

Why Buy Local?

An Assessment of the Economic Advantages of Shopping at Locally Owned Businesses



**Michigan State University
Center for Community and Economic Development**

In cooperation with the

Capital Area Local First

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Introduction

The Michigan State University Center for Community and Economic Development (MSU CCED) in cooperation with Capital Area Local First of Ingham County, Michigan, prepared this policy brief to document the impact of independent locally owned businesses on the community and to explore opportunities to keep money inside of the local economy to increase economic return.

The CCED was established in downtown Lansing, Michigan, in 1969. Adhering to a set of guiding community development principles, the CCED, in partnership with public and private organizations, has developed and conducted numerous innovative programs that address local concerns while building the capacity of students, scholars and communities to address future challenges. Students, faculty and community involvement is a crucial element of the CCED's mission. The CCED's resources focus on the unique challenges of distressed communities throughout the state of Michigan.

In this report, the CCED examined the findings of several studies to identify ways to increase local prosperity by keeping money in the local economy and to assess the impact of these initiatives in comparison to those of large chain retailers. For an in-depth view of the analyses presented in these studies, see the works cited for a list of studies researched to create this report.

This report is divided into eight sections, each representing a key concept of why buying locally is important. A bibliography is provided for readers seeking more information on the potential effects of local products and consumption. The studies and literature involved in creating this report can all be found on page 8 in the work cited section.

Special thanks to Nandi Robinson, senior undergraduate student at Michigan State University, whose dedication and professional engagement made this paper possible.

Disclaimer: The statements, conclusions, and recommendations contained in this report are solely those of the authors and do not represent the views of the University, the government, or funding agencies and organizations.

Why Buy Local?

This question is best answered by Michael H. Shuman, author of the book *Going Local*. "Going local does not mean walling off the outside world. It means nurturing locally owned businesses which use local resources sustainably, employ local workers at decent wages and serve primarily local consumers. It means becoming more self-sufficient and less dependent on imports. Control moves from the boardrooms of distant corporations and back into the community where it belongs." (*Shuman 2000*)

Job Creation

Small local businesses are the largest employers nationally and create two out of every three new jobs. The Small Business Act defines a small business as "one that is independently owned and operated and which is not dominant in its field of operation." Small businesses employ more than 52 percent of the nation's employees. This means that overall more Americans work for a company with fewer than 100 employees than for a large retailer, with more than 500 employees. Small businesses have played a vital role in job creation, adding more than 5.1 million new jobs to our economy since 2003. Buying locally means that employment levels are more likely to be stable, and may even create more opportunities for local residents to work in the community.

Keep Money in the Community

When dollars are spent locally, they can in turn be re-spent locally, raising the overall level of economic activity, paying more salaries, and building the local tax base. This re-circulating of money leads to an increase of economic activity, with the degree of expanse entirely dependent on the percentage of money spent locally.

The Local Premium represents the quantifiable advantage to the city provided by locally owned businesses relative to chain businesses. It is the added economic benefit of local businesses to a local economy. According to the Andersonville Study, Local businesses generate a substantial local premium, or added economic benefit over chain retailers. This means more money will be circulating in the local economy, which may

lead to more public infrastructure like libraries and schools, and raising more money in taxable transactions to fund local government services.

The Local Works West Michigan Economic Analysis describes four ways in which a firm keeps money local: wages and benefits paid to local residents, profits earned by local owners, the purchases of local goods and services for resale and internal use, and contributions to local nonprofits. Consistently, locally owned businesses exceed their chain competitors in all four components.

