



LOCAL WORKS!

EXAMINING THE
IMPACT OF LOCAL
BUSINESS ON THE
WEST MICHIGAN
ECONOMY

SEPTEMBER 2008



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INTRODUCTION

Civic Economics was retained by Local First of Grand Rapids, Michigan to analyze the performance and economic impact of independent businesses in Kent County and to identify opportunities for economic enhancement based on that analysis. Data was collected and analyzed for businesses in four lines of goods: **Pharmacies, Grocery Stores, Full-Service Restaurants, and Banks.**

Background to the Study

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

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% 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)

More recently, 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%. That small change, in a city of already strong independents, would generate an annual economic impact of nearly \$200,000,000 and create 1300 jobs with over \$70,000,000 in payroll. However, the impact components of that study were based on the earlier Andersonville findings and followed somewhat different methodologies that were applied in Grand Rapids. (www.CivicEconomics.com/SF)

LOCAL WORKS! Examining the impact of local business on the West Michigan economy

While these earlier studies have generated tremendous momentum for independent businesses and led to substantive policy changes in communities from coast to coast, they have been subject to dismissal based on the unsupported notion that Austin, Chicago, and San Francisco are atypical American communities. The opportunity provided by this study is thus very valuable. In Grand Rapids, the study will include a wide range of businesses in an American city more representative of our nation as a whole.

A few things to note:

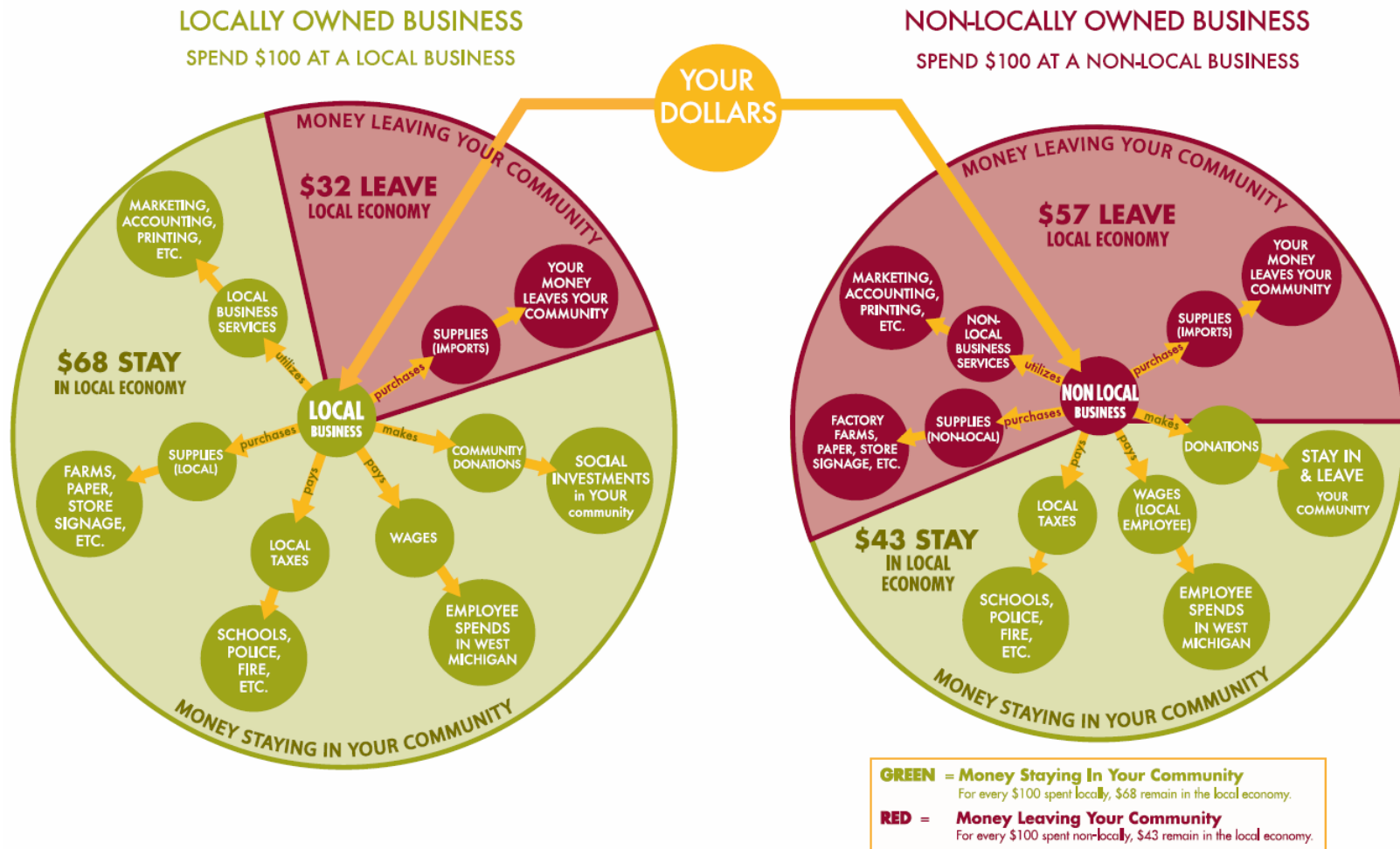
- For the purposes of this study, publicly held firms with headquarters in Kent County are not treated as local independents. As a result, some familiar local names are counted among the chains.
- Also in the grocery segment, this study treats a major regional chain as a local independent. Meijer is privately-held and locally headquartered; business decisions are still in the hands of Grand Rapids residents and owners.
- Similarly, in the banking segment, only a few banks are treated as local independents. Others with Kent County headquarters are publicly-held and thus accountable to shareholders outside the region.
- This study was intended to include booksellers. They have been active participants in all prior Civic Economics retail studies and often provide leadership for local business organizations. However, in Grand Rapids, the independent bookselling segment is dominated by a single local firm. In such a case, we would be unable to report any significant information without betraying our confidentiality agreement with participating merchants, so the book segment was dropped from the study. We are grateful, however, to Schuler's Books & Music for making every effort to work with us.

Civic Economics wishes to thank the following Grand Rapids businesses for their willingness to participate in this study by providing extensive information and time to assist us:

PARTICIPATING LOCAL BUSINESSES			
Art of the Table	Founders Bank & Trust	Kay Pharmacy	San Chez & Mezze
Bagel Beanery	Fulton Pharmacy	Keystone Pharmacy	Shuler Books & Music
Beltline Bar	Gilmore Collection	Kingma's Market	Sundance Grill
Bistro Bella Vita	Grand Central Market	The Omelette Shoppe	United Bank
Forest Hills Foods	The Green Well	Redux Books	

LOCAL WORKS! Examining the impact of local business on the West Michigan economy

Local First in Grand Rapids has developed a widely replicated chart illustrating the economics of local and non-local business, mapping the sort of connections that Civic Economics seeks to quantify in studies such as this. The values in this chart are drawn from the retail portion of the Andersonville Study. The current study included only one pure retail segment, the low margin business of grocery sales, and provides us no reason to doubt the broader applicability of the Andersonville findings.



STUDY METHODOLOGY

Market Share Methodology

This study begins with an estimate of the total market share held by independent businesses in Kent County in four lines of goods and services: Pharmacies, Grocery Stores, Full-Service Restaurants, and Banks.

