Big Box Retail and Austin

prepared for

The City of Austin

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Summary of Findings & Conclusion

1. Big boxes create consumer value through lower prices

The essence of big box business strategy is high-volume/low margin – offer consumers a wide variety of fairly standardized products at the lowest possible prices, and count on high volume sales to generate an acceptable level of overall profits. The benefit to consumers is straightforward – as reported by Bianco and Zellner in *BusinessWeek*, "New England Consulting Group estimates that Wal-Mart saved its U.S. customers $20 billion last year alone. Factor in the price cuts other retailers must make to compete, and the total annual savings approach $100 billion."

2. There appears to be relatively little direct competition between big boxes and local retailers; where competition exists, prices tend to be comparable. In general, locally-owned retailers employ a different business model to succeed.

It is difficult to find many true apples-to-apples comparisons between local retailers and the big boxes in Austin. Where direct competition does exist, prices will be comparable, unless the local provider is adding value in some way. This is consistent with economic theory; in a competitive market, prices of comparable goods must move toward equilibrium, and if deviations remain, it likely will be because the goods are not truly comparable.

Economist Kenneth Stone of Iowa State University is perhaps the most widely known researcher on the impact of big box retail on local businesses. The focus of most of his work has been Wal-Mart's impact on small towns and rural communities in the Midwest. In a twelve year study of "regular" Wal-Mart stores in Iowa (as opposed to superstores), his overall conclusion was twofold:

- Local businesses that are selling something <u>different</u> are in good luck and will probably experience an increase in sales because of the "spillover" effect of the additional traffic.
- Local businesses that are selling the <u>same</u> merchandise as the big box store will probably lose sales unless they reposition themselves.

While small-town Iowa is a different market than urban Austin, the basic point is correct: locally-owned retailers can seldom compete directly on price, reasons related to economies of scale and cost containment. There are three main ways that local merchants can compete:

- occupy a niche or sell a product not available from big boxes;
- offer some combination of service, convenience, customization, or "experience" that adds value for the customer over and above the basic product; or,
- employ cross-subsidization and loss-leaders, where the local store price-matches certain items also available from the big boxes at little or no profit, but makes it up on higher margin products elsewhere in the store.

3. All big boxes are not identical, and shifts in consumer preferences may widen these differences going forward.

While all big boxes are based on a fundamentally similar business model, there are differences. Target, Costco, and HEB here in Texas all employ profitable variations on the basic theme: low prices, with something extra on top, be it a nicer shopping experience or more upscale goods. Conceivably, this is the harbinger of a market change that would threaten Wal-Mart's dominance – that consumers are beginning to tire of goods whose value is based solely on rock-bottom prices. Michael Silverstein has written a book describing how American shoppers are becoming increasingly sophisticated in their discrimination between "trading up" to goods they think of as luxury items, and "trading down" to the rest. Silverstein goes on to say that "Costco does trading up and trading down under the same roof. Wal-Mart just does trading down. At some point, that will have played out."

4. The healthiest consumer market is the market that maximizes consumer choice on a sustainable basis, ie, a market that is competitive.

One of the tools used by the Justice Department in evaluating the competitiveness of a given industry is the Herfindahl-Hirschman Index (HHI). The HHI is a commonly accepted measure of market concentration that is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of thirty, thirty, twenty and twenty percent, the HHI is 2,600 ($30^2 + 30^2 + 20^2 + 20^2 = 2{,}600$).

Traditional industry concentration analysis is focused at the firm level, and would show that the retail sector in the Austin area is not concentrated and is competitive, as Wal-Mart's estimated local market share is approximately 7.2 percent (versus 8 percent nationwide). Taken together, the big boxes are estimated to represent 21.2 percent of the market, a figure that is still well below a level that suggests that competition is being undermined.

An alternative approach to this question would be to focus not just on the market share of the big boxes, but to also measure the total market share of locally-owned, independent retailers as well. While likely requiring extensive primary research, this may be the more pressing question from an economic development and cultural vitality point of view.

5. New Urbanist land use policy (which entails pedestrian-friendly scale~~,~~ mixing a variety of land uses, connectivity with adjacent neighborhoods, facilitation of transportation choice, and a range of retail formats) offers the possibility of mitigating some of the concerns associated with the big boxes, as well as potentially creating an opportunity to leverage destination consumers for local businesses.

Concerns about big boxes fall generally into three broad categories: economic, social, and community character, with community character in this case including many of the issues raised by researchers at Columbia (i.e., large, windowless, rectangular single-story buildings; standardized facades; reliance on auto-borne shoppers; acres of parking; no-frills site development that eschews any pedestrian amenities; etc.) The case studies and analysis detailed in Appendix A suggest that careful planning can mitigate many of these effects, while

also facilitating built environments that encourage neighborhood retail. There are financial and other barriers to the implementation of New Urbansim, not the least of which is that it is not standard practice. However, some of these constraints can be at least partially offset through public sector policy and participation.

6. **The City should promote design standards that reflect community values; but those standards should not be so onerous or prescriptive that neither national nor local retailers can justify doing business in Austin**.

Striking the balance between regulatory and market-driven design standards will be critical as the City seeks to promote retailing environments that are considered inviting and sustainable. Adopting a "one-size-fits-all" approach should be avoided in order to promote creativity and variety in design. On the other hand, establishing a design baseline facilitates predictability for entering and maintaining their position in the Austin market.

7. **Big boxes put downward pressure on wages**

While wage rates for discount department stores and warehouse clubs have risen at comparable rates to other segments of retail trade in recent years, they remain below the overall industry average. Specific information was available on wage rates at Wal-Mart shows that, at year end 2002, there were 930,000 total employees in the United States, with approximately 509,000 working full-time. Of this group, 94% were paid hourly and earned an average of $17,800 per year. The 6% who were salaried earned an average of $50,600 per year. The hourly wage rates at Wal-Mart were very similar to those paid overall in discount department stores and warehouse clubs, which in turn were below the average for retail trade in the aggregate.

8. **Lower wages tend to create social costs that are not fully accounted for in the price of the goods that consumers purchase.**

The tipping point where average household spending and after-tax income meet is somewhere around $35,000, suggesting that something other than earned income supports households who earn below that level. This support likely comes from a variety of sources; debt, family and friends, non wage & salary work, and public assistance are but a few of the possibilities. To the extent that public assistance is required (either in the form of direct transfer payments or the provision of uncompensated services), a financial burden to the community is created.