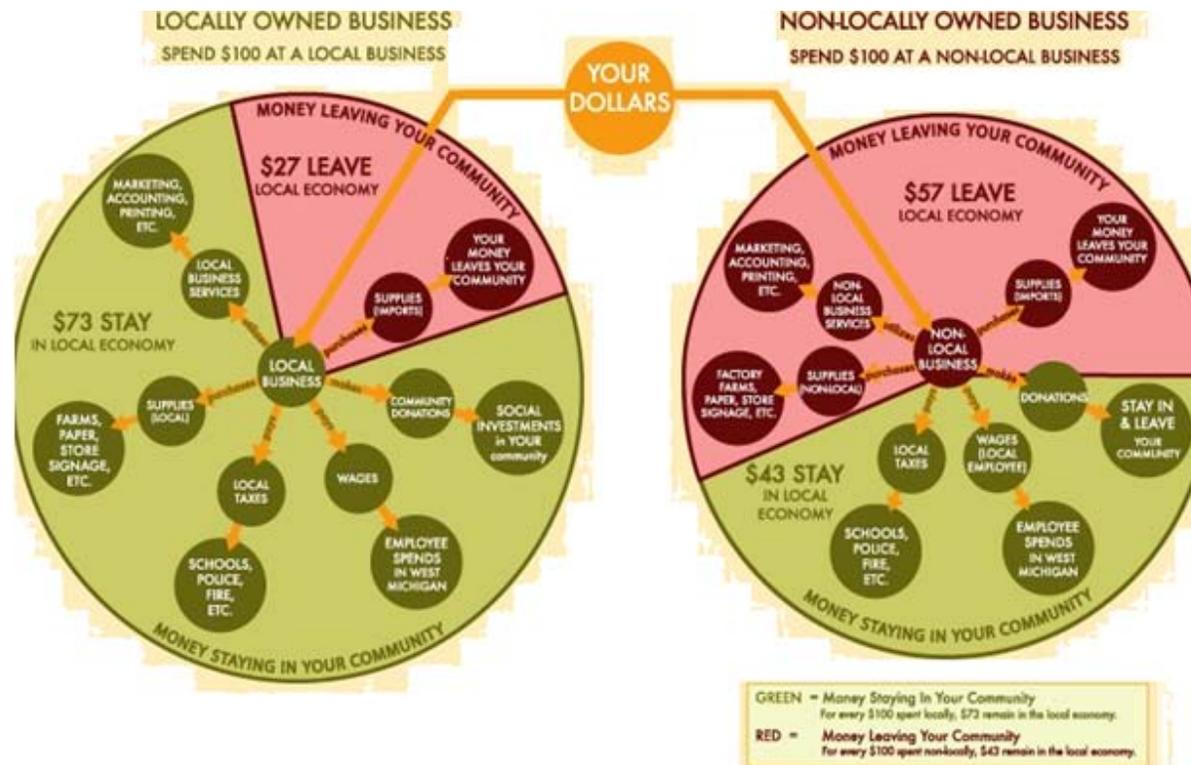


Figure 1: Economics of Local vs. Non-Local Businesses

Source: Civic Economics

In Figure 1, we see the recirculation of money into the Grand Rapids economy by a locally owned business and its non-locally owned competitor. Significantly more money re-circulates locally when purchases are made at the locally owned business. This recirculation is attributed, in part, to locally owned businesses purchasing more often from other local businesses, service providers and farms. Purchasing locally helps other businesses grow, as well as the local tax base.

According to the Local Works analysis of the West Michigan economy, locally owned businesses generate a premium in enhanced economic impact. For every \$100 in

consumer spending with a locally owned business, \$73 remains in the Grand Rapids Economy. This concept is illustrated in Figure 1 by the left pie chart. The remaining \$73 is then dispersed locally in the form of wages, charitable donations, taxes which fund city services, and purchases of goods and services from other local businesses.

The pie chart on the right in figure 1 displays the effects of consumer spending at a non-locally owned business. For every \$100 spent, only \$43 remains in the Grand Rapids economy. When economic stimulus comes from outside of an economy (e.g., tourism, federal funding, and industrial exports) the full effect of those dollars depends on how much of that money remains in the local area.

Community Investment: Charitable Contributions

Locally owned businesses contribute more to local charities and fundraisers than do their national counterparts. In a case study of the economic impact of locally owned businesses on the local economy in the Mid-coast Maine region conducted by the Institute for Local Self-Reliance, the charitable contributions made by local businesses were compared to those made by a chain retailer, Wal-Mart, in 2002.

