

The Economic Impact of Wal-Mart Supercenters on Existing Businesses in Mississippi



INTRODUCTION

While there is much anecdotal evidence to suggest that existing businesses are harmed by the growth of supercenters, there has been little academic research in the field, owing to a general lack of reliable data. A recent paper by Andrew W. Franklin, professor of economics, Iowa State University, examined the impact of Wal-Mart supercenter entry on the concentration of grocery stores in metropolitan areas. While he found little evidence that supercenters affect the concentration in larger metropolitan areas, he did report that Wal-Mart's market shares were highest in lower income and smaller metropolitan areas.

This study examined the impact of Wal-Mart supercenters on the sales of existing businesses in local trade areas. Data from sales tax reports in Mississippi were used to analyze changes in the sales of food stores, general merchandise stores, furniture stores, building materials stores, miscellaneous retail stores, and the total county. The Mississippi data have two main advantages. First, unlike most states, all food items are subject to the sales tax in Mississippi; therefore, this data allows us to account fully for food store sales. Also, since food items sold in supercenters are reported in general merchandise store sales and not in food store sales, we have a unique opportunity to identify changes in market structure that have occurred with the addition of a supercenter. Second, supercenters have been open in Mississippi for several years, sufficiently long enough to observe market changes.

BACKGROUND

Supercenters

Supercenters, sometimes called super-combo stores, are huge one-stop stores combining general merchandise, groceries, and services. They are the fastest growing type of store in the United States today. At the end of 2001, Wal-Mart, the largest chain, was operating 1,060 supercenters and planned to open 150 or more per year for the next few years. K Mart was operating 125 Super K Marts at the end of 2001, but its expansion has been put on hold until its bankruptcy situation is resolved. Target was operating 62 Super Target stores at the end of 2001 and planned to open approximately 30 new ones per year for the next several years.

The super-combo concept originated in Europe; these stores were usually called hypermarkets. Carrefour of France is currently the sales leader with 2001 sales of \$55.3 billion (U.S. dollars). The Meijer Company, of Grand Rapids, Michigan, pioneered supercenters in the upper midwest in the United States. At the end of 2001, it operated 152 stores transacting an estimated \$10.6 billion in sales that year. Fred Meyers of Portland, Oregon, was the dominant operator of super-combo stores in the northwestern part of the United States, but was bought out by Kroger in 1998.

The strategy behind super-combo stores is one-stop shopping. The theory is that many shoppers prefer to do most of their regular shop-

ping at one place, thereby saving time by avoiding the hassle of traffic jams, parking problems, etc. In addition, most people in the United States spend more money in grocery stores than in any other type of store. They spend the next highest amount of money in general merchandise stores. It is believed that synergism is created by combining general merchandise, groceries, and services under one roof. Specifically, Wal-Mart apparently believes that by adding groceries to its stores, it will gain additional sales in general merchandise because of the spillover of customers from the grocery department.

The Grocery Industry

The grocery industry in the United States has undergone a rapid consolidation in recent years. "Supermarket News" estimated that the top five retail grocers now account for almost 40 percent of sales in the U.S. market. At the top of this list is Wal-Mart. With 1,060 supercenters and estimated sales of \$65.3 billion, the discount mass merchandiser accounted for approximately 11 percent of the nation's retail grocery market in 2000 (www.supermarketnews.com, January 7, 2002.).

Much of the growth in Wal-Mart supercenters comes from the conversion of existing Wal-Mart discount department stores. In 2001, 104 of 167, or 62 percent, of new supercenters resulted from conversions of existing stores. (Wal-Mart SEC form 10K, January 31, 2001). Many of these stores are located in rural trade centers with little population or income growth. In such areas, the notion of a "zero-sum game" frequently prevails. In other words, a new entrant captures its sales from existing businesses, not from a growing market, and the existing retailers are likely to be adversely affected.

STUDY DESIGN

Mississippi was chosen for this study since it is one of the few states that have a sales tax on food. In addition, Mississippi has relatively good sales tax data that list sales by merchandise category for each county. A Wal-Mart store directory was used to identify supercenters that had been open for at least one year. There were 30 stores that fit this description. However, it was decided to drop out stores that were in counties with populations over 100,000, since it would be difficult to isolate the effects of a supercenter opening in these larger markets. Also, four counties had two stores each; these stores were dropped in the interest of maintaining consistency. The resultant sample consisted of 18 stores in counties with an average population of 45,450.

Sales tax data from fiscal years 1990 through 2001 were procured from the Mississippi State Tax Commission. The study was set up to determine the change in sales for various types of businesses in the supercenter trade area for each succeeding year after the opening of the supercenter.

Pull factors were calculated for various merchandise categories for the counties in the study for each year since opening. Pull factors are derived from sales figures, and provide a better method of comparison than sales alone. A pull factor is a county's per capita sales divided by

the state's per capita sales. For example, if a state's per capita sales were \$9,000 and a county's were \$9,000, the pull factor would be one. The interpretation would be that such a county's sales would be equal to selling to 100 percent of the county population, in full-time customer equivalents. A pull factor of 1.5 would mean that a county is selling to 150 percent of the county's population, in full-time customer equivalents.

The advantage of using pull factor analysis is that this simple measure makes adjustments for population differences among towns, it adjusts for price inflation, and it takes into consideration the condition of the state's economy. In effect, the pull factor is a proxy measure for the size of a town's trade area. Pull factors can be computed for various merchandise categories as well as for total sales.

DATA

As of this writing, 30 Wal-Mart supercenters are located in 26 counties in Mississippi. The first supercenters opened in the state in September 1992. Four stores opened that year in the northeast part of the state. Four more supercenters opened in 1993. In the next 4 years, Wal-Mart opened three or fewer stores per year in Mississippi. The pace of openings accelerated somewhat with the addition of five stores in 1998, seven in 1999, and four in 2000. The most recent opening included in this study is the supercenter in Magee, Mississippi, which opened in October 1999.

The Mississippi State Tax Commission reports county sales by merchandise category annually for a fiscal year spanning July 1 to June 30. For this analysis, data were collected for the following categories: apparel and general merchandise, food and beverage, furniture and fixtures, lumber and building materials, miscellaneous retail, and total retail sales.

