

Independent Retailers and the Changing Retail Landscape

Findings from a National Survey



November 2017

AIB Advocates for Independent Business



About Advocates for Independent Business

Advocates for Independent Business (AIB) is a coalition of trade associations and allied organizations that represent locally owned, independent businesses serving a consumer market. AIB's members collectively represent tens of thousands of small businesses. AIB was launched in 2013, and its goals are to advocate together for public policies that will create a level playing field for independent businesses; to raise the visibility of independent businesses; and to provide a forum for member associations to share information and ideas.

AIB's members are: American Booksellers Association, American Specialty Toy Retailing Association, Bixy, Independent We Stand, Fabric Shop Network, North American Retail Hardware Association, Record Store Day (a project of the Alliance of Independent Media Stores, Coalition of Independent Music Stores, and Dept. of Record Stores), Running Industry Association, Society of American Florists, and TriMega Purchasing Association.

More at www.indiebizadvocates.org.



The Institute for Local Self-Reliance (ILSR) coordinates the coalition's work and carried out this survey. ILSR is a 43-year-old national nonprofit research and educational organization that works to provide innovative strategies, working models, and timely information to support strong, community rooted, environmentally sound, and equitable local economies.

More at www.ilsr.org

The retail industry is experiencing significant upheaval. Online shopping is expanding rapidly, many national chains have closed locations, and some storied retail brands have even declared bankruptcy. Malls are going dark in record numbers. Headlines have started calling this wave of closures a “historic tipping point” for American retail.

However, almost all of the media reporting about these trends has focused on national retail chains. Local, independent retailers have distinct attributes and differ from the chains in many ways, from the types of locations they choose to the relationships they have with their customers.

This national survey gathered data from over 850 independent retailers to better understand how these small businesses are navigating the changes, and the ways that these shifts may be playing out differently for local businesses than they are for the chains.

A wide variety of businesses from across the country and representing many retail categories participated in the survey, which was conducted via email link to independent retailers in September. All are independently owned, and while they ranged in size from single-person enterprises to businesses with several hundred people on staff, most were small, with an average of 19 employees.

The survey found both bad and good news for independent retailers. On the side of challenges, the growth of Amazon is negatively affecting almost all independent retailers. Yet a large share of local businesses also reported being better positioned than many national chains to weather the changes, citing their personalized service, community involvement, and product expertise.

