Reviving Locally Owned Retail

by Stacy Mitchell*

Thank you. It's an honor and a pleasure to be invited to speak to you all today and to kick off this event. I don't believe there has been a gathering like this before—one aimed at bringing together existing and aspiring local business owners, commercial developers, and city officials to look a ways to expand homegrown, independent businesses. That this trade show is occurring is a testament to Austin's foresight as a community and to the good work of the Austin Independent Business Alliance.

While Austin in many respects is on the cutting edge of this conversation about the future of independent businesses, I'm delighted to report that it is underway in one form or another in communities across the country. There are more than two dozen independent business alliances that have sprung up in cities like Tampa and St. Louis and Salt Lake City. These groups are working both to remind residents of the benefits of supporting locally owned businesses and to help their member businesses come together to solve common challenges and gain a greater voice in local affairs.

Many cities and towns are rethinking their approach to economic development. Rather than subsidizing big-box developments and offering tax breaks to lure companies from afar, they are beginning to look at how they can use those resources to grow their economies from the ground up: to create local businesses to meet local needs.

Perhaps the biggest hurdle these efforts face is the widespread and deeply ingrained perception that locally owned, independent businesses are doomed to the dustbin of history. We tend to assume that, whether we like it or not, the rise of chain retailers and

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the demise of local businesses is inevitable, a natural market evolution. And, indeed, the trends for local businesses over the last fifteen years have been dismal.

But trends are not destiny and in fact there are many signs that things are beginning to turn around.

Independent bookstores stopped losing market share in 2002 and have been holding steady for the last three years.

Ace Hardware, which, as you may know, is a national wholesale cooperative owned by thousands of independent hardware stores, reported that last year, for the first time in memory, they broke even in terms of membership. That is, they had as many new independent hardware stores open as existing hardware stores close.

And many of these new stores represent a new generation of business owners. They include people like Gina Schaefer, who left her corporate job to open a hardware store in Washington, D.C.'s Logan Circle neighborhood. Schaefer had no retail experience and the location was less than ideal: the store spans three stories of a historic building and has no parking. But it's been a tremendous success—so much so that Schaefer is now helping other aspiring entrepreneurs get started. She has been tapped by Ace to lead an initiative to expand ownership opportunities for women and people of color.

Independent pharmacies are on the rebound too. In a major national study, *Consumer Reports* found that, on a variety of measures from the quality of the health information provided to the speed of service, independents beat chain drugstores and superstores like Target and Costco by "an eye-popping margin." The difference was so profound that the magazine's article opens by bluntly advising readers to abandon the chains and seek out one of the nation's 25,000 independent pharmacies.

And, indeed, you might be surprised to learn that the United States has more independent pharmacies today than it did three years ago. We have experienced a net gain of almost 400 locally owned drugstores. The National Community Pharmacists Association reports that when they use to give presentations at pharmacy schools only one or two students would approach them afterwards. Now they are swamped by students eager to go into business for themselves. The trade association has had to more than double the capacity of its ownership training programs to keep up with the demand.

You might also be surprised to learn that independent pharmacies are price competitive. In fact, more than a dozen studies have found that they are on average the least expensive option, beating chain drugstores, supermarkets, and even Wal-Mart and other mass merchandisers. The reason is that most independents now belong to nonprofit wholesale buying cooperatives that achieve the same sort of volume purchasing and economies of scale that the chains enjoy.

Independent retailers in many sectors are finding that there's much to be gained by banding together. Last week, three coalitions of independent record stores announced the launch of a new technology that will enable local merchants to sell music downloads on their own Web sites and in their stores. The service will compete directly with Apple iTunes. No individual record store could have done this on its own, but, by working together and pooling their resources, collectively the independents are putting themselves on the cutting edge of music distribution and delivery.

This is one of the keys I believe to the future of independent businesses. By working together through independent business alliances, purchasing cooperatives, and other kinds of coalitions, local businesses can achieve many of the advantages of scale that the chains enjoy, while also preserving their independence and retaining all of the benefits that they deliver to communities and local economies.

And those benefits are considerable.