9. **Local retailers may have stronger linkages, per dollar of revenue, to the local economy than the big boxes**.

The finding of several studies of limited scope is that the proportion of retail procurement that occurs in the local economy is greater for local firms than those who operate nationwide. The data was unavailable to confirm or refute this finding in Austin, but it is logical; relatively few physical products that are sold in retail stores are made locally, but a firm that does business in a single market (where the firm's management by definition is located) will more than likely concentrate a greater share of their procurement, especially for services, in their home community. This basic relationship, by the way, is one of the main reasons why the recruitment and retention of headquarters firms is considered a desirable economic development practice.

One caveat: if a national firm sources a product or service for its entire market in the local community (if Target, for example, buys all the toothbrushes it sells nationwide from an Austin-based manufacturer), their local linkage is obviously increased.

10. Small/local retailers enhance the local economy over and above the value created for consumers through contribution to the area's cultural vitality.

There is an emerging understanding of the link between quality of life, cultural amenities, and economic activity, as the definition of economic development has broadened beyond traditional recruitment and retention. The character of a community (including its look and feel, infrastructure, cultural amenities, and overall quality of life) is an increasingly key determinant of a region's economic future. Unique local business is a vital part of this equation, in two ways. First, just like the commercial and not-for-profit arts, the environment, and other cultural institutions, small, unique retail helps differentiate Austin from other areas, enhancing the overall "brand" that the community presents to the outside world. Second, the customer base for many local firms is the broadly-defined "creative-class" that is the basis of much of Austin's competitive advantage going forward.

11. The local fiscal impact of retail is a function of maintaining a retail base that can meet local demand.

Most retail purchases are made within reasonable proximity (as defined by either distance or drive-time) of the shopper's home or workplace, meaning that those who live in the central city probably make relatively few purchases outside of Austin. Closer to the city limits, "reasonable proximity" will tend to cross political boundaries, meaning that retail demand within the area is somewhat independent of municipal jurisdictions. When retail demand is unmet within a given city inside a metro area (or more attractive options exist in nearby cities), the process is called "leakage." Sunset Valley is a good example: the rise of city sales tax revenues from just over $8,000 in 1990 to more than $3.8 million last year can hardly be attributed to the community's approximately 400 residents (up from the 327 reported in the 1990 Census).

Conclusion

Evaluation of the impact of big boxes appears to depend largely on the stakeholder lens through which it is viewed. From the consumer's point of view, the big box business model has led to an unprecedented availability of goods at very low prices. However, the emphasis on cost-containment has put downward pressure on labor costs throughout retail trade, making it very difficult for primary breadwinners working hourly jobs to make ends meet. Meanwhile, the sourcing of an increasing range of products overseas, normally at a substantial cost savings, is a significant factor in domestic manufacturing job loss (at least in the short run). Finally, lower labor compensation (which includes benefits) and lost jobs contribute to a range of social costs, some of which are borne by the public sector.

Encapsulated in the above paragraph is an array of economic and social issues that are worthy of national dialogue, and should play out on a national stage. Closer to home, the City of Austin has oversight over two primary issues: preservation and enhancement of its tax base (both in the short and longer-term), and the nature and character of the physical context of the city.

Given these areas of responsibility, it makes sense that the City should seek to achieve the following broad goals:

- Continue to capture “fair share” of total local retail demand
- Monitor the “market share” of unique local retailers, with a goal of at least maintaining current status
- Recognize the contribution to cultural vitality made by local retailers through proactive assistance (in various forms)
- Work to ensure that community goals and business needs are integrated into any ultimate regulatory scheme for enhanced retail design and urbanism.

1. Introduction

While discounting has been a feature of the American retail landscape for at least 150 years, the genesis of "big box" (the commonly-used term for large-scale discounters) retail began in the first half of the twentieth century with low-price, general merchandise stores such as Woolworth and Sears, Roebuck & Co. In 1962, Wal-Mart, Kmart, and Target – the three largest discount retailers in the United States in 2003 – were established. A report by the American Society of Planning Officials in 1963 noted that "the discount store has (become) a formidable force on the retail scene."

From larger discounters that employed a general merchandise format came stores like Toys "R" Us, often described as the original "category killer." Category killers are large specialty (niche) retailers that buy and sell in huge volumes at low prices. As one of the first, Toys "R" Us was revolutionary in its ability to provide a large selection of lower priced toys under one roof, and other single category retailers soon followed suit. The 1990's ushered in the advent of superstores (also called supercenters) which blurred the traditional boundaries between discount retailers and supermarkets by offering groceries in approximately 30% of their store area.

The rising popularity of discount retailing over time is evidenced by the numbers: discount retailers generated $4.25 billion in sales in the United States in 1962, but by the end of the 1960s, sales had grown to $28 billion, surpassing department store sales of $20 billion. In 2003, discount department stores, warehouse clubs, and superstores generated over $346 billion in sales, representing 13.8 percent of total retail sales (excluding motor vehicles and parts). By contrast, conventional and national chain department stores and all other general merchandise stores combined generated only $214 billion in sales that same year. [1]

Today, of course, big box retailers are an entrenched part of the American landscape, as stores such as Wal-Mart and Target have captured a significant share of the national retail market and have subsequently affected the way we shop, live, work, and play. With this growing market presence has come increased scrutiny, with a number of stakeholders and communities beginning to question both specific business practices and the overall net effect of big boxes on retailing and the local economy. As a result, the City of Austin has commissioned Texas Perspectives, Inc. (TXP), in conjunction with the Gateway Planning Group, to investigate the relative impacts of big boxes on the community.

The following sections examine a number of issues related to big box retail. Section 2 looks at definitions of big box retail, including an explanation of what constitutes big box retail for purposes of this study. Section 3 examines big boxes in the context of the national retail environment, while Sections 4 and 5 identify benefits and concerns associated with big box retail. In Section 6, planning and design considerations related to retail development are discussed. The Austin retail environment is examined in Section 7. The overall findings of the study are detailed in Section 8, and Section 9 offers some concluding remarks. In addition,

[1] These numbers do not include sales from "category killers," only general merchandise discount retailers.

