

ARE CHAIN STORES BAD?

DO CHAIN STORES HELP OR HURT CAPE COD'S ECONOMY?	
Do they:	Or do they:
Offer lower prices?	Lower retail wages and benefits?
Offer convenience?	Send profits off Cape?
Provide brand familiarity?	Put local firms out of business?
Attract buyers to an area?	Generate more traffic?
Provide healthy competition?	Detract from community character?

A RESEARCH BRIEF

ARE CHAIN STORES BAD?

In one form or another, chain businesses have been part of Cape Cod's economy for decades. A & P, Howard Johnson's, Friendly's, and Bradlees were among the earliest chain businesses on the Cape. The Zayre department store chain opened its first location on Main Street, Hyannis in 1956.¹ Although most of these businesses have since disappeared, a new generation of chain businesses has emerged on Cape Cod, including discount stores such as TJ Maxx and BJ's Wholesale Club.

Nationwide, two or three corporations now dominate each retail sector² with the top 10 retailers capturing nearly one out of every four dollars Americans spend in stores each year.³ The growth in market power of large corporate retailers has coincided with the disappearance of individual, independent businesses in a number of markets including books, video rentals, pharmacies, and grocery stores. The provision of these goods has also moved from town centers to strip malls along main roadways.

HOW DO WE KNOW IF CHAIN STORES HELP OR HURT OUR ECONOMY?

Some view the trend toward chain stores as the inevitable result of market forces, while others see it as a distortion of market forces that should be corrected through public policy. Striking a balance requires a careful understanding of how chain and independent businesses help or hurt the economy. This paper looks at how chain stores and independent stores measure up in the following areas:

- Economic Growth
- Market Competition
- Job Quality
- Public Spending
- Community Character

In each of these areas, we consider information gathered in national studies and economic analyses conducted for this region. We have also talked with local business owners.

WHAT IS A CHAIN STORE?

Chain stores come in a variety of sizes and ownership structures. Perhaps most widely recognized among chain businesses are the "Big Box" and "Superstore" chains. While all Big Box stores are chains, not all chains are Big Box stores. Often described as formula businesses, chain stores range in size from a coffee shop to department stores, but all have a clearly identifiable brand and standardized appearance no matter where they are located. Some chains are national, some are regional in nature, and some are owned as franchises or cooperatives. These factors can influence a chain's economic and community character impacts.

¹ Lehman Brothers Collections, Business Archives, Harvard Business School Historical Collections; TJX Corporation TJX.com/about_history.asp

² Mitchell, Stacy. [Big Box Swindle](#). Boston: Beacon Press, 2006. p.10.

³ Mitchell, p. 9.