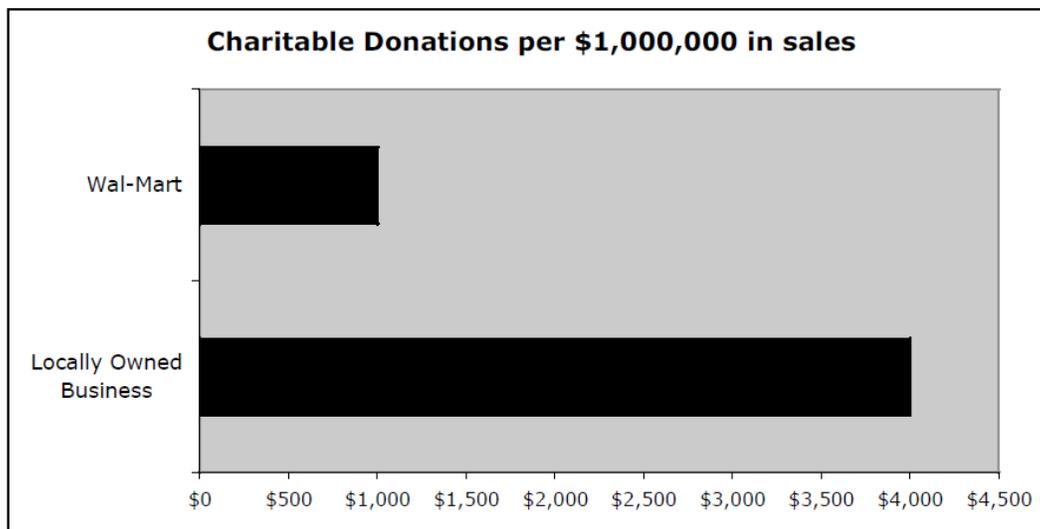


Figure 2

Source: Institute for Self-Reliance

Figure 2 illustrates the findings of this comparison. For every \$1,000,000 in sales, one local business alone contributed \$4,000 to Wal-Mart's \$1,000 contribution. All eight local businesses surveyed, together, made \$24,000 in cash donations to charities in 2002. 91% of local business owners contribute to their community, including schools, non profits and community groups, by volunteering and making donations. Local business

owners invest in the community and have a vested interest in the future of the community.

Keep the Community Unique

Spending money with local retailers helps keep the local community alive. The places where we eat, shop, and have fun all have the potential to make a community feel like home. “One-of-a-kind” businesses are a fundamental part of the distinctive character and of a community. A community where large chains of shops exceed the number of independently run small businesses becomes less personal and homogenized, with less product diversity.

The benefits of a thriving local independent business sector are not limited to economic benefits. Possibly equally important is that independent businesses define the community’s self-image and creates a sense pride for the people who live there. National chain retailers, on the other hand, can homogenize a community and reduce its element of uniqueness and originality. Many communities are choosing to take control of their own economic character by supporting unique one-of-a-kind local businesses.

More Consumer Choices

A marketplace of hundreds of small businesses is the best way to ensure innovation and low prices over the long term. A multitude of small businesses, each selecting products based not on a national sales plan but on their own interests and the need of their local customers, guarantees a much broader range of product choices. A growing body of research shows that in an increasingly homogenized world, entrepreneurs and skilled workers are more likely to invest and settle in communities that preserve their one-of-a-kind businesses and distinctive character with multiple consumer choices.

Reduce Environmental Impacts

Reducing the amount of materials and products that are bought from national retail chains helps reduce your ecological footprint. Locally owned businesses can make more local purchases requiring less transportation and generally operate from within city centers as opposed to developing on the outskirts of a city. More commercial districts result in fewer vehicle miles traveled and leads to less sprawl. Less transportation also means less traffic congestion, which has the potential to reduce the amount of fuel

emission that contributes to air pollution. This generally means contributing to less sprawl, congestion, wildlife, habitat loss and pollution.

Locally sourced materials and products have many environmental benefits. They produce less waste by eliminating unnecessary transportation and delivery, therefore reducing the amount of packaging being used. Less packaging means less waste and less demand on landfill sites. According to the National Resource Defense Council, buying local will help reduce pollution, improve air quality and improve our health.