The chart at right summarizes the market share methodology:

The approach to market share estimates begins by estimating total sales at identified chain and nonlocal businesses in the area. Without an invasive and error-prone survey approach, of course, we cannot determine sales at every independent merchant in the county. We can, however, estimate sales at identified chain and nonlocal businesses. Calling upon public filings such as annual and quarterly reports to shareholders and the Securities Exchange Commission, Civic Economics is able to identify corporate average sales for most large chains.

MARKET SHARE CALCULATIONS	
CALCULATING SALES AT INDEPENDENT LOCAL MERCHANTS	
Local Retail Sales for Line of Goods at Specialty Stores	<i>Source: Claritas</i>
- Local Retail Sales at Specialty Chain Merchants	<i>Source: Analysis of Public Filings and Trade Journals</i>
= Local Retail Sales Remaining to Independent Merchants	
CALCULATING TOTAL SALES FOR LINE OF GOODS	
Local Retail Sales for Line of Goods at Specialty Stores	<i>Source: Claritas</i>
+ Local Retail Sales for Line of Goods at General Merchandise Stores	<i>Source: Analysis of Public Filings and Trade Journals</i>
+ Local Sales for Line of Goods at Major Online Merchants	<i>Source: Analysis of Public Filings and Trade Journals</i>
= Total Local Sales for Line of Goods	
CALCULATING MARKET SHARE FOR EACH MERCHANT TYPE (Specialty Chain, Independent, General Merchandise, Online, Other)	
Local Sales for Line of Goods for Merchant Type	
÷ Total Local Sales for Line of Goods	= Merchant Type Market Share

Additional information may be gleaned from reports prepared by market analysts and from corporate press releases.

The market share charts provide breakdowns for locals and chains in each line of goods and services selected for study.

Revenue Recirculation Methodology

The first step in comparing the local economic impact is to analyze the proportion of revenue each business, local and chain, recirculates in the local economy. The primary ways a firm keeps money local are four: wages and benefits paid to local residents, profits earned by local owners, the purchases of local goods and services for resale and internal use, and contributions to local nonprofits. Participating local businesses complete a questionnaire designed to quantify these line items. For chain competitors, Civic Economics analyzes publicly available records, primarily in the form of quarterly and annual reports required by the Securities Exchange Commission. In all cases of uncertainty, we err on the side of assuming chains spend money locally.

For this study, we took the additional step of analyzing the local recirculation of money on the basis of square footage. In a largely built-out city like Grand Rapids, policy dictates seeking the highest and best use of available properties, and this analysis strongly supports the idea that local firms should be the preferred tenants for city sites.

Economic Impact Methodology

The economic impact analysis builds upon the prior step of calculating the proportion of revenue that each recirculates in the local economy to calculate the actual impacts on total revenues, employment, and income for Kent County. Using IMPLAN, which is an industry standard tool for calculating economic impacts, the local share of revenue was used as an input for each line of goods. By modifying the regional purchase coefficient, which tracks the percentage of activity taking place locally, for locals and chains to match the results from our interviews with local firms and information gathered from public data sources for the national chains, it was possible to model the economic activity for both of them. In order to match the locals and chains evenly regardless of store size, the results are provided in terms of economic impacts per \$1 million in revenue.

In essence, the recirculation figures developed above are treated as the “direct” effects in the IMPLAN model. That money, in turn, produces “indirect” and “induced” effects. Indirect effects measure purchases made between and among businesses. So when a lawyer is hired locally by a local bank or a grocery store purchases beer from a local brewer, this is shown as an indirect effect of the recirculation of money in the local economy.

The induced effects occur when residents spend money they have earned on additional local goods and services. So by employing more people locally, local businesses keep their money in Kent County; their employees then spend additional funds at restaurants and retail outlets throughout the county. Keeping this money in Kent County helps businesses throughout the county rather than exporting this wealth outside the local economy.

PHARMACIES AND DRUG STORES

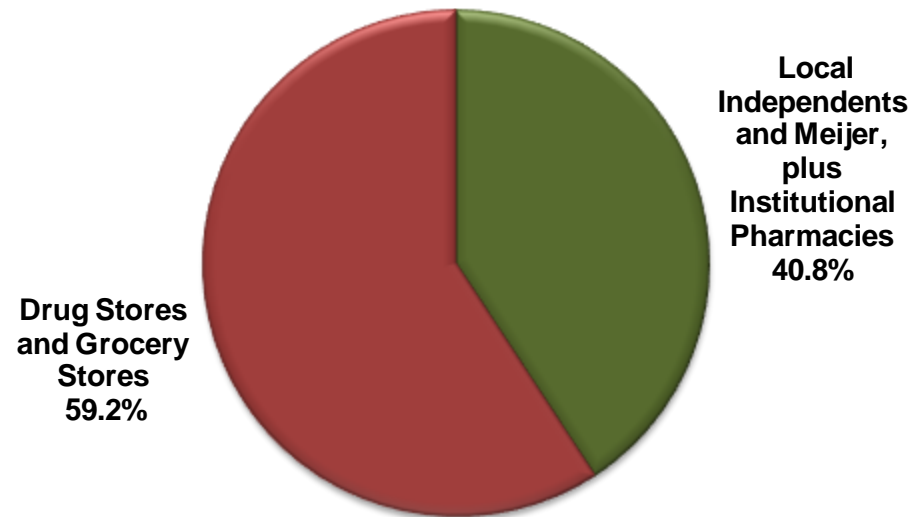
Market Shares

For the purposes of this analysis, Civic Economics considered all Kent County retailers substantially engaged in retail pharmacy sales. This includes a wide range of merchants, including traditional drug store retailers like Walgreens, full service supermarkets and general merchandise stores with a pharmacy, independent pharmacies with a limited range of ancillary products, and institutional pharmacies associated with hospitals and the like.

In order to provide an apples-to-apples market analysis, sales were estimated for a wide range of goods including prescription medications, over the counter medications, and the selection of health, beauty, and convenience items typically offered by the major chain drug stores.

Industry wide, the major chain drug stores typically earn roughly 2/3 of total sales from prescription medications, with the remainder coming from all other retail products.

PHARMACIES: 2007 MARKET SHARES



Total Pharmacy Sales, Kent County, 2007: \$ \$503,805,057

SOURCE: Civic Economics, Claritas, Drug Store News

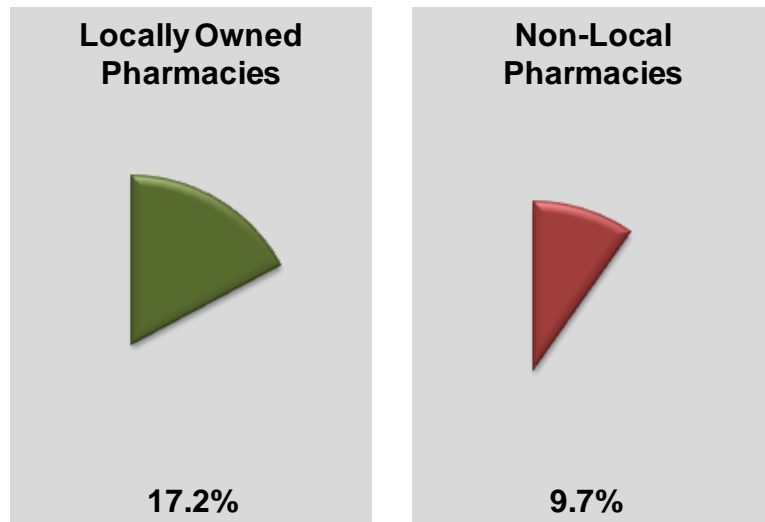
KENT COUNTY CHAIN PHARMACIES

Nonlocal and Publicly-Held Drug Stores: CVS, Rite Aid, Walgreens
Nonlocal and Publicly-Held Other Stores: Grocery Stores with Pharmacies (29), Sam's Club, Costco
Local: Meijer