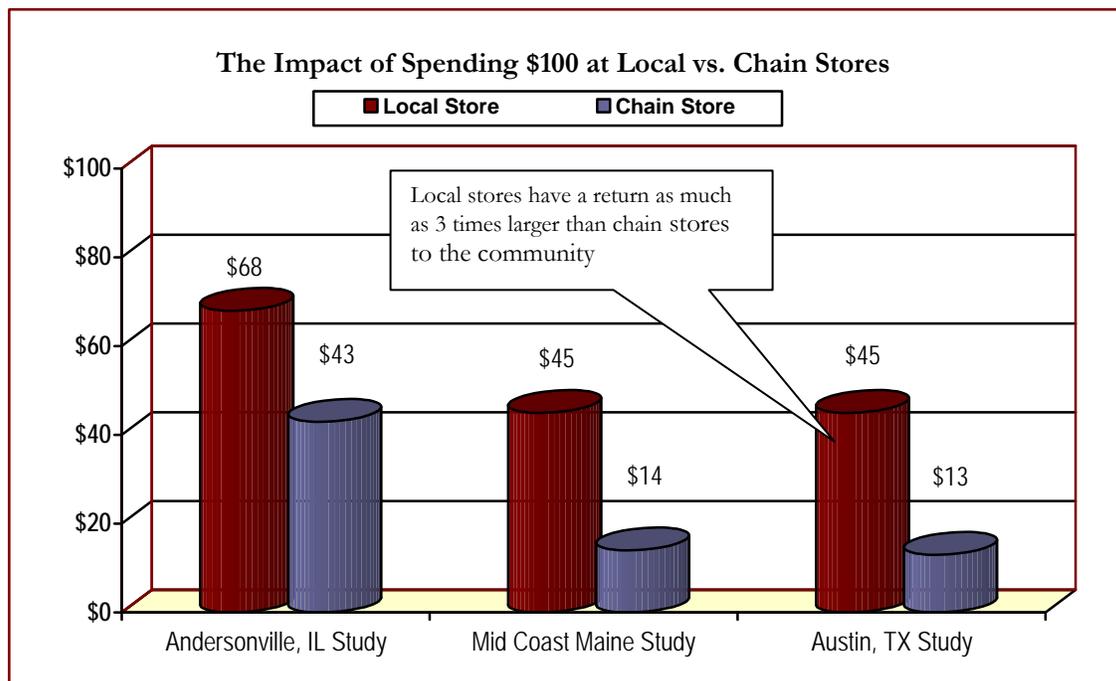
ECONOMIC GROWTH

What is the economic impact of \$100 spent at a local store versus \$100 spent at a chain store?

Economic impact is measured by direct, indirect, and induced spending. Direct spending reflects the money a store pays out for such things as employee wages, goods and services from other vendors, owners' profits, and contributions to local charities. Indirect spending represents the dollars spent by the employees or vendors who just got paid. Induced spending is the third ripple, occurring as a result of direct and indirect spending.

Economic growth occurs when spending occurs and is retained within the local economy. The more a business earns money from customers outside the region and spends money within the region, the more it adds to the size of that region's economy. The location of the business, the business headquarters, the employees, the suppliers, and the owners will impact where revenues and profits are spent.

Numerous studies indicate that spending in a local store generates significantly more economic growth than spending in a chain store.



The research points to three reasons for this difference:

Location of Labor. Spending on labor constitutes a larger share of operating costs for local stores than for individual chain stores. A study in Maine⁴ showed labor accounting for 28% of operating

⁴ Institute for Local Self Reliance and Friends of Mid Coast Maine. The Economic Impact of Locally Owned Businesses versus Chains: A Case Study in Mid Coast Maine. September 2003

costs for local stores compared with 14% for chain stores.⁵ The reason for this difference is twofold; local stores tend to pay higher wages (see Jobs, Wages, Benefits below) and they carry out more management functions onsite, rather than at corporate headquarters outside the region.⁶ This difference can be significant to local economic growth because wages are a major component of direct spending.

Location of Suppliers. Local businesses tend to purchase goods and services from local businesses at as much as twice the rate of chain stores.⁷ The purchase of goods and services is another major component of direct spending.

Location of Owners. A larger share of profits from local stores stays in the local economy since owners live close to where they work. Chain businesses profits are distributed to owners and shareholders or invested in corporate expansion elsewhere.⁸

Chains that are franchises or cooperatives owned by local individuals or businesses tend, like local independent stores, to spend more in the local economy than chain stores that do not have a local ownership component.⁹

MARKET COMPETITION

Does a chain store generate more or less local market competition than a local independent store?

Businesses compete for customers through pricing, quality, and convenience. They increase their profits by capturing more customers and lowering their operating costs. National retail chains have sought to maximize profits by establishing a consistent brand, buying and selling consumer products in large volume at low prices, locating where rents are lower and often in very basic structures, and having multiple store locations. Using this model, chain retailers now control a significant share of both the consumer and supplier markets.

Independent businesses, unable to compete with chains on price, may focus on providing distinctive products, a higher level of service, and a friendly, familiar atmosphere. Some choose to go further to differentiate their products by including unique products made locally.

