



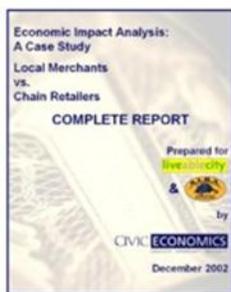
THE CIVIC ECONOMICS OF RETAIL

Ten Years of Studies

From its founding in 2002, Civic Economics has been committed to applying the tools of economic analysis and strategic planning across a range of situations impacting American communities. In the ten years since, our client base and subject matter have been nothing if not diverse. But with some regularity we return to the economics of local retail and service provision, an area in which Civic Economics is the undisputed research leader.

This document summarizes selected studies that may be understood as a series. All of the studies referenced here are available for download in the Library at CivicEconomics.com.

AUSTIN, 2002

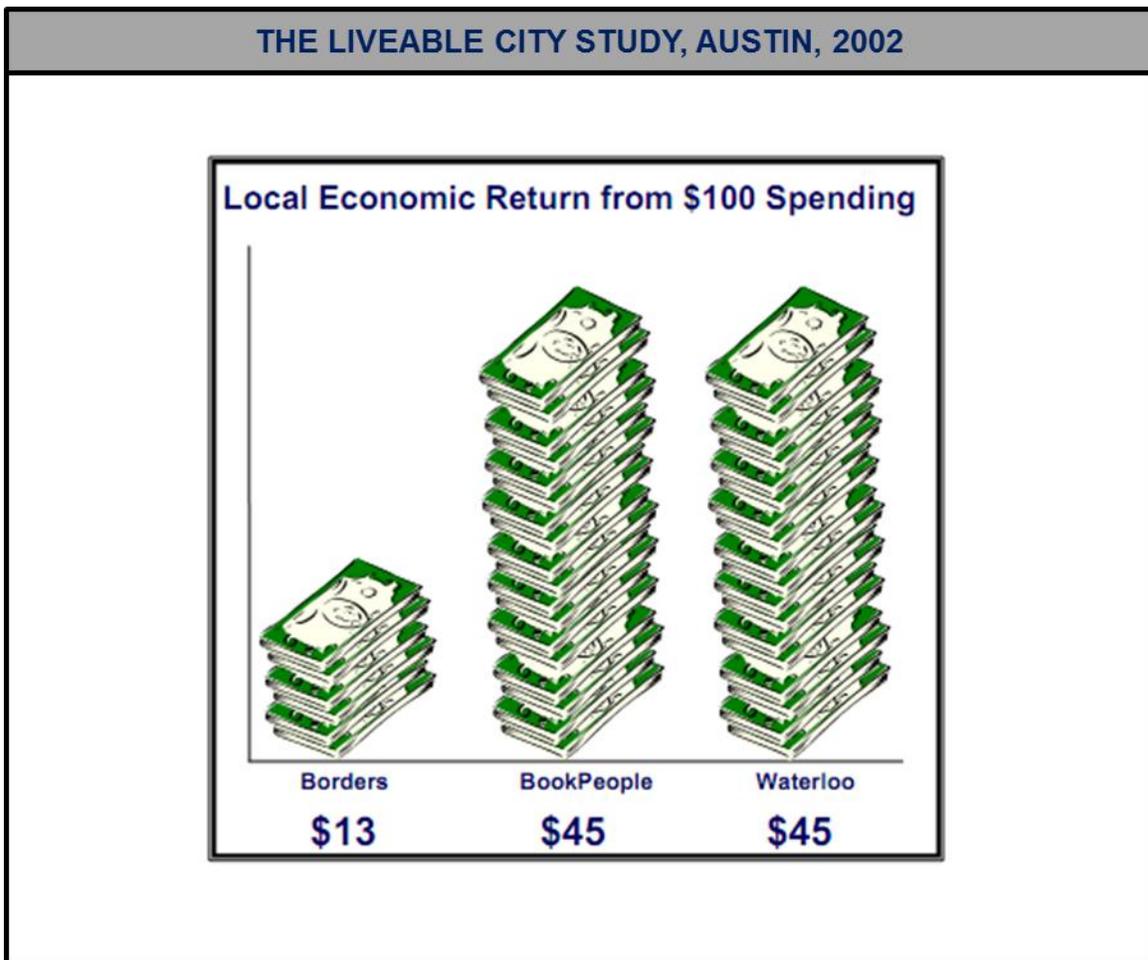


As the Austin economy boomed and downtown expanded its footprint to the west, one site presented ongoing redevelopment challenges: a former car lot at 6th and Lamar. At two corners of that intersection, Waterloo Records and BookPeople stood as local institutions, providing cultural and business leadership to the community. After a number of failed developments at the vacant site across the street, the developer proposed a low-rise, strip style shopping center to be anchored by a Borders Books & Music store. While welcoming competition and an enlivened shopping district, the owners of Waterloo and BookPeople asked only that the competition be fair. Unfortunately, it was not, as the City of Austin had extended development subsidies to the project valued at \$3 million.

As the debate raged, the partners of Civic Economics hit upon a novel idea: What if we could quantify the difference between and among the businesses at 6th and Lamar based on actual cash flows? Quickly sketching out a research plan, we pitched the idea to Steve Bercu of BookPeople and John Kunz of Waterloo, who enlisted further funding support from a local nonprofit, Liveable City.

