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Big Boxes and Austin

The City of Austin

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Report Outline



- **Introduction**
- **Defining Big Box Retail**
- **Literature Review of the Impact of Big Boxes**
 - Commonly Identified Benefits
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 - The National Situation
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Definition of Big Box

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Columbia University

- Usually occupy substantially more than 50,000 square feet, with typical ranges between 90,000 and 200,000 square feet;
- Derive their profits from high sales volume rather than price mark-up;
- Large, windowless, rectangular single-story buildings;
- Standardized facades;
- Reliance on auto-borne shoppers;
- Acres of parking;
- No-frills site development;
- Seem to be everywhere and unique to no place, be it a rural town or urban neighborhood.

Definition of Big Box



Common Categories

- Discount department stores: Range in size from approximately 80,000 square feet to 150,000 square feet and offer a wide variety of merchandise including, housewares, home furnishings, apparel, and beauty aids.
- Superstores: These are discount department stores that sell groceries in 25% to 33% of their store area. The largest of the big box stores, they can occupy as much as 200,000 square feet and up.
- Warehouse clubs: Offer a variety of groceries and discount general merchandise in bulk at wholesale prices. There are a more limited number of product items than offered at general discount stores or supermarkets, and annual membership dues are usually charged. Store sizes range from 100,000 to 170,000 square feet.
- Category killers: Offer a large selection of merchandise and low prices in a particular type of product category. Store sizes are typically smaller, ranging from 20,000 to 80,000 square feet.

Definition of Big Box

Study Definition

- Freestanding stores (i.e., not part of a mall) that average at least 100,000 sq. ft.;
- Stores that sell a relatively wide variety of merchandise, including products that fit into at least several of the industries within retail trade;
- Firms that do business nationally (i.e., that operate in more than 25 states).

Firms Included

- Wal-Mart (including Sam's)
- Target
- Costco
- Lowe's
- Home Depot

Commonly Cited Benefits & Concerns



Benefits

- Contribution to low prices and inflation containment
- Contribution to rising productivity
- Convenience for certain customers

Concerns

- Economic (choice, labor compensation, outsourcing)
- Social (social services, non-pedestrian, environmental)
- Community Character (homogenization, design issues, urban blight)

Austin Retail Environment

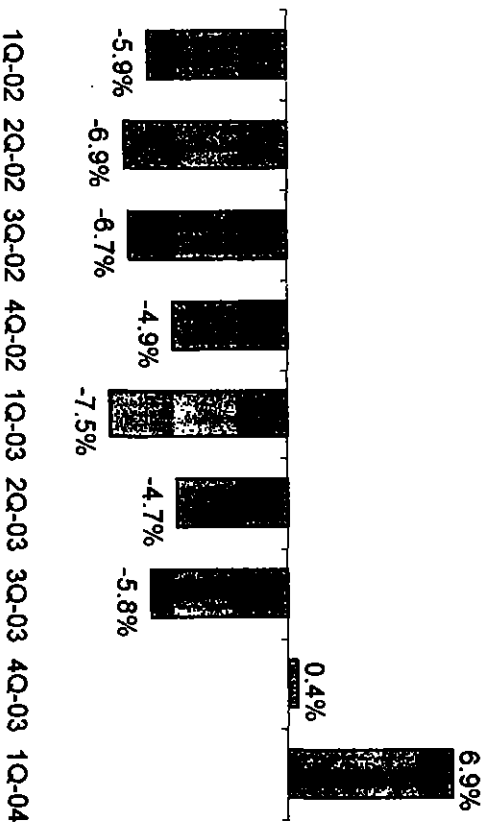
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- Current trends somewhat positive, as sales tax revenue has turned up in the past six months
- Internet shopping continues to make inroads – City probably loses at least \$5 million/annually in tax revenue to Internet sales.
- Population and sales tax share coming more in line – City received 83.5% of regional retail activity in 1990; 53.9% last year.