Appendix A provides extensive analysis and case study on planning and design issues related to retail, while Appendix B offers profiles of the largest big box firms, Appendix C contains specific data from the local market basket study, Appendix D consists of two maps – one that shows Austin MSA big box stores during 1994, and a current map, Appendix E is a delineation of the references reviewed as part of the study, and Appendix F outlines the scope of work as approved by City Council.

2. Defining Big Box Retail

In terms of size, big box retail is generally defined as a store that is several times the size of a traditional outlet in its category. Defining what qualifies as a big box retail development in any particular community obviously varies, although there are some relatively common standards. For example, researchers at Columbia University have identified a list of qualities that characterize a typical big box retail development, which includes:

- Usually occupy substantially more than 50,000 square feet, with typical ranges between 90,000 and 200,000 square feet;
- Derive their profits from high sales volume rather than price mark-up;
- Large, windowless, rectangular single-story buildings;
- Standardized facades;
- Reliance on auto-borne shoppers;
- Acres of parking;
- No-frills site development that eschews any community or pedestrian amenities;
- Seem to be everywhere and unique to no place, be it a rural town or urban neighborhood.

Categories of Big Box Retail

There are numerous ways to categorize big box retail formats, with the following four of the most common:

- Discount department stores (Wal-Mart, Target): Range in size from approximately 80,000 square feet to 150,000 square feet and offer a wide variety of merchandise including, housewares, home furnishings, apparel, and beauty aids.
- Superstores (Wal-Mart Superstore, Super Target): These are discount department stores that sell groceries in 25% to 33% of their store area. The largest of the big box stores, they can occupy as much as 200,000 square feet and up.
- Warehouse clubs (Costco, Sam's Club): Offer a variety of groceries and discount general merchandise in bulk at wholesale prices. There are a more limited number of product items than offered at general discount stores or supermarkets, and annual membership dues are usually charged. Store sizes range from 100,000 to 170,000 square feet.
- Category killers (Toys "R" Us, Circuit City): Offer a large selection of merchandise and low prices in a particular type of product category. Store sizes are typically smaller, ranging from 20,000 to 80,000 square feet.

Study Definition of Big Box Retail

In light of all of the above, the following criteria are used to define big boxes for purposes of this study:

- Freestanding stores (i.e., not part of a mall) that average at least 100,000 sq. ft.;
- Stores that sell a relatively wide variety of merchandise, including products that fit into at least several of the industries within retail trade;
- Firms that do business nationally (i.e., that operate in more than 25 states).

Using the above definitions, Wal-Mart, Target, Sam's, Costco, Home Depot, and Lowe's constitute the local big box universe. This list obviously could be longer – many category-killers, for example, are not included, since they are either too small in terms of physical size or sell a narrow range of products. Home Depot and Lowe's are category killers that do fit the size criteria, and they offer a widening range of products under the broad heading of home improvement. Similarly, there are a number of successful national general merchandise discounters, such as Family Dollar, that meet all the criteria except the main one – that of store size (which for Family Dollar normally is well below 50,000 square feet).

Traditional department stores (such as Sears) fit the profile in terms of size, range of products and national scope, but, at least in Austin, they are not freestanding, and are less reliant on low margins and high volume to meet their goals than the discounters are (Sears' 2003 gross margin, for example, is just over 34 percent, versus 24 percent for Wal-Mart).[2] As the nation's third largest discount retailer, Kmart logically would make the list, but they no longer have a local presence. Finally, there is local precedent (i.e., City Council action) for excluding firms that are primarily grocery stores (such as HEB) from the analysis.

3. Literature Review of Benefits and Concerns Associated with Big Box Retail

Commonly Identified Benefits

The aggressive pricing practices of most big box retailers lead to a lower price paid by the consumer, which has benefits beyond the immediate savings to a particular individual. And, beyond price, the opportunity to buy all of your goods in one stop (a convenience afforded by superstores) is an attractive option for many in an increasingly time-deprived society. Additionally, big box retailers can generate significant sales and property tax revenues to local governments. Two of the more prominent benefits of big box retail are detailed below.

Contribution to Low Prices and Inflation Containment

The business model employed by big box retailers is predicated on offering the lowest possible prices in order to create value for the consumer. By most accounts, the model has been successful, as consumer prices have fallen for most categories of goods sold at the big boxes. Comprehensive analysis of the overall impact on inflation does not appear to be available (although a common rule of thumb is that big boxes alone have reduced the overall inflation rate by one percentage point), but inflation data does tell a compelling story. According to Bureau of

[2] Gross margin is the difference between sales and cost of goods sold.

Labor Statistics price indexes, costs for department store goods have actually fallen almost 10 percent over the past ten years, while overall prices have climbed just over 25 percent. Table 1 provides detail.

Table 1: Change in Consumer Price Indexes by Category: 12/93 to 12/03

Medical Care	47.2%
Food/Beverage	28.5%
Housing	30.1%
Transportation	17.1%
Education/Communication	26.9%
Home Furnishings	3.7%
Apparel	-10.3%
Department Store Total	-9.4%

Source: Bureau of Labor Statistics

Further evidence comes from recent UBS Warburg surveys of the impact of Wal-Mart on prices. In an evaluation done last year, UBS found that rivals' prices for grocery items were as much as 27% to 39% higher than Wal-Mart's, with the average discount offered by Wal-Mart stores for a comparable basket of goods running about 20%. The researchers also found that Wal-Mart's presence forces down rival stores' prices--some 13% lower than in markets where Wal-Mart isn't a factor. With Wal-Mart opening more Supercenters and smaller grocery-focused outlets, price competition is heating up.

Meanwhile, a separate recent pricing survey of discount stores produced similar findings. According to Linda Kristiansen of UBS, "Our survey confirmed that pricing is becoming increasingly fierce in the discount store industry . . . as we expected, among the three discounters, Wal-Mart continues to price most aggressively, with Target a very close second."

The survey involved buying more than 70 pantry, drugstore and hard-line goods at the stores, with a principal finding that Wal-Mart was about 4 percent below Kmart and about 1 percent below Target. Kristiansen also said Wal-Mart's in-stock position was better than the other two retailers, offering a larger assortment of products. Kristiansen said Wal-Mart was most aggressive on price in the pharmacy and drug categories as well as games, household items, auto accessories and housewares. Kmart pulled in better prices in the pet supply and stationery areas. Target was cheapest on toys, electronics and food. In housewares and household items, the goods surveyed included GE light bulbs, Rubbermaid storage and Elite Wear skillets. "Results were consistent with Wal-Mart's goal to take market share in the current sluggish sales environment by pricing aggressively," Kristiansen said.

