Going Local

Quantifying the Economic Impacts of Buying from Locally Owned Businesses in Portland, Maine

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Maine Center for Economic Policy

IDEAS FOR SHARED PROSPERITY

The **Maine Center for Economic Policy** was established in 1994 with the mission to promote a sustainable and equitable economy through analyzing and proposing solutions for Maine's economic and fiscal challenges. By doing so we seek to build an economy that allows all Maine people to achieve personal security and the greatest opportunity to reach their full potential. More information, including a list of board members and other research, can be found at www.mecep.org.

The **Portland Independent Business and Community Alliance**, which runs the Portland Buy Local campaign, is a five-year-old nonprofit organization with a membership of over 370 local, independent businesses. PIBCA contracted with MECEP to complete this study as an independent contractor. PIBCA's mission is to support locally owned, independent businesses in Portland, to maintain our unique community character, provide continuing opportunities for entrepreneurs, build community economic strength, and prevent the displacement of community-based businesses by national and global chains. More information, including a directory of members, can be found at www.portlandbuylocal.org.

About the Authors

Amar Patel began work on this project as an intern at MECEP during the summer of 2011. As a junior at Bowdoin College he continued research on this project as part of an independent study under the supervision of John Fitzgerald, Bowdoin's William D. Shipman Professor of Economics. Amar comes from a family of small business owners and moved to the United States from India at age 4.

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Introduction & Summary

The Maine Center for Economic Policy (MECEP) was retained by the Portland Independent Business and Community Alliance to collect and analyze data related to the economic impact of businesses in Portland, Maine. The primary purpose of the study was to quantify the impact of locally owned businesses compared to national chains on the local economy. MECEP's analysis found that in general every $100 spent at locally owned businesses generates an additional $58 in local impact. By comparison, $100 spent at a representative national chain store generates $33 in local impact. Stated differently, MECEP found that money spent at local businesses generates as much as a 76% greater return to the local economy than money spent at national chains. These findings are consistent with similar studies conducted in other states and can vary by business type.[1]

MECEP's findings indicate that shifting consumer spending to locally owned businesses will stimulate increased economic activity. Based on 2007 retail sales figures, shifting 10% of consumer spending in Cumberland County from national chains to locally owned businesses would result in an additional $127 million in economic activity with 874 new jobs generating over $35 million in wages.

Background

Cities and towns throughout the United States are struggling to maintain strong local economies. Traditional economic development approaches tend to focus on business recruitment and retention, promoting entrepreneurship, or increasing education and skills among workers. More recently, these approaches have been modified to focus on recruitment, retention, and skill development within specific industry sectors or "clusters" and identifying new or "value-added" business opportunities that build on existing business activity.

Traditional economic development approaches focus on one piece of the economic development puzzle – pursuing economic activity (often at the expense of neighboring states, regions, or towns) that leads to an inflow of dollars and jobs. Another key piece that receives less attention is maximizing the impact of dollars that flow into a community by identifying ways to retain and recycle those dollars to support increased and sustained economic activity. Effectively, the primary focus has been on trying to fill the bath tub while neglecting to plug the drain.

Against this backdrop, an increasing number of communities are seeking ways to "plug the drain" and limit the dollars that leak out of their local economy. Efforts to promote local agriculture and encourage consumers to buy from locally owned businesses are examples of this. Because local farmers and locally owned businesses retain their profits in the community and are more likely to purchase business inputs and professional services from local sources, fewer dollars leak out of the local economy.[2]

Like many small towns and cities, consumers in Portland, Maine, can increasingly choose to spend their money online, at national chains, or at locally owned businesses. They can purchase clothing or hardware at locally owned stores or at national chains. They can eat at chain restaurants or locally owned restaurants. They can fill their prescriptions at a local pharmacy or at one affiliated with a national chain. Such decisions multiplied across all consumers have a myriad of consequences economic and otherwise. In this study, MECEP focuses on economic impacts by assessing how much of a dollar spent at locally owned businesses re-circulates in the local economy versus a representative national chain in Portland.