A competitive market should be able to accommodate both chain and independent businesses. Whether it does will depend upon the number of customers in the market and the degree to which their needs are being met by the businesses in that same market area. A new chain store will have a different impact on competition in a saturated market where customer demand is met or exceeded

⁵ In an Illinois study, payroll accounted for 23% of operating costs compared with 20 % for chain stores. Civic Economics. [The Andersonville Study of Retail Economics](#). October 2004.

⁶ Institute for Local Self Reliance. [Big Box Tool Kit](#). 2008. <www.bigboxtoolkit.com>

⁷ Civic Economics. [The Andersonville Study of Retail Economics](#). October 2004.

⁸ University of Wisconsin Extension. "Ideas for Expanding Retail and Services in Your Community." [Let's Talk Business](#). Issue 63, November 2001. <www.uwex.edu/CES/ccced/downtown>

⁹ See the "Community Life" chapter in [Big-Box Swindle](#), as well as: Charles M. Tolbert, "Minding Our Own Business: Local Retail Establishments and the Future of Southern Civic Community," *Social Forces*, June 2005, 1309-1328; T.A. Lyson, R. J. Torres and R. Welsh, "Scale of Agricultural Production, Civic Engagement and Community Welfare," *Social Forces*, 2001, 311-327; and Jane Jacobs, [The Death and Life of Great American Cities](#), New York: Random House, 1961.

than it will in an underserved or rapidly expanding market. In a saturated or static market, chain stores are likely to crowd out local businesses because local sales must be captured to be viable.¹⁰

Chain stores may benefit local markets in a number of ways:

Offer Price and Selection. As noted above, because of their relationships with suppliers and ability to purchase large volumes at lower prices, chains are able to offer a greater selection of goods at lower prices than independent competitors who do not have the same supply-side advantages.

Attract New Customers. Chains can help to anchor a retail district and attract patrons to an area targeted for revitalization, particularly when the period of revitalization is extended and locations may need to sustain losses before earning a positive return on investment.

Signal Market Potential. The location of a chain store in a specific area may signal to other investors that it is a viable business location. The assumption is that the national chain has completed a market assessment and uncovered new demand in the area not currently met by existing retailers or existing demand they believe they can redirect to their store through marketing and name recognition.

Improve Service to Customers. The opening of a chain can prompt other stores to enhance business practices, such as extending hours of operation, undertaking coordinated marketing, or upgrading appearance in order to remain competitive and take advantage of new customers.¹¹

However, research has shown that chains can and have used these same advantages to distort markets and reduce local market competition.

Predatory Pricing. Chain stores are criticized for predatory pricing—the practice of selling goods below cost for a sustained period—as a way of driving out competitors. Predatory pricing is illegal, but is extremely difficult to prove.¹² Some chains are thought to substitute lower quality goods to appear to be giving a lower price, when in fact consumers may spend more if they have to purchase the same item twice.

Manipulation of Suppliers. Large chains can gain a price advantage from suppliers because of their large purchasing power. Chain stores obtain beneficial prices, rebates, buying terms, or marketing budgets that are not available to small local stores.¹³ Interviews with local business owners reinforce the notion that a major purchaser has the market power to put a supplier out of business.¹⁴ With an increasing number of goods coming from around the globe, it is often necessary to buy in very large quantities. This puts local retailers at a disadvantage because it requires a greater upfront investment, and many stores do not have sufficient warehouse space.

Some public policies favor chains and do little to improve overall market competition.

¹⁰ FXM Associates. Assessment of the Direct, Indirect, and Induced Economic Effects of Chain Stores on the Regional Economy of Cape Cod. Prepared for Smart Planning and Growth Coalition. June 2005.

¹¹ University of Wisconsin Extension.

¹² Mitchell, pp. 177-181. The predominant legal theory is that predatory pricing is irrational and therefore not likely to be practiced, Wal-Mart has been the subject of numerous predatory pricing claims. In one successful suit, Wal-Mart was found to have sold health and beauty products at 30% below cost, and below levels sold in other Wal-Mart stores. The decision was overturned by the state Supreme Court.