According to UBS economists, an ancillary benefit of this more competitive retail environment is its impact on the Federal Reserve. Their contention is that the positive impact of the big box business model on inflation is sufficiently large to influence monetary policy away from having to

raise interest rates. which they claim is less concerned about inflation than the European Central Bank, mitigating the need for a tightening in monetary policy.

Contribution to Rising Productivity

The McKinsey Quarterly is a newsletter published by the McKinsey Global Institute, the think-tank arm of McKinsey & Company. According to their Volume 1, 2002 online publication:

> Retail may be the last place you would expect to find a productivity miracle. Left out of the technological and operational improvements that have transformed US manufacturing, this low-wage sector seems about as far from the new economy as you could get. Yet retail productivity growth, as measured by real value-added per hour, jumped from 2 percent (1987-95) to 6.3 percent (1995-99), explaining nearly one-quarter of the economy-wide acceleration in productivity. To understand what happened in this large and diverse sector, we focused on general merchandise retailers, which account for 15 percent of all retail sales. Just five of these retailers – Wal-Mart, Kmart, Target, Costco, and Sears – account for 60 percent of general merchandise sales, a fact that makes it possible to conduct a company-level investigation into productivity. In addition, general merchandise merchandising is more productive and uses information technology more extensively than do other parts of retail trade, which may in time come to resemble it.

More than half of the productivity acceleration in general merchandise retailing are due to Wal-Mart, as a variety of their innovations, such as electronic data interchange (EDI) with suppliers, and expanding around central distribution centers, are now industry standards. These innovations allowed the company to pass its savings on to customers. McKinsey continues:

> Competitors began to adopt Wal-Mart's innovations in earnest in the mid-1990s. Sears launched a major turnaround effort in 1994. The vice-chairman of Target, Gerald Storch said, to the Economist that his company was the "world's premier student of Wal-Mart." Smaller general merchandisers, such as Family Dollar, Meijer, and Tuesday Morning, adopted the big box format. As a result, competitors managed to increase their productivity by 28 percent from 1995 to 1999. Over the same period, however, Wal-Mart improved its own productivity by an additional 22 percent.
>
> The Wal-Mart story is a clear refutation of new-economy hype. At least half of Wal-Mart's productivity edge stems from managerial innovations that improve the efficiency of stores and have nothing to do with IT; employees who have been cross-trained, for instance, can function effectively in more than one department at a time. Better training of cashiers and monitoring of utilization can increase productivity rates at checkout counters by 10 to 20 percent.
>
> Even so, IT was a necessary if not sufficient part of Wal-Mart's success. The company invested in most of the waves of retail IT systems earlier and more aggressively that did its competitors: it was among the first retailers to use computers to track inventory (1969), just as it was one of the first to adopt bar codes (1980), EDI for better

coordination with suppliers (1985), and wireless scanning guns (late 1980s). These investments, which allowed Wal-Mart to reduce its inventory significantly and to reap savings, boosted its capital productivity and labor productivity. Wal-Mart's secret was to focus its IT investments on applications that directly enhanced its core value proposition of low prices. The company's later IT investments – such as the Retail Link program – are aimed more at increasing sales through micro-merchandising and cutting the incidence of stock-outs, though Wal-Mart also hopes to gain further reductions in inventory. Whether this new wave of IT investment will be as fruitful as its predecessors remains to be seen.

Commonly Identified Concerns

There have been numerous concerns expressed by about the negative effects of this type of format. In general, these tend to fall into three broad areas: economic/fiscal, social/environmental, and community character.

Economic/Fiscal

Wages and Benefits

A negative impact frequently cited by critics of big box retail is the effect on wages and benefits of retail employees. In states like California, where grocery workers are unionized, the introduction of superstores likely will lead to lower wages and benefits as union-scale grocery jobs are converted to lower paying retail jobs. The Rodino report estimates that the difference in overall compensation (including wages and benefits) could be as much as $8.00 per hour, although the gap likely would be lower in non-union states.

Assessing the economic effect of less-than-adequate health care benefits is less straightforward. In 2002, Wal-Mart increased the waiting period for enrollment eligibility from 90 days to 6 months for full-time employees; part-time employees must wait 2 years before they may enroll in the plan. Meanwhile, Target Co. recently announced plans to drop paid vacation and health insurance coverage for part-time workers at its Target stores. According to a Wall Street Journal article by Wysocki and Zimmerman, approximately 60% of the eligible employees at Wal-Mart sign up for health coverage, compared to 72% for the retailing industry as a whole.

Wysocki and Zimmerman also report that in 2002 Wal-Mart spent approximately $3,500 per covered employee on health coverage, which was 30% less than the rest of the wholesale/retail industry, and 40% less than the average for all U.S. corporations. Much of this savings is attributable to cost-shifting from the company to the employee.

Contribution to Outsourcing

Much has been made of outsourcing in recent months, but the trend of movement of U.S. jobs overseas has been going on for some time. Manufacturing is one of the sectors that has been hardest hit, as a number of industries have seen significant job loss, per the following table.

Table 2: Change in National Production Employment for Certain Sectors: 1997 to 2004

All Manufacturing	-20.3%
Paper Products	-21.5%
Sporting Goods	-27.3%
Leather Products	-55.2%
Apparel	-63.6%

Source: Bureau of Labor Statistics

One of the main forces behind the initial wave of outsourcing of consumer goods was the drive to lower supplier prices. According to Charles Fishman in the December 2003 edition of *FastCompany*, Wal-Mart was one of the leaders of this movement.

> Wal-Mart wields its power for just one purpose: to bring the lowest possible prices to its customers. . ..to survive in the face of its pricing demands, makers of everything from bras to bicycles to blue jeans have had to lay off employees and close U.S. plants in favor of outsourcing products from overseas. Of course, U.S. companies have been moving jobs offshore for decades, long before Wal-Mart was a retailing power. But there is no question that the chain is helping accelerate the loss of American jobs to low-wage countries such as China. Wal-Mart, which in the late 1980s and early 1990s trumpeted its claim to "Buy American," has doubled its imports from China in the past five years alone, buying some $12 billion in merchandise in 2002. That's nearly 10% of all Chinese exports to the United States.