67.1

	Allocation	Change
1996	\$80,836,720	4.5%
1997	\$85,272,735	5.5%
1998	\$94,261,114	10.5%
1999	\$104,915,700	11.3%
2000	\$117,818,293	12.3%
2001	\$117,393,240	-0.4%
2002	\$110,208,923	-6.1%
2003	\$105,044,871	-4.7%



Austin Retail Environment



Austin
MSA Retail
Employment

	Retail Trade	Building Materials	General Merchandise
1994	50.1	3.5	7.7
1995	54.2	3.7	8.6
1996	57.1	4.0	9.2
1997	59.1	4.4	9.6
1998	61.3	4.8	9.9
1999	65.5	5.0	10.0
2000	69.4	5.5	10.4
2001	69.7	5.3	10.6
2002	68.3	5.5	10.8
2003	67.8	5.8	11.3

	All Occupations	Supervisors	Salespersons	Cashiers
All Retail Trade	\$13.00	\$16.00	\$11.25	\$8.50
General Merchandise	\$10.45	\$12.90	\$9.45	\$8.50
Building Materials, etc.	\$12.60	\$15.40	\$10.40	\$8.90
Clothing, etc.	\$10.50	\$15.10	\$8.35	\$8.25
Grocery Stores	\$11.05	\$16.20	\$11.50	\$9.20
Home Furnishings, etc.	\$12.95	\$16.95	\$12.10	\$8.60
Electronics/Appliances	\$17.75	\$16.35	\$9.85	\$7.10
Sporting Goods/Books/Musi	\$9.25	\$11.60	\$8.05	\$7.40
Health/Personal Care	\$13.75	\$13.95	\$8.60	\$7.75

Austin
MSA
Retail
Hourly
Wage Rates

Summary of Findings

#1 - Big Boxes create consumer value through lower prices

- Big box strategy based on high volume/low margin – means consumers get lowest possible price

	Gross Profit Margin	Net Profit Margin
Wal-Mart (including Sam's)	24.0%	3.5%
Target	34.0%	3.8%
Costco	13.4%	1.7%
All Discount	24.7%	3.5%

Summary of Findings



#1a - Big Boxes create consumer value through lower prices

- New England Consulting Group estimate - \$20 billion direct - \$100 billion total savings nationwide.

Change in CPI
12/93 to 12/03

All Items	26.4%
Medical Care	47.2%
Food/Beverage	28.5%
Housing	30.1%
Transportation	17.1%
Education/Communication	26.9%
Home Furnishings	3.7%
Apparel	-10.3%
Department Store Total	-9.4%

Summary of Findings

#2 – There appears to be relatively little direct competition between big boxes and local retailers

- Market basket study done locally found it was very difficult to find exactly the same items at both local retailers and big boxes – broad categories, but not exactly the same items
- Where exactly the same items were available, similar prices – Law of One Price.
- Big boxes tended to be wide, but not deep – one of a range of items offered – Weber grills example

Summary of Findings

#2a – Locally-owned retailers tend to employ a different business model to succeed

- Ken Stone: those who sell something different will probably experience an increase in business due to spillover traffic; those sell the same thing will lose sales.
- Local merchants compete by offering some combination of:
 - Occupy a niche or sell a product not available from big boxes;
 - Offer some combination of service, convenience, customization, or “experience” that adds value for the customer; and
 - Employ cross-subsidization and loss-leaders

Summary of Findings

#3 – All Big Boxes are not identical, and shifts in consumer preferences may widen the gap

- All employ similar business model, but use Wal-Mart as starting point
- Target, Costco (and HEB) – low prices, with something extra on top – nicer shopping experience, or more upscale goods.
- Silverstein on “trading up” to luxuries and “trading down” to commodities – “Costco does both under one roof – Wal-Mart just does trading down.”

Summary of Findings

#4 – The healthiest consumer market is the market that maximizes consumer choice on a sustainable basis, i.e, a market that is competitive.