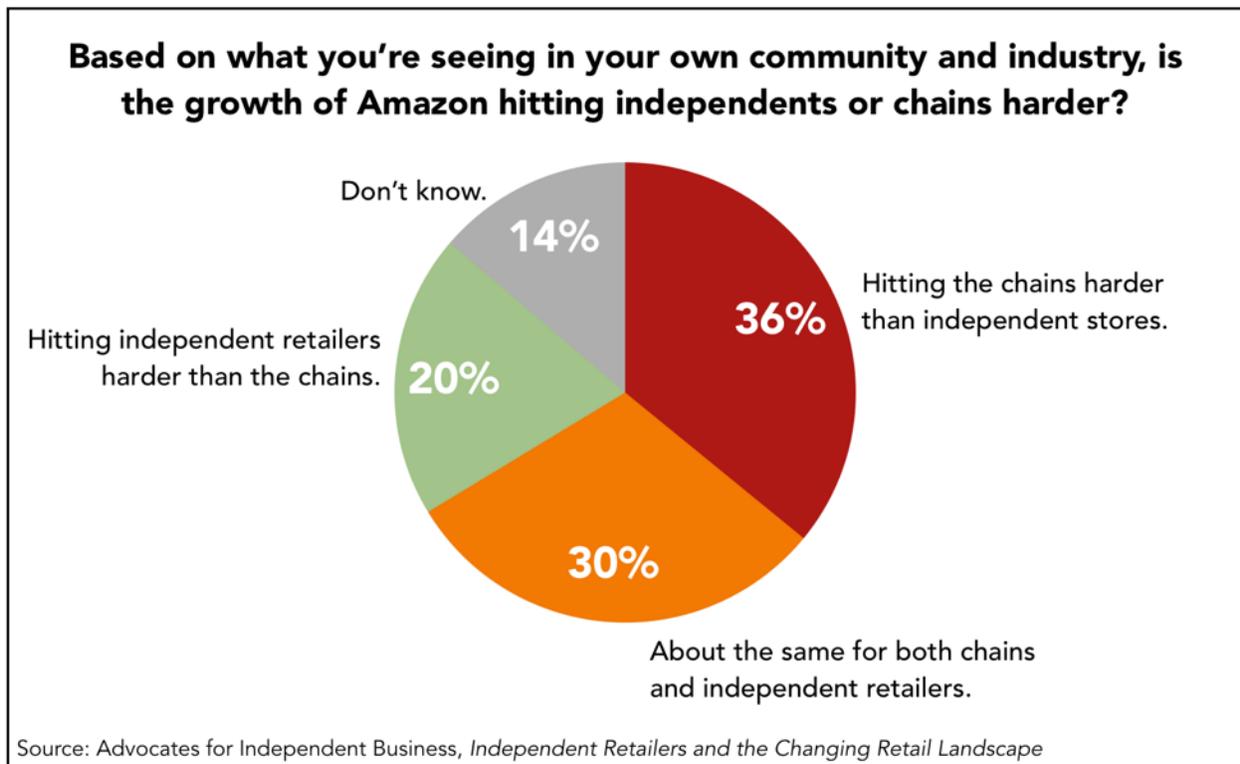
The results of this survey are instructive for cities. As many cities and towns grapple with the implications of the changing retail landscape, including the impact on jobs and tax revenue, many are also reassessing how best to approach local economic development. The results of this survey suggest that investing in measures that strengthen locally owned businesses will foster a local economy that’s more resilient in the face of change.

This survey gathered data from more than 850 independent retailers across the U.S.

Their responses yielded 6 key findings, which are presented on the following pages. This report closes with takeaways for communities.

Finding 1: Two-thirds of independent retailers report that, despite their smaller size, they are responding to the seismic shifts in the industry as well as or better than competing national chains are.

As brick-and-mortar retail faces new stresses, the impacts appear to be playing out somewhat differently for independent retailers than for chains. Nearly twice as many survey respondents believe that the growth of Amazon is having a bigger impact on chains than on independent retailers. Thirty-six percent say Amazon’s rise is impacting chains more than it’s impacting independents, compared to 20% who say it’s affecting independent retailers more. Another 30% say it’s impacting chain and independent retailers about the same, while 14% say they don’t know.



Newer retailers are even more bullish on the strength of independents relative to competing chains. Among those survey respondents who launched their businesses since 2012, more than half (52%) say that independents are more resilient and less affected by the

rapid growth of Amazon than national chains are. Another 20% say the impacts are about the same for both independents and chains, while 18% say independents are more affected by Amazon, and 10% say they don't know.

“Chains decided years ago to make price the factor with them. Because of this, they will always lose out to online. Local stores like us have always focused on the experience, quality items, gift wrapping, community events... We focus 100% of our energy on the large portion of the population that still seeks and will always seek an enjoyable experience, knowledgeable staff, selection, and a place to play and be a kid again. Almost all of our customers thank us for the experience they have in our store. They are glad they stopped and took the time to visit us and spend money in our store.”

— Toy store in Oklahoma

“Sports Authority moved out, Dick's moved in, and we are having our best year ever, in our 19th year of business. We just keep rewarding and training great service while taking extra good care of our staff and community.”

— Running retailer in Virginia

Finding 2: Independent retailers report that they have distinct attributes that appeal to consumers and give them an edge over chains as the retail landscape shifts. These include their deep expertise, highly personalized service, ability to create community, and rewarding in-store experience.