Fishman goes on quote economist Paul Krugman of Princeton University, "One of the things that limits or slows the growth of imports is the cost of establishing connections and networks. Wal-Mart is so big and so centralized that it can all at once hook Chinese and other suppliers into its digital system. So--wham!--you have a large switch to overseas sourcing in a period quicker than under the old rules of retailing."

Consumer Choice

One complaint made against big boxes in general and Wal-Mart in particular is that its superstores will reduce consumer choice due to their tendency to cannibalize competing businesses. A report by Rodino Associates for the City of Los Angeles noted that many Wall Street investment bankers and analysts were recommending their clients not invest in stocks or real estate investment trusts with significant holdings of grocery stores that compete with Wal-Mart. The report goes on to say “(Wall Street) representatives stated that this competition was particularly troubling for investors at lower ends of the grocery store merchandise price range, serving lower income markets.” It is potentially concerning that a very few companies will

eventually dominate the grocery market and everyone, low-income urban residents in particular, will be vulnerable to variable pricing strategies. As noted in a Columbia University report on big box retail:

> "Variable pricing" is another weapon wielded by the category killers. Such "loss leaders" give the impression of wider price savings. But the car bound nature of such retailers makes comparison-shopping difficult and inconvenient, leaving customers at the store manager's mercy.

Social Services

When a full-time employee earns a wage that is insufficient to cover the basic costs of living (food, housing, medical, etc.), many turn to social services to fill the gap. While big box retailers have been accused by critics of not paying their employees a living wage, the problem is certainly not unique to big box employers, or even to retail trade in general. What seems evident is that there is a cost to American society of people who do not earn enough to pay their monthly living expenses, however defined.

One study that measured a portion of the costs to society and the public sector of uninsured or under-insured workers was done by Arindrajit Dube of the Institute for Labor and Employment at the University of California-Berkeley. The purpose of the analysis was to determine how the State of California's Medi-Cal budget would look different if more employers provided affordable health insurance to their employees and dependents. (Medi-Cal is a Medicare supplement with a $29.2 billion budget in 2002-03, $10.6 billion of which came from the State's general funds.) In 2002, of the 6.0 million Medi-Cal enrollees, 3.3 million were working persons or dependents of working persons that cost the State $2.8 billion. Retail was the single largest industry in the Medi-Cal enrollee population in terms of actual numbers, and was also disproportionately represented as well. This means that retail, along with private household and social and personal services, had enrollees represented at a higher percentage than other industries.

Approximately 660,000 retail workers and their dependents were enrolled in Medi-Cal, costing the state $552 million annually. About 421,000 of these enrollees worked for retailers with less than 100 employees (63.8 percent), while 47,000 worked for retailers with 100-1,000 employees (7.1 percent). Retailers with over 1,000 workers had about 192,000 enrollees (29 percent).

Social/Environmental

Many of the alleged negative social impacts of big box retail are intimately related to the economic impacts. For example, reduced retail wages and the lack of adequate health care benefits, discussed above, can have serious implications beyond the direct financial impact to a household budget. Other social and environmental concerns are detailed below.

Only Automobile Accessible

Another criticism of most big box retail stores is that they are designed to be accessible only by automobile and not by transportation modes (such as buses) that are affordable to people with very modest incomes or available to persons unable to drive. Beaumont and Tucker, writing for the National Trust for Historic Preservation, state:

> At present, most big box stores are far from town, totally inaccessible to anyone who is too poor, too young, too disabled, or too old to drive.

As reported in the State of Maryland study, big box developments, whether standalone or grouped with other structures in a power center, are often built on sites adjacent to two major thoroughfares, increasing the likelihood of automobile accidents and decreasing pedestrian safety. The study further reports:

> Big boxes adjacent to other commercial uses often cause problems such as excessive noise, poor traffic access management, increased demand for road repair and traffic control, and demand for improved lighting. These problems also impose a fiscal impact on a local economy.

Environmental Impacts

According to a web article from the Columbia University School of Architecture on big box retail, the increased traffic volume that inevitably is a part of a big box retail development leads to more air pollution in a given area, and can translate into higher taxes in order to maintain the roads. Constance Beaumont, writing for the National Trust for Historic Preservation and reported in the State of Maryland study, states that:

> A 110,000 square foot shopping center can generate as many as 946 car trips per hour and 9,710 trips per day. While this may be somewhat comparable to conventional retailers, big box retailers generate far more truck trips due to higher sales volumes and merchandise turnover. For example, a home improvement store can generate 35 tractor-trailer trips per day.

Another concern about big boxes is their potential effect on environmentally sensitive zones, particularly aquifers and other bodies of water. The State of Maryland study on big box development reports that the water supply of a local community can potentially be contaminated by oil run-off from the surface parking lots of big box developments, or chemicals that are not handled properly in a big box development that sells garden supplies.

Community Character

Homogenization

As big box stores and power centers increase in number in the United States, critics worry that the homogenization of the retail market will negatively impact the social fabric of communities. In a report by the Center for Applied Economic Research, Ellen Dunham-Jones states, “Wal-Mart’s merchandise has not only homogenized consumption patterns throughout the country, it is homogenizing our experience of the landscape.”

Community Livability

The State of Maryland study notes that big boxes can affect the "livability" of an area – the social and cultural qualities deemed important by a community such as open space, pedestrian-friendly main streets, and clean air and water. According to the study:

> Big boxes often require high visibility from major public streets. The strong, image-making design of a big box development can be detrimental to a community's sense of place when it does not contribute to or integrate with the surrounding area in a positive way.

The web article from the Columbia University's School of Architecture says that big box retail stores "seem to be everywhere (yet) unique to no place, be it a rural town or urban neighborhood." Other critics maintain that the reliance on the automobile to get to big box retail establishments promotes an anti-community feeling. People are less likely to interact with each other in a big box setting than they are in pedestrian-oriented environments such as a main street design.

Design Considerations

Big box retailers have been routinely criticized for the unattractive architecture of their buildings and site layouts that feature huge expanses of black-top parking lots. Beaumont and Tucker of the National Trust for Historic Preservation write about the design of big box stores as:

> …nondescript, enormous, "off the shelf" buildings set in a sea of asphalt, with no windows, rooflines, or attempt to respect the architectural character of the local community.