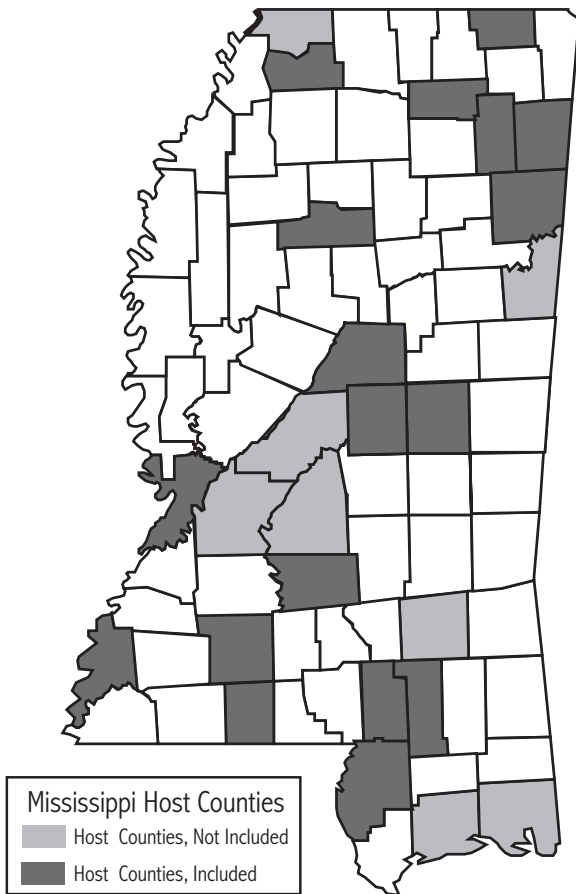
Data were collected for all 82 counties for fiscal years 1990 to 2001. The primary focus of the analysis was to determine the impact of a new supercenter on existing store sales in each market area. Unfortunately, the food and beverage category reported by the state includes not only grocery stores, but also restaurants and drinking establishments. Since previous studies have found that following the addition of a Wal-Mart store, restaurant sales in the host town may increase, the effect on this category could comprise two offsetting effects (an increase in restaurant sales and a decrease in grocery sales) (Stone, 1995; Artz, 1999). To correct this problem, restaurant and bar sales were estimated using data from the Economic Censuses of 1992 and 1997 and subtracted from the Mississippi State Tax Commission data to obtain adjusted food store sales that are more representative of grocery store sales.

Table I lists the host towns and counties involved in the study. Figure I is a map showing the location of the host counties of the Wal-Mart supercenters both included and not included in this study.

Table I. Towns and Counties Included in the Study

Host County	Host City	Included	Date Opened	County Population (2000 census)
Adams County	Natchez	Yes	Sep-95	34,340
Alcorn County	Corinth	Yes	Sep-92	34,558
Attala County	Kosciusko	Yes	Feb-98	19,661
DeSoto County	Olive Branch	No	Apr-00	107,199
DeSoto County	Southhaven	No	Oct-98	107,199
Forrest County	Hattiesburg	Yes	Aug-99	72,604
Grenada County	Grenada	Yes	Oct-96	23,263
Harrison County	D'iberville	No	May-99	189,601
Harrison County	Gulfport	No	Jan-95	189,601
Hinds County	Jackson	No	Jun-98	250,800
Itawamba County	Fulton	Yes	Mar-99	22,770
Jackson County	Ocean Springs	No	May-00	131,420
Jones County	Laurel	No	Sep-00	64,958
Lamar County	Hattiesburg	Yes	1994	39,070
Leake County	Carthage	Yes	Feb-99	20,940
Lee County	Tupelo (2)	Yes	Mar-93 & Mar-99	75,755
Lincoln County	Brookhaven	Yes	Aug-93	33,166
Lowndes County	Columbus	No	Aug-00	61,586
Madison County	Richland	No	Jan-01	74,677
Monroe County	Amory	Yes	Mar-93	38,014
Neshoba County	Philadelphia	Yes	Mar-95	28,684
Pearl River County	Picayune	Yes	Jun-96	48,621
Pike County	McComb	Yes	Jun-98	38,940
Rankin County	Brandon	No	Mar-99	115,327
Rankin County	Pearl	No	Sep-97	115,327
Simpson County	Magee	Yes	Oct-99	27,639
Tate County	Senatobia	Yes	1993	25,370
Union County	New Albany	Yes	Sep-92	25,362
Warren County	Vicksburg	Yes	Aug-98	49,644

FIGURE 1



FINDINGS

Pull factors were analyzed for five types of businesses to determine the relative change in sales in succeeding years after the opening of a supercenter. Changes were analyzed for the host counties and for the nonhost counties. For host counties, the base year was defined as the year prior to the opening of the Wal-Mart supercenter. (Since the month the supercenter opened varies by store, the first year after opening does not consistently represent a full year of operation of the supercenter. Therefore, in the presentation of the results that follow, year one is defined as the change from the fiscal year defined as the base year to the fiscal year two years following. This measure accounts for at least one full year of the supercenter’s operation.)

It is important to note that this type of analysis does not prove that supercenters alone caused the changes indicated. However, in most cases, the opening of the supercenter was the dominant economic event that occurred during the time frames analyzed. Therefore, it is probably safe to say that the supercenters played a major role in the changes in sales of other stores.

Many economists believe that analyzing a retail trade area is much like analyzing a “zero-sum game.” Unless the population or incomes are growing substantially, there is a fixed amount of money to be spent in the retail sector. If a large store is opened in the trade area, it is going to capture a considerable amount of trade. That can only mean

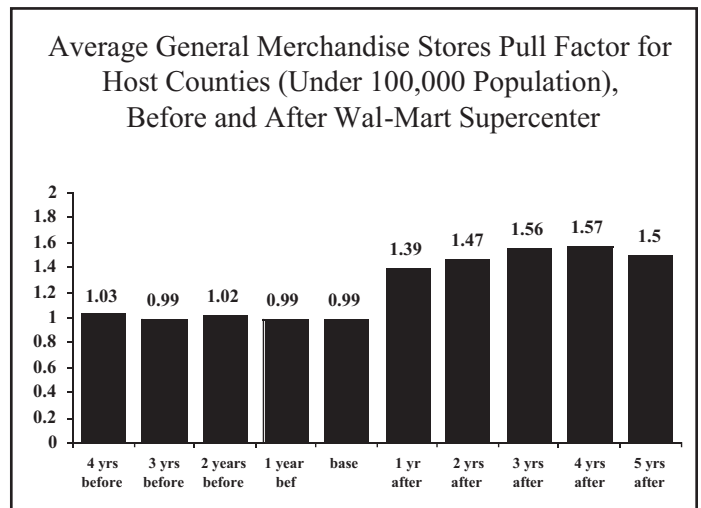
that, in total, other merchants in the trade area will lose a comparable amount of trade (Blair and Kumar, 1997). The results of this study follow and show strong evidence that the gains for Wal-Mart supercenters were matched by corresponding losses for existing businesses in the trade area.

Host Counties

Host counties are those that have towns where Wal-Mart supercenters are located. In most cases, the host towns are the county seats.