¹³ In 1998, an association of local booksellers prevailed in a lawsuit that claimed Barnes & Noble and Borders were able to obtain books at prices below those available to independent sellers, and has better payment terms. ¹³

¹⁴ Interview with Tony Shepley, Shepley Wood Products, Barnstable, MA, July 2008.

Tax Policy. Tax policies that favor Big Boxes and other chain stores range from state tax laws that enable stores to reduce their corporate tax liability by filing as separate entities, to local tax abatements and preferential land deals offered to attract chains to town. Internet retailers, which also compete with local independent stores, are exempt from charging sales tax if they do not have an in-state facility. These breaks not only provide a price advantage, but also result in less tax revenues available for schools and other community services.¹⁵

Zoning. Single use zoning, versus the traditional mixed use form of development, is well suited for the chain store development model. Large lot zoning with deep setbacks, low lot coverage, and substantial parking requirements is more expensive than the development patterns that existed prior to the mid-twentieth century.

Transportation Planning. Transportation planning has been focused on the automobile since the post-World War II boom in highway construction which not coincidentally occurred at the same time as the dismantling of numerous public transit systems. The policy preference towards the automobile has had a profound affect on the development pattern and character of communities.

COULD CHAIN STORES REDUCE COMPETITION ON CAPE COD?

A 2005 study¹⁶ of the impacts of chain retailers on the economy of Cape Cod showed that even if chains capture only half of projected new retail demand by 2014 there would be significant foregone employment, economic impacts and tax revenues:

- 9,400 fewer jobs in all sectors
- Loss of \$603 million in forgone business output
- \$23 million in foregone state taxes
- \$69 million in foregone federal taxes

This analysis is conservative. It assumes chains capture only a portion of new retail demand and no existing demand. As such, it does not include any possible losses in jobs or economic impacts that would result if chains cut into existing demand forcing existing local businesses to close.¹⁷

It is improbable that a chain store would only capture new retail demand. A case study in Austin, Texas¹⁸ showed that a new chain store would capture 50% of its sales from existing stores, resulting in a 70-80% reduction in economic impact.¹⁹ Research findings relative to Wal-Mart show that each new store results in a loss of 180 jobs in the local economy. Each Wal-Mart employee displaced 1.5 workers at existing stores and reduced total earnings for retail workers by 1.3%.²⁰ Thus, markets dominated by chain stores become less competitive and generate less economic growth than those dominated by independent and local businesses.

¹⁵ Institute for Local Self Reliance. New Rules Project. <www.newrules.org/retail/intax2.html>

¹⁶ FXM Associates.

¹⁷ FXM Associates.

¹⁸ Civic Economics. Economic Impact Analysis: A Case Study (Austin, TX). December 2002.

¹⁹ Civic Economics. Economic Impact Analysis: A Case Study (Austin, TX). December 2002.

²⁰ Big Box Tool Kit.

JOB QUALITY

Is a job at a chain store as good as or better than a job at a local independent store?

Chain stores are generally able to generate more sales per employee. As a result a chain store will require fewer employees than a local store with comparable sales volume.²¹ But how do these jobs compare in terms of quality?

Wages. Large national retailers tend to pay lower annual wages per employee than businesses with fewer employees. Retailers with fewer than 500 employees pay an average of 32% more in annual wages per employee than firms with over 10,000 employees. Nearly 90% of retail businesses on Cape Cod have 20 or fewer employees.²²

Benefits. Big Box stores are criticized for offering employee health care benefits with monthly premiums that few employees can afford.²³ As a result, many employees are forced to seek health care through public programs. In 2005, Massachusetts disclosed that some 9,500 Wal-Mart, Home Depot, and Target employees were receiving publicly funded health care at an annual cost to taxpayers of over \$12 million.²⁴

Career Opportunities. Independent businesses offer more opportunities for training and advancement. Anecdotal evidence suggests that many independent stores may offer greater opportunities for training and advancement in order to retain employees. Big Box stores are criticized for large turnover of employees to keep down wages and benefits.