Residents of Greater Portland can choose to spend their money online, at national chains or at locally owned businesses. Such decisions multiplied across all consumers in the region have a myriad of consequences economic and otherwise. In this study, MECEP focuses on economic impacts by assessing how much of a dollar spent at locally owned businesses re-circulates in the local economy versus a dollar spent at a representative national chain in Portland.

Study Methodology

Traditional economic development approaches have focused on trying to fill the bath tub while neglecting to plug the drain. An increasing number of communities are now seeking ways to "plug the drain" and limit the dollars that leak out of their local economy. Efforts to encourage consumers to buy from locally owned businesses are an example. Because local businesses retain their profits in the community and are more likely to purchase business inputs and professional services from local sources, fewer dollars leak out of the local economy.

For the purpose of this study, MECEP defined a locally owned business as follows:

A business that is privately held and the owner or the majority of the owners are Maine residents and live within 50 miles of Portland at least half of the year. This includes employee and cooperatively owned businesses, as well as nonprofits, but not government units. The business must be registered in Maine with no corporate headquarters outside of the state. Independent means the owner or owners have full decision-making authority over the business, and the business has no more than 10 outlets, with the majority located in Maine.

MECEP distributed confidential electronic surveys to over 350 members of the Portland Independent Business and Community Alliance (PIBCA). Twenty-eight (28) businesses completed the surveys giving detailed information on key components that influence their local economic impact, including wages, profits, cost of goods, and charitable contributions.[2] Survey respondents represented a range of sectors including retail, service, restaurant, pharmacy, and banking.

MECEP also needed to obtain comparable data for a national chain store. MECEP selected Dollar Tree and conducted an in-depth examination of corporate filings to obtain estimates for the three Portland locations. While Dollar Tree is not as well-recognized as other national chains such as Wal-Mart and Target, MECEP selected it as a comparison point because its average store size, employment, and output is more in line with that of a locally owned business. It is important to note that MECEP's findings do not differ significantly from those studies that have included larger national chains and multiple chain stores as comparison points particularly when controlling for impact per square foot of store space.

MECEP then used IMPLAN software to model local economic impact using the survey and Dollar Tree data. This allowed MECEP to calculate the three core components of economic impact. These include:

- **Direct effects:** What happens in the local economy when the business being studied purchases inputs, goods, and services from other firms, pays its employees, returns profits to owners, or contributes to charitable causes?
- **Indirect effects:** What happens in the local economy when supplying firms buy their own inputs, pay employees, return profits to local owners, or contribute to charitable causes?
- **Induced effects:** What happens in the local economy when workers and owners at both the business being studied and supplying firms buy local goods and services?

The direct effect is based on survey results and corporate filings. The IMPLAN software uses annually collected federal data to estimate indirect and induced effects adjusted to reflect the dynamics and predictable leakage of the local economy, in this case Portland and surrounding communities. The total effect is therefore the combined result of direct effects plus indirect effects and induced effects. The final product of the analysis is a multiplier, which is simply the ratio of the total effect to the direct effect. For example, a multiplier of 1.5 would indicate that every $1 spent by consumers generates a total of $1.50 or an additional $0.50 in local economic activity.

Results and Discussion

MECEP's analysis found that in general every $100 spent at locally owned businesses generates an additional $58 in local impact, $25 more than comparable spending at a national chain.

MECEP found that, on average, 65% of the business expenses among the survey respondents are paid to local goods and service producers. This includes not only employee salaries and wages, but also the cost of goods sold, repair and maintenance, advertising, vehicle, utility, equipment, supply, professional service, and other expenses. Table 1 illustrates where respondents procured their goods and services.

Table 1: Business Expenditures by Locally Owned Businesses in Greater Portland

	Paid to individual or business located in...		
Expense	**Greater Portland**	**Elsewhere in Maine**	**Out of State**
Goods	27.6%	13.7%	58.8%
Salary and Wages	69.6%	27.3%	3.1%
Repairs and Maintenance	88.9%	7.7%	3.4%
Advertising	60.1%	30.1%	9.9%
Employee Benefit Programs	70.5%	26.5%	3.0%
Vehicle Costs	77.0%	20.0%	3.0%
Utilities	52.9%	40.6%	6.5%
Equipment and Supplies	41.6%	33.9%	24.5%
Professional Services	81.1%	16.5%	2.5%
Other Operating Expenses	60.0%	0.0%	40.1%
Insurance	44.0%	10.9%	45.1%
Charitable Contributions	48.0%	51.5%	0.6%

Source: MECEP analysis of business surveys. Note percentages may not equal 100% due to rounding.