General Merchandise Stores. Wal-Mart supercenters are classified as general merchandise stores. This category includes department stores and variety stores. Figure 2 shows the change in pull factors for general merchandise stores in host counties in Mississippi for the years preceding and succeeding the opening of a supercenter.

FIGURE 2

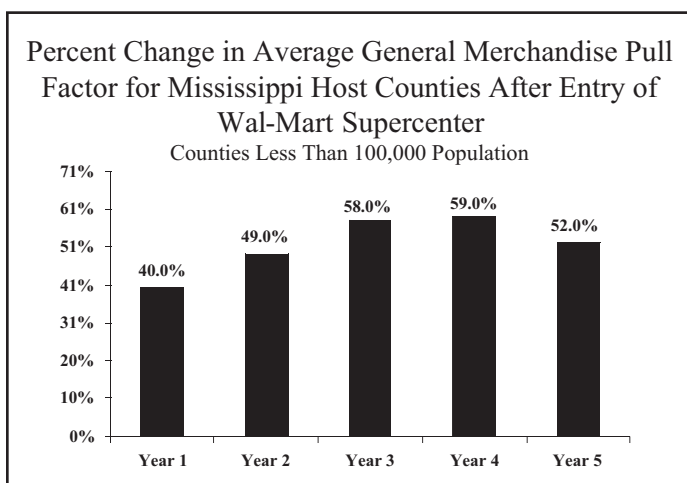


The average pull factor for general merchandise stores in the host counties remained relatively steady and ranged from 0.99 to 1.03 for the 4 years preceding the opening of a Wal-Mart supercenter. That means that sales of general merchandise stores amounted to selling to numbers slightly more than the county population. The average county pull factor rose quickly after the supercenter opening, rising to 1.57 in the fourth year. This means that, on average, the host counties’ general merchandise stores were selling to the equivalent of 1.57 times the county population, in full-time customer equivalents. It should be noted that the general merchandise pull factor declined to 1.50 in the fifth year. This is consistent with previous studies by the authors and is believed to be caused by saturation of the market by Wal-Mart supercenters and perhaps by other stores.

Figure 3 shows the average percent change in host county general merchandise pull factors in the first 5 years after the opening of a Wal-Mart supercenter. General merchandise sales (pull factor) increased by 40 percent in the first year. The percent change in the pull factor then

increased to 59 percent in year four before declining to 52 percent above the base year in year five. **It is important to note that these figures include both the general merchandise and food sold through the supercenter.** This is one of the key points of this study compared to previous studies in states where food sales were exempt from the sales tax. Consequently, the percent change in general merchandise sales is relatively large as compared to states where food sales are exempt from sales tax. For example, in a study of Texas supercenters, the average increase in host town general merchandise sales was approximately 31 percent for the first few years. A similar study in Iowa showed an average increase of 37 percent in the first 2 years.

FIGURE 3



Food Stores. Wal-Mart supercenters capture a significant share of sales from existing food stores. Figure 4 shows the average pull factor for food stores before and after the opening of a Wal-Mart supercenter. For the 4 years prior to the opening of the store, food store pull factors remained relatively steady, increasing from 1.18 four years before to 1.19 in the base year. However, after the opening of the supercenter, the average pull factor decreased rapidly, and 5 years later was 0.99. Figure 5 shows the average percent change in food store pull factors for the 5 years after the opening of the Wal-Mart supercenter. Sales (pull factors) dropped more than 10 percent the first year after the opening. On a cumulative basis, the decline continued, and 5 years after the opening, average food store sales were nearly 17 percent lower, compared to the base year.

FIGURE 4

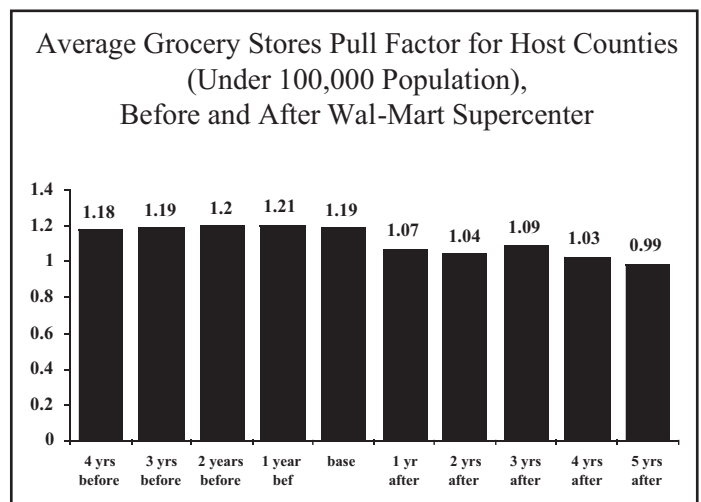
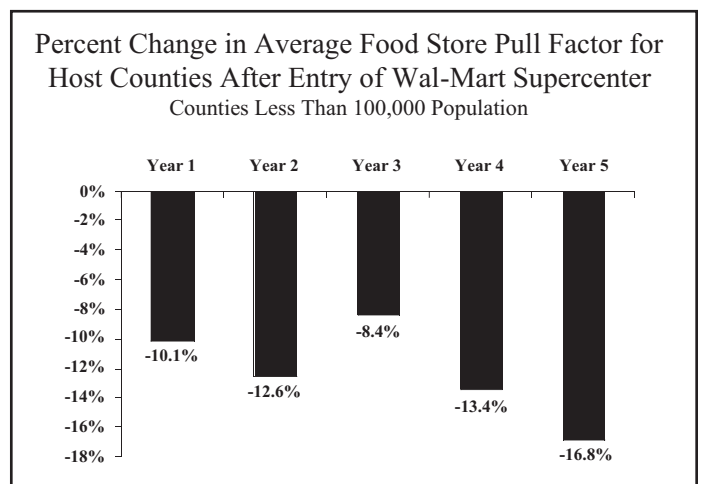


FIGURE 5



Furniture Stores. Past studies have shown that noncompeting stores in the host town tend to show an increase in sales after the opening of a discount general merchandise store. They apparently benefit from the additional traffic a “big box” store generates. Figure 6 shows the average pull factors for host county furniture stores before and after the opening of Wal-Mart supercenters. The average pull factor for furniture stores for the base year was 0.79, having risen from 0.74 four years previous. In the 5 years after the opening of the supercenters, the average pull factor vacillated to a slight increase of 0.81. Figure 7 shows the percent changes in the average pull factor for the 5 years after the supercenter’s opening. Sales (pull factors) increased by 2.5 percent the first year and vacillated up and down, ending at a 2.5 percent increase in the fifth year, compared to the base year.