From a design standpoint, the question for many communities then becomes on what terms should big boxes be welcomed? Some communities have responded to this question by adopting a higher level of architectural treatment and regulations to ensure that the superstores relate better to their environs and neighbors. Duerkson and Blanchard of the American Planning Association have created guidelines toward this end; a few of their suggestions are listed below:

- Forbid "uninterrupted length of any façade" in excess of 100 horizontal feet. Facades greater than 100 feet must incorporate recesses and projections along at least 20% of the length of the façade. Windows, awnings, and arcades must total at least 60% of the façade length abutting a public street.
- Require that smaller retail stores that are part of a larger principal building have display windows and separate outside entrances.
- All facades of a building that are visible from adjoining properties and/or public streets should contribute to the pleasing scale features of the building and encourage community integration by featuring characteristics similar to a front façade.
- No more than 50% of the off-street parking area for the entire property shall be located between the front of the façade of the principal building and the primary abutting street.

These and related issues are addressed more fully in Section 6 below.

Urban Blight

Another potential concern is when big box retailers decide to vacate older, smaller stores and open larger, new ones. Beaumont and Tucker, writing for the National Trust for Historic Preservation, note:

> …terms like 'retail graveyards' and 'greyfields' have emerged to describe the growing problem of vacant superstores. Local officials are concerned that these outlets breed crime and vandalism, depress nearby property values, and saddle municipalities with financial and legal liabilities.

They further report that even though Wal-Mart had vacated 426 of its stores by 2002, the company planned to build 46 million square feet of new retail space that year.

4. The Retail Environment

National Overview

Driven by strong consumer spending, retail has been among the more successful segments of the national economy in the wake of 9/11, helping offset some the negative fallout of the downturn in manufacturing. Retail trade currently accounts for approximately one-third of the U.S. economy (as measured by GDP), and expectations are that a recovering job market and widespread availability of consumer credit will offset rising interest rates to keep sales fairly strong this year.

According to Alexandra Biesada of Hoovers.com,

> It is a mistake to assume that retailers have been enjoying good times. Competition is fierce across all sectors of the industry. From the long, slow withering of discounter Kmart to the struggles of supermarket operator Albertson's and the UK department store chain Marks and Spencer, there are plenty of sob stories peppering the business pages of the past few years. Even seemingly unstoppable Wal-Mart logged only modest sales gains over the 2003 holiday season."
>
> The malady plaguing retailers, simply stated, is the existence of too many stores chasing too few shoppers as discounters and other retailers continue their aggressive expansions. Retailer growth has outpaced population growth, resulting in a surfeit of choices for consumers and intense pressure on store operators to find ways to lure shoppers through their doors.
>
> Once inside their stores, retailers are presenting consumers with a phenomenon known as "channel blurring," an effort to increase market share by selling items the stores have not traditionally stocked. Channel burring is widespread throughout the retail industry and continues to expand. An obvious example is discounter Wal-Mart, which moved past The Kroger Co. in 2001 to become the number one seller of groceries in the U.S. That success came at the expense of the entire supermarket

industry, which is struggling to compete with the onslaught of Wal-Mart Supercenters (vast stores that sell a mix of general merchandise and food).

Home improvement chains such as Home Depot and Lowe's Companies have also moved beyond their standard offerings of hardware and building materials to sell appliances. Supermarket operators such as Albertson's, Kroger, and Safeway have seen sales of pharmacy goods increase – a fact that is not helping some struggling drugstore chains, including Eckerd or Longs Drug Stores. With drugstores selling milk and snacks, and supermarkets selling drugs and gasoline, traditional retail channels are becoming increasingly irrelevant.

What consumers do consider relevant is value. The success of mass discounters, wholesale clubs, dollar stores, and closeout retailers such as Ross Stores and T.J. Maxx demonstrates that more and more shoppers are becoming bargain hunters. Mass discounters and off-price chains, including Target and Kohl's, continue to capture market share from department store companies such as Dillard's and May Department Stores (Foley's, Lord & Taylor), as well as other mid-price retailers. The popularity of value has put the squeeze on profits throughout the industry as traditional retailers struggle to cut labor and other costs in an effort to match discounters "everyday-low prices."

Today successful retailers are growing in a cutthroat retail market by employing a variety of strategies that cater to shoppers' particular needs and tastes. Costco and Target are relying on private-label and exclusive brands to foster customer loyalty and boost profits. Other retailers are promising convenience to shoppers for whom time trumps money. Dollar stores and other extreme-value retailers are beating discounters, including Wal-Mart, at their own game. The dollar store format, pioneered by the likes of Dollar General and Family Dollar Stores, has become so popular that Wal-Mart, Kroger, and discounter ShopKo Stores are all testing in-store dollar departments. Lastly, facing a saturated market at home, growth-hungry companies are expanding into vast undeveloped markets, most notably China. [3]

The Austin Retail Environment

Overall Trends

The bust following the boom in retail spending appears to have about run its course, as sales tax revenue has turned positive in the past six months. However, it likely will be some time before the 2000/2001 peak returns, as the City sales tax revenues are more than $12 million below the level of four years ago. The following table and chart provide more detail.

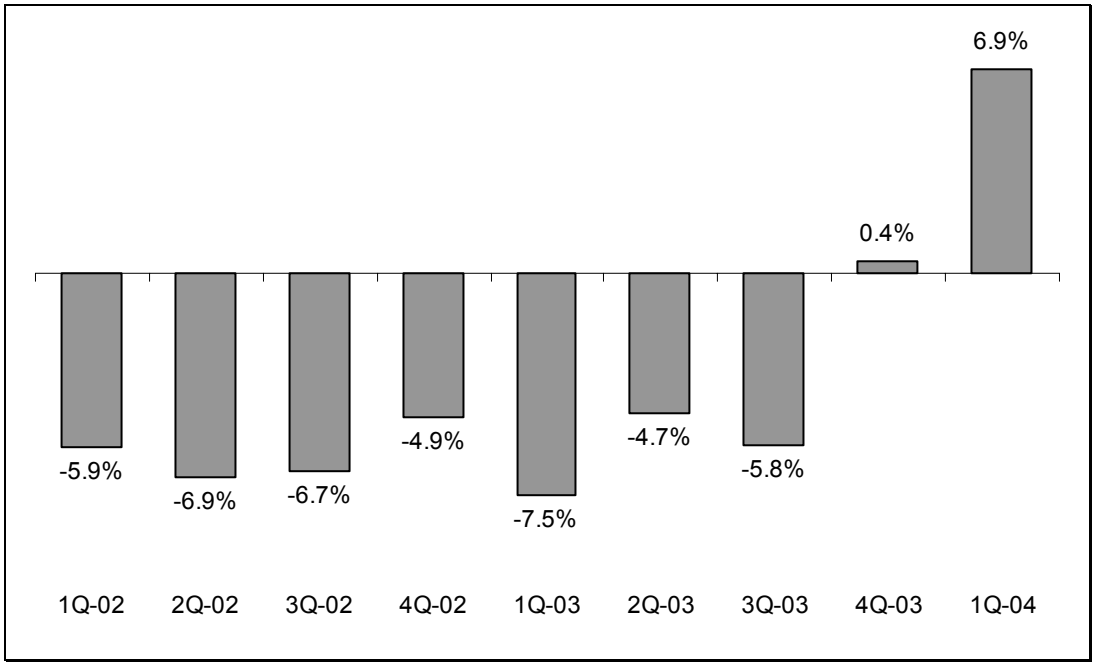
[3] Retail Travail: Selling in the Wal-Mart World. Hoovers, Inc. 2004