Revenue Circulation

Traditionally, pharmacies are service businesses. At the back of the store, a highly educated professional and support staff provide a valued service. Though pharmacy staff are typically well paid, the goods they dispense are expensive, diminishing the appearance of a labor-intensive sector. At the local pharmacies studied here, the dispensing of medication is the dominant line of business. At the chains reviewed, the pharmacy provides roughly 2/3 of store revenue. As a result of these dynamics, the local pharmacies provide a 77% local economic advantage on the basis of revenue, but a stunning 330% advantage per square foot.

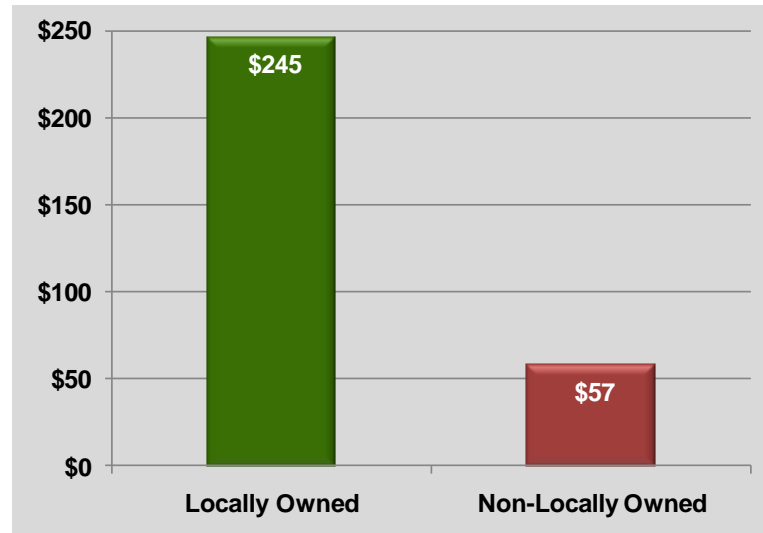
PHARMACIES: LOCAL CIRCULATION BY REVENUE



Local Economic Advantage: 77.0%

SOURCE: Surveys and interviews with Grand Rapids businesses, 2007 Annual Reports for Darden and Landry's restaurant groups

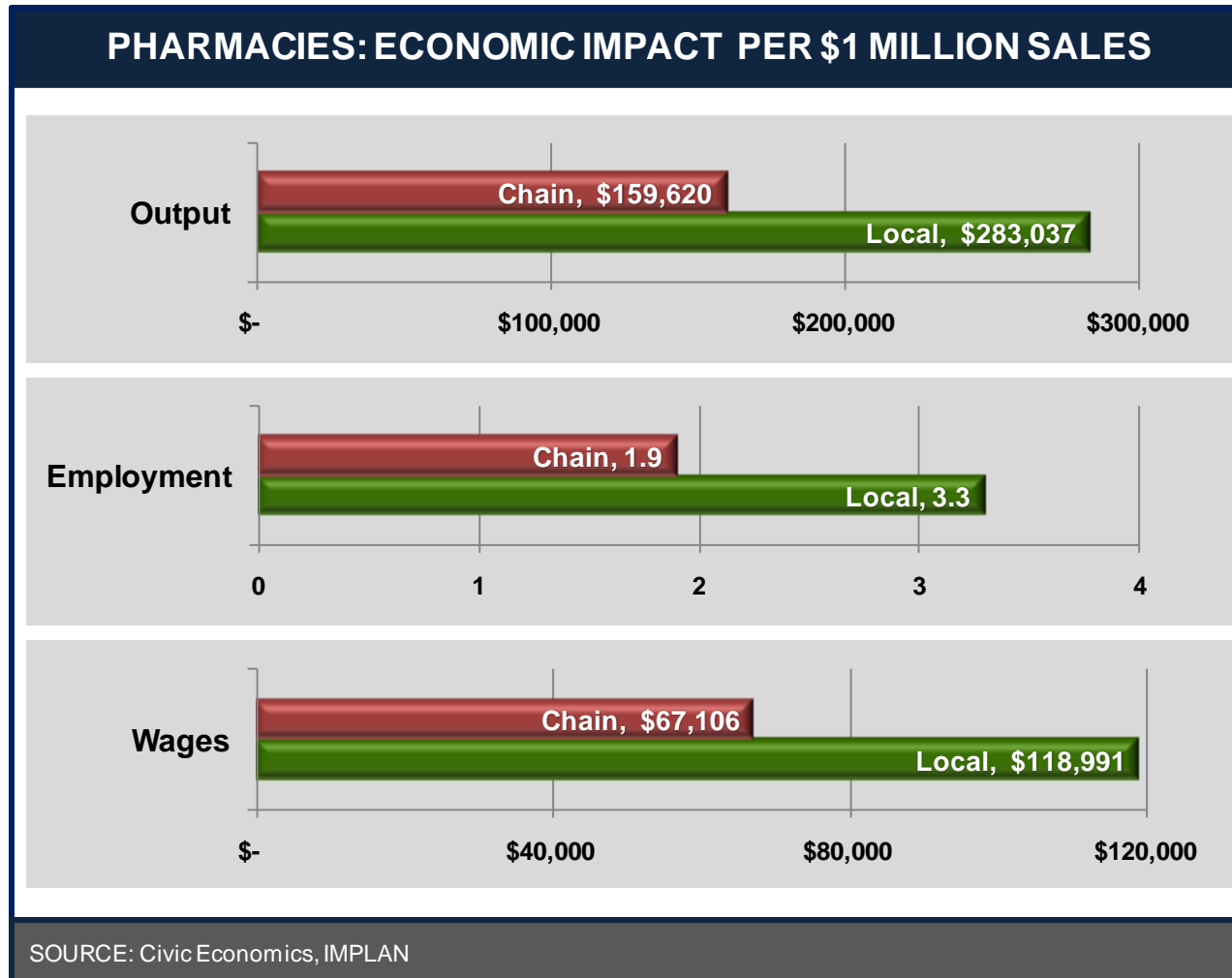
PHARMACIES: LOCAL CIRCULATION PER SQ. FT.