FIGURE 6

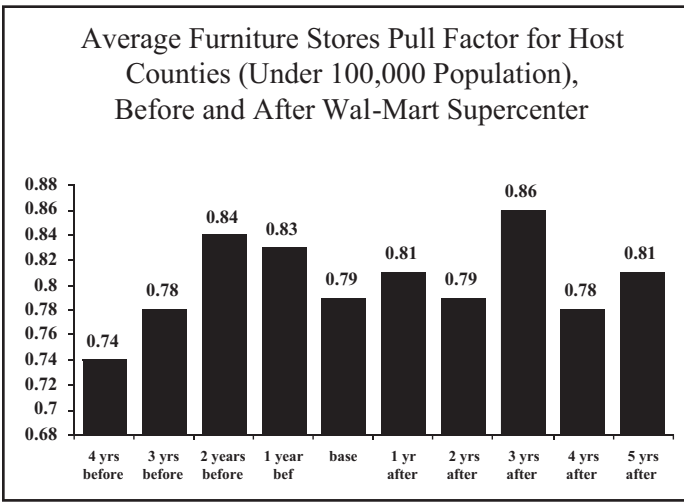
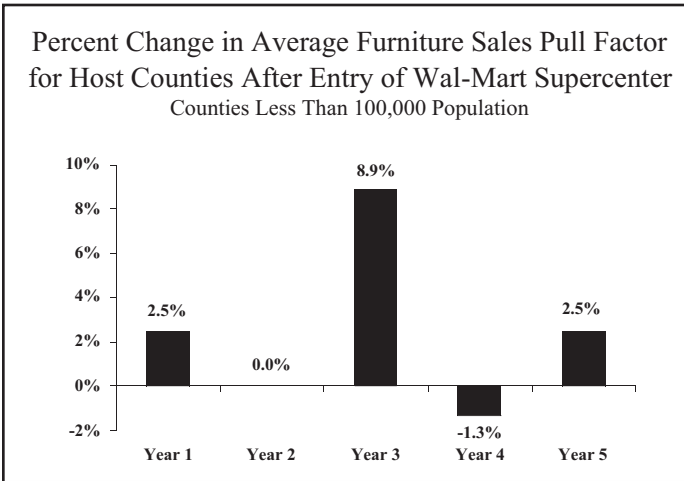


FIGURE 7



Building Materials Stores. This category consists of hardware stores, lumberyards, and the newer home improvement stores such as Home Depot, Lowe’s and Menard’s. Previous studies have shown that discount general merchandise stores such as Wal-Mart capture modest amounts of trade from existing hardware stores and lumber yards. That effect can be seen in Figure 8, where the pull factor declined from 0.95 in the base year, to 0.84 two years after opening of the supercenters. However, in years three, four, and five, there was a sharp increase in average building material stores’ pull factor, ending at 0.94 at the end of year five. This was undoubtedly caused by the opening of a few “big box” home improvement stores in some of the host counties. There tends to be some synergism between a Wal-Mart supercenter and the “big box” home improvement stores. Thus, it is common to see a major home improvement store locate near an existing Wal- Mart supercenter.

FIGURE 8

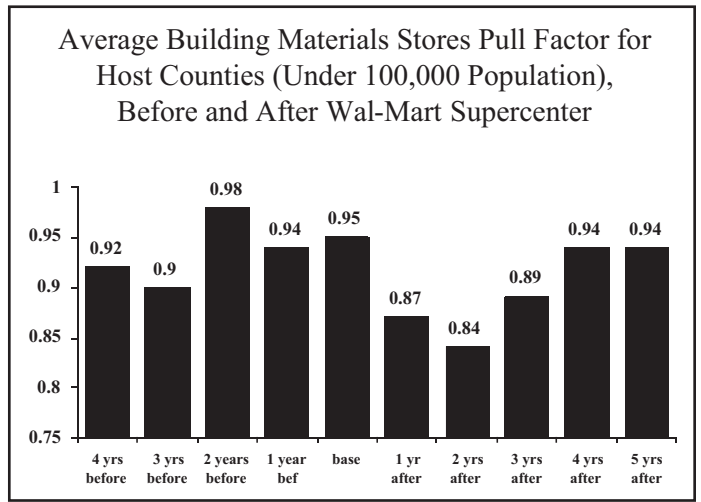
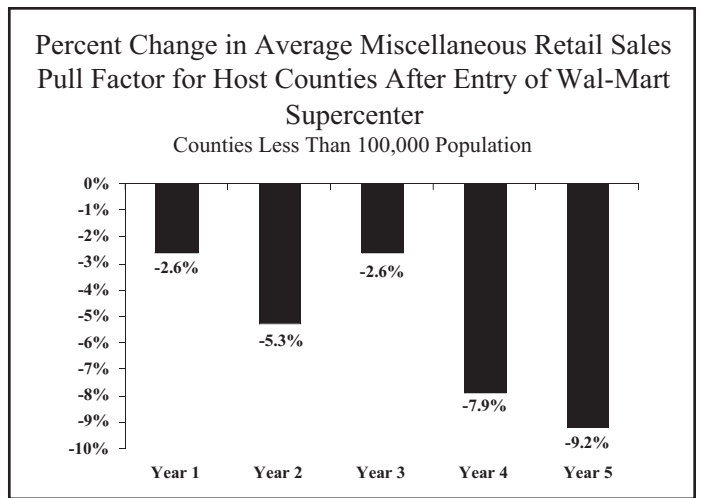


Figure 9 shows the average percent change in the host county pull factors for building material stores. The host county pull factor had decreased by 11.6 percent 2 years after the opening. However, in years three, four, and five, the change in pull factor improved to -1.1 percent after the opening of a few home improvement stores in some of the host counties.

FIGURE 9



Miscellaneous Stores. The category of miscellaneous stores includes all retail stores not included in the above categories. Many of these stores would be gift shops, sporting goods stores, etc., that would compete directly with a Wal-Mart supercenter. Therefore, one could assume that these types of stores would be hurt by the opening of a nearby supercenter. Figure 10 shows the average pull factor for host counties for 4 years before and 5 years after the opening of a supercenter. Sales for miscellaneous retail stores were growing for 3 of the 4 years before the opening of a supercenter and started to decline after the opening. The average pull factor for this category was 0.76 at the time of the supercenter opening and declined to 0.69 five years after the opening.

