

# *Independent Business*

*Community Reinvestment &  
Local Recirculation of Revenue*

## *Connecticut*



*Estimates and Conclusions based on the Studies of Civic Economics*

*National Chains versus Local Independent Business*

*Connecticut Package Stores*

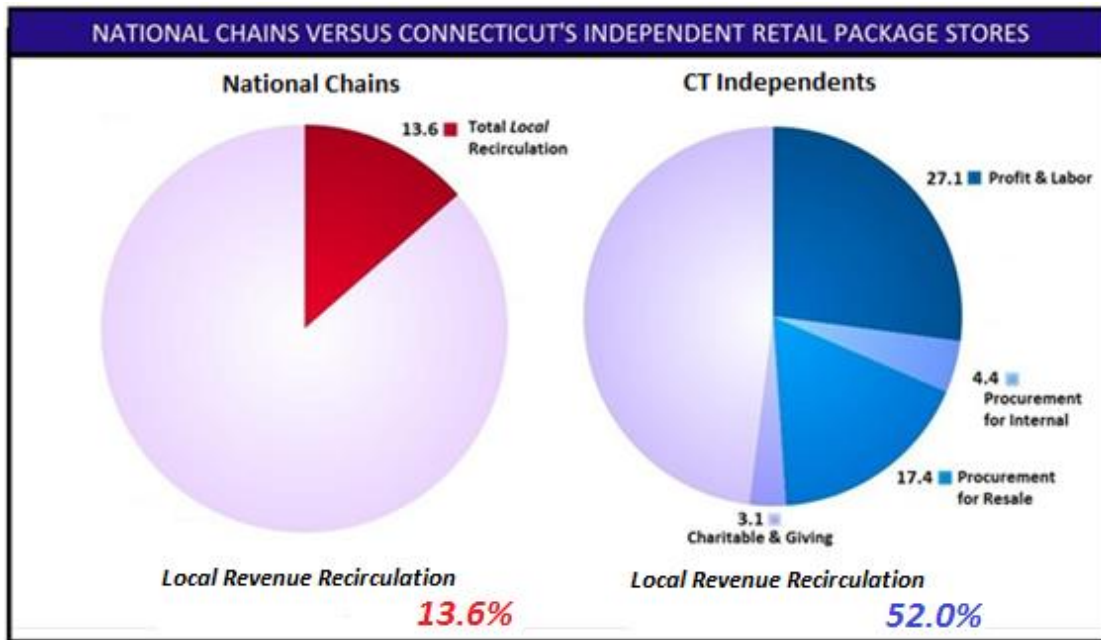
*“Local impact series”*

## Connecticut's *locally* owned Retailers versus National Competitors

### Total recirculation of revenue compared to national chains

(Pie graph illustration based on Study by Civic Economics, Salt Lake City, Utah)

### What's the real "*Impact*" of local ownership in Connecticut?



## Introduction

Next time you stop in to your local mom and pop package store, choose to purchase one of Connecticut's *locally* made products, or support any independent business in your area, you may want to consider what locally-owned business really means to your community. Maybe you know the owner, or maybe your experience is a bit more personalized, complemented by a variety of unique selections that are more exceptionally crafted. However, have you ever considered the greatest difference may just be that they, unlike their chain and national competitors, are truly *local* contributors?

## What happens when local stays local?

The continued success of these native entrepreneurs and policies that recognize their economic and social value in our communities, and to our consumers, is key in creating a *better* Connecticut. According to the Indie Impact Study Series: Salt Lake City, Utah Civic Economics, August 2012, fifteen retailers and seven restaurateurs, all independent and *locally-owned*, participated in a survey. Collectively, these retailers returned a total of **52.0%** of all revenue to the *local* economy, with the restaurateurs returning **78.6%**, compared with four major national chain stores, which recirculated an average of **13.6%** of all revenue within the local markets, and national restaurant chains recirculating an average of **30.4%**.