Survey respondents who say that independent retailers are better positioned than the chains to successfully navigate the changing retail landscape point to several distinct characteristics that they say give independents an advantage. Asked to identify the most significant of these, they cite four as especially important:

- Service: Independent retailers provide better and more personalized service than chain stores do. (96% cite this factor.)
- Community: Independent retailers are more involved and know the community better than chain stores do. (79%)
- Knowledge: Independent retailers have more expertise and knowledge about the goods and services they provide than the chains do. (70%)
- Experience: Independent retailers provide a more enjoyable and interesting shopping experience than the chains do. (60%)



Survey respondents' assessment of the distinct strengths of independent retailers aligns with the findings of consumer surveys. A large survey commissioned by Yodle in 2015 found that "96% [of consumers] believe local businesses beat national chains on personalizing service."¹ A 2017 Gallup poll found that 70 percent of Americans have "a great deal" or "quite a lot" of confidence in small businesses, and when asked to explain why in their own words, "accountable to customers" and "community involvement" were among the top answers.²

Noted brand and marketing expert Scott Galloway has also cited these same factors in his analysis of what makes brick-and-mortar retailers successful. "Rumors of the death of the store are greatly exaggerated," he noted recently.³ In another interview, he said: "People are no longer going to stores for product, they're going for people. If they're going to go in a

store they want amazing service, amazing expertise, insight, navigation to the right product right away... If I'm going into a store I want to be informed or I want to be inspired."⁴

A high level of service, deeply knowledgeable owners and staff, and a track record of helping customers discover new products have long distinguished independent retailers in general from most chain stores. At a time when many routine purchases are moving online, these capabilities have come to matter more to the success of a brick-and-mortar store. That in turn may mean that independents are better positioned than many chains in today's challenging environment.

"We do things that e-commerce can't do... We beat them with personal connections in our communities... [We] have people be the focus of our business. Yes, we sell products. But most local businesses truly enjoy helping people... Relationships with people and other business owners in town is huge for us."

— Running retailer in Michigan

"Indies have the advantage of superior customer service. I had a customer just yesterday say they bought the 4 books that day because they didn't even know they existed until they saw them on my shelves."

— Bookstore in New York

"We offer personalized customer service that is impossible to get online or in chain stores."

— Baby products store in New York

"As a quilter and quilt shop owner, I know that face-to-face interaction is often needed to solve a quilting problem. You want to feel the quality of the fabric, see how to use a specialty notion, or see how the fabric will go together for a new project. Colors on websites don't look the same as in person."

— Quilting store owner in Virginia

"We are focusing on giving our customers more of an experience. We do events, demonstrations, bring in experts, etc. We want our customers to know that we care about our community and we participate in community and neighborhood events."

— Sporting goods retailer in Arkansas

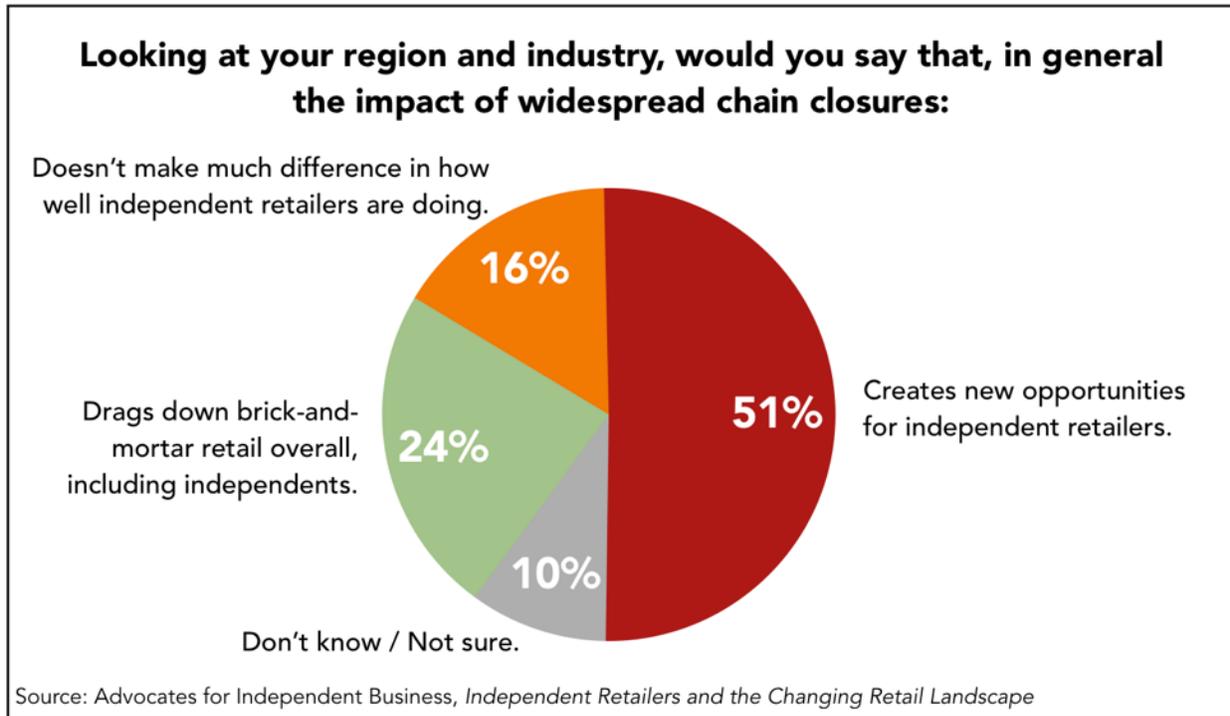
"We are small, unique, and hands-on fun. Personalized customer service is hard to duplicate over the web."