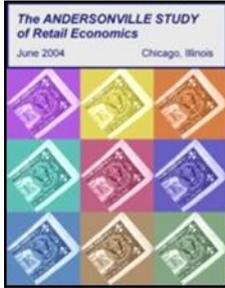
Bercu and Kunz were asked to complete a worksheet detailing how money moves through their businesses with a particular emphasis on how much of it recirculates in the Austin economy in the form of profit to local owners, wages paid to local employees, the procurement of goods and services from other local firms, and charitable giving. Relying on public records and analysts' studies of Borders, then, we were able to develop an objective comparison between the business and contribute meaningful economic data to an otherwise emotional debate.

The findings surprised all concerned. At both Waterloo and BookPeople, \$45 out of every \$100 spent in the store remained in the Austin economy. At a typical Borders store, that figure was just \$13, the rest disappearing from the local economy entirely at the end of the business day.

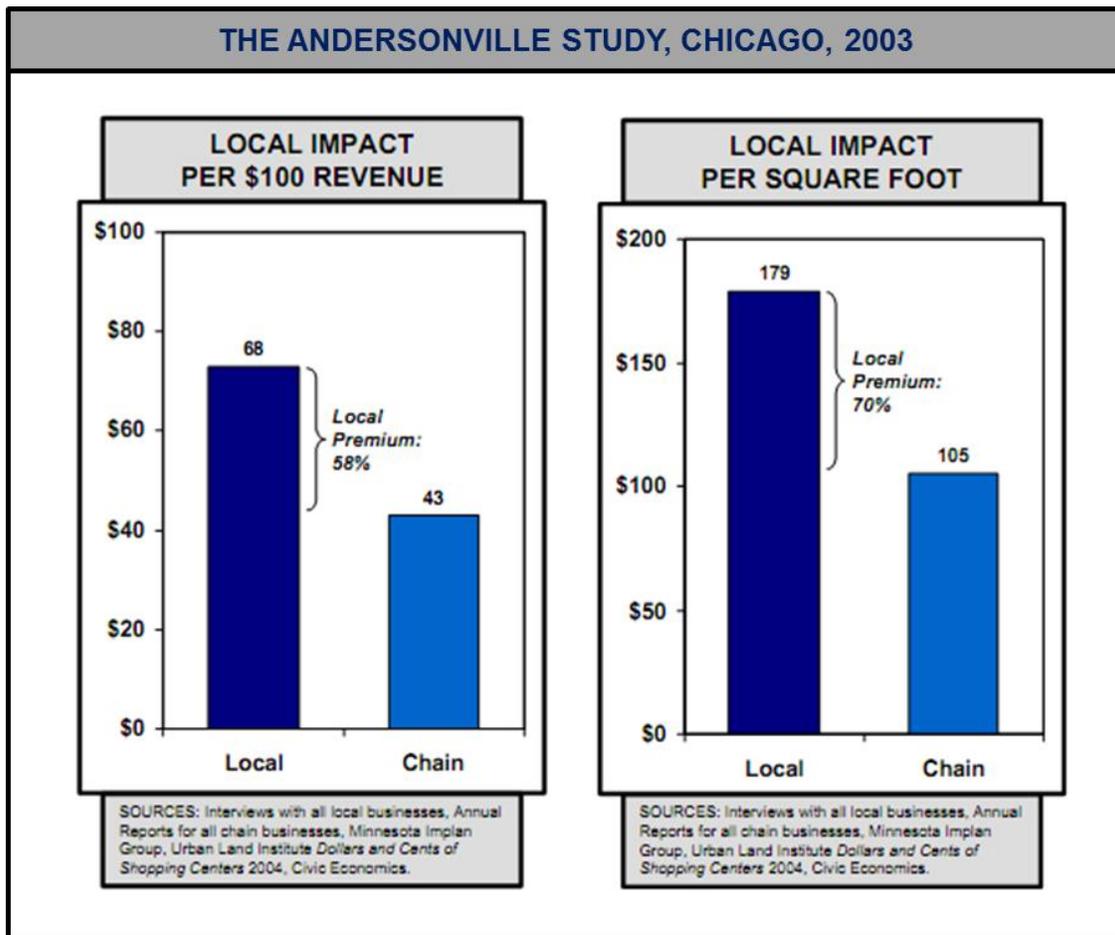


After much hard work by many engaged citizens, the Borders proposal died; the site is now the home of the headquarters tower and flagship store of Whole Foods, which was born in the same neighborhood. In the years since, that study has lived on, with frequently cited in media reports and economic development literature to this day.

CHICAGO, 2004



Following the Austin study, the partners of Civic Economics continued providing a range of services while remaining on the lookout for an opportunity to expand upon the Austin research. In early 2004, the Andersonville Chamber of Commerce contacted the firm about conducting a similar study there. Andersonville, which happens to be the home of Civic Economics partner Matt Cunningham, is a thriving, diverse, and historic neighborhood on Chicago's north side. As city policies increasingly favored redevelopment projects anchored by large chain retailers, the merchants of Andersonville sought to document the economic impact they bring to the city.