Local Economic Advantage: 329.8%

SOURCE: Surveys and interviews with Grand Rapids businesses, 2007 Annual Reports for Kroger and Safeway supermarket corporations

Economic Impacts



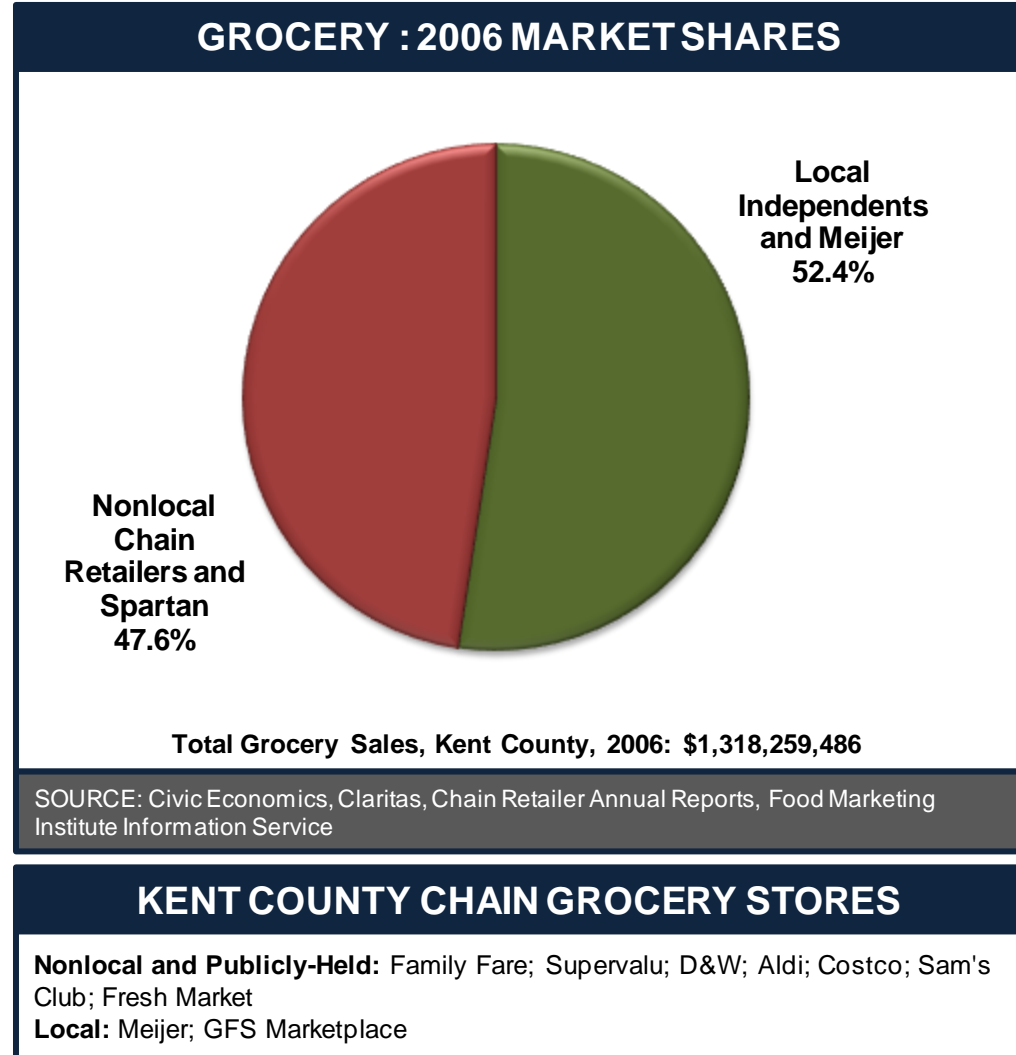
GROCERY STORES

Market Shares

The lion's share of independent grocery sales in Grand Rapids is, of course, held by the largest local player, Meijer. However, even with Meijer's dominance in the market, smaller independents throughout the region capture more than 15% of total grocery sales.

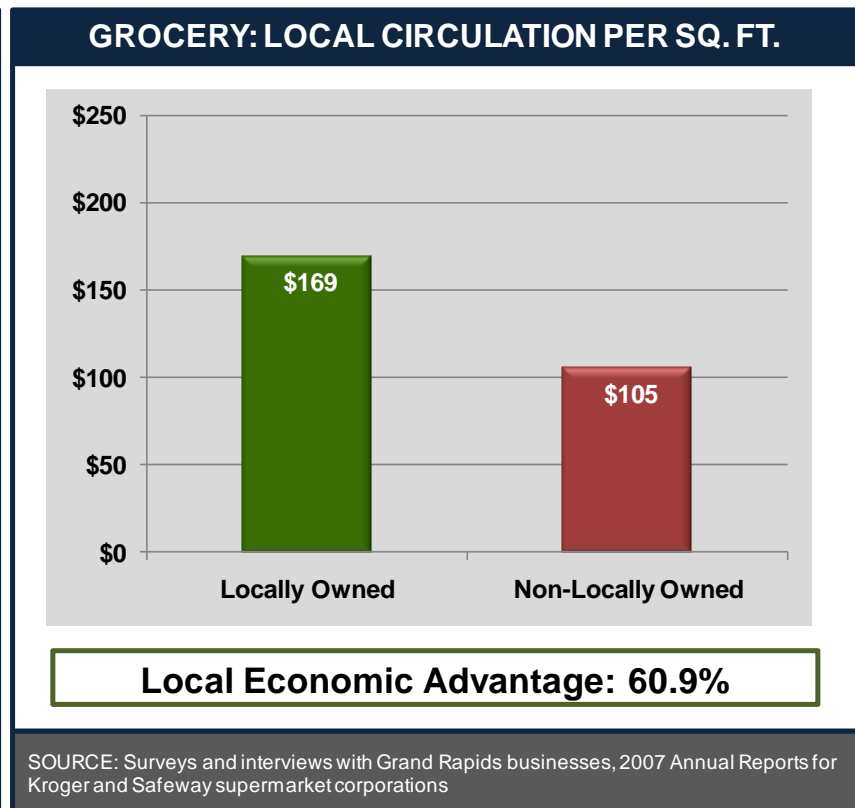
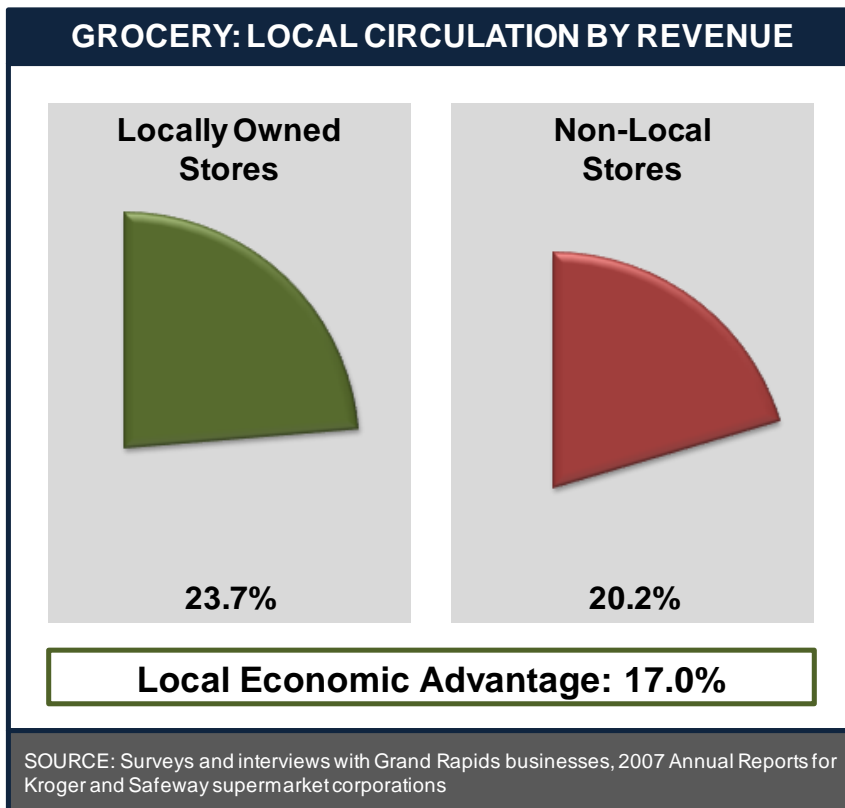
The other major grocery in the region is Spartan Stores, which captures nearly 20% of the local grocery market under a number of retailer names. Though Spartan is based in Grand Rapids, it is publicly-held and therefore not counted among the local independents for the purposes of this study.