— Toy store in Michigan

Finding 3: Many independent retailers see opportunity in chain store closures.

As the retail landscape shifts at the national level, independent retailers are seeing the changes unfold in their own communities. Eighty-three percent report that there have been chain store closures in their area that have left behind vacant spaces, and 17% describe the extent of these closures as "significant."

A majority of survey respondents see these shifts as holding potential for indies. When asked about the impact of widespread chain store closures on their sector and region, 51% of survey respondents reported that it "Creates new opportunities for independent retailers." A smaller portion of respondents, 24%, see the impact of the closures differently, and say it "Drags down brick-and-mortar retail overall, including independents." Sixteen percent say the closures are not making much difference to independent retailers, and 10% say they don't know what the impact is.



Survey respondents were also asked more specifically about the impact of closures on their business, and here, the response was more mixed. Of those who have experienced closures in their area, half report that these closures have had no effect on their own business, and one-quarter say they are not sure. Just one-quarter of respondents say that closures have affected their businesses, and of these, two-thirds say the effect has been positive.

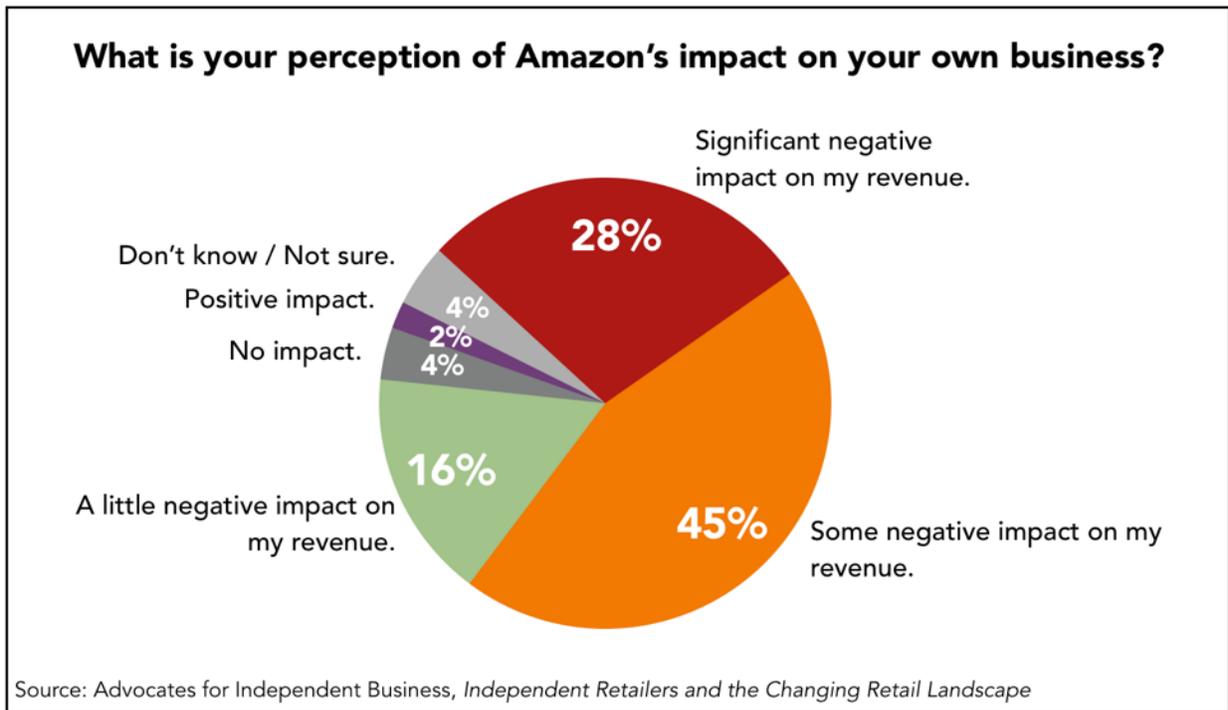
Of those business owners who have experienced positive effects from closures, they cite as the top two benefits: a gain in customers who used to shop at the shuttered chains, and an overall increase in appreciation for local businesses that are committed to the community.