Expanding on the Austin methodology, the Andersonville Study of Retail Economics surveyed a number of small, locally-owned businesses offering retail goods, food and beverage service, and other services. These businesses were then compared to appropriate national chain competitors, with impacts reported relative to both revenue and square footage. Again, the results were striking:

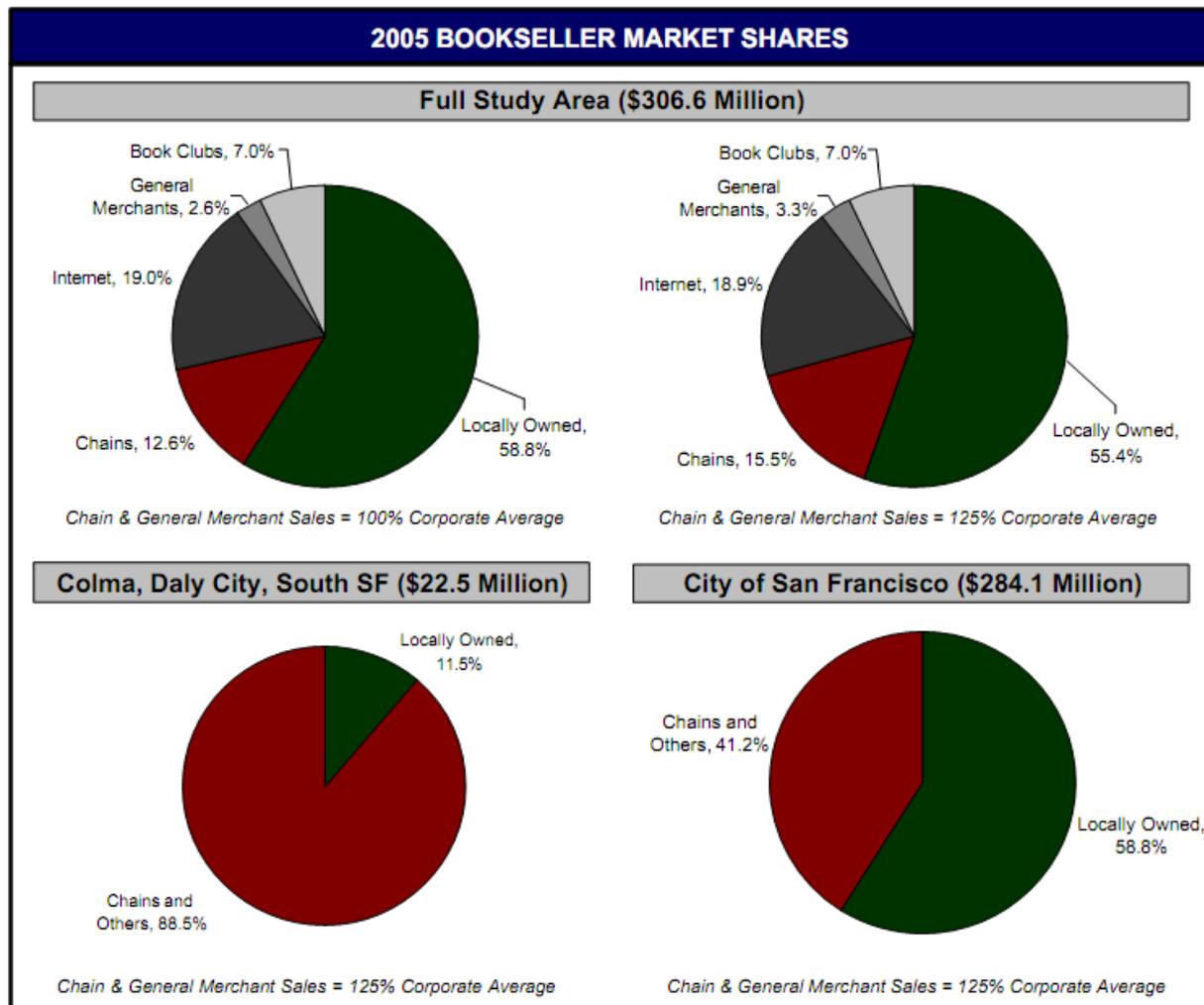
Like the Austin study, the Andersonville findings continue to resonate, often cited as shorthand for the enhanced economic benefits of independent businesses. We further explored the space utilization issues in New Orleans in 2009.