For the purposes of this analysis, Civic Economics compared a number of participating local independents against corporate averages for two of the largest national grocery chains, Safeway and Kroger.

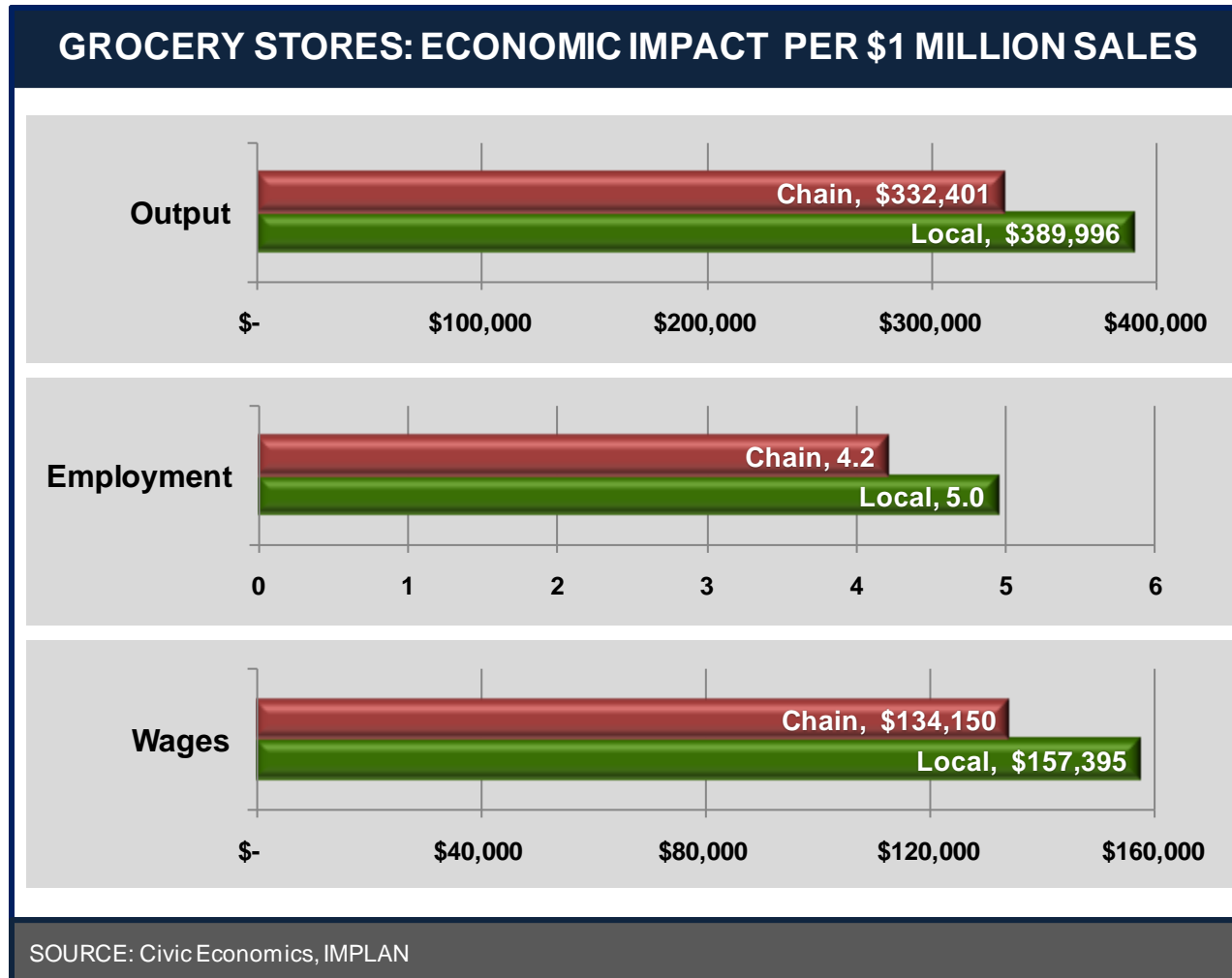


Revenue Circulation

The most striking thing about the charts below is how small the local economic advantage proved to be as a share of revenue, 17%. Two issues explain the finding: (1) The chain grocers studied provide competitive wages and benefits to a large number of employees, and (2) the local grocers participating in the study tended to be smaller, more specialized shops in which management assumes much of the workload. Note, however, that the local economic advantage on the basis of size jumps to a healthy 61%. This outcome is the result of participating local grocers achieving sales per square foot far in excess of that achieved the chains.



Economic Impacts



FULL SERVICE RESTAURANTS

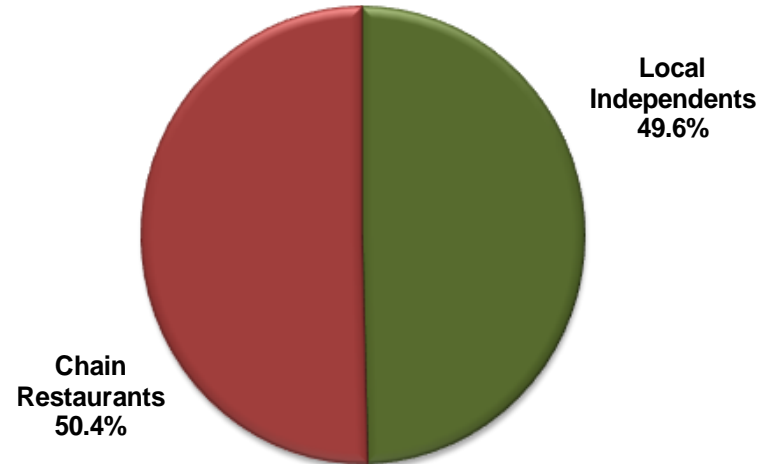
Market Shares

The full-service restaurant business in Kent County is just about evenly split between chains and local independents. Nationwide, this is an industry in transition, as restaurant concepts featuring table service and relatively high prices expand aggressively. Nonetheless, Grand Rapids independents are holding their own in the face of this new and ever-increasing competition.

The downtown area of Grand Rapids is dominated by locally owned restaurants including the B.O.B. and Bistro Bella Vita which participated in this survey. This strong foundation of local businesses is offset in the periphery of the city which, in typical fashion, sees the pendulum swing in the other direction towards national chains.

Fifty-two different national chains have a presence in Kent County in almost every category of dining that exists. Even though the national chains have a slight advantage in sales, the locally owned restaurants surpass them in terms of money retained locally and economic impact on Kent County.