FIGURE 10

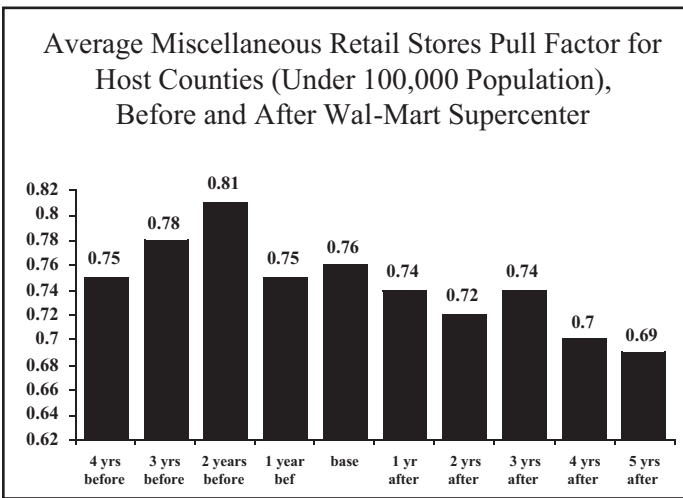
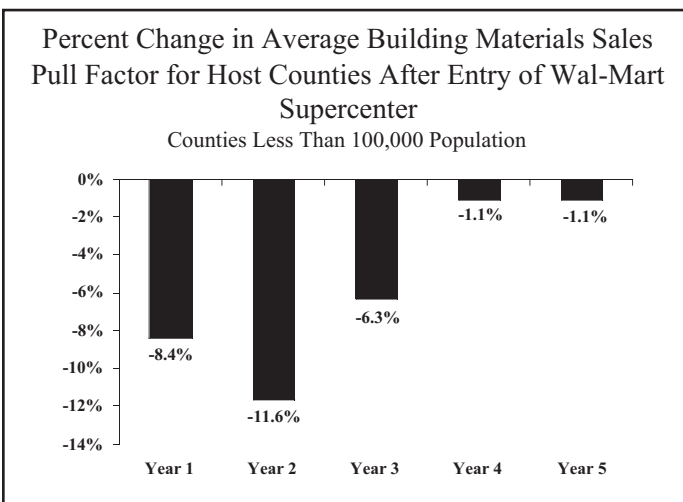


Figure 11 shows the percent change in the average pull factor of miscellaneous stores in host counties for the 5 years following the opening of a Wal-Mart supercenter in the county. This category declined gradually from -2.6 percent the first year after the supercenter to a cumulative -9.2 percent 5 years after the opening. These findings are consistent with earlier studies of Wal-Mart stores conducted by the authors.

FIGURE 11



Total County Retail Sales. The total county retail sales category includes the previously discussed categories. Figure 12 shows the average pull factors for the host counties for 4 years prior to the opening of the supercenter to 5 years after the opening. As can be seen, the average host county had pull factors of less than one (0.95 average) before the opening of the supercenter. This usually means that the county was experiencing some slight retail leakage. However, in the 5 years succeeding the opening of the Wal-Mart supercenter, the pull factor grew to 1.06, before declining to 1.0 in the fifth year. This drop-off after a few years was a common phenomenon in the earlier studies conducted by the authors and is believed to be brought about by mar-

ket saturation both by Wal-Mart stores and other competitors. This growth in the average county pull factor after the opening of a Wal-Mart supercenter suggests that the new store is capturing sales from adjacent counties. This premise will be addressed further in the section on nonhost counties.

FIGURE 12

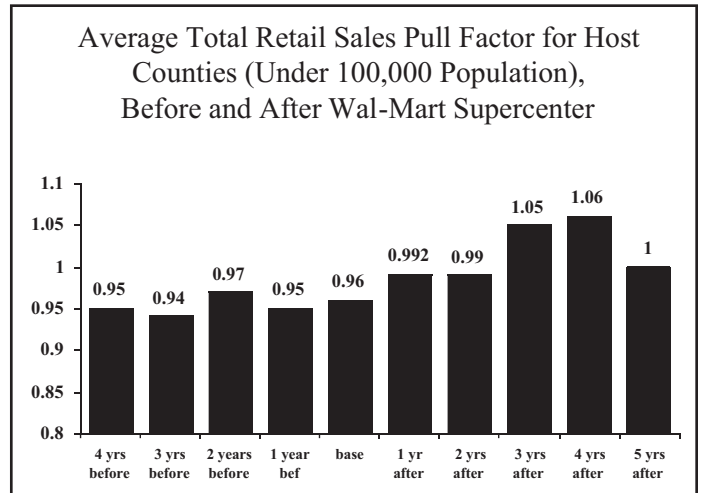
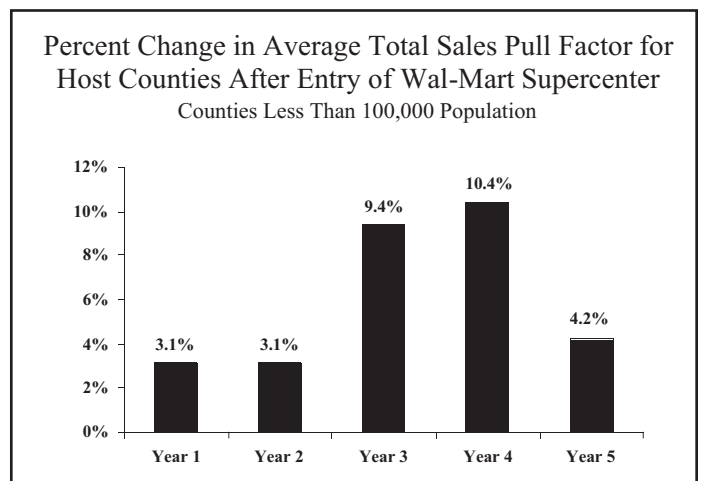


Figure 13 shows the percent change in average total county retail sales pull factors in the 5 years following the opening of a supercenter. The pull factor increased by 3.1 percent the first year and rose to a cumulative increase of 10.4 percent before declining to a cumulative 4.2 percent increase in year five.

FIGURE 13



Nonhost Counties

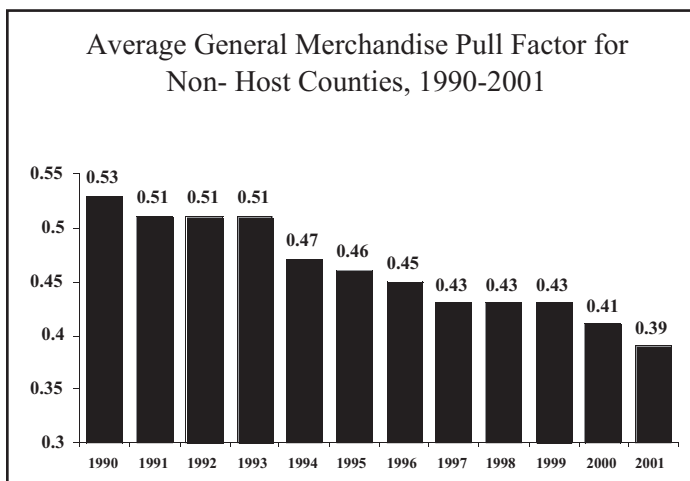
“Nonhost counties” are counties that did not have a Wal-Mart supercenter by the time of this study. These counties tend to be more rural than host counties with an average population of 21,262. It is extremely difficult to calculate average changes in sales for nonhost counties caused by Wal-Mart supercenters because of the varying locations and time periods of supercenters entering into the market. In addition, there has been an increasing concentration of many types of

retailing in a relatively small number of trade centers. For example, in 1990 the top 20 counties in Mississippi accounted for 72.7 percent of all general merchandise and apparel sales. By 2001, the market share of these top counties had increased to 75.6 percent. While the opening of Wal-Mart supercenters is a significant part of this trend, other factors such as new shopping malls play a role in the declining retail sectors of many of the more rural, nonhost counties.