SAN FRANCISCO, 2007

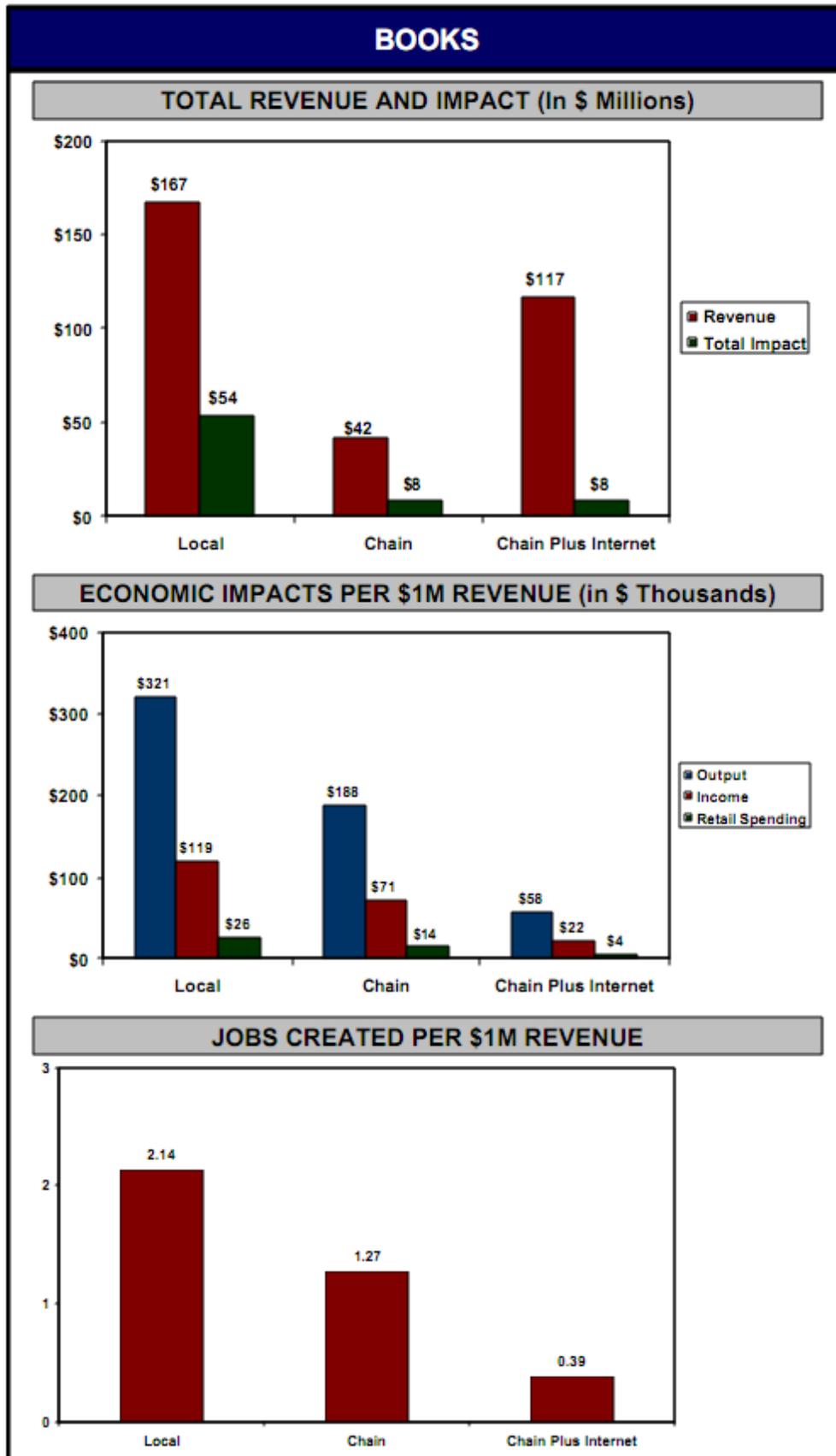


In 2007, Civic Economics was retained by the San Francisco Locally Owned Merchants Association and the Northern California Independent Booksellers Association to create a detailed analysis of retail sales, market shares, and business distribution among booksellers, sporting goods stores, toy stores, and limited service dining. The San Francisco Retail Diversity Study provided the first comprehensive, regional picture of the changing retail environment for both independents and chains.

The study encompassed the entirety of the San Francisco peninsula, extending south through Colma, Daly City, and South San Francisco. Market shares were estimated by identifying every outlet of large national or regional chains in the study area for each line of goods, including general merchandise and warehouse stores. The chart below represents market shares in bookselling and is representative of what we found in other sectors.