PUBLIC SPENDING

Do chain stores have the same impact on public spending as independent stores?

Businesses influence public spending through the direct and indirect use of public services and infrastructure, and the tax revenues they generate to offset infrastructure and service costs.

Tax Revenue. Chains and Big Boxes use the same amount of space per volume of sales as local stores but the large warehouse structures typical of many Big Boxes may be valued less per square foot than other retail or town center properties. Chains operating in those structures may end up paying lower property taxes than local retailers capturing the same demand operating in higher valued property.²⁵

Net Fiscal Impact. A fiscal impact study conducted for the Town of Barnstable showed that on an annual basis every 1,000 square feet of a Big Box store generates \$554 in local revenues but uses up \$1,023 in government services and capital costs, for a net fiscal loss of \$468. This means a 10,000

²¹ FXM Associates.

²² FXM Associates.

²³ Mitchell, p. 50.

²⁴ Big Box Tool Kit.

²⁵ FXM Associates.

square foot Big Box store results in an annual fiscal loss to the town of \$4,680. This analysis showed that fast food restaurants result in an even greater annual loss to the town of \$5,168 per 1,000 square feet. On the other hand, the study found that specialty retail generates revenue of \$1,112 per square feet and uses \$786 in services and capital costs for a net gain to the town of \$326 per 1,000 square feet, or \$3,260 for a 10,000 square foot store.²⁶

Traffic. Big Boxes and chains are high traffic generators and are designed with cars in mind. They encourage bulk shopping which requires a car to manage. They also generate huge expanses of parking that create storm runoff and thermal pollution. The Barnstable study cited above found that each Big Box store generates 57 daily trips per 1,000 square feet, or 570 trips per day for a 10,000 square foot store. This compares with 410 trips per day for a 10,000 square foot specialty retail store.²⁷ All of these factors increase the net negative fiscal impact of these types of operations.

COMMUNITY CHARACTER

Community character may not appear to be an economic issue, but cumulatively it can diminish or enhance the market “branding” of Cape Cod as a unique place to live or visit.

Land Use. The business plan for most chains relies on an automobile-based building layout that is not conducive to preserving community character. Chains tend to seek out existing high traffic locations, such as Route 132 in Hyannis, rather than select an alternate underutilized location, such as Main Street in Hyannis, where a community may be seeking to attract more patrons. Large chains and Big Boxes also find it easier to re-create their preferred store layout through new construction rather than redevelopment of existing properties. On Cape Cod, that means chains generally consider large, underutilized industrial zones to be attractive potential locations. Absorption of industrially and commercially zoned land by retailers can result in negative traffic and environmental impacts, and also foreclose opportunities for further diversification of commercial activity in the community.

Architecture. Many Big Box stores develop warehouse-type structures that are incompatible with local Cape Cod architecture. Freestanding chain stores often have a formula building or site design layout. There are well known examples of national chains and restaurants adapting their exterior to fit the community. However this is not always the case. Lack of design flexibility among some chains and concerns about the effect of chains on community character has led communities such as Dennis and Nantucket to adopt so-called “formula business” zoning bylaws. These bylaws may restrict where formula businesses can locate or require stringent design review.

WHAT'S NEXT

The retail sector has historically been an important part of Cape Cod’s economy, and will continue to be so. Likewise, chain businesses will continue to play a role in meeting the region’s retail needs. Changes in the retail sector will largely be driven by global and national trends, but also will be influenced by local and regional policies and consumer choices. Future changes in the retail sector, as with all future economic growth, must coexist with Cape Cod’s limited infrastructure, and its fragile ecology. Local and regional actions can help to ensure that future retail growth, including

²⁶ Tischler & Associates, Inc. [Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes](#). Prepared for Town of Barnstable, MA. July 2002.