It is difficult to approximate a similar breakdown for a national chain, but publicly available documents provide some insight. As mentioned previously, the key components of economic impact are wages, profits, cost of goods and services, and charitable contributions. Most of the wages from a national chain likely stay within the local economy because that is where most employees live. National chains require little in the way of local professional services, such as accounting and printing, which are usually handled at the national level. In the case of the Dollar Tree profits are remitted to the headquarters in Virginia. Based on the Dollar Tree's business model, only 40% of goods sold are manufactured in the United States; virtually all of these are produced outside of Maine. Finally, as reported on their website, charitable contributions are only in the communities surrounding their corporate headquarter and distribution centers.

Table 2 depicts the three core components of economic impact based on MECEP's analysis of survey and national chain data using the IMPLAN software and supporting data for Portland, Maine.

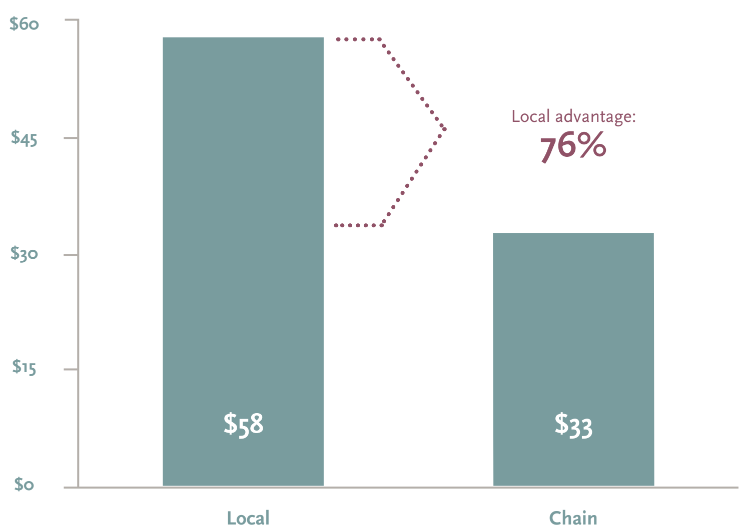
Table 2: Core Components of Economic Impact for Businesses in Portland, Maine

Ownership	Direct effects	Indirect effects	Induced effects[4]	Total[5]
Local	1.00	0.35	0.23	**1.58**
National chain	1.00	0.10	0.24	**1.34**

Source: MECEP analysis of business surveys, IMPLAN, Dollar Tree 10-K for 2010.

Based on the analysis depicted in Table 2, MECEP found that in general every $100 spent at a local business generates an additional $58.03 in local impact. By comparison, $100 spent at a representative national chain store generates $33.43 in local impact. Stated differently, MECEP found that spending at local businesses generates as much as a 76% greater return to the local economy. These findings are depicted in Chart 1 below.

Chart 1: Additional Impact on Portland's Economy per $100 in Consumer Spending by Business Ownership



Source: MECEP analysis of business surveys, IMPLAN, Dollar Tree 10-K for 2010.

MECEP's analysis indicates that on a dollar-for-dollar basis the local economic impact of national chains is significantly less than that of locally owned businesses.

The results of this analysis indicate that reducing economic leakage through changes in consumer spending patterns can add up to sizeable economic benefits for the region and offer an important opportunity for economic growth. Based on 2007 retail sales figures, shifting 10% of consumer spending from national chains to locally owned businesses would result in an additional $127 million in economic activity in Greater Portland with 874 new jobs generating over $35 million in wages.[6]

Previous studies of the economic impacts of local businesses in other locales by Civic Economics have produced similar findings. Their 2004 study of retail economics in Andersonville, Illinois, examined the economic impacts of ten local firms, compared to ten competing national chains, on a neighborhood's economy. Their analysis of revenue and expense information provided by the ten firms concluded that spending $100 at locally owned businesses generates an additional $68 in local economic activity. By comparison, spending $100 at national chains generates an additional $43.