RESTAURANTS: 2006 MARKET SHARES



Total Full-Service Restaurant Sales, Kent County, 2006: \$433,658,987

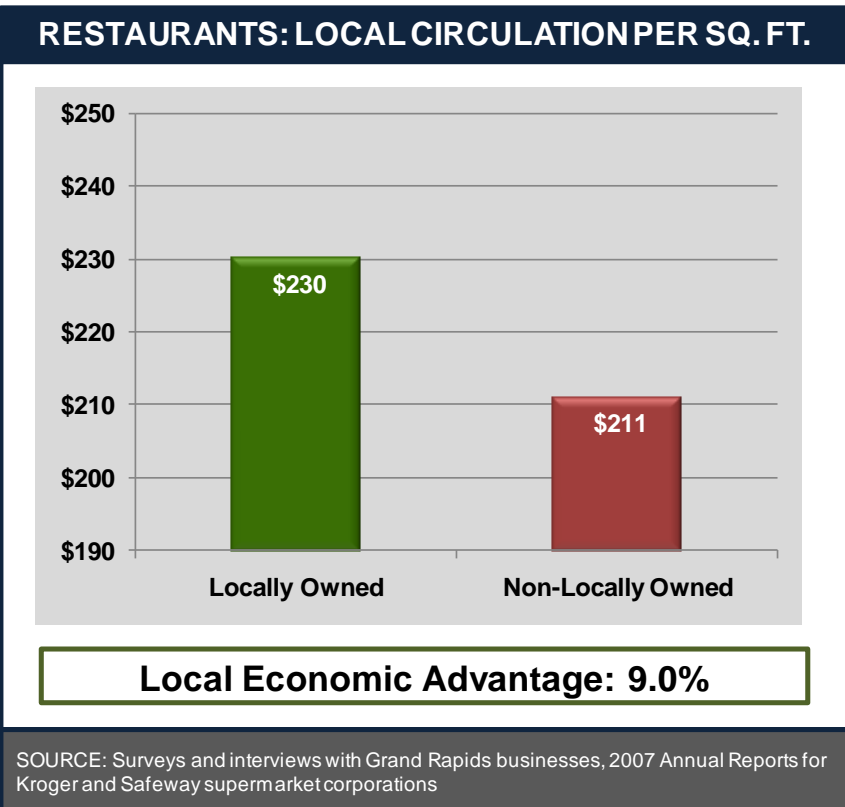
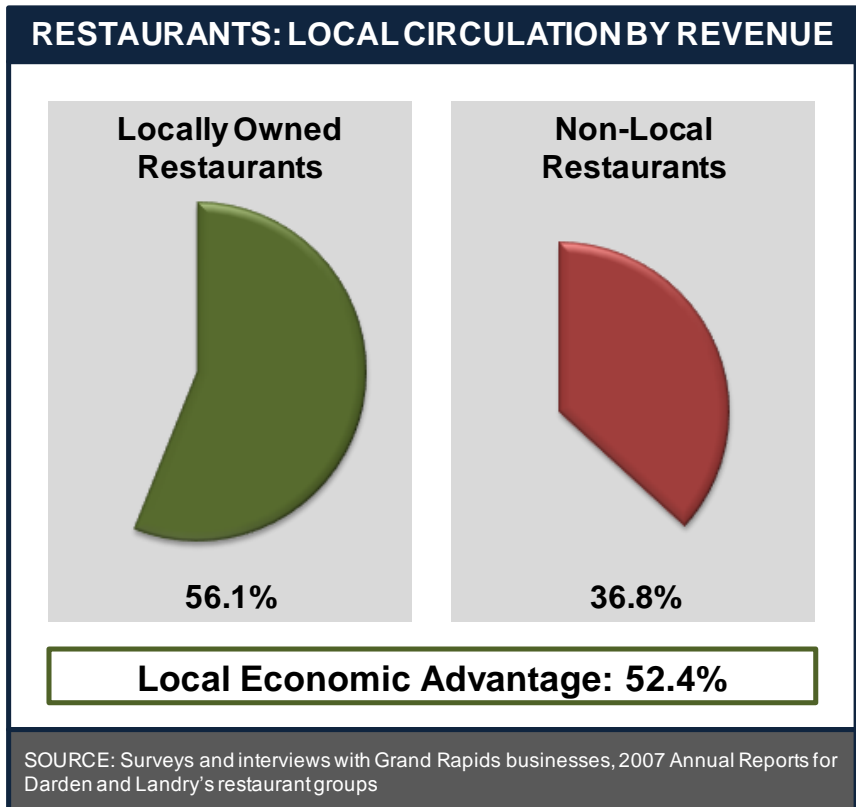
SOURCE: Civic Economics, Claritas, Restaurants & Institutions Magazine (Reed Business Information)