²⁷ Tischler & Associates, Inc. [Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes](#). Prepared for Town of Barnstable, MA. July 2002.

chain businesses, meets community needs while preserving the natural resources and community character that are among Cape Cod's greatest competitive advantages.

The New Rules Project of the Institute for Local Self-Reliance²⁸ provides a thorough summary of actions communities can take to support locally owned businesses. These actions include:

Formula Business Bylaws. Formula bylaws are zoning bylaws that apply to business that meet certain criteria that resemble the operation of a chain business. The criteria might include a standardized menu, method of operation or building design, as well as uniformed employees. Formula bylaws tend to limit rather than prevent chain businesses in a community. Some communities apply the bylaw only to formula restaurants; others apply the bylaw only to certain areas of town. Some bylaws cap the number of such businesses; others require stringent design standards. Nantucket and Dennisport are two regional communities that have adopted formula business bylaws.

Community Impact Assessments. Communities have long assessed the impacts a proposed retail development may have on traffic, water use, wastewater, and other forms of infrastructure and natural resources. Community Impact Assessments are a tool that enables communities to look at a development's economic and fiscal impacts as well. The assessments require an independent evaluation of economic impacts, including impacts on jobs, wages and other local businesses. The assessments also evaluate fiscal impacts, which encompass use of public services and infrastructure, as well as tax revenues generated. The assessments may also include standards projects must meet in order to obtain approvals. On Cape Cod, much of this analysis occurs through the Cape Cod Commission, the regional land use planning and regulatory agency. The Commission reviews Developments of Regional Impact, which include commercial projects of 10,000 square feet or more to ensure compliance with regional development performance standards.

Tax Policy Reform. A loophole in many states' corporate income tax laws allows a national chain to set up a subsidiary in a favorable tax state, and assign profits from non-tangible assets (trademarks, logos, etc.) to that subsidiary. The chain then files at the state level for only the profits earned by stores within that state. Profits that are earned in that state on the basis of the non-tangible assets do not get counted toward the state tax liability. This essentially allows the chains to under-report their corporate profits across several states. Twenty-one states have addressed this loophole by adopting combined reporting, which requires a corporation to file profits from all subsidiaries (even those outside the state) to determine the tax liability in that state. Massachusetts has not adopted combined reporting.

Buy Local Campaigns. The ability to divert local purchasing power to local businesses can yield significant economic benefits. A study in San Francisco showed that if consumers redirected 10% of their spending from chains to local businesses that would generate \$192 million in economic activity and almost 1,300 new jobs.²⁹ Buy Local Campaigns are one method of marketing local goods and services. On Cape Cod, buy local campaigns have been used to promote local farm produce and seafood. Such campaigns are often developed and implemented through a trade association or chamber of commerce. Another way to increase local purchasing is through public procurement policies that provide preferences for local businesses. This policy can be justified on the basis of the greater economic benefits generated from spending on local businesses.

Store Size Caps. Store size caps are enacted through zoning and usually in the context of a village center or other zoning bylaw. They work by limiting the square footage size of an individual commercial business space within a development. The Dennisport Village Center bylaw prohibits

²⁸ Institute for Local Self-Reliance, New Rules Project, The Hometown Advantage, Reviving Locally-owned Businesses. <http://www.newrules.org/>.

²⁹ Civic Economics. [San Francisco Retail Diversity Study](#). May 2007.

any business operation in excess of 60,000 square feet. Often store size caps are set much lower. The cap is intended to result in store sizes that are too small to suit the building format for many national chains, yet are suitable for smaller independent businesses. Store size caps should be developed with a thorough understanding of retail market demand and supply in the community, to ensure that resulting development suits area business needs.