A similar 2008 study in Grand Rapids, Michigan examined revenue and expense data from four lines of goods and services: pharmacies, grocery stores, full-service restaurants, and banks. On average, there was a local economic advantage of 50% from consumer spending at locally owned businesses versus national chains. Although slightly less than the advantage in Andersonville, the two reports offer similar conclusions: buying from local firms provides significant benefits for a local economy.

Several factors may influence MECEP's findings. First, unlike the Andersonville or Grand Rapids studies, MECEP compared information for businesses from a range of sectors to a single chain in the retail sector. This has the potential to increase or decrease the local advantage. For example,

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in the Andersonville study, Civic Economics developed sector specific comparisons and segregated their sample accordingly. They found that local restaurants generate 27% more economic activity per $100 in revenue than national chain restaurants, local retail establishments generate 63% more economic activity compared to their national counterparts, and local services generate 90% more economic activity. In terms of revenues, the Portland sample is heavily weighted by restaurants and retail establishments. While cost limitations did not allow for sector specific comparisons, the potential for bias based on a disproportionate share of service businesses (where the local premium appears to be greatest) in the sample is minimal.

Second, while MECEP obtained completed surveys from 28 businesses, the largest 3 businesses based on revenues had the potential to skew the overall findings. With this in mind, MECEP analyzed the data with and without these businesses and found no significant difference in the overall results.

Finally, selecting a larger chain such as Target or Wal-Mart or a chain in a different business sector would likely result in different levels of direct, indirect, and induced effects. MECEP's selection of Dollar Tree as the comparison chain was based solely on the fact that its size, employment, and output were most similar to the businesses surveyed. MECEP acknowledges that future work of this kind could be strengthened by the addition of multiple comparison points. However, as indicated previously, even when this has been done in other locations, the results are consistent with the findings of this study.

In terms of overall economic impact, the multiplier effect of buying from locally owned businesses could be diminished somewhat if goods and services from national chains are available at comparable quality and lower prices. This would mean that area consumers are left with more money to spend on goods and services from other businesses regardless of ownership. While proponents of national chains likely overstate these benefits, the fact remains that in terms of overall economic impact, buying from locally owned businesses reduces leakage and contributes to increased local economic activity.

Conclusion

Consumers purchase goods and services from a variety places for a variety of reasons. Increased consumption from locally owned businesses can stimulate greater economic activity. In the case of Greater Portland, every $100 a consumer spends at locally owned businesses can generate as much as $58 in additional local economic impact, $25 more than comparable spending at a national chain. Based on 2007 retail sales figures, shifting 10% of consumer spending to locally owned businesses would result in an additional $127 million in economic activity in Greater Portland with 874 new jobs generating over $35 million in wages.

1 See "The Andersonville Study of Retail Economics" at www.civiceconomics.com/AndersonvilleStudy.pdf; "Local Works! Examining the Impact of Local Business on the West Michigan Economy" at www.civiceconomics.com/GR_Local_Works_Complete.pdf; and "Thinking Outside the Box" at www.civiceconomics.com/ThinkingOutside-theBox_1.pdf.

2 Other arguments for supporting local farmers and buying from locally owned businesses focus on improving community vitality and quality of life, not just economic outcomes. For example, local business owners are more likely to contribute to the social, civic, and cultural fabric of the community than business owners who are not based in the community. MECEP did not seek to evaluate these arguments in this study focusing instead on the economic impacts of buying from local businesses.

3 Another 72 businesses began the survey but did not complete it.

4 The induced effect multiplier may be understated for locally owned businesses and overstated for the Dollar Tree in our model. MECEP relied on survey data to calculate the share of wages (70%) paid to residents of Cumberland County. Because MECEP did not have access to such information for Dollar Tree, we assumed that 100% of employee wages are paid to local residents.

5 Due to rounding of induced and indirect effects, Table 2 indicates a total impact of 1.34 for the national chain. The actual number without rounding is 1.3343. For local stores the number without rounding is 1.5803.

6 Based on 2007 retail sales figures from U.S. Census and MECEP analysis using IMPLAN software.