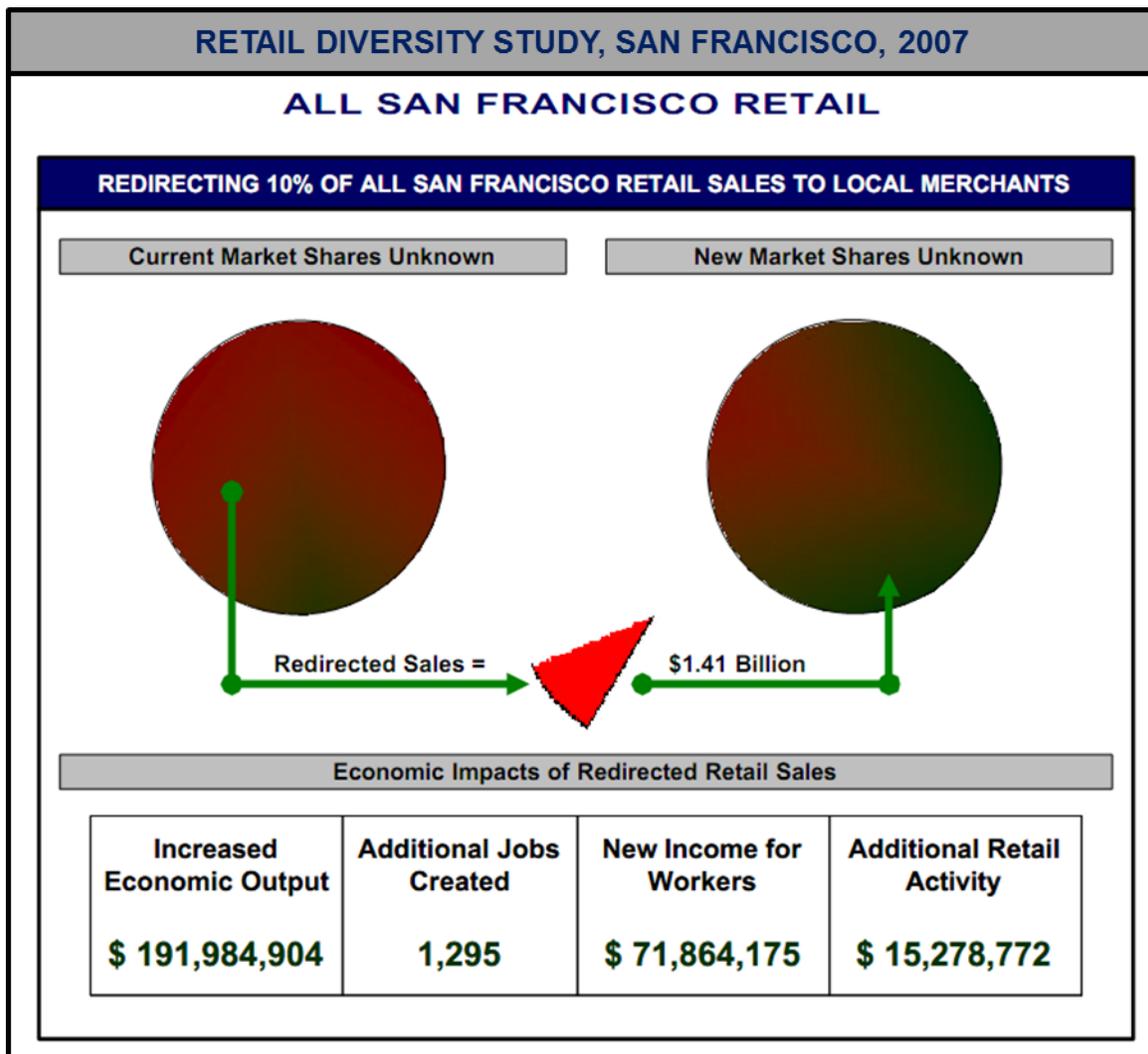


The next step in the study was to apply the findings of the Andersonville Study. The chart on the following page is, again, for the bookselling sector.



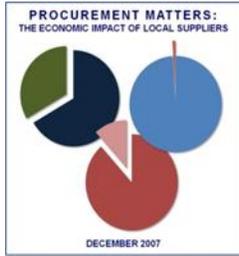
Finally, Hut Landon, Executive Director of the Northern California Independent Booksellers Association, offered a now classic formulation of the issue in an effort to provide consumers and policymakers with guidance in applying the findings: **the 10% shift**. The essential idea is to estimate the total economic impact on a regional economy of a 10% shift in market share from chains to independent, locally-owned businesses. This simple idea has taken on a life of its own, because it resists the absolute in favor of a modest change in habits, asking only that consumers explore their options.

Applying the Andersonville findings to the San Francisco market, we found that this modest 10% shift from chains to locals would produce an economic impact of nearly \$200 million, create 1,295 jobs, and generate an increase in retail activity of \$15.2 million.



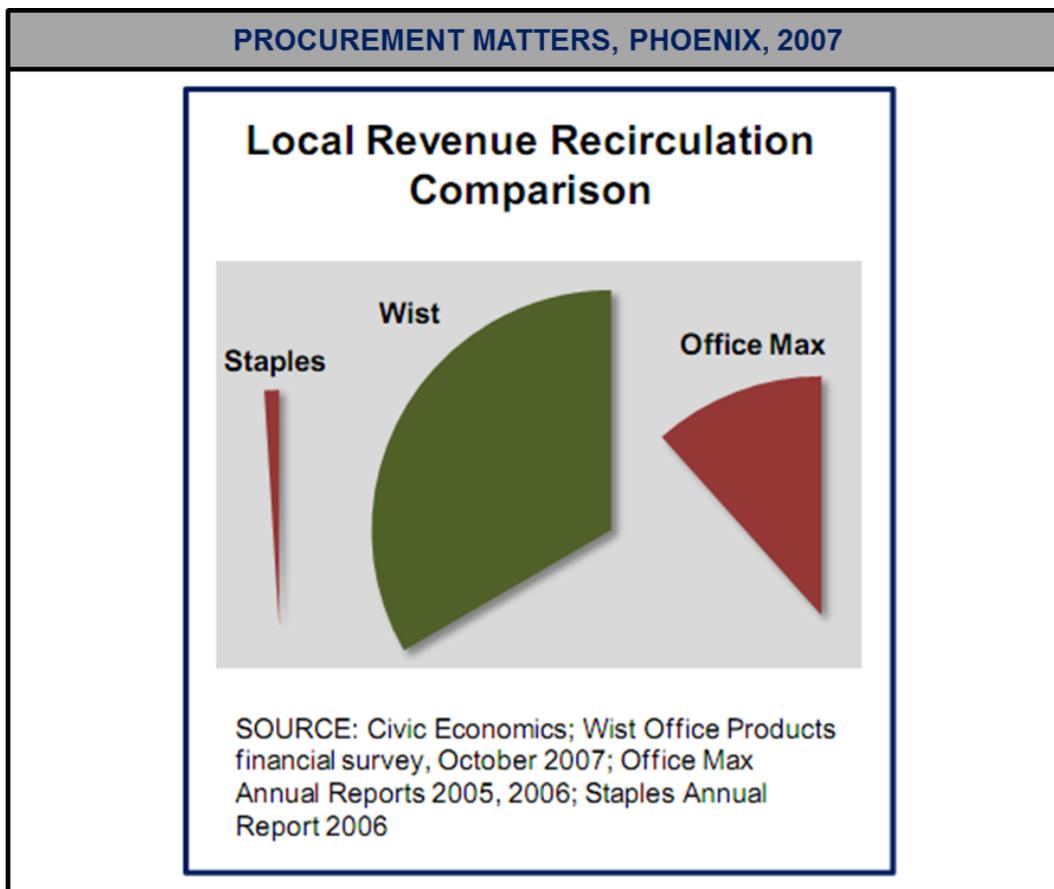
The San Francisco Retail Diversity Study remains a landmark in the series. In the years since, we have built upon the market share analyses in two national studies, while the 10% shift has become the basis of a national marketing campaign for independent business.

