The Economic Impact of Locally Owned Businesses vs. Chains
A Case Study in Midcoast Maine

Institute for Local Self-Reliance

September 2003

The Midcoast region of Maine stretches from Bath to Belfast and has a population of about 145,000 people. Like many areas of the country, the Midcoast region has experienced a growing influx of national retailers and big box stores in recent years. These stores have been controversial. Some argue they benefit the region by providing consumers with low prices and convenience. Others contend they are harming the region's downtowns and locally owned businesses, and contributing to sprawl by building on undeveloped land on the outskirts of town centers.

With growth pressures likely to continue, Midcoast communities face a momentous decision: should they support the construction of additional big box stores or limit such development and focus instead on expanding locally owned retail?

In an effort to bring additional information to bear on the discussion, the Institute for Local Self-Reliance worked with Friends of Midcoast Maine, a regional grassroots organization supporting smart growth, to examine the economic impact of locally owned businesses in the Midcoast region and to compare this with the economic contributions of a typical big box retailer.

We wanted to find out, if a local store makes a $100 sale, what happens to that $100? How much goes to pay local employees and local suppliers, thereby creating additional economic activity in the region? How much goes to out-of-state suppliers, thereby leaving the Maine economy? If that $100 is spent instead at a big box retailer, does more or less of it stay in the local economy?

Findings

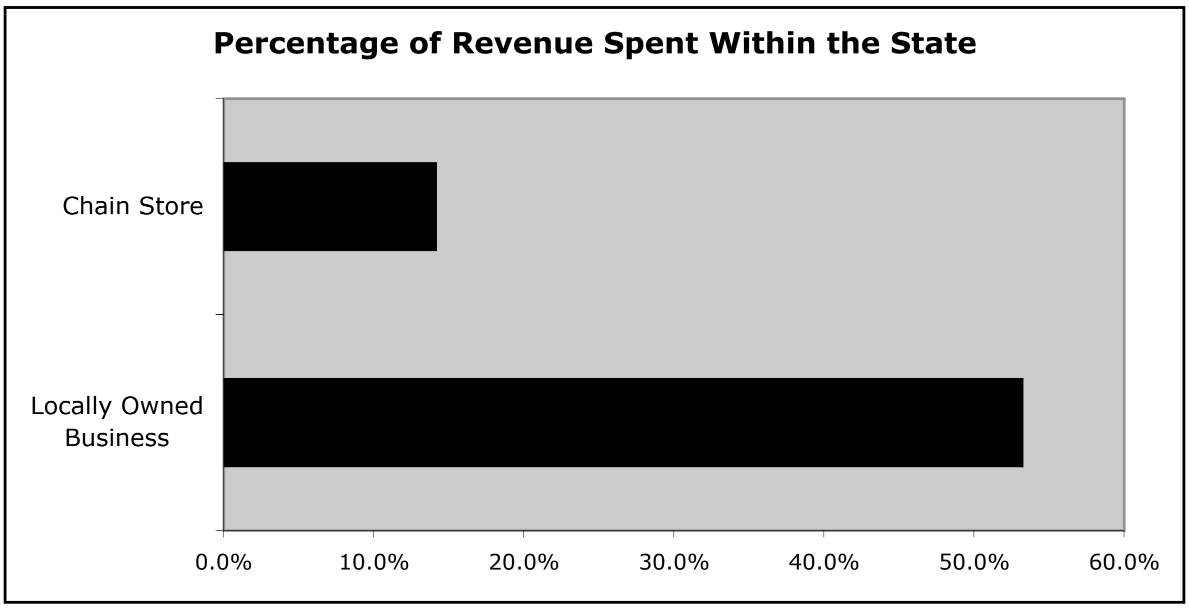
Eight locally owned businesses in Rockland, Camden, and Belfast agreed to participate in our study by sharing detailed information on their revenue and expenditures for 2002. The eight businesses represented a broad range of goods and services. The newest had been in business for five years, the oldest for more than forty. They made a total of $5.7 million in sales during 2002 and employed 62 people.

We found that the eight businesses spent 44.6 percent of their revenue within the surrounding two counties (Knox and Waldo). Another 8.7 percent was spent elsewhere in the state of Maine.

This in-state spending included: wages and benefits paid to local employees (28.1 percent of total revenue); inventory, supplies, and services from other local businesses (16.9 percent); profits that accrued to local owners (5.4 percent); taxes paid to local and state government (2.4 percent); and contributions made to local charities (0.4 percent).

In terms of sourcing inventory, supplies, and services, we found that the eight local businesses are supporting a variety of other local businesses. All eight bank with locally owned banks. They purchase inventory from local manufacturers, advertise in local newspapers, and hire local accountants, printers, internet service providers, and repair people.

The remainder of the local businesses' revenue---46.7 percent---left the state. This out-of-state spending includes inventory purchased from out-of-state companies, mortgage interest, rent, credit card fees, supplies, insurance, and equipment leasing.