Most local retailers buy many goods and services locally: they bank at local banks, advertise in local newspapers, carry goods produced by local firms, and hire a range of professionals, from accountants to attorneys to web designers. Every dollar spent at a locally owned store sends a ripple of benefits through the local economy, supporting not only the store itself, but many other local businesses, which in turn provide jobs—often the sort of well-paid positions that form the backbone of a city's middle class and the core of its tax-base.

When chains displace local merchants, all of these economic relationships are severed. National retailers have little need for many of these local goods and services and, indeed, they strive to keep local spending to a minimum. Money that use to flow through the community ceases to do so.

A number of studies have begun to quantify this difference. One was conducted in the Andersonville neighborhood on the north side of Chicago by the firm Civic Economics. The study analyzed ten locally owned restaurants, retail stores, and service providers and compared them with ten national chains competing in the same categories.

The study found that spending $100 at an independent businesses created an additional $68 in local economic activity. Spending $100 at a chain produced only $43 worth of local impact, or $25 less. The difference was due to four factors. The local stores had a larger local payroll because all of their management functions were carried out locally rather than at corporate headquarters. They spent more than twice as much procuring local goods and services from other local businesses. They kept more of their profits local and they donated more to local charities.

Civic Economics has dubbed this $25 difference the "local premium." When you consider that the average person spends about $10,000 a year at retail and there are 650,000 people within the Austin city limits, you begin to get a sense of how shifting just a small percentage of spending from local business to chains, or vice versa, can have a significant impact on the city's economy.

A second major benefit of local businesses is that they create and sustain the unique character of the places they inhabit. In an increasingly homogenous world, uniqueness has become a rare and valuable asset. Indeed, in an age where technology has made it possible for many people to work almost anywhere, a city's character and quality of life may well be its most important economic development asset, the key to long-term prosperity.

Uniqueness matters at the micro level as well as commercial districts and retail projects compete to stand out from the crowd in markets that are already saturated with shopping options.

A third major benefit of locally owned businesses is that they often have deep personal as well as financial roots in the places where they operate. Unlike national chains, their future prospects are directly dependent on the community's health and well-being.

This difference becomes especially apparent during times of adversity and disaster. Sixteen years ago when an earthquake leveled downtown Santa Cruz, California, not one of the city's chain stores stayed. They all packed up and left. Meanwhile, dozens of locally owned businesses decided to stay and operate out of these giant tents. They did so, at great discomfort, for three full years while the downtown was being rebuilt. Not only did their willingness to do so keep the community together, but the city would have been unable to obtain loans to rebuild the downtown without their lease commitments.

A more recent example can be found in New Orleans. In February, researchers at Tulane University, after weeks of surveying the city's streets, reported that most independent businesses had reopened shortly after the storms, but that most chain stores remained closed more than five months after the disaster, adding hardship and blight to a city struggling to recover.

A friend of mine who was in New Orleans recently sent me a photograph of a local coffee shop that was packed to the rafters with people. Directly across the street sat a shuttered Starbucks, one of dozens in the city. On the plywood boards covering the windows, someone had spray-painted, "We don't care."

Although especially relevant during such tragedies, the love and commitment that local business owners have for their hometowns matters in countless small but important ways day in and day out. Local owners tend to be far more involved in community groups and local charities than chain stores are. Their business decisions are influenced not only by profit considerations, but also by their relationships with their customers, employees, and suppliers. As a Philadelphia restaurant owner told me, "I make decisions from the heart as well as the head, because I have personal relationships with the people affected."

These community roots may explain the growing body of sociological research that has found that local businesses play a crucial role in the social and civic health of our communities. Studies have found that places that have a larger share of their retail activity taking place at locally owned businesses, rather than chains, rank higher on a wide range social, economic, and civic measures. Poverty, crime, and infant mortality are all lower.

These places also score much higher on an index of social capital that includes such measures as how often people volunteer and attend city council or school board meetings, and whether they belong to a neighborhood group or social club. Even voter turnout is higher in places with a greater share of locally owned businesses.