PHOENIX, 2007 and 2012



After all of the studies above had been released, Kimber Lanning of Local First Arizona (then called Arizona Chain Reaction) suggested that the focus on retail-level activity overlooked a broad and related sector: procurement of goods for internal use by corporate, government, and institutional purchasers. Working closely with the Wist family of Wist Office Products of Tempe, then, Civic Economics set out to remedy the oversight.

Again applying the survey-based methodology first developed in Austin, Civic Economics worked with Wist to identify local recirculation of dollars tied to their large, independent office products distributor. For comparison, we analyzed public records for both Office Max, which maintained a Phoenix-area warehouse, and Staples, which did not.



Wist was found to return a surprising 33.4% of all revenues to the local economy through profits, wages, procurement, and charitable giving, Office Max a mere 11.6%. Staples, with no permanent local presence, generated an incalculably small local impact based on the time delivery drivers for Federal Express dedicated to delivery to area purchasers.

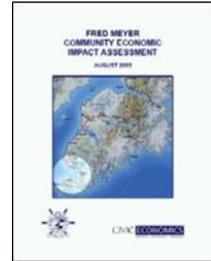
We repeated the study in 2012 and found nearly identical outcomes for Wist and Office Max, while Staples had opened a local distribution center and became more like Office Max.

GUNNISON, HOMER, MAINE, 2005-2008

During the years since 2002, Civic Economics had also undertaken two extensive studies of the prospective economic impact of large-format retail stores, a Wal-Mart Supercenter in Gunnison, Colorado and a Fred Meyer in Homer, Alaska. Each was required by a local ordinance mandating a thorough impact analysis of large retail developments.



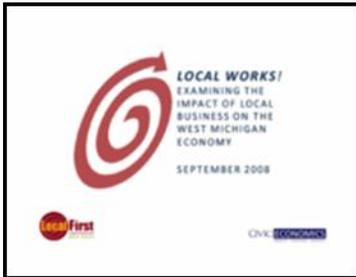
For those studies, the firm modeled the retail economy for a broad regional market area, conducted market basket studies, and engaged the community in focus groups, all with an eye toward quantifying likely changes in retail activity and tax revenues to be expected from a new store.



In 2008, the State of Maine enacted the Maine Informed Growth Act, which mandated impact studies for all large-

format retail developments in the state. Civic Economics was engaged to produce a guide to how objective consultants should conduct those studies. A Guide to Retail Impact Studies was widely distributed and has become a standard guide to the challenges of modeling regional retail economics and forecasting the impact of substantial changes to the retail mix.