Table 3: Annual Sales Tax Allocation to the City of Austin

	Allocation	Change
1993	$65,312,939	14.1%
1994	$73,522,342	12.6%
1995	$77,326,159	5.2%
1996	$80,836,720	4.5%
1997	$85,272,735	5.5%
1998	$94,261,114	10.5%
1999	$104,915,700	11.3%
2000	$117,818,293	12.3%
2001	$117,393,240	-0.4%
2002	$110,208,923	-6.1%
2003	$105,044,871	-4.7%

Source: Bureau of Labor Statistics

Figure 1: Recent Trends in Austin Sales Tax Allocation: Change From Same Period Previous Year



Source: Bureau of Labor Statistics

Employment in retail trade overall has tended to track aggregate sales patterns, with the job base peaking in 2001 before declining the past two years. Within retail trade, general merchandise stores (a category that includes Wal-Mart, Target, and Costco) have seen a steady increase in overall employment over the past ten years, as shown in the following table.

Table 4: Austin MSA Retail Trade Employment (000s)

	Total Retail Trade	Building Materials, etc.	General Merchandise	Food/ Beverage
1994	50.1	3.5	7.7	11.3
1995	54.2	3.7	8.6	12.0
1996	57.1	4.0	9.2	12.3
1997	59.1	4.4	9.6	12.4
1998	61.3	4.8	9.9	12.7
1999	65.5	5.0	10.0	13.8
2000	69.4	5.5	10.4	14.5
2001	69.7	5.3	10.6	14.5
2002	68.3	5.5	10.8	13.9
2003	67.8	5.8	11.3	13.7

Source: Bureau of Labor Statistics

According to recently released data from the Texas Workforce Commission, the overall wage rate for retail trade in the Austin MSA last year was $13/hour, well below the all-industry average of $18/hour. In general, the more expensive and technology-intensive the products sold, the higher the overall wages paid, as general merchandise, clothing, and sporting goods, etc. pay generally below-average rates. Compensation for different occupations within different segments of retail trade is reasonably consistent, although there is more variation among supervisors and salespersons than cashiers.

Table 5: Austin MSA Average Hourly Retail Wage Rates: 2003

	Total/All Occupations	First Line Supervisors/ Managers	Salespersons	Cashiers
All Retail Trade	$13.00	$16.00	$11.25	$8.50
General Merchandise	$10.45	$12.90	$9.45	$8.50
Building Materials, etc.	$12.60	$15.40	$10.40	$8.90
Clothing, etc.	$10.50	$15.10	$8.35	$8.25
Grocery Stores	$11.05	$16.20	$11.50	$9.20
Home Furnishings, etc.	$12.95	$16.95	$12.10	$8.60
Electronics/Appliances	$17.75	$16.35	$9.85	$7.10
Sporting Goods/Books/Music, etc.	$9.25	$11.60	$8.05	$7.40
Health/Personal Care	$13.75	$13.95	$8.60	$7.75

Source: Texas Workforce Commission

Other Factors

The Impact of Internet Shopping

Based on figures from the University of Tennessee on combined state and local revenue loss due to Internet shopping in Texas (adjusted for the level of local Internet usage), TXP estimated that the City of Austin lost $4.5 million during 2001 to Internet shopping, a loss of 3.7 percent. More recent data is not available, but this seems to be a reasonable order of magnitude estimate, and it is likely that the City continues to lose at least $5 million in sales tax revenue annually to Internet sales.

Movement of Spending to the Suburbs

In addition to the factors outlined above, suburban communities in many metropolitan areas have seen more rapid population growth than the central city, which creates a market-based impetus for retail development. The result is that the role of the central city as retail destination is reduced, with a market share that is more closely aligned with the central city's share of regional population. This has been the case in recent years - in 1990, Austin represented 55.8 percent of the metropolitan area population, but 84.4 percent of the taxable city-based retail sales. By 2003, the City's share of the area's population had declined to just under 50 percent, while Austin's share of retail sales had dipped to 67.1 percent. The following table provides data for specific communities.

Table 6: Estimated Austin MSA Retail Sales by Selected Municipality ($millions)

	2003	1990
Austin	$10,504.4	$4,842.5
Bastrop	$165.7	$40.5
Bee Cave	$78.1	$7.6
Cedar Park	$340.5	$41.2
Georgetown	$340.1	$92.1
Lakeway	$75.7	$14.5
Leander	$53.6	$8.1
Pflugerville	$116.7	$8.7
Round Rock	$2,306.4	$288.6
San Marcos	$1,252.7	$302.7
Sunset Valley	$218.0	$0.8
Taylor	$106.1	$59.8
West Lake Hills	$106.0	$30.9
MSA Municipal Total	$15,663.8	$5,738.0
Austin Share	67.1%	84.4%

Source: Texas Comptroller's Office
Note: The data on taxable sales is derived from sales tax allocations, adjusted for changes in tax rate in certain communities

Big Box Market Share

While specific information was not available directly from the big box firms about local operations, it is possible to use publicly-available data to estimate their market presence in Austin. All of the most recent annual reports from these firms either directly list sales per square foot on a national basis, or include the aggregate sales and square footage data that allows this calculation. Given the standardized approach taken to business operations, it seems unlikely that there would be significant regional deviation in this ratio, suggesting that a national ratio is a reasonable proxy for the experience in Austin. Average square footage per store is also reported on a national basis, although the data was refined by direct contact with local stores to the extent possible. The number of Austin area stores was based on information taken from the web site of each firm, allowing the calculation of the total estimated Austin MSA big box sales for 2003.