“A chain retailer closing in our community had a negative impact initially, looking abandoned and reducing foot traffic, but new local small businesses have used the opportunity and opened recently, with much support.”

— *Bookstore in Minnesota*

Finding 4: While many respondents believe that independents are better positioned to survive Amazon’s growth, 90 percent of independent retailers also report that Amazon is having a negative impact on their businesses.

Though respondents see independent retailers as being better able to withstand Amazon than chain stores, a full 90% of respondents also say that Amazon is having a negative impact on their revenue. Twenty-eight percent describe the impact as “significant.”



This finding lines up with the results of surveys that AIB has conducted in the past. In AIB’s 2016 *Independent Business Survey*, independent retailers described Amazon as by far the top challenge facing their business, ranking the company’s dominance as more significant than other challenges, including competition from big-box chains and rising health insurance costs.⁵

In comments on this survey, many independent retailers report that they are innovating with their own online presence, leveraging their

physical location to offer omnichannel shopping options, and finding ways to extend the personal service they provide in-store to their online customers. Other research, however, suggests that finding an audience for online sales is increasingly difficult as most online shoppers are now starting their product searches on Amazon⁶ and the company is capturing a growing share of online spending.⁷

"We have our own independent website... [but] the challenge [Amazon] presents to our presence online [is that] over 50% of all searches start on Amazon."

— Bookstore in Wisconsin

"It's all about real-life experiences and creating relationships. However, these things are not enough to flourish financially. Amazon has successfully convinced the general public that... ordering online is basically synonymous with ordering from Amazon. We need some large-scale re-education efforts about the retail ecosystem."

— Bookstore in North Carolina

"Amazon's model... is to pick up every business known, collect the data, then purchase and offer direct the items that sell well and leave the little guy like me in the dust."

— Fabric store in Virginia

"[Amazon's] business model... is destroying the 'ecology' of commerce."

— Bookstore in California

"Amazon is detrimental to independent business much the same way Walmart was 15 years ago, and the development of the shopping mall was 50 years ago."

— Sporting goods retailer in Pennsylvania

Finding 5: One significant concern that independent retailers have is that the shifts underway could have a snowball effect. As the variety of options in the brick-and-mortar landscape declines, respondents worry that customers will increasingly be pulled online.

Independent retailers rely on the mix of other businesses around them to help bring customers through their doors. Heading downtown or to a neighborhood commercial district can be a convenient and efficient way to shop, and a rewarding way to spend leisure time, so long as the area offers a variety of businesses, goods, and services.

A worry for many survey respondents is that, as some retailers disappear in response to online competition, the overall diversity, utility, and appeal of these districts to shoppers will decline, driving more spending online and negatively affecting even strong independent retailers.

