Magazine Street merchants mostly utilize on street parking, a large format supercenter like a SuperTarget typically requires roughly 300,000 sq. ft. of parking, nearly seven acres in a surface lot configuration.

Comparing the local economic activity as a function of land use, 179,000 sq. ft. of local merchants would achieve sales of \$105 Million, of which \$33.6 Million would recirculate through the local economy. The same 179,000 sq. ft. of retail supercenter would consume an additional 300,000 square feet of parking and achieve sales of \$50 Million, of which only \$8 Million would recirculate through the local economy.

This divergent contribution of land use to the local economy is especially important in New Orleans. The commercial district at Gentilly and Elysian Fields presents an excellent example. The existing area would be swallowed

by just two buildings as large as a SuperTarget or a Wal-Mart Supercenter. The Gentilly Woods Shopping Center (recently acquired by the New Orleans Redevelopment Authority), at roughly 13 acres, can accommodate only one supercenter, which provides little opportunity for New Orleanians to capture benefits from redevelopment.

Conclusion

Magazine Street’s retailers provide a strong example of small businesses doing big things.

This study shows that local retailers, when compared to leading chain competitors, generate twice the annual sales, recirculate revenue within the local economy at twice the rate, and, on a per square foot basis, have four times the economic impact. Investing in locally owned businesses is a cost-effective way to grow the New Orleans economy and is compatible with development patterns in existing commercial districts.

The City can stimulate wealth creation and retention by developing a coordinated strategy that focuses on local business growth. Through incentives, risk mitigation, and improved service delivery from City Hall, we can maximize local businesses in new developments and redevelopment of commercial properties citywide.



Judith Lafitte
& Tom Lowenburg
proprietors of Octavia Books
*Representing a tradition of independent
bookselling in New Orleans.*

The Urban Conservancy wishes to sincerely thank the businesses that participated in this survey; these businesses cannot be named in order to protect the confidentiality of the information provided.

We also wish to thank the Magazine Street Merchants Association (www.magazinestreet.com) for encouraging member businesses to participate. Michael J. Powers provided tremendous assistance in disseminating and collecting survey data.

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