But despite all that they contribute to our communities and local economies, independent businesses face significant challenges.

They are rarely included in new development and major redevelopment projects. In doing research for my next book, I interviewed a number of retail developers to get a sense of why this is the case. I came away much more sensitized to the sort of hurdles that developers face in terms of financing their projects and the demands placed on them by lenders and investors to have a roster of recognizable, credit-worthy national brands and to produce a quick return on capital. Further complicating matters, local businesses are typically not on the rolodexes of the leasing brokers who secure tenants for these projects and they usually lack the capacity to unroll a new outlet with the overnight speed that a chain can.

These forces have conspired to produce the homogenous, could-be-anywhere built environment that now dominates much of the American landscape. Those developers who want to operate outside of the standard formula for retail projects—who want to build structures that are uniquely designed for their surroundings, that are well-made and constructed to last, that include independent businesses—face a challenging task.

Still, there are scattered examples. We have the 2nd Street District here in Austin. Of the 24 spaces leased by the end of 2005, 17 are occupied by locally owned businesses. In Washington, DC, a developer I recently met has skirted the problem of financing projects that have local business tenants by selling the retail spaces to the merchants like condos.

In Cleveland, the Coral Company recently redeveloped Shaker Square, an 80-year-old shopping center in a first-ring suburb, almost exclusively with locally owned businesses.

In 2000, the center had be redeveloped with national chains like The Gap and Ann Taylor. But it struggled and ultimately failed to become a regional shopping destination in an area that has many competing centers that are also home to the same chains like The Gap and Ann Taylor.

Coral has reinvented the center, focusing on local businesses, and establishing it as a place that meets basic neighborhood needs during the day, anchored by a local grocery store, and provides recreation at night with a local movie theater and several independent restaurants. About half the tenants are new, single-location enterprises. The other half are existing local businesses that opened a second or third location at Shaker Square.

So to recap: Independent businesses can be very competitive, particularly if they join buying cooperatives and other associations. They are signs that, in some sectors at least, independent retailers are poised to make a comeback. Many communities are eager to nurture that comeback. And there are scattered examples around the country of development projects that have featured primarily new and expanding locally owned businesses.

How can we further kindle and encourage these trends? I'm very excited about the potential for this trade show to bring various players together to begin to advance that conversation here in Austin.

I have a few ideas that I'd like to throw into the hopper.

One is for cities to actually become investors in commercial projects. Cities could have a minor ownership role, but provide enough equity to ease some of the financing challenges that developers face when they want to do high-quality projects that don't fit the standard formula. The city's equity piece could be in the form of very patient, long-term capital, perhaps taking a lower return, in exchange for the project including locally owned businesses and providing other community benefits. Many cities are already subsidizing retail development, often big-box stores. So why not convert these subsidies into investments in projects that grow the local economy?

Another idea is to analyze the barriers to local businesses opening second locations. Anecdotally, many have told me that the problem is finding a good store manager, because the owner obviously cannot be in two locations at once. Developing a retail management training program might be something that a community college could address.

We also need much more aggressive initiatives to help local entrepreneurs go into business. This means more training and technical assistance, as well as help with financing. Many people have latent business ideas, but do not necessarily know where to begin and how to get started.

One approach that I think could be particularly effective is to establish a mentorship program, in which established business owners are matched with people starting a business and commit to helping them learn the ropes and find solutions to problems as they crop up.

Another idea is to establish retail business incubators in key locations around the city. I saw one of these in Chicago. It was a good-sized building on a well-traveled commercial corridor. It had been divided into to numerous small spaces. Someone with an idea could start up their business at very little cost in one of these spaces and, a year or so later, after getting the hang of things and building a customer base, move out and lease a regular storefront somewhere else in the district.

And, indeed, as I was getting a tour of this commercial district, my guide pointed out several stores that had started out in the incubator and since grown into some of the neighborhood's largest and most important businesses.

Lastly, we need to remember the importance of good planning and land use policies that limit overdevelopment of retail and mandate the kind of small-scale, neighborhood shopping districts in which locally owned businesses can thrive.

Thank you.