Among respondents who say that store closures are negatively impacting their business, 84% cite this snowball effect: “As stores close and people have fewer shopping options, they are turning to the web for more of their shopping, including for goods available at my business.”

“It’s difficult without the cooperation and understanding of our local land use officials and the landlords. We have a beautiful, historic downtown shopping district that is suffering from too many first floor non-retail uses (banks, insurance companies, real estate). Without a critical mass of good retail shops, it’s difficult for us to get people to shop downtown.”

— Bookstore in Connecticut

“People come to our town for the independent businesses, but we’ve all been noticing that people are spending less in our stores. Several stores have closed in the last year, making the whole downtown less attractive to shoppers and visitors.”

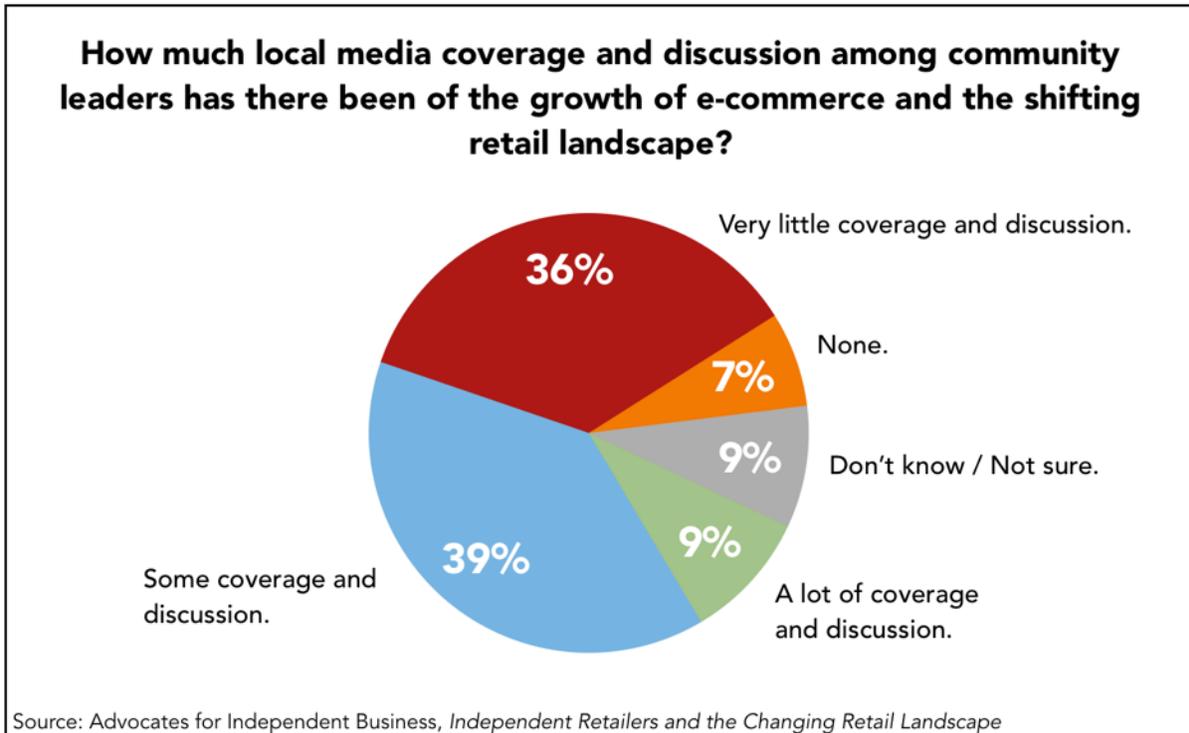
— Local retailer in Pennsylvania

" Variety is the spice that makes life enjoyable. Would I like pulling up to the McDonald's drive-in window every day for my food, and that becomes the sum of my experience?"

— Office supply dealer [no state given]

Finding 6: Despite the ways that the shifts in retail may impact local communities, only a small minority of survey respondents said that there has been “a lot” of discussion of the issue in local media and among community leaders.