## About Civic Economics & Applied Research

Since its establishment in 2002, Civic Economics has conducted a number of studies comparing the economic impacts of independent, *locally-owned* businesses with that of their chain competitors. The essential methodology is the same throughout: “independent businesses open their books to us and demonstrate the proportion of revenue expended in five categories:”

1. Profits paid out to local owners
2. Wages paid to local workers
3. Procurement of goods and services for internal use
4. Procurement of local goods for resale
5. Charitable giving within the community

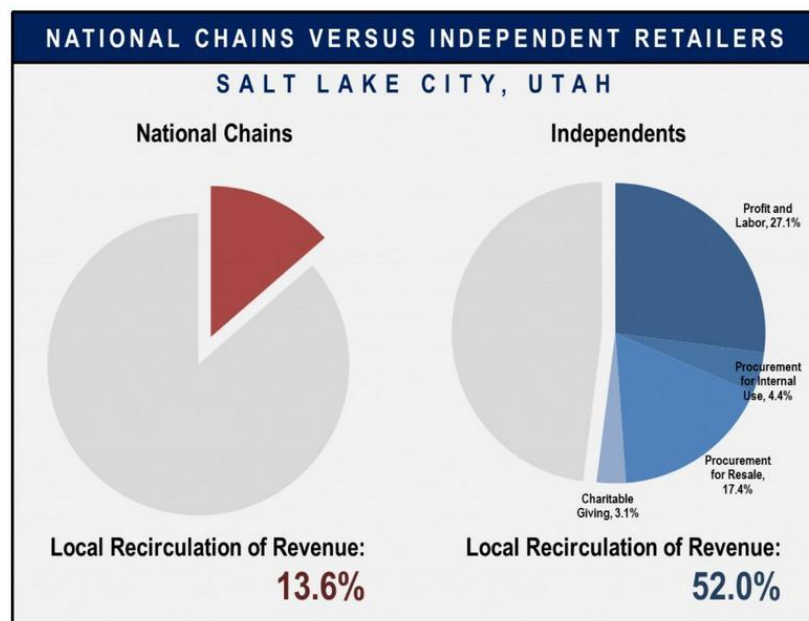
For chain competitors, the aggregate value of these is estimated from public records. The difference between these two totals captures the enhanced impact of the one or the other category of business.

**Civic Economics:**

**“We have yet to encounter a situation where independents did not present a strong local impact advantage.”**

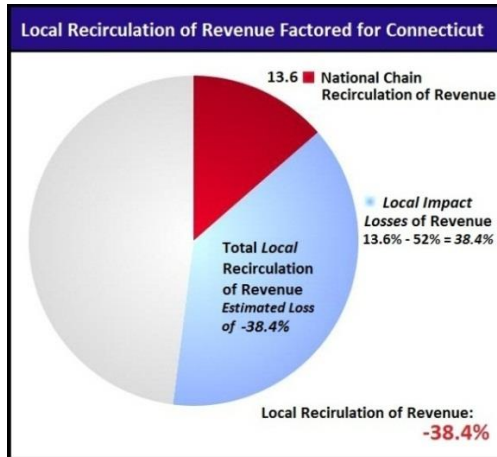
*The illustration below was sourced from the Civic Economics Salt Lake City, Utah Study, 2012.*

*(These estimates and illustrations are based on their analysis applied to Connecticut)*



Source: Civic Economics Survey of Independent Businesses; 10K Annual Reports for Office Max, Home Depot, Target, and Barnes & Noble

## Pie Graph assembled using the applied Salt Lake City model For Connecticut.



Total losses estimated are from the total contributions from each segment studied and applied to Connecticut's marketplace.

A *shift* from locally owned independents to national chains factors an estimated loss of **38.4%** in revenue from our local communities using the applied impact model.