Chain Retailers: The False Promise of Economic Growth

Large national businesses are growing in both numbers and employment totals at rates much faster than those of smaller businesses. The arrival of these larger companies affects the small business sector through increased competition for labor, higher rents, and usually a decrease in small business sales. While national businesses have a role to play in every economy, purchases from national businesses typically cause money to leak out of the local economy. National chains send money outside of the community to the areas where they are headquartered. Large chain retailers often draw revenues from neighboring communities and even these towns and towns adjacent to locations with new chain retailers see sizable losses in both sales tax revenues and employment according to The Santa Fe Independent Business Report.

The premise that locally owned and operated businesses generate greater local economic activity than their chain counterparts has become widely understood and accepted. In communities across the nation and abroad, public policy has adapted to this reality through a variety of planning and zoning tools.

Better Customer Service

There is power in shopping at locally owned businesses. The dollars spent at a local retailer often have a greater impact on product options and service than when these dollars are spent at chains or on-line retailers. When shopping at local businesses you're seen as an individual not a consumer statistic. The rapport that is built between small businesses and the customer is often long standing and the service received is generally better when you are familiar with the staff. Because they have a smaller consumer base, local businesses have the advantage of tailoring their sales strategies to the local customer and community rather than having to stick with nationwide marketing plans.

Save Tax Dollars: Locals Use Less public Infrastructure

There are many different types of land that generate revenues and deficits to a community. Of the non residential land categories, local businesses, or specialty retail businesses generated the best net fiscal result at \$326 per 1,000 square feet, among categories like restaurants, fast food, hotels, offices, big box retailers, and shopping centers. Big Box retailers generated a fiscal deficit of -\$426 per 1,000 square feet. The net fiscal result is the difference between the average net revenues and the average net costs incurred by each category.

According to a study done by Tischler & Associates in 2002 in Barnstable, Massachusetts, the majority of costs incurred by these businesses are based on employment densities and vehicle trip rates. Because Big Box retailers are generally larger than specialty retail businesses, they generally incur more costs per square foot and experience higher vehicle trip rates as a result of shipping from longer distances. The net fiscal impact on the community as represented by the difference between costs and revenue represents the amount per square foot that is invested in public infrastructure such as infrastructure like roads, schools, and police departments.

Promote Entrepreneurship

Local economic growth will attract new talent and professionals, who may, in turn, create businesses of their own, enhancing a local economy. According to the Small Business Association of Michigan (SBAM), Michigan must begin to pursue a culture of entrepreneurship to stimulate more individuals to create their own growth-oriented firms and to nurture the existing firms. This nurturing has been coined “economic gardening” by the SBAM and is a new approach to economic development which focuses on strengthening small firms positioned for growth rather than trying to recruit or retain companies that could locate elsewhere like national retailers.

The most valuable asset to the pursuit of an entrepreneurial culture is college graduates. These young professionals are the primary source such a culture. They are attracted to urban communities; those characterized by complex public transportation systems, residential and retail developments, and a variety of amenities like restaurants, bars, and galleries all within a densely populated community. The economic growth resulting from shopping at locally owned businesses helps to expand community areas.

This expansion makes for a community that has the potential to attract new talent and future entrepreneurs as well retain young professionals living in the area.

Locally owned businesses provide many economic benefits to a community. These benefits are at risk of being measurably reduced by increasing national chain competition. Local businesses are owned by people who live in the community, are less likely to leave, and are more invested in the community's future. Shopping at local businesses creates more local jobs than shopping at major chain or online companies. Local businesses not only pay their employees, they also spend money at other local businesses. That means by buying local, you help create jobs for your friends and neighbors, contribute to improved public infrastructure, and invest in your community both socially and economically.

About Capital Area Local First

Capital Area Local First (CALF) is a collaborative effort between local independent business owners, non-profit organizations and individuals in the Capital Area to support local ownership, a sense of community, and financial, environmental, and social well-being, to educate our community about the multiple benefits of locally-owned independent businesses, and to nurture relationships among locally-owned businesses.

Capital Area Local First is committed to the Capital Area community and being involved. Their aim is to reach out to those within the community and educate them on the importance of keeping local first. CALF is made up of four different committees that members can join to be an active part in the community as well as the organization.

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