- Traditional Justice Department anti-trust standards – HHI Index – measure market concentration – firm-based, rather than category, but same thought process can be applied
- Big boxes represent approx. 21% of relevant local retail market – well below anti-trust standards (33% as tipping point) – implication that Austin's retail market is competitive

Summary of Findings

#5 – New Urbanist land use policy offers the possibility of mitigating some of the concerns associated with the big boxes.

- Concerns about big boxes fall into three broad categories: economic, social, and community character (including design, etc.)
- Case studies and analysis suggest that careful planning and policy can mitigate many of the character issues, as well as facilitating built environments that create leverage for local retailers.

Summary of Findings



#6 – The City should promote design standards that reflect community values; but those standards should not be so onerous or prescriptive that neither national nor local retailers can justify doing business in Austin.

- Striking the balance between regulatory and market-driven design standards will be critical as the City seeks to promote retailing environments that are considered inviting and sustainable.

Summary of Findings

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#7 – Big boxes put downward pressure on wages

- Cost-containment and a commodity approach to goods sold means that wages will tend to be lower in big boxes than in higher value-added retail

Wal-Mart	\$9.35
Other Department Stores	\$11.39
Home Centers	\$12.07
Warehouse Clubs	\$9.42
Discount Department Store	\$9.54
Total Retail	\$11.67

2002 data

Summary of Findings

#8 – Lower wages tend to create social costs that are not fully accounted for in the price of the goods that consumers purchase.

- Spending and income not necessarily directly connected – according to Consumer Expenditure Survey, households begin to spend less than they earn at around \$35,000 after-tax
- Low wages contribute to a variety of social costs, some of which are borne by the public sector – most at state and federal level, but some locally as well – difficult to measure full extent.

Summary of Findings

#9 – Local retailers may have stronger linkages, per dollar of revenue, to the local economy than the big boxes.

- Several studies of limited scope find greater linkages to local economy by locally owned firms, mostly in procurement
- Data unavailable to confirm or deny, but makes sense for services, if nothing else – accounting, banking, advertising, etc.
- One caveat: local procurement for national market by non-local firm.

Summary of Findings



#10 – Small/local retailers enhance the local economy over and above the value created for consumers through contribution to the area's cultural vitality.

- Emerging understanding of the connection between community character (quality of life, cultural vitality, infrastructure, “look and feel”) and economic activity.
- Unique local business contributes in two ways:
 - Enhancement of the Austin “brand”
 - Appeal to the creative class

Summary of Findings

#11 – The local fiscal impact of retail is a function of maintaining a retail base that can meet local demand.

- Most retail purchases made within reasonable proximity (defined by distance/drive time) of home/work – independent of political boundaries
- When retail demand is unmet within a given city inside a metro area (or more attractive options exist in nearby cities), the process is called “leakage.”
- Sunset Valley example

Conclusions

- Evaluation of impact of big boxes is largely a function of stakeholder lens.
 - Consumers enjoy unprecedented low prices.
 - Emphasis on cost-containment puts downward pressure on wages
 - Outsourcing contributes to domestic mfg. job loss (at least in the short run)
 - Lower labor compensation contributes to a range of social costs, some of which are borne by public sector
- All of the above are worthy of national dialogue, and hopefully will play out on a national stage.

Conclusions

- City of Austin has oversight over two primary issues: preservation and enhancement of tax base (both in short and longer-term), and nature and character of the physical context of the community. Given these areas of responsibility, the City should pursue following broad goals:
 - Continue to capture “fair share” of total local retail demand
 - Monitor the “market share” of unique local retailers, with a goal of at least maintaining current status
 - Recognize the contribution to cultural vitality made by local retailers through proactive assistance (in various forms)
 - Work to ensure that community goals and business needs are integrated into any ultimate regulatory scheme for enhanced retail design and urbanism.