KENT COUNTY CHAIN RESTAURANTS

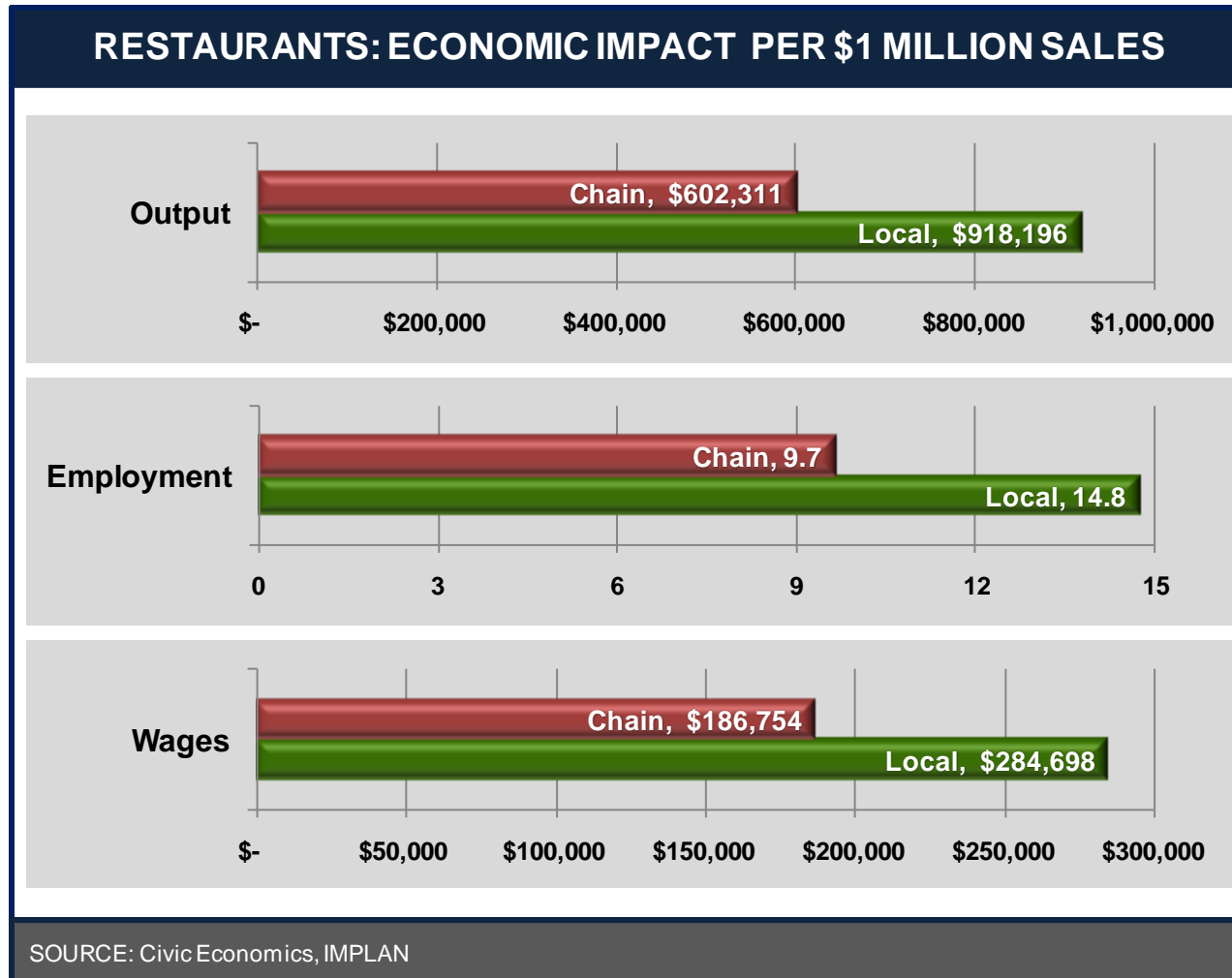
Applebee's	Denny's	On The Border
Bar Louie	Don Pablo's	Outback Steakhouse
bd's Mongolian Grill	Famous Dave's	Papa Vino's
Bennigan's	Fazoli's	Perkins
Bob Evans	Great Harvest Bread Co	Pizza Hut
Bonefish Grill	Hooters	Ponderosa
Boston's Gourmet Pizza	IHOP	Qdoba Mexican Grill
BW3	Landry's (Charley's Crab)	Red Lobster
Camille's Sidewalk Café	Logan's Roadhouse	Red Robin Burgers
Carino's Italian Grill	Longhorn Steakhouse	Roman'o's Macaroni Grill
Carlos O'Kelly's	Max and Erma's	Ruby Tuesday
Carrabba's Italian Grill	Moe's South west Grill	Ryan's
Chili's	Noodles and Company	Smokey Bones
Chop House	O'Charley's	Steak and Shake
Chuck E Cheese	Old Chicago	Texas Roadhouse
Country Kitchen	Old Country Buffet	The Melting Pot
Cracker Barrel	Olga's Kitchen	Uno Chicago Grill
	Olive Garden	

Revenue Circulation

The two charts below highlight the advantage that locally owned restaurants bring to the community. Our interviews showed that local businesses spend a higher portion of their income locally than national chains and also purchased many more local goods than a typical Olive Garden or Landry's. These two major factors, along with locally retained profits, local lead to their significant economic advantage when looking strictly at the percentage of revenue kept local. When analyzing the same results in terms of money kept local per square foot of restaurant space the locals did not fare as well although they still maintained a nine percent advantage. The chain restaurants typically achieve high sales per square foot, which edges them closer to the locals.



Economic Impacts

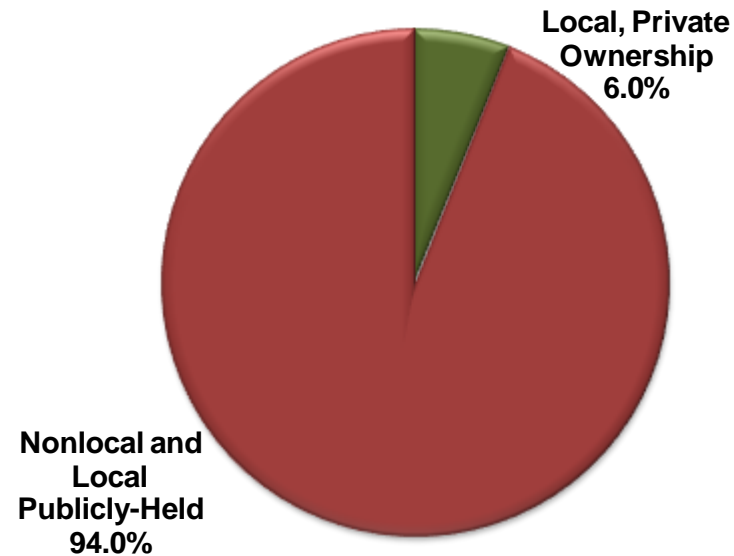


BANKS

Market Shares

Banking is another industry in transition. The growth of interstate banking and ongoing consolidation means that, increasingly, every market in the nation is served by the same handful of massive, global financial services companies. The process of consolidation has occurred largely through “rolling up,” as small banks are acquired by larger banks, which then become attractive acquisition targets for even larger banks. Nonetheless, Grand Rapids is home to several truly local, independent banks created with the goal of serving the local market. These banks currently capture only 6% of local deposits, though locally-based and publicly-held banks capture another 19%.

BANK DEPOSITS: 2007 MARKET SHARES



Total Bank Deposits, Kent County, June 2007: \$10.87 Billion

SOURCE: Civic Economics, Claritas, FDIC

KENT COUNTY BANKS

Local/Private: Northpointe Bank; Founders Bank & Trust; United Bank of Michigan; Kent Commerce Bank

Nonlocal and Publicly-Held: Byron Bank; ChoiceOne Bank; Fifth Third Bank; Huntington National Bank; JPMorgan Chase Bank; Macatawa Bank; Mercantile Bank; Lasalle Bank Midwest; Independent Bank; Comerica Bank; National City Bank; Flagstar Bank; Chemical Bank; Bank of Holland; Irwin Union Bank & Trust; Ionia County National Bank Ionia; Northern Trust Bank; Hastings City Bank; Wells Fargo Bank; West Michigan Community Bank; Universal Savings Bank; Select Bank

Impacts of Local Banking

Our previous studies have focused almost solely on calculating the economic advantages to communities when residents support locally owned businesses. However, from the beginning of our research into local spending we have recognized the importance of local banking and the vital role that it plays in maintaining sustainable local economies. We have explored the possibility of including banking in previous local economy studies, but were unable to induce the participation of independent local banks. In Grand Rapids, we were presented with the opportunity to work with two local banks, Founders Bank & Trust and United Bank of West Michigan.

In a highly regulated business such as banking, we were able to quickly identify market shares based on deposits. However, after initial research and interview with two local banks, we realized that our standard methodology used to calculate the amount of money kept locally by retailers would not fit the banking industry. The most obvious reason for this is the way banks make their money is almost the exact opposite of a retail business. Banks are given money by their customers in the form of checking and savings deposits and while a retail business would call this revenue, for a bank this is a liability since it must be repaid to that customer in some way. Moreover, the loans made with funds deposited are even more vital to the local economy.

The other factor which made it difficult to compare the banking industry in the same manner as the retail sector was the availability of data. In some ways there is much more data available in the banking industry than we would ever hope to get for our retail analysis. The data provided by the Federal Reserve gives a very strong overview of the banking industry and where deposits come from, but is surprisingly short on details about where that money goes. Data on banking operations is provided on a state-wide basis. For this reason it is possible to state how many loans Bank of America, for example, made to businesses in Michigan but not specifically in Grand Rapids.