While national media have covered the shifts in retail, local coverage and discussion has not been as robust, according to many survey respondents. When asked about media coverage and discussion among leaders in their community, just 9% of survey respondents say that there has been “a lot,” and 43% say that there’s been “very little” or “none.” Thirty-nine percent of respondents report “some” coverage and discussion, and 9% report being unsure.



In their comments, respondents repeatedly voiced the feeling that their business, and independent businesses broadly, are overlooked in the media.

“There continues to be a lot of national media coverage about... shopping online... and then they talk about the changing landscape and re-purposing malls. But you never hear them talk about the little guy. The shops that employ 5-10 people... these businesses are just as important to many communities as any big business.”

— Fabric store in Vermont

“Our local TV media is constantly talking about Amazon. They are hiring, they are gearing up for the holiday season, they’re creating another headquarters, etc. If independents could get this much coverage it would be incredible.”

— Independent retailer in Indiana

“When [media] does a product reference on air they almost always send people to Amazon.”

– Toy store in Illinois

Conclusions and Takeaways for Community Leaders

As cities and towns grapple with Amazon’s growing market dominance and impact on brick-and-mortar stores, and the resulting decline in local jobs and tax revenue, many are also reassessing how best to approach economic development.

The results of this survey suggest that investing in measures that strengthen locally owned businesses could foster a local economy that’s more resilient in the face of these upheavals. While many malls and chain stores are going dark, independent retailers, in many cases, offer distinct attributes and skills that customers can’t find online or at most chain stores. These small businesses also have something more to offer their communities, according to academic research, which has found that having an above-average share of local businesses is linked to more

middle-income jobs, stronger social connections, and greater civic participation.⁸

In comments on the survey, though, independent retailers express concern that local elected officials and other community leaders are overlooking local businesses in city and town policy. In particular, survey respondents cite opportunities for local governments to do more of their purchasing with locally owned businesses, for new commercial development to be better suited to independent businesses, and for cities and towns to use zoning to better foster a variety of business uses.

As the retail landscape continues to change, this survey suggests, locally owned businesses will be increasingly critical to the economic future of communities everywhere.

"In the past 4 months some of our local leaders have taken notice that sales tax revenue is down. Yet they will not change their buying habits."

— Office supply dealer in Georgia

"What's changing is... development of commercial property that is useless to most indie retailers, plus the destruction of commercial property that is sized, laid out, and priced for indie retailers."

— Bookstore in Iowa

"Every time someone mentions Amazon, we try to educate... We sponsor their kids' baseball team, Amazon does not. We pay local sales tax, property tax, school tax, Amazon does not. We spend 20 minutes personally presenting books they might like; We provide a free place for book clubs to meet; We bring authors to our community for readers to meet."

— Bookstore in Georgia

Notes

¹ “What Consumers Want from Local Business,” *Yodle*, April 2015.

² “Business Gets Bigger Even as Americans Prefer Small,” Frank Newport, *Gallup News*, Aug. 22, 2017.

³ “Scott Galloway Predicts the Future of Retail,” *Retail Gets Real*, Oct. 9, 2017.

⁴ “NYU business school professor and L2 founder Scott Galloway on Recode Decode,” *Recode*, June 15, 2017.

⁵ “2016 Independent Business Survey,” *Advocates for Independent Business*, Feb. 2016.

⁶ “55 percent of online shoppers start their product searches on Amazon,” Jason Del Rey, *Recode*, Sept. 27, 2016.

⁷ “Amazon’s Stranglehold,” Olivia LaVecchia and Stacy Mitchell, *Institute for Local Self-Reliance*, Nov. 2016.

⁸ “The Health and Wealth of US Counties: How the Small Business Environment Impacts Alternative Measures of Development,” Troy C. Blanchard, Charles Tolbert, and Carson Mencken, *Cambridge Journal of Regions, Economy, and Society*, 2011. “The Configuration of Local Economic Power and Civic Participation in the Global Economy,” Troy Blanchard and Todd L. Matthews, *Social Forces*, University of North Carolina Press, Vol. 84:4, June 2006.