Nevertheless, examining the pattern of pull factors for the various merchandise categories may reveal additional insights into the range of impact of Wal-Mart supercenters on existing retailers. To analyze changes in nonhost counties, pull factors were calculated for the 1990-2001 time period, during which all the supercenters opened in Mississippi.

General Merchandise. Figure 14 shows the average change in general merchandise pull factors for the nonhost counties in Mississippi. Most of these counties were not general merchandise powerhouses. In 1990, the average pull factor was 0.53. For the next 3 years, the pull factor average held steady at 0.51. This was when the first Wal-Mart supercenters were opening in Mississippi. From 1994 to 2001, there was a fairly steady decline in pull factors from 0.47 to 0.39. The average percent decline across the 52 nonhost counties was 23.5 percent from 1993 to 2001. This indicates a severe leakage of sales, most likely caused by the capture of sales by general merchandise stores such as Wal-Mart supercenters.

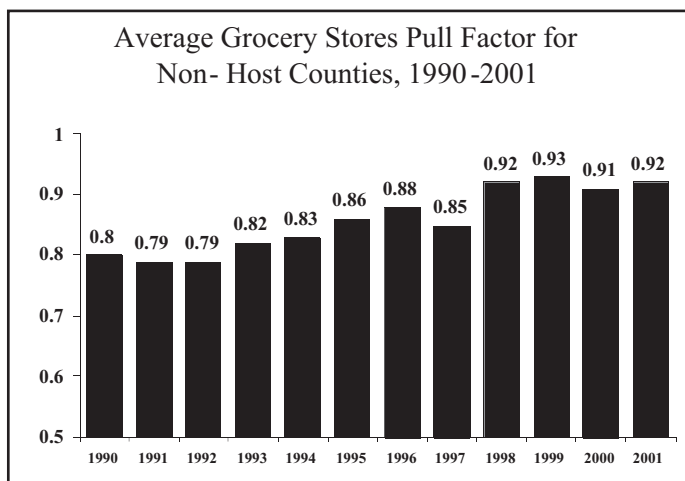
FIGURE 14



Grocery Stores. The average pull factors for grocery store sales in the nonhost counties from 1990 to 2001 are shown in figure 15. In 1993, the average pull factor was 0.82 and continued to rise slowly until around 1998 when the pull factors stabilized at around 0.92, an increase of 12.2 percent. This is consistent with previous studies conducted by the authors in Iowa and Maine. Basically, people do not want to travel any further than necessary for grocery shopping. The gain in sales (pull factor) in nonhost counties is most likely caused by consolidation among the food stores, resulting in fewer but larger stores.

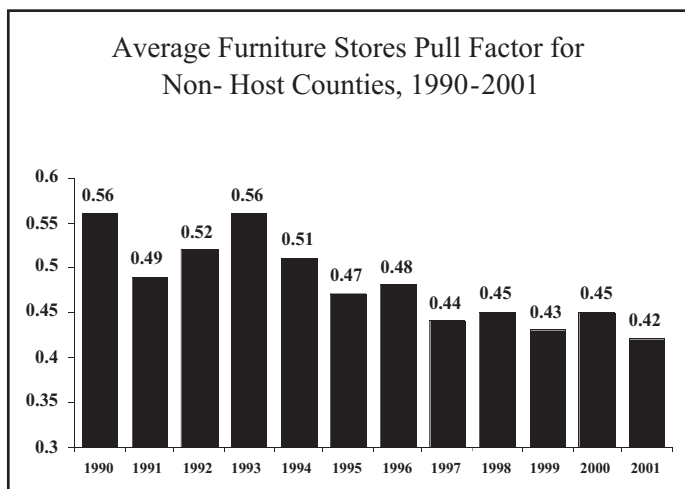
Larger stores tend to attract customers and also tend to sell a larger selection of nonfood items, thus resulting in increased sales. Therefore, it appears that the Wal-Mart supercenters tend to capture their grocery sales primarily from the host county.

FIGURE 15



Furniture Stores. Figure 16 shows the average change in pull factors for furniture store sales in the nonhost counties in Mississippi from 1990 to 2001. As the first Wal-Mart supercenters opened, the nonhost counties had an average pull factor of 0.56, but the average declined fairly steadily to 0.42 in 2001, a decline of 25 percent. This trade was most likely captured by furniture stores in the host counties rather than by the Wal-Mart supercenter itself. Therefore, it can be concluded that host town furniture stores are a beneficiary of the increased traffic flow generated by Wal-Mart supercenters.

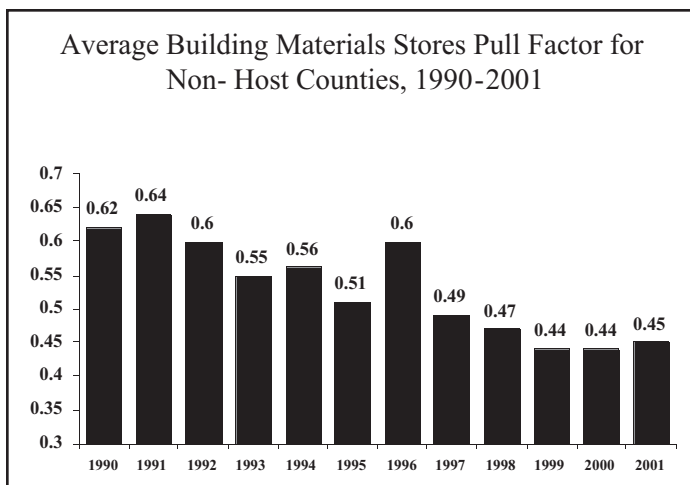
FIGURE 16



Building Materials Stores. The building materials category consists of hardware stores, lumberyards, and home improvement stores. Earlier studies by the authors showed that in nonmetropolitan areas, Wal-Mart stores tended to capture some sales from hardware stores and to a lesser degree, from lumberyards. However, the “big

