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Gains From Wal-Mart-Style Stores Not So Super

OP-ED
By ROBERT J. RODINO
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The Aug. 8 edition of the Business Journal carried an op-ed ("State Measure Would Box In Local Communities on Growth") and an article ("Business Rips Bill's Superstore Impact") critical of SB 469, a proposal that would require California cities to conduct economic impact studies before approving Wal-Mart-style superstores. Charles Crumpley followed that up with a similarly themed Comment column ("Unstable Chain Reaction") in the Aug. 15 issue.

Aside from the technicalities of the legislation, the underlying criticism that it would stymie economic growth in California's communities is based on a misunderstanding of the dynamics of the retail business. The impact of Wal-Mart-style superstores on the businesses in local communities is often just the opposite of what superstore advocates claim.

I authored the superstore impact study in 2003 for the city of Los Angeles and in recognition of this dynamic, I recommended that an economic impact study be required before a Wal-Mart-style superstore was approved. The city structured its regulating ordinance around my recommendations.

In my 2003 study, updated in June 2010 for the city of San Diego, and in dozens of similar studies conducted across the United States and Canada, this dynamic of retail cannibalization is well documented.

The development of superstores in California and in most other regions of the nation raises a complex range of issues concerning the superstores' costs and benefits, fiscal implications for local communities, governments and land-use policy.

Simply put, in a mature urban market such as Los Angeles, San Diego, Sacramento, etc., a 100,000-square-foot to 200,000-square-foot superstore with a sales volume of $50 million to $100 million per year must take most of its sales from surrounding retailers within its trade area. This is called "cannibalization of retail sales."

Consumer retail expenditures are dependent on consumer income. Developing a Wal-Mart-style superstore in a mature urban market does not alter consumer incomes and does not alter consumer expenditures. Consumers merely redistribute their expenditures. Superstore gains in sales largely come from the surrounding retailers' losses. While a portion of sales can be made up from consumers coming into a trade area, i.e., into the city of Los Angeles from outside the city, this is rarely sufficient to satisfy superstore annual sales volume. Regionally, there would be little or no net new retail sales growth, since retailers outside the trade area would correspondingly lose sales volumes.

No 'net new jobs'

With no "net new expenditures" there are no "net new jobs" created. In fact, a decrease in retail employment may occur since superstores can generate more sales with fewer employees. Jobs at superstores often pay less with lower benefits than corresponding positions at competitive retailers, particularly jobs at unionized supermarkets or retailers paying union-scale wage and benefit packages.

With lower prices at superstores than at local competitors (although not universally true), sales tax revenues may actually decrease as a result of the superstore, since sales taxes are based on the dollar volume of sales, which may decrease if there are no net new retail expenditures.

In some communities, competing grocery stores have closed due to reduction in sales. This occurred in the Dallas region in the late 1990s and early 2000s. When 17 Wal-Mart superstores and Sam's Club opened in the area, 29 major chain supermarkets closed within five years. Where this occurs, consumer choice is reduced as well as employment, municipal revenues and property values.

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Further, Wal-Mart in particular has been known to relocate out of its existing stores to what is believed to be a better location, often leaving its former stores dark while holding on to the lease, thus preventing other retailers from occupying the former location. When this occurs, and particularly if combined with closed grocery stores within the trade area, property values decrease and surrounding businesses, dependent on proximity to the superstore or supermarket, lose business. The cascading impact can mean a loss of property values to property owners, and a loss of property taxes and sales taxes to the local municipality.

Advocates for business need to be asked what businesses are they advocating for – giant corporations or local small businesses? Nationally we accept the idea that small businesses are job creators. Why does this change for local retailers in California?

Of course, supermarket chains are also large corporations, but their wages, benefits and general business practices are economically stimulative. Ask any shopping center developer whose Wal-Mart superstore has gone dark and remains dark because a better location was found: How is it going with the "economic growth" idea? Ask retailers in that shopping center how they are faring with a dark superstore in their midst.

Let's work for real economic growth in California, but let's not fall for the claims of Wal-Mart style superstore advocates without a close examination – without an economic impact study.

Robert J. Rodino, Ph.D., is head of Rodino Associates, a consulting firm in Los Angeles and in State College, Pa., that provides economic development services to municipalities, developers and non-profits.

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