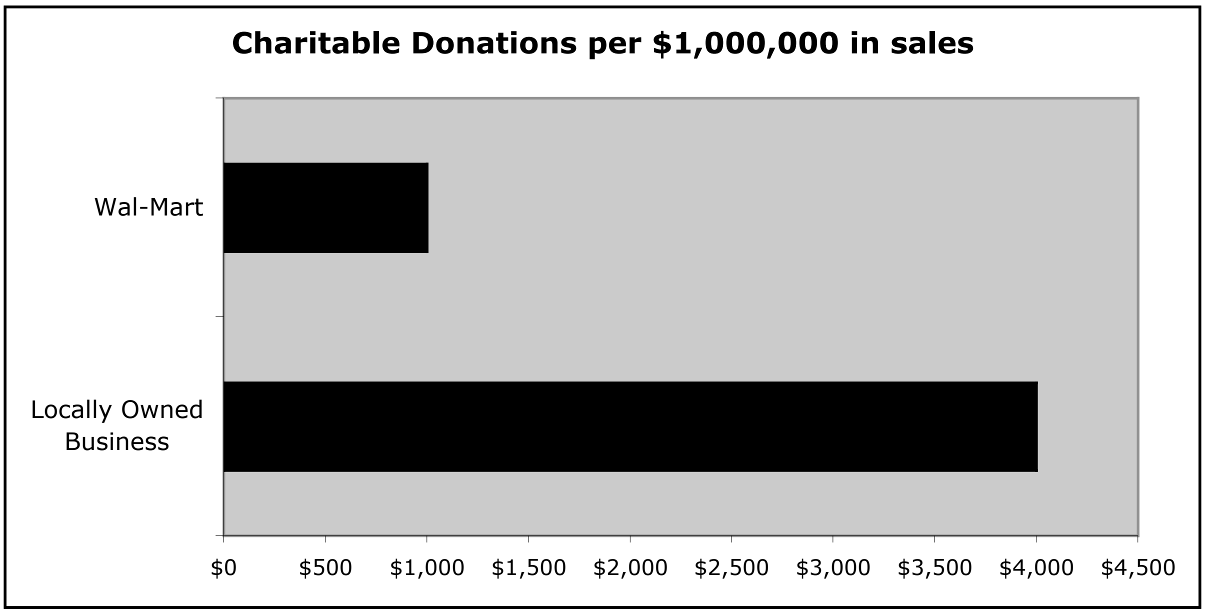


We created a similar expenditure profile for a major big box retailer with outlets in Maine. Because national retailers do not reveal detailed financial information, we had to estimate local expenditures for payroll, supplies, services, utilities, taxes, etc. We relied on published information on employment and property tax revenue for one of its local stores; statements made by company officials about the volume of inventory, supplies, and services purchased in the state; statements made by company officials about local charitable contributions; and national sales data. We assumed full-time employees made

$8.00 an hour with some benefits (14 percent of wages) and part-time employees made $7.50 an hour with fewer benefits (5 percent of wages).

Based on our estimate, a typical big box store spends 14.1 percent of its revenue within the local and state economy, mostly in the form of payroll. The rest leaves the state, flowing to out-of-state suppliers or back to corporate headquarters.

We also compared the charitable contributions made by the local businesses in our study with two major chains, Target and Wal-Mart, which publish data on their charitable giving. The eight local businesses made $24,000 in cash donations to charities in 2002, or 0.4 percent of their total revenue. That's more than four times as much, relative to overall sales, as Wal-mart gave in 2002, and twice as much as Target gave.



Conclusion

When residents of the Midcoast region spend $100 at a big box retailer, their purchase generates $14 in local spending by the retailer. That same $100 spent at a locally owned business generates $45 in local spending, or three times as much. Dollars spent at a local retailer support not only that store, but a variety of other local businesses, including local banks, accountants, printers, and internet service providers.

From an economic development perspective, the ramifications of this are substantial. Based on current growth rates, annual retail sales in Rockland, Camden, and Belfast will expand by $74 million over the next four years. If all of this additional spending were captured by new and expanding locally owned businesses, it would add $23 million more to the local economy each year than if all of the new spending were captured by chains.

That's the equivalent of more than 500 jobs. Most towns would go to great lengths to attract an employer of this size. Based on the results of this study, developing strategies to strengthen and expand locally owned retail over the next four years, rather than supporting additional chain store growth, could generate as much economic return as attracting a major employer.

About the Institute for Local Self-Reliance -- The Institute for Local Self-Reliance is a national nonprofit organization providing research, analysis and innovative policy solutions for building strong local economies and sustainable communities. For more information, contact ILSR at 1313 5th St. SE, Minneapolis, MN 55415, Tel: 612-379-3815, Web: www.newrules.org