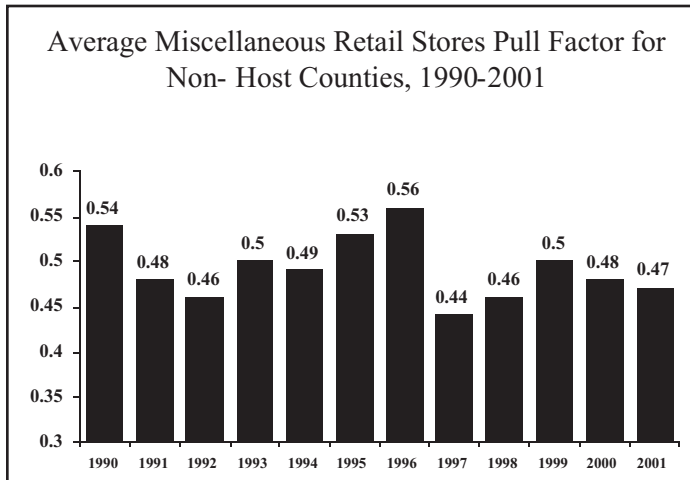
“big box” home improvement stores such as Home Depot and Lowe’s, tended to capture considerably more sales from a large trade area after their introduction. Figure 17 illustrates this principle. From 1993 to 1995, (The increase in 1996 may be a data reporting error.) non-host county sales (pull factors) experienced a slight decline. As “big box” home improvement stores began opening in host counties, they captured more trade from the non-host counties. The decline from 1993 to 2001 was 25 percent.

FIGURE 17



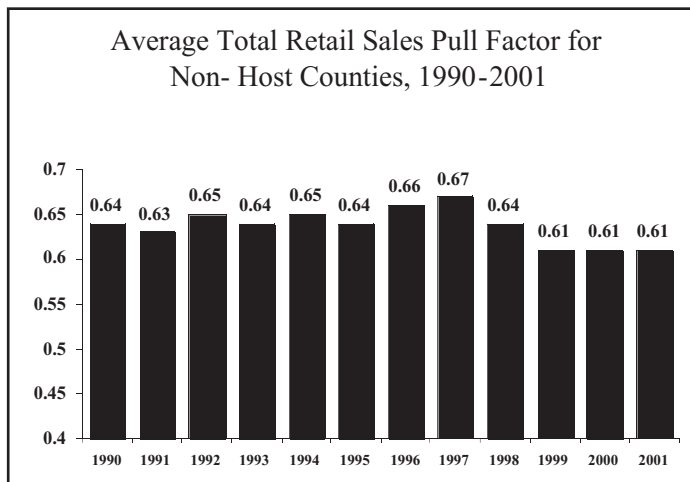
Miscellaneous Retail Stores. As was earlier described, miscellaneous retail stores include all stores not covered in the above categories. This would include several types of stores, including gift shops, jewelry stores, book stores, and sporting goods stores that may compete directly with a Wal-Mart supercenter. Figure 18 shows that these types of stores in nonhost counties experienced some growth after the introduction of Wal-Mart supercenters in host counties. This is probably a compensation for the loss of general merchandise stores in the county and reinforces the idea that residents do not want to travel any further than necessary for convenience items. The pull factors increased from 0.46 in 1992 to 0.56 in 1996, then declined to 0.47 in 2001.

FIGURE 18



Total Retail Sales. Figure 19 shows that the average pull factors for nonhost counties remained fairly steady from 1993 to 1997, averaging around 0.65. However, as the “double whammy” of Wal-Mart supercenters and “big box” building materials stores began occurring, nonhost county total sales decreased by 9 percent from 1997 to 2001. Even though the host counties captured general merchandise trade and furniture sales from nonhost counties, total sales losses were moderated because of sales increases by other categories such as food stores and miscellaneous stores.

FIGURE 19



CONCLUSIONS

The introduction of a Wal-Mart supercenter into a county in a relatively rural state such as Mississippi has major repercussions. There are both positive and negative impacts on existing stores in the area where the new supercenter locates. In turn, changes in local sales may have impacts on local jurisdictions that depend on sales and property taxes generated. Major conclusions are listed below:

1. Annual sales (pull factors) for the general merchandise category in host counties increased substantially, from 40 percent the first year to a peak of 59 percent 4 years after the opening of a Wal-Mart supercenter. Since food sales are taxed in Mississippi, this increase includes the sales of both general merchandise and food by the supercenter. Conversely, average general merchandise sales in the 52 nonhost counties decreased nearly annually from the time of the opening of the first supercenters in Mississippi.
2. Wal-Mart supercenters in Mississippi captured most of their food sales from existing food stores in the host county. Consequently, host county food stores experienced average annual declines in sales from 10 percent after the first year to nearly 17 percent after 5 years. Counties without a supercenter managed to maintain grocery store sales at a fairly steady level after the opening of a supercenter in an adjacent county.
3. Furniture stores in host counties experienced an increase in sales for most of the years following the opening of a supercenter.

Furniture stores sell little merchandise that competes directly with supercenters, but they benefit from the additional traffic drawn to the supercenter. Nonhost counties experienced losses in furniture store sales in most of the years following the opening of the first supercenters. It can be concluded that supercenters benefit nearby furniture stores by generating extra traffic for them. Some of that traffic comes from nonhost counties.

4. Building materials stores in host counties experienced average losses of approximately 8 percent and 12 percent for the first and second years, respectively, after the opening of a Wal-Mart supercenter. However, building materials sales improved considerably in years three, four, and five as “big box” home improvement stores were built in host counties. Meanwhile, nonhost counties experienced a nearly continual reduction of building materials sales. Apparently, the nonhost counties are losing sales not only to supercenters, but to the “big box” home improvement stores as well. It can be concluded that supercenters capture moderate amounts of building materials sales from both host and nonhost counties, but home improvement stores in the host counties end up benefiting from the synergism created by locating near a supercenter.
5. Wal-Mart supercenters capture substantial amounts of miscellaneous retail trade from host counties, ranging from nearly 3 percent the first year to over 9 percent by year five. Most of this trade is captured from stores in the host county as stores in nonhost counties experienced relatively little change in sales. This is probably because of filling merchandise gaps in the existing general merchandise stores in the nonhost counties.
6. Total sales in host counties increased from over 3 percent the first year to over 10 percent in year four, before declining to the 4 percent level in year five. This is consistent with previous findings by the authors in other states. It appears that the decline after approximately 4 years is caused by a saturation of Wal-Mart supercenters as well as other large stores. The nonhost counties experienced a slow decline of total sales after the opening of supercenters, their losses being offset by some stability in food stores and miscellaneous stores. The increases by the host counties may have been fueled somewhat by drawing from adjacent states, since several supercenter counties were on state lines.
7. Although it cannot be proven conclusively, there is a strong sense that the zero-sum- game theory applies in the case of supercenters in Mississippi. For every gain in sales by supercenter-related goods, there were corresponding losses in sales for businesses of these types in the host counties and, in some cases, from nonhost counties.

