

LET'S TALK BUSINESS

Ideas for Expanding Retail and Services in Your Community

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Downtowns and Chain Businesses* Part I: A Review of the Pros and Cons

A recent edition of *Main Street News* written by staff of the National Main Street Center discusses an ongoing debate over the appropriateness of chains and franchises locating in downtowns and on main streets.¹ The debate is often characterized as local, independent stores versus nationally based businesses (such as Blockbuster, Starbucks, or Walgreens). There are many additional considerations for communities debating the recruitment of chains to their downtown. This article summarizes some of the current trends regarding chains, as well as some advantages and disadvantages of chains in a downtown setting.

Chains in the Current Retail Landscape

Chains are a specific business expansion model in which individual business units are owned by one corporation. Franchisees, like chains, represent a business expansion model that is also standardized, but each business unit is usually owned by a local business person or corporation. Hybrid versions of these also exist including a combination of chain and franchise units and cooperatives (such as True Value and Ace Hardware) that are owned by their members.

Retail chains and franchises have the ability to dominate market. In some retail categories, chains account for more than 80 percent of all sales¹. However, expansion opportunities are diminishing as many of the national retailers' suburban markets are saturated. In attempts to find new locations, many of these retailers are looking at under-served downtown populations.²

The renewed interest in downtown locations may be furthered when considering the Urban Land Institute's (ULI) retail forecast. The ULI predicts that retail prospects in regional malls, power centers and neighborhood/community shopping centers will become less profitable

during the next several years.³ These industry trends suggest that downtowns and main streets will face increased exposure to chains. Subsequently, communities need to consider the pros and cons of chain and franchise development.

Chains Downtown: The Pros

While many communities are opposed to the presence of downtown chains, these stores can have a variety of benefits.

- Chains signal opportunity – Most national retailers will only open in a downtown that has undergone a preliminary revitalization.² The presence of these chains shows other prospective retailers that a given downtown is successful and suggests economic opportunity.
- Chains have a higher success rate – Chains and franchises are often successful because they benefit from standardized business operations, merchandising and marketing. The business format for a successful chain store has already been tested and their brands bring existing loyalty.¹ In considering the high turnover rates in some downtown locations, a chain may be able to provide stability in a storefront and lower the risks facing commercial property owners.



- Chains generate traffic - Today's shoppers frequently seek brand recognition. Accordingly, national retailers attract traffic to downtown locations. The increased numbers of pedestrians and cars can be beneficial for all merchants in the area.¹
- Chains may force improved and renewed business practices – The appearance of a national retailer may encourage neighboring businesses to change their current business practices to increase competition. As an example, the arrival of one national chain in Bath, Maine, encouraged retailers to extend business hours, create more appealing shopping environments, and work together in promotional campaigns.⁴
- Chains make good neighbors – Chains often invest in the physical appearance of their building and contribute to infrastructure improvements. Furthermore, once a chain is established, the operators are good at maintaining a good appearance.¹

in corporate expansion. Similarly, some will argue that chains do not give back to the community to the same degree as independent businesses. In contrast, dollars from independent retailers are often recycled within the community, as money spent in these stores remains local.¹

- Incompatible building designs – While many chains will incorporate existing building designs, others have formulaic design standards that do not fit the existing architecture.²

The decision to pursue chains or prevent them from entering should depend on the community's vision for its downtown. However, this vision should recognize market forces and the competitive environment facing all retail and service businesses today. For a downtown to remain (or become) economically vibrant, the pros and cons of chains must be analyzed with the customer in mind.

Chains Downtown: The Cons

Although the presence of downtown chain stores has advantages, there are also potentially negative effects to consider.

- Chains may threaten independent businesses – Chains often have lower overhead costs and benefit from national marketing and buying power. These competitive advantages may allow chains to overpower smaller, independent businesses and force them out of business.
- Loss of community character – Many communities feel that a unique business district helps define their character and the lack of chains contributes to this sense of place. The presence of many national chains may make shoppers feel that they are walking in a “mall without walls.”⁵ These feelings have even manifested themselves in local protests against newly opened national retailers.
- Detraction from market niche or community theme – Communities have long recognized that developing a unique, niche market is a successful strategy in attracting customers to their downtown. However, some contend that chains sell homogenous products and services targeted towards the general population.¹ Consequently, these standardized products may not fit the theme of a community's downtown or main street.
- Loss of profit re-circulation – Profits from chains rarely stay in a community. Their profits are often sent to headquarters, distributed to shareholders, or invested

Additional Information on Chains

The next issue of *Lets Talk Business* will address strategies for attraction and rejection of downtown chain stores.

For a discussion of chain store site selection criteria in Wisconsin, see the May 2000 issue of *Lets Talk Business*: <http://www.uwex.edu/ces/cced/lts/0500ltb.pdf>

1. National Trust for Historic Preservation. “Chains on Main: A New Look at National Retailers.” *Main Street News*. (August/September, 2001) pp. 2-18.
2. “National Retailers are Taking a Closer Look at Downtown Locations.” *Downtown Idea Exchange*. (August, 1997) pp. 1-3.
3. Urban Land Institute. “Retail Properties.” *ULI 2001 Real Estate Forecast*. (May, 2001) pp. 33-36.
4. Welles, E. O. “When Wal-Mart Comes to Town.” *Inc.* (July, 1993) pp. 76-84.
5. Lassar, Terry J. “Hitting the Streets.” *Urban Land*. (July, 1999) pp. 32-37.

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