### CONNECTICUT APPLIED MODEL

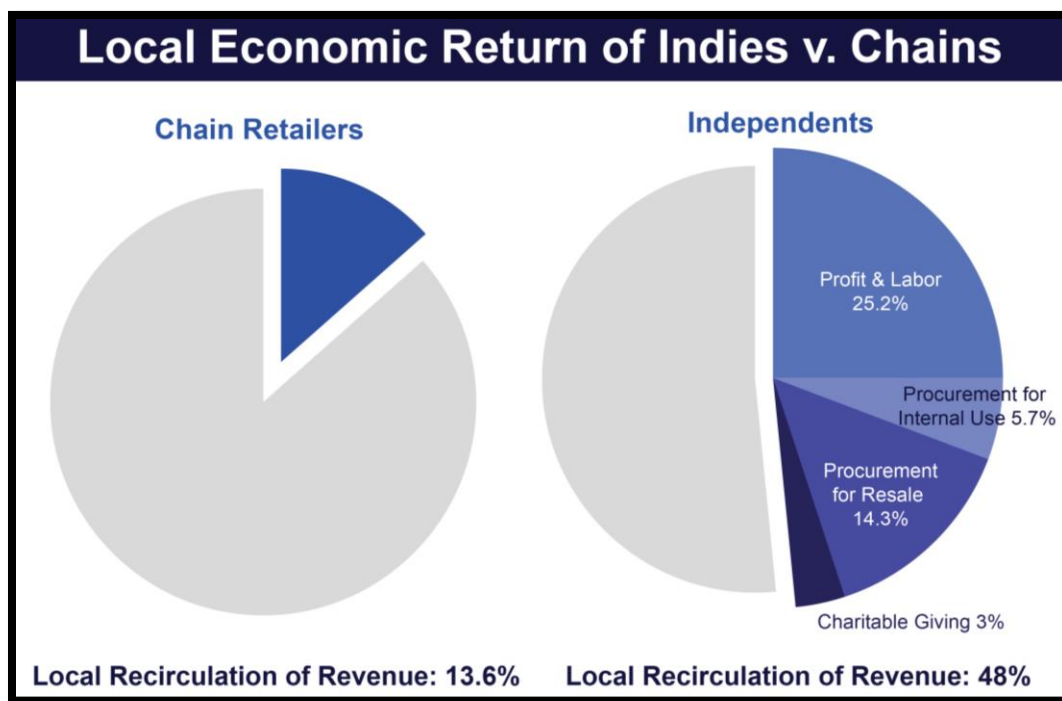
Much of the new language proposed in **HB 7184** will produce a marketplace which will significantly nurture the expansion of national retailers and national brand products in the Connecticut adult beverage industry. When using the Salt Lake City survey as a representative sample applicable to the Connecticut retail marketplace, a market shift from independents to chains (per 50 million) in sales revenue, would remove an estimated **\$19.2 million** from Connecticut's regional economy. The example listed of (per 50 million) in sales revenue, which does not factor in the onset and further losses to small *supplier* brands and homegrown beverage manufactures in our state is applicable when comparing the total and combined effects from the study. The (50 million) in sales revenue illustrated in this example should be used as a building block for further estimates on the aggregated effects as it is not to be assumed to be a final conclusion or total estimate of *local* revenue loss. We encourage you to compare these estimated community losses with those assessed gains by the proponents of **HB 7184**. These valuable local revenue losses should be factored as an accumulated loss in contrast to any proposed gains as they have a local impact on our society, jobs, further tax revenues, and the added financial stability of local governments.

### CONCLUSION

This analysis is one in a long line of studies nationwide in which Civic Economics has applied a similar methodology to gain an understanding of the economic impact of independent, *locally-owned* businesses. **In every case, the findings have been unequivocal:** independents bring substantial benefits to their *local* economies when compared to their chain competitors.

## COMPILED RESULTS OF 9 STUDIES BY CIVIC ECONOMICS

Averaged across the 10 communities in the retail studies, spending at “indie” retailers generates **3.7 times** more direct local economic benefit than spending at chains.



Civic Economics analyzed annual reports for four major national chain stores (**Barnes & Noble, Home Depot, Office Max, and Target**) for comparison. These stores are estimated to recirculate an average of **13.6%** of all revenue within the local markets.

**Civic Economics:** “While chains extract locally generated revenues from the community with each nightly bank transaction, independents are creating a virtuous cycle of local spending. The extra dollars in the local economy produce more jobs for residents, extra tax revenues for local governments, more investment in commercial and residential districts, and enhanced support for local nonprofits.”

**In short, these businesses create better places to live.**

## ***The 10% Shift***

Civic Economics undertook the broadest study in Grand Rapids, Michigan. Funded by a \$36,000 Steelcase Foundation grant, the study was commissioned by Local First, a nonprofit group that promotes local business ownership, social equity and “environmental kinship.”

They had the opportunity to analyze market shares of chains and locals in four lines of goods and services, survey a number of local businesses in each for comparative impact purposes, and forecast the local impact of a **10 percent shift** in consumer purchasing from chains to locals.

**The Findings: \$137 Million in additional local economic activity, with more than 1,600 jobs generating \$53 Million in wages.** (CivicEconomics.com/localworks)



On any given transaction, the difference may appear small, but carried throughout the well over (1 Billion Dollars) Connecticut records annually in adult beverage sales, the impact is astounding when considered – providing more opportunity to local residents.