Another complicating factor is that any data not required by regulatory agencies is closely guarded by banks, even the locally owned banks which agreed to help us with our analysis. In this case, with just two participating local banks, any further details we received from participating banks would be treated as confidential. At the least, the two banks would gain significant and unfair insights into the business practices of the other; at the worst, we would expose proprietary information to their larger competitors.

Despite the fact that a direct comparison between local and national banks cannot be replicated in the same manner as we have done for the retail industry, there are a few points that we have discovered that support the point of view that local banks do indeed keep more money in the local economy than national chain banks.

- As with the retail industry, the Federal Reserve data supports the fact that locally owned banks spend a greater percentage of their assets on both wages and rents which are both kept within the region. For example, Fifth Third Bank spent 1.1% of its average assets in 2007 on labor and 0.4% on occupancy expenses. The two local banks we studied averaged 1.8% of assets on labor and 0.5% on occupancy. While these differences seem small, when factored into the billions of dollars that national chain banks have in assets, these small differences become more pronounced.
- Local banks make primarily local loans while national chains are only required to keep a limited percentage of loans within the regions in which they operate. This becomes especially important when regional economies stagnate. When the economy in a region is in an upward cycle more loans are made within the region by national chain banks and the money deposited stays local in the form of loans. However, when the economy slows down these same deposits are leaving the region to make loans in areas around the country that are continuing to grow. Basically, the national chains systematically transfer deposits from struggling markets into loans in thriving markets. By contrast, local banks making local loans and are forced to ride out any downturns in the local economy while investing in the future of the region in which they are operating.
- Local banks rely more upon deposits and loans for their income while national chains rely substantially on income from credit cards to supplement their income. The data provided by the Federal Reserve shows that Fifth Third Bank has over ten percent of their assets wrapped up in outstanding credit card debt while the two locally owned banks do not have any such outstanding debt.

The result of these complications is that we are unable to provide the level of analytical detail for banking that we have been able to provide for other segments. Civic Economics will continue to look for opportunities to explore this important segment further in the years to come.

PROSPECTS FOR ENHANCED ECONOMIC IMPACTS

The final step in the analysis is to look for opportunities to further enhance the Grand Rapids and Kent County economy by leveraging the local economic advantages provided by local firms.

The chart on the following page shows the tremendous potential economic impact to be enjoyed in Kent County from one modest change in consumer behavior: a 10% shift in market share from chains to locals across the retail landscape. According to Claritas, Kent County reached approximately \$8.4 billion in retail sales in 2007. This analysis assumes that an extra \$840 million was shifted from national chains to locally owned businesses. Since we did not survey every retail sector in Kent County to have the exact shares of revenue kept locally we applied ratios for other areas in which we have done similar studies and normalized the results for the Grand Rapids region. For the categories that we did have actual local results, grocery stores and pharmacies, local results were used.

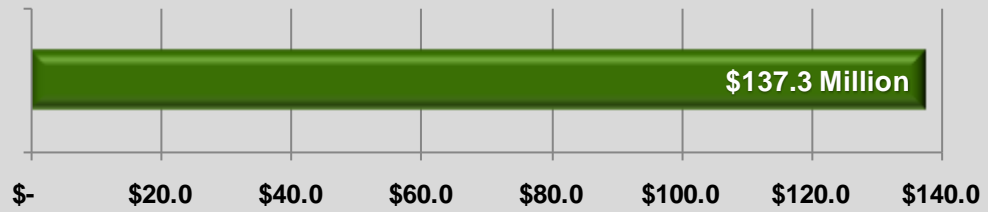
Using IMPLAN, a sector by sector model was created for Kent County in 2007 with identical retail sales of ten percent of the sector totals were used for both the locally owned businesses and national chains. However, the regional purchase coefficient was changed for the locals to represent their larger share of revenue which is kept local and the lower corresponding coefficient for the national chains. The model was run twice, once for the locals and once for the chains with the differences between the two listed in the chart below.

The results are rather significant. An additional 1600 jobs could be created in Kent County with wages of \$53 million being added to local payrolls if such a swing in purchasing behavior could be achieved. The 1600 additional jobs created would have been enough to increase employment by one-half of one percent in 2007. Output for the county could be increased by \$137 million as well and this benefit would be spread among many industries, not only the retail sector.

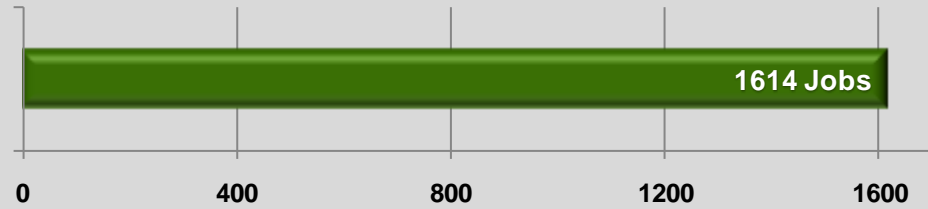
The magnitude of these impacts is such that, under ordinary circumstances, economic development organizations and public agencies would rally to the cause, actively recruiting and incentivizing any firm promising such an impact. As it happens, consumers can themselves create these impacts with only a modest shift in their habits and behavior.

ECONOMIC IMPACT OF A 10% MARKET SHIFT TO LOCALS

Additional Output (\$ Millions)



Additional Employment



Additional Wages (\$ Millions)



SOURCE: Civic Economics, IMPLAN

CONCLUSION

Civic Economics is grateful to Local First and its generous supporters for making this study possible. We are particularly indebted to the local firms that so generously provided their time and confidential business data to the cause.

In our previous studies of local business impacts, we have found evidence that communities benefit dramatically from the operation and expansion of independent firms relative to their chain competitors. This study strengthens that case significantly.

First, Grand Rapids, in many ways, looks like America. No longer can officials in the heartland, the intermountain West, or the Sunbelt, dismiss these numbers because they came from odd communities like San Francisco. Though we know Grand Rapids to be a fascinating, even quirky city, Americans will recognize the experiences of your city as similar to theirs.

Second, this study provided our broadest sample to date of participating local businesses. The owners of 19 firms took the time to complete extensive and intrusive surveys, trusting us with highly confidential data about revenue, wages, profits, procurement, and charitable giving. This extensive sample allowed us to better identify outliers and to follow up with the surveys with interviews to resolve very specific issues. We are confident that this analysis provides the best data to date on the practices of local pharmacies, grocery stores, and restaurants.

Finally, we must reiterate the most important lesson of these findings.

- ***Nearly \$140 Million in new economic activity.***
- ***Over 1600 new jobs.***
- ***Providing over \$50 Million in new wages.***

All these benefits may be captured for the people of Kent County with a small change in habits. Just one time out of ten, before heading to a chain store or restaurant, take that business to a local. We believe quality, service, and value for the dollar will be their own reward, but that small act will strengthen the local economy and build a better, more sustainable Greater Grand Rapids.

CONTACTS

For more information about this study, please contact:



Elissa Sangalli Hillary, Executive Director
Local First, Grand Rapids, Michigan
(616) 808-3788
elissa@localfirst.com

Dan Houston, Partner

Civic Economics

(512) 853-9044

dhouston@civiceconomics.com