Implications and Recommendations

This study has documented the changes in sales for supercenter host counties and non- host counties in Mississippi. This concluding section will discuss the implications of the findings as well as recommendations for both local officials and businesses.

Local Officials

The findings of this study suggest that local officials should carefully weigh the costs and benefits of this type of development as they consider the addition of a supercenter-type store. Quite often city councils and city staff are so anxious to attract new businesses they will offer very attractive financial incentives and perhaps change zoning status in order to attract supercenter-type stores. Their primary motivation seems to be the belief that these new businesses will increase the property tax base, increase sales taxes (where local sales taxes are in play), and increase employment. These are worthy goals, but many times, the net increases are minimal as the new big box stores merely capture sales from existing businesses in the area. A reduction of sales for existing businesses usually translates into fewer employees, less sales tax, and lower property tax collections from the local stores.

In contrast to the growth-oriented local governments described above, some local officials have very anti-growth attitudes and may restrict commercial development to the point of breaking down the free enterprise or capitalistic economic system in their communities. The restrictions can be brought about through failure to approve building permits, refusal to provide infrastructure, or in some cases, by passing anti-big business ordinances. For example, several U.S. towns and cities have recently passed ordinances prohibiting any new retail business from being over a certain size (for example, 100,000 square feet). This effectively eliminates supercenter-type stores from entering the marketplace.

A local government that aggressively promotes commercial development, especially one that offers tax or other financial incentives to newcomers, may unwittingly help put smaller local merchants out of business because of massive competition. Conversely, a local government that is strictly anti-growth may also do harm to its local merchants as residents leave the community to shop in towns with big new stores. It is, therefore, recommended that local officials educate the public on the economic impacts of commercial development and strive to create an economic development policy that is consistent with the values and concerns of the local citizens.

Local Merchants

The entry of a new supercenter in a community can have dramatic implications for existing merchants. Two general rules-of-thumb summarize the economic impacts of a new supercenter on local merchants:

Rule-of-thumb 1: Local merchants that sell merchandise different from the supercenter or other big box stores tend to fare well and may gain sales as the additional traffic generated by the big stores spills over into their stores.

Rule-of-thumb 2 is not so pleasant: Local merchants that sell the same merchandise as the big stores will probably face a reduction in sales because of the difficulty in competing with major chains.

Recommendations for Adversely Affected

Merchants. Two major actions are recommended for local merchants facing direct competition from the supercenters. The first major action is to develop a new strategy. For example, a grocery store may choose to become a full-service store, including a full-service meat counter. At the supercenter-type stores, minimal service is offered, in spite of the fact that a considerable market segment desires a higher level of service.

Some of the services that could be offered are bagging (plastic or paper), carry-out, or drive-by. Also, catering services can be profitable. A full-service meat department has been successful for some local stores. Wal-Mart sells primarily “case ready” meat that is cut and packaged at the processing plant. Many people are attracted to meat counters where butchers stand ready to cut their meat in the size and style that they prefer.

As another example, drug stores could gain an advantage over the supercenters by offering personalized services, including delivery of prescription drugs.

The second major action that competing local merchants can take involves “getting back to the basics of running a good business.” Here is a list of some of these actions:

a. Merchandising

- Try to handle different merchandise, especially ethnic and private label.
- Look for voids in the supercenter’s inventory.
- Consider niche markets.
- Get rid of slow moving merchandise.
- Buy well.

b. Marketing

- Know your customers.
- Extended operating hours are a necessity!
- Adopt a “no hassle” returns policy.
- Sharpen your pricing skills.
- Focus your advertising.

c. Service

- Emphasize expert technical advice.
- Offer deliveries where appropriate.
- Offer carry-out.
- Offer other services such as banking, flowers, catering, etc.

d. Customer relations

- Greet customers.
- Offer a smile in every aisle.
- Make employees associates.
- Solicit complaints.
- Learn how to handle irate customers.
- Train employees (initially and periodically).

e. Continually improve the efficiency of your business.

- Adopt modern technology.
- Relentlessly find ways to reduce operating costs.
- Become intimately familiar with your financial statements.

References

- Artz, Georgeanne, *The Impact of Wal-Mart on Retail Market Structure in Maine*, unpublished thesis, University of Maine, Orono, Maine, 1999.
- Artz, Georgeanne and Kenneth E. Stone, “Comparing the Economic Impact of Wal-Mart Stores Across Geographical Areas,” Paper presented at the annual meetings of American Agricultural Economics Association, Chicago, Illinois, July 30 ñ August 2, 2000.
- Blair, John P. and Rishi Kumar, “Is Local Economic Development a Zero-Sum Game?” in *Dilemmas of Urban Economic Development*, Richard D. Bingham and Robert Mier, ed., SAGE Publications, Inc., 1997.
- Franklin, Andrew W., “The Impact of Wal-Mart Supercenter Food Store Sales on Supermarket Concentration in U.S. Metropolitan Areas,” Paper presented at the USDA conference “The American Consumer and the Changing Structure of the Food System,” Arlington, Virginia, May 3-5, 2000.
- Mississippi State Tax Commission, *Annual Report, 1990-2001*.
- Stone, Kenneth E., “Impact of the Wal-Mart Phenomenon on Rural Communities,” Department of Economics, Iowa State University, 1997.
- Stone, Kenneth E., “Impact of Wal-Mart Stores on Iowa Communities: 1983-93,” *Economic Development Review*, Spring 1995, p. 60-69.
- Stone, Kenneth E., “The Impact of Wal-Mart Stores on Other Businesses in Iowa,” Department of Economics, Iowa State University, 1989.



msucares.com

Partial funding for this project was made possible by a grant from the Community and Economic Development Department, Mississippi Valley Gas Company, Jackson, Mississippi.

Published by Mississippi State University Extension Service. Compiled and written by Kenneth E. Stone, Professor of Economics, Iowa State University; Georgeanne Artz, Extension Program Specialist, Iowa State University, and Albert Myles, Extension Professor, Mississippi State University.

Mississippi State University does not discriminate on the basis of race, color, religion, national origin, sex, age, disability, or veteran status

Extension Service of Mississippi State University, cooperating with U.S. Department of Agriculture. Published in furtherance of Acts of Congress, May 8 and June 30, 1914. JOE H. MCGILBERRY, Director

MI283 (700-12-02)