GRAND RAPIDS, 2008

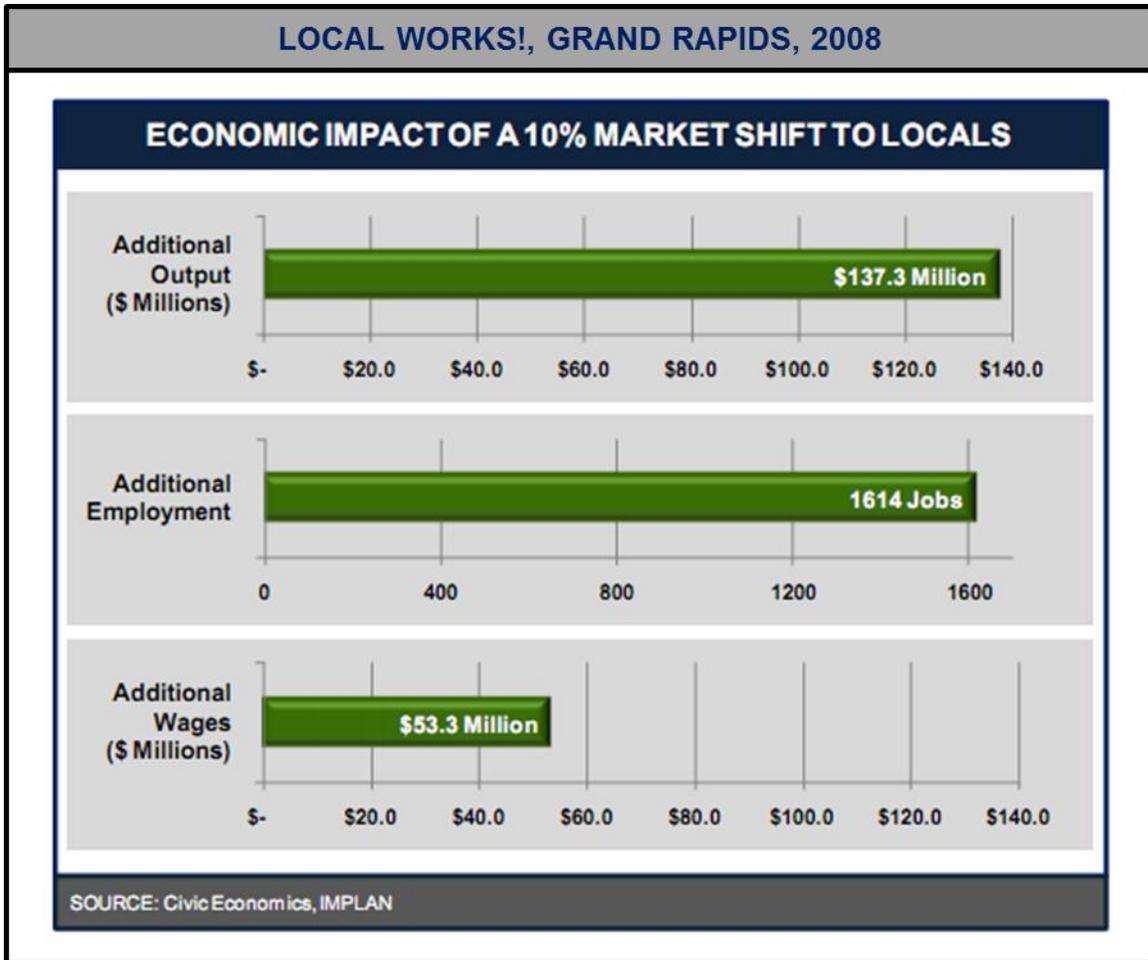


In 2008, Local First of Grand Rapids and the Steelcase Foundation engaged Civic Economics to develop the broadest study to date considering the prospects and impacts of independent, locally-owned business.

Combining the key elements of all previous studies in the series, the Grand Rapids study, Local Works!, provided what we believe to be the definitive analysis of the economic benefits communities enjoy when they nurture and sustain a healthy local business community. Indeed, since Grand Rapids, the concept has entered the mainstream, allowing our research to focus on the policy implications of the findings.

In Grand Rapids, the analysis focused on three sectors: pharmacies, grocery stores, and full-service restaurants. For each sector, Civic Economics quantified the market share currently captured by independents, the comparative economic impacts of locals and chains both as a proportion of revenue and per square foot, and forecast the impact of a 10% shift in market share from chains to locals.

The findings in each sector were interesting, but the lasting impact of the study is tied to the 10% shift. For the first time, we had detailed financial data for a number of local firms as well as market shares, which made the 10% shift analysis in Grand Rapids the most compelling to date. In this metropolitan area of roughly one million, total impacts would reach \$137 million and create an additional 1600 jobs.



These figures were striking, and have caught the attention of economic developers and policymakers nationwide. The reason is simple: Were a prospective development to approach an American municipality with a proposal to create impacts on that scale, local and state officials would roll out the entire arsenal of economic development tools. Incentives would reach into the millions of dollars and remain in effect for many years.

Local Works! made clear that significant impacts can be achieved with only modest policy and behavior changes in communities of all sizes. Leveling the playing field, easing challenges to small business success, and supporting local firms with local dollars can generate powerful returns in Grand Rapids or your community.