Unfortunately, this impact is not fully recognized, as the current proposals to Connecticut’s liquor laws in **HB 7184** would cause a shift in the opposite direction. These changes would create a **loss in jobs and economic activity** in our communities, as they will pull market share from locally owned, independent businesses who spend more locally in our towns and cities.

Having a better understanding of independent, local impact should help form better policy decisions. You may ask yourself why anyone would support changes that would pull wealth and the benefits of independent economic returns from our communities in Connecticut?

Connecticut’s over 1,100 Package Stores, mostly independent and locally owned, are helping to contribute to this robust independent revenue cycle, creating immense economic opportunity.

Policy that considers local ownership and its benefits is key to a healthy economy in Connecticut.

## Volume Sales: The Connection to Sustainable Profits in Low Margin Industries

Connecticut is already among the highest per capita of liquor stores in the country. For example, neighboring Massachusetts issues licenses based on nearly **3 times** the population count of Connecticut. Because of this, Connecticut retailers work in a “**volume-based**” industry, with “**very low margins**”. The products sold within the 3-tiered system are “highly competitive” at every level, placing the entire industry collectively among the lowest profitable in America. The following article by *Forbes*, further supports this by placing all 3 tiers, from manufacturer to retailer, on the list of “**Least Profitable Industries**” from *Sageworks* most recent survey. Any further dilution created by the expansion of available outlets, such as the proposed Target, Walmart, and Big Box sales, beer in gas or convenience stores, or from delivery connected to out of state retailers, will lead to more diluted sales in an already well saturated market. Also, advocating for more convenience and access to adult beverage products for consumers is hard to understand, as Connecticut is laden with more options than nearly all other states.

Connecticut’s near record number per capita of 1,100 retail stores need high volume sales because their profit margins are among the lowest of all industries, and they compete among the highest number of competitors of any state. Low profit margins require high volume sales to create enough earnings to employ people and operate. Connecticut retailers do not have the luxury that higher profit industries have. Because of this, many retailers are currently running thin and any further dilution will lead to a loss in revenue per location. It’s simple to project, more outlets mean less revenue per location and spreading sales even thinner will create great instability as profits will be more difficult to capture. This will cause many of our locally owned businesses to fail or suffer amongst their already near record number of competitive peers.

**Related Article:** “*This is the Sageworks list that industries don’t want to be on -- the least profitable industries,*” says *Sageworks* analyst Libby Bierman.

Forbes		Billionaires	Innovation	Leadership	Money	Consumer	Industry	Lifestyle
<b>Least Profitable Industries</b>								
12 Months Ended 7/31/2017								
Net Profit	Industry Code (NAICS)							
-6.9%	Oil and Gas Extraction (2111)							
-5.1%	Software Publishers (5112)							
-3.7%	Beverage Manufacturing (3121)							
-0.3%	Semiconductor and Other Electronic Component Manufacturing (3344)							
0.4%	Forging and Stamping (3321)							
0.6%	Farm Product Raw Material Merchant Wholesalers (4245)							
0.9%	Beer, Wine, and Distilled Alcoholic Beverage Merchant Wholesalers (4248)							
2.1%	Petroleum and Petroleum Products Merchant Wholesalers (4247)							
2.2%	Grocery Stores (4451)							
2.3%	Bakeries and Tortilla Manufacturing (3118)							
2.3%	Agriculture, Construction, and Mining Machinery Manufacturing (3331)							
2.4%	Beer, Wine, and Liquor Stores (4453)							
2.4%	Automobile Dealers (4411)							
2.6%	Continuing Care Retirement Communities and Assisted Living Facilities for the Elderly (6233)							
2.7%	Direct Selling Establishments (4543)							



To: Honorable Members of the General Law Committee,

We thank all the General Law Committee members who have taken the time to read and consider this brief presentation. Our hope is that this information has opened your eyes more fully to the measurable economic impact of locally owned independent business in our state. Studies on economic impact have evolved over the years, and now we can fully realize the robust wealth and powerful opportunities that local ownership delivers to our communities.

The caring support that these many family owned businesses provide locally to charities, employment and spending, while showcasing the expanding diversity and product selection provided by Connecticut's craft adult beverage industry, must be fully recognized.

For more information about these studies, please contact the Local First Utah ([LocalFirst.org](http://LocalFirst.org)) or Civic Economics ([CivicEconomics.com](http://CivicEconomics.com))

On behalf of Connecticut's over 1000 independent local retailers,

Thank you for your consideration.