



CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT



# LET'S TALK BUSINESS

IDEAS FOR COMMUNITY DEVELOPMENT PROFESSIONALS WORKING TO EXPAND LOCAL BUSINESS ACTIVITY

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## Co-Existing With the Retail Giants *Their Impact and Community-Level Strategies*

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For over thirty years the retail environment for small rural communities has been undergoing fundamental restructuring. With the advent of regional shopping malls in larger urban hubs and the proliferation of mass discounters, the traditional downtown merchant has seen a significant change in the rules of the game. One company that has expanded into smaller communities and become synonymous with these changes is Wal-Mart.

This issue of Let's Talk Business focuses on the *impact* such retailers have on local markets and offers *community-level strategies* for co-existence.

### Estimated Impacts

The impact of a large discount merchandiser on the local retail market is fairly well documented and understood. Studies in New England, Illinois and Iowa have resulted in surprisingly similar results<sup>1</sup>. For reasons of brevity, we will limit our discussions to a widely referenced study conducted by Iowa State University Cooperative Extension Economist Ken Stone.

In his study of the impact of Wal-Mart on Iowa communities, Stone used sales tax data to document changes in trade area size of towns between 5,000 and 30,000 persons over a five

year period. The study focused on towns where a Wal-Mart has located and the towns within a 20 mile radius of that store.

**Competing Towns:** In most towns where a Wal-Mart is located, both retail sales and trade area size increased in the first year after the store opened. After five years, sales in the Wal-Mart towns increased by 6.5 percent while similar size towns without a Wal-Mart experienced a 9.7 percent decline. Smaller towns with 500 to 5,000 persons and located within 20 miles of a Wal-Mart lost 25.4 percent of retail sales after five years. This compares with sales reduction of only 17.6 percent for similar size towns located much farther away from a Wal-Mart.

This research suggests that the mass discounters draw shoppers from neighboring communities to the host community to shop. In virtually all cases, total sales in the host community increased at a rate greater than the average for the state. On the other hand, businesses located in smaller neighboring communities often experienced significant out-migration of retail activity.

**Within a Wal-Mart Town:** Sales patterns in the host communities where a Wal-Mart locates also undergo fundamental changes. Study results suggest that for an average town in Iowa, Wal-

1. One study released by the University of Massachusetts a few years ago, and greatly referenced by the Wal-Mart Corporation, stands as the lone study contradicting the "conventional wisdom" outlined here. The authors of this lone study, however, were forced to withdraw the report after it was resoundingly refuted by regional analysts.

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Mart sales were approximately \$17 million. Yet, total sales in these towns increased by only \$7 million. This implies that Wal-Mart not only captured all of the town's growth, but also consumed \$10 million in sales from existing businesses. The findings indicated that:

- Businesses that sell goods other than what Wal-Mart sells tend to experience higher sales due to a spillover from additional shoppers drawn to town by Wal-Mart.
- Businesses that sell the same goods as Wal-Mart tend to experience some reduction in sales after the Wal-Mart opens.

Furniture, major appliance, floor coverings, drapery, and eating and drinking establishments typically gained in sales. Unfortunately, newer Wal-Marts are attempting to capture dining spillover by contracting with chains such as McDonalds and Pizza Hut for in-store locations.

Competing general merchandise stores generally sustain a loss of sales. Specialty retailers that showed reduced sales include drug, sporting good, card/gift, and jewelry stores. Many of these stores compete head on with Wal-Mart. Even food stores experienced declines, primarily from non-food items such as cleaning supplies and health aids.

#### Community-Level Strategies for Co-Existing

Business leaders will need to rethink how they do business in the face of mass discounters such as Wal-Mart. These changes will need to take place at the community and enterprise levels. The following community-level strategies are based on the successes of towns that have learned to co-exist with the retail giant.

**Community Cooperation:** Studies of communities which have thrived after the arrival of a retail giant indicate that cooperation between businesses and community leaders is a prerequisite to success.

- Form a chamber of commerce or business district association if one does not already exist. Use such an organization to provide a forum to discuss local issues, organize

educational seminars, coordinate joint marketing efforts and operating standards (including hours), organize events, etc.

- Conduct a business district market analysis to study demand for products and services and opportunities in the market area given the presence of a mass discounter. This study should lead to strategies for retaining, expanding and recruiting an appropriate mix of businesses and services.
- Work with local financial institutions and development groups to ensure that adequate business financing is available for the creation, expansion or continuation of local businesses. If traditional sources of financing are limited, communities should seek alternative financing such as venture capital or identification of silent partners.
- Take advantage of the draw of a Wal-Mart to promote the entire community.

**Local Government Plays a Role:** In towns that have proven successful when a Wal-Mart enters, the local government has played an important role in helping local businesses.

- As Wal-Mart typically locate on the edge of town, it is often hard to draw their customers to the existing business district. This might require changes in traffic flow, roads, signage or street-scaping to enhance convenience and appearance.
- Consider creating a Business Improvement District to help finance collective actions.
- Offer a clean, safe and secure environment.
- Create off street parking to maximize safety and convenience while minimizing traffic noise and dirt.

#### Conclusions

Research suggests is that it is possible to exist in the face of competition from the retail giants such as Wal-Mart. There are numerous cases of business districts surviving and in many cases thriving with such formidable opponents. Most of these communities made changes and worked together in adapting these strategies.

*This topic will be continued in the next edition of Lets Talk Business with strategies for individual businesses.*

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