Five Myths About Big-Box Retail

MYTH: Big-Box Stores Create Jobs

FACT: Studies by independent economists show that big-box stores eliminate more retail jobs than they create.

A recent study examined 3,094 counties across the U.S., tracking the arrival of new Wal-Mart stores between 1977 and 2002. The study, conducted by Univ. of California economist David Neumark, found that opening a Wal-Mart store led to a net loss of 150 retail jobs on average, suggesting that a new Wal-Mart job replaces approximately 1.4 workers at other stores (*The Effects of Wal-Mart on Local Labor Markets*, January 2007).

The reason for the overall decline is that a new Wal-Mart store does not increase the amount of money that residents have to spend. Sales gains at these stores are invariably mirrored by a drop in revenue at existing businesses, which then must downsize or close. The job losses are larger than the gains because Wal-Mart accomplishes the same volume of sales with fewer employees.

Although similar studies have not been done of other big-box retailers, it's likely that they also have either a negative or no impact on employment because the underlying dynamics (i.e., no increases in consumer spending) are the same.

MYTH: Big-Box Stores Boost Tax Revenue

FACT: The tax benefits of big-box stores are negated by the cost of providing public services to these developments and declining tax revenue from existing commercial districts.

Big-box development creates substantial public costs. These sprawling stores are not efficient users of public infrastructure. Compared to traditional, compact business districts, they require longer roads, more road maintenance, additional miles of utilities, and more fire and police time.

One case study in Barnstable, Mass., found that the annual cost of providing city services to traditional downtown and neighborhood business districts was $786 per 1,000 square feet. Big-box stores were 30% more costly, requiring $1,023 in services per 1,000 sq. ft. (Tischler & Associates, *Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes*, prepared for the Town of Barnstable, Jul. 1, 2002.)

In addition to incurring new costs, cities that approve big-box development often experience a decline in property and sales

tax revenue from existing neighborhood and downtown business districts, as well as older shopping centers. As these areas lose sales and experience vacancies, the value of property declines and with it, the property tax revenue. Sales tax revenue also falls. One study of 116 cities in California found that, in all but two cases, the presence of a big-box store did not correspond to increased sales tax revenue. (Bay Area Economic Forum, *Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts*, 2004, 74-81)

MYTH: Big-Box Stores Grow the Economy

FACT: Trading independent retailers for big-box chains shrinks the volume of activity in the local economy.

For every $100 they receive in revenue, locally owned businesses hire more local workers, purchase more goods and services from other local businesses, and contribute more to local charities than their big-box counterparts. When chains displace local businesses, it results in an overall loss of economic activity, not a gain.

A 2004 study conducted in Chicago analyzed ten locally owned restaurants, retail stores, and service providers and compared them with chains competing in the same categories. The study concluded that every $100 spent at one of the independent businesses created $68 in additional economic activity in the city, while spending the same amount at a chain only generated $43 worth of local impact. (Civic Economics, *The Andersonville Study of Retail Economics*, 2004.)

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One of the main reasons for the difference was that the local retailers bought more goods and services from other local businesses. They did their banking at a local bank. They hired local accountants, web designers, and other professionals. They turned to a local print shop for their printing, and they advertised in local publications. The chains had almost no need for these local services and spent relatively little in the city.

A consequence of this is that even modest shifts in the mix of local and non-local businesses in a community can have significant economic ramifications. A case study in Kent County, Michigan, estimates that the region would gain 1,600 new jobs, $140 million in new economic activity, and $53 million in additional payroll if residents shifted 10% of their spending from chains to local businesses. A shift in the opposite direction — more spending at chains — would cause equivalent economic losses. (Civic Economics, *Local Works: Examining the Impact of Local Business on the Western Michigan Economy*, 2008.)

MYTH: Big-Box Stores Bring Competition and Consumer Choice

FACT: Big-box stores often displace numerous small and mid-sized stores, leaving fewer shopping options and less competition.

An average Wal-Mart or Target supercenter is nearly four football fields in size (190,000 square feet) and captures about $80 million a year in spending. To understand how large that is, consider that it would take 35,000 people making 25% of *all of their retail purchases*, from groceries to appliances, at that one Wal-Mart store. To take another example, the average 120,000-square-foot Lowe's captures $35 million a year in sales. That's equal to the *total* hardware/building materials spending power of 37,000 people.

Most communities, even fast-growing ones, cannot absorb a store of this scale without sizable revenue losses to existing businesses, including both locally owned stores and competing supermarkets and shopping centers. Part of the reason these companies build such large stores is that they leave little room in the market for other businesses. As competing stores close, residents are left with fewer choices. Many towns and neighborhoods now depend on a single big-box store for many types of goods, virtually eliminating competition.

Once they attain a dominant share of the market, these retailers may raise prices. One study compared the cost of 54 grocery items at 11 Wal-Mart supercenters in Nebraska and found that the total varied by more than 13 percent. Some of the stores with the highest prices were in areas that lacked competing grocery stores. (Hometown Merchants Association, *Impact of Supercenters on Nebraska Economy*, April 2004.)

A growing number of communities are deciding that a better way to ensure competition is to have numerous small and mid-sized stores, rather than one giant superstore. One way to achieve this is to place a cap on the size of stores (for more on this see our Store Size Cap Policy Kit at bigboxtoolkit.com).

MYTH: Big-Box Stores are the Only Option

FACT: More cities and towns are saying no to additional big-box development and finding better ways to grow by creating and expanding local businesses.

Nearly 300 communities have rejected big-box proposals in the last few years, and many have adopted policies that restrict or prohibit this type of development altogether.

Far from impeding growth, these policies often attract new small businesses investment as entrepreneurs seek out viable locations.

Communities can spur more small business development by revitalizing their neighborhood and downtown commercial districts, launching programs to train and finance new entrepreneurs, and developing a strong Buy Local campaign to encourage more public support for locally owned businesses. (For more information on these strategies, see the Building Alternatives to Big Boxes section at bigboxtoolkit.com.)

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