Temporary Building Moratoria. Some communities have temporarily suspended large-scale retail development to provide the community more time to assess impacts on resources and infrastructure and to revise zoning laws to address possible negative impacts. On Cape Cod, towns have the use of Districts of Critical Planning Concern (DCPCs), which can be designated at the county level to provide towns with the time needed to plan for economic development and infrastructure. The DCPC allows a town or a group of towns a temporary “time out” from certain types of development in order to assess impacts and develop appropriate regulations to manage any projected negative impacts.

RECAP: HOW DO CHAINS AND INDEPENDENT BUSINESSES COMPARE?

✓ Signifies greater positive performance or public benefit

AREAS OF COMPARISON	CHAIN	LOCAL
<p>Economic Growth</p> <ul style="list-style-type: none"> ■ \$100 spent at a local store will generate greater economic impact in the region than the same amount spent at a chain store. ■ Local stores spend a larger share of revenue for wages, buy more local goods and services, and retain more profits in the local economy. ■ Chains can help to anchor areas for revitalization and encourage surrounding stores to enhance business practices. ■ Chains can absorb half or more of the market share of existing stores. ■ Each \$1 drawn to a chain from a local store will generate less local spending, with an overall dampening effect on economic growth. 	 	
<p>Market Competition</p> <ul style="list-style-type: none"> ■ Due to their volume and market power, chains have the advantage of price and supply. ■ Chains' market leverage is enhanced by favorable state tax laws in Massachusetts. ■ Local stores face competition from multiple chains, and face increasing pressure to meet prices and offer sales. ■ Local stores continue to have the advantage in customer service and, in some cases, the ability to offer unique local products. 	 	
<p>Job Quality</p> <ul style="list-style-type: none"> ■ A given level of market share captured by a chain will generate fewer jobs than a local store. ■ Large corporate retailers tend to pay lower annual wages per employee and offer less advantageous benefits programs. 	 	
<p>Public Spending</p> <ul style="list-style-type: none"> ■ Chains result in lower local tax revenues than they utilize in local services and capital infrastructure, resulting in an annual net fiscal loss to towns. ■ Large amounts of traffic generated by chains contribute to net fiscal loss and environmental impacts. 	 	
<p>Community Character</p> <ul style="list-style-type: none"> ■ Land use impacts resulting from chains are often at odds with community character. ■ Chains use a formula building or site design layout that often is incompatible with local Cape Cod architecture. 	 	

SOURCES

Bernstein, Jared, et al. "Wrestling with Wal-Mart Tradeoffs between Profits, Prices, and Wages." Economic Policy Institute Working Paper. June 15, 2006.

Buckley, Neil and Daniel, Caroline. "Comment & Analysis: Wal-Mart vs the Workers: Labour Grievances Are Stacking Up at the World's Biggest Company." Financial Times. November 20, 2003.

Civic Economics. The Andersonville Study of Retail Economics. October 2004.

Civic Economics. San Francisco Retail Diversity Study. May 2007.

Civic Economics. Economic Impact Analysis: A Case Study (Austin, TX). December 2002.

FXM Associates. Assessment of the Direct, Indirect, and Induced Economic Effects of Chains Stores on the Regional Economy of Cape Cod. Prepared for Smart Planning and Growth Coalition. June 2005.

Institute for Local Self Reliance. New Rules Project. www.newrules.org/retail/intax2.html.

Institute for Local Self Reliance and Friends of Mid Coast Maine. The Economic Impact of Locally Owned Businesses versus Chains: A Case Study in Mid Coast Maine. September 2003.

Institute for Local Self-Reliance. Big Box Tool Kit. www.bigboxtoolkit.com.

Jones, Kathryn. "Wal-Mart on Trial on 'Predatory Pricing' Charges." New York Times. August 24, 1993.

Kwalwaser, Andrew. "Sea Side Baby Forced to Close." Cape Cod Times. June 11, 2008.

Mitchell, Stacy. Big Box Swindle. Boston: Beacon Press, 2006.

Tischler & Associates, Inc. Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes. Prepared for Town of Barnstable, MA, July 2002.