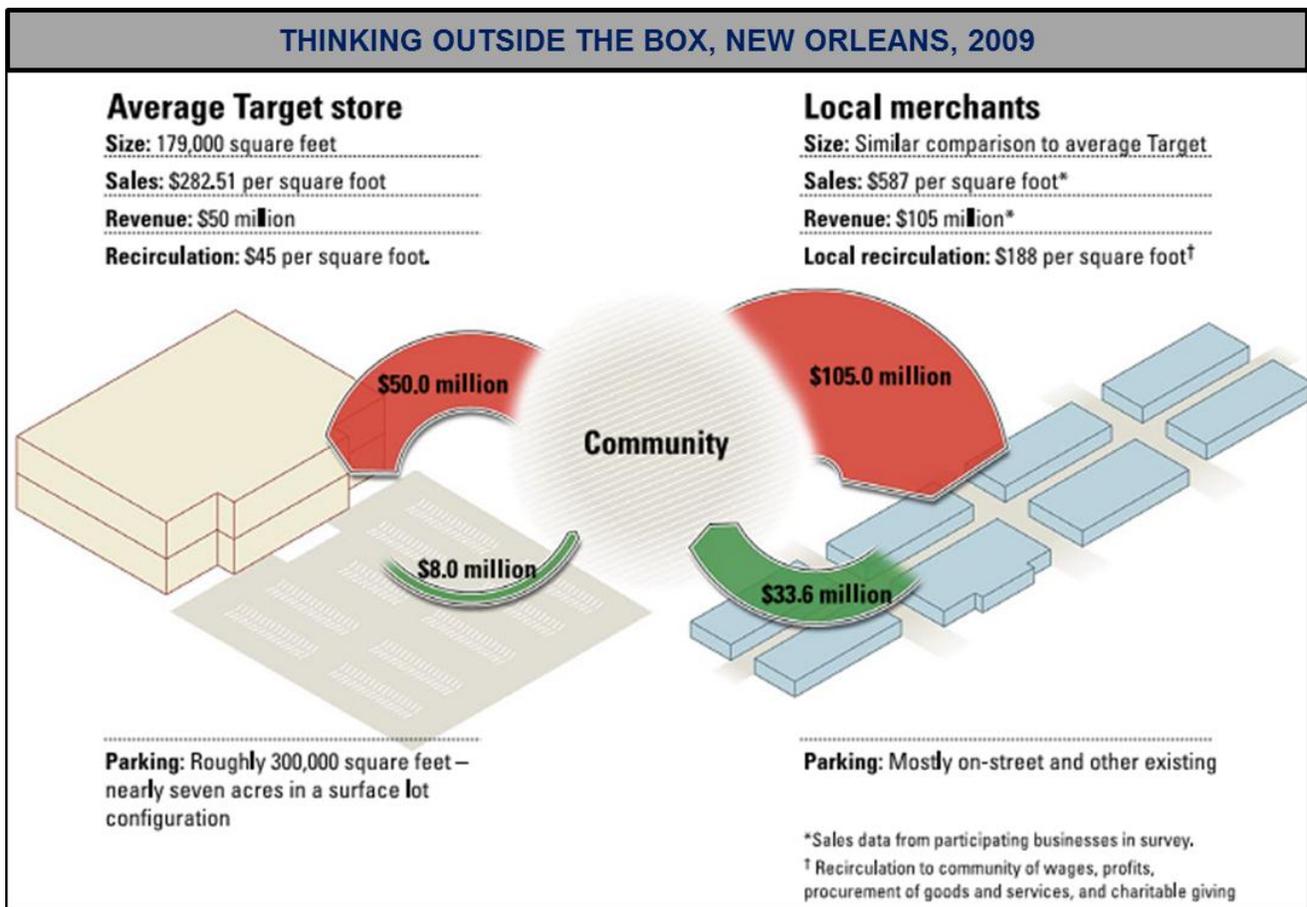
NEW ORLEANS, 2009



Since Hurricane Katrina in 2005, the business community in New Orleans has led a remarkable recovery. Magazine Street, a narrow ribbon four miles long from the CBD to Audubon Park, has emerged as the epicenter of New Orleans retail, dining, and service renaissance. The traditional urban commercial street is walkable, diverse, mixed-use, and served by transit, the very epitome of urbanism.

The Urban Conservancy engaged Civic Economics to analyze the economics of Magazine Street with an eye to providing policy guidance in the redevelopment of other areas of the city. Using a survey methodology, we compared a typical Target supercenter with an equal amount of Magazine Street commercial space. Within the much smaller footprint of an urban corridor like Magazine, sales revenues (and tax revenues) were double that achieved by the Target, and the recirculation of money within the community was more than four times greater.

The implications for communities are clear. The “new” urbanism is not simply fashionable, it makes powerful economic sense as a way to build great cities with thriving economies.



CONCLUDING THOUGHTS

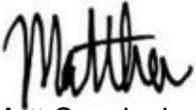
Civic Economics is proud of the series of studies described above. Along with the more recent Indie City Index (produced with the American Booksellers Association) and OPEN Index of Independent Retail Vitality (produced with American Express OPEN), both described in detail at CivicEconomics.com, we have developed an unmatched body of work analyzing the economics of regional retail and service provision.

As the work progressed from the real surprise of our findings in Austin in 2002 to the study of policy implications in later years, we have seen acceptance of the underlying concept grow from healthy skepticism to conventional wisdom. Independent, locally-owned businesses are the backbone of the economy in Austin, Phoenix, New Orleans, and your community.

Perhaps, in hindsight, the conclusion seems obvious. Visit any small American town and, within minutes, the presence or absence of a small business community will be obvious. Where entrepreneurs thrive an air of prosperity pervades the community. Where they don't, it is immediately apparent that the community has seen better days. The same is true of larger communities.

We look forward to many more years of analyzing "the Civic Economics of Retail," broadening our understanding of the importance of independent business and delving further into policy solutions to support them. And we look forward to sharing this expanding knowledge base with communities like yours.

Thank you.



Matt Cunningham



Dan Houston

To learn more about Civic Economics and to download these and other studies, please visit us online at
www.CivicEconomics.com