Table 7: Estimated Retail Sales of Selected Austin Firms

	Annual Sales per square foot	Average square footage per store	Estimated Annual Sales per store	Number of Austin MSA Stores	Estimated Austin MSA Sales - 2003
Wal-Mart	$415.00	162,193	$67,310,095	11	$740,411,045
Sam's	$505.47	132,297	$66,872,165	4	$267,488,658
Target	$282.00	131,019	$36,947,358	10	$369,473,580
Home Depot	$371.00	110,687	$41,064,877	12	$492,778,524
Lowe's	$284.15	114,286	$32,474,367	6	$194,846,201
Costco	$818.99	153,010	$125,313,660	1	$125,313,660
Total				44	$2,190,311,669

Source: Texas Perspectives, Inc.

Data from the 1997 Census of Retail Trade provides the most complete and verifiable information on retail sales activity in the Austin area, but it is obviously dated. However, the information can be crossed with data from the Texas Comptroller's Office on estimated total gross sales annually (which are very consistent for the 1997 reference year) to create estimates by industry for 2003. The following table provides the results.

Table 8: Estimated Austin MSA Retail Sales by Category ($billions)

	1997 Census	2003 Estimate
Motor Vehicles & Parts	$2.92	$4.26
Furniture/Home Furnishings	$0.37	$0.55
Electronics/Electronic Appliances	$0.40	$0.59
Building Materials	$0.94	$1.37
Food/Beverage	$1.94	$2.84
Health/Personal Care	$0.45	$0.66
Gasoline Stations	$0.87	$1.27
Clothing, etc.	$0.65	$0.95
Sporting Goods, etc.	$0.39	$0.57
General Merchandise	$1.32	$1.93
Miscellaneous Retail	$2.83	$4.14
Total	$13.08	$19.14

Source: Texas Perspectives, Inc.

For purposes of estimating implied "market share" of the local big box firms, certain categories of retail trade should not be included. Auto dealers don't compete with the big boxes, and, although some big boxes (including Wal-Mart and Costco locally) now sell gasoline, it is not yet a major line of business for these firms in Austin. Similarly, a number of sub-sectors within the "Miscellaneous" category do not compete with any of the big box firms, making only a portion of that broad sector part of the competitive set. Overall, just over 54 percent of the retail market identified above is estimated to be in direct competition with local big boxes, putting the size of the competitive market during 2003 at $10.34 billion. Given estimated Austin MSA big box sales of $2.19 billion last year, implied big box market share is 21.2 percent. This result is consistent with the employment figures reported above – while building materials and general merchandise constitute approximately 25 percent of the total MSA retail employment base, there a number of firms within these categories that are not big boxes.

Price Comparisons

One of the many concerns regarding the increase of big box retailers in the Austin area is that they are directly in competition with local independent retailers, and as such, have the means and resources to drive the independents out of business. A market basket study (including just over 50 items) was done to attempt to measure the exact amount of direct competition between the two types of retailers, with specific data provided in Appendix B. Most of the items were originally found at one of the local big box stores, although several other items added to the list in order to provide a more complete picture. These items were then shopped at competing big box stores as well as at independent retailers.

Among similar big box stores there was very little price difference. On identical items there was usually a price differential of no more then a few cents. In the instances where there was a significant price difference the difference would be made up in another item. For example, if store A was higher then store B on one item then store B would be higher then A on the next.

There is no doubt that, at some level, all retailers are in competition, since every consumer dollar spent can no longer be spent elsewhere. However, there appears to be little direct competition between the big box retailers and the independents in that they rarely carry the same level of merchandise. If a certain product line has several models available, the big box store would be likely to carry one or two of the lower end models where the independent would carry one or two of the higher end models, or a model that appealed to a certain consumer segment. For example, the big box stores carried only the basic model of the Weber Smokey Joe grill, while the independents carried only the 'silver' or 'gold' version. Complicating the equation was the fact that there were several items that were not considered a house brand but were manufactured specifically for a certain big box and therefore could not be found for comparison at any of the local retailers. Overall, comparison of consumer products is challenging; "blue jeans" come in such a wide variety that is tough to make true apples-to-apples comparisons. For example, Allen's on South Congress sells women's jeans for $34.95, while Factory People down the street offer women's jeans that cost as much as $180. Is this the same product?– in theory, but there obviously is some added value that makes the one pair worth more than four times the other.

When there were items that could be directly compared between the big boxes and the independent stores (mostly food products) the independents were more likely to charge more for the items. However, there was always a value-added to the purchasing the product at the independent retailer. For example, the location of the store was more convenient, or there was an additional service offered.

5. Overall Findings & Conclusion

1. Big boxes create consumer value through lower prices

The essence of big box business strategy is high-volume/low margin – offer consumers a wide variety of fairly standardized products at the lowest possible prices, and count on high volume sales to generate an acceptable level of overall profits. Among other things, this means that margins and profits as a percentage of sales are fairly low. For example, the gross margin (revenue minus cost of goods sold) for publicly-trade discount/variety stores is almost half that of all publicly-traded firms in the US. Similarly, big boxes have relatively low net profit margins, as the following table indicates.

Table 9: Company Performance Data (most recent financial year)

	Gross Profit Margin	Net Profit Margin
Costco	13.4%	1.7%
Target	34.0%	3.8%
Wal-Mart (including Sam's)	24.0%	3.5%
Home Depot	33.4%	6.6%
Lowe's	31.2%	6.1%
All Public Discount/Variety Stores	24.7%	3.5%
All Public Companies	48.6%	5.2%

Source: Hoovers, Inc.

The benefit to consumers is straightforward – as reported by Bianco and Zellner in *BusinessWeek*, "New England Consulting Group estimates that Wal-Mart saved its U.S. customers $20 billion last year alone. Factor in the price cuts other retailers must make to compete, and the total annual savings approach $100 billion. It's no wonder that economists refer to a broad 'Wal-Mart effect' that has suppressed inflation and rippled productivity gains through the economy year after year." Based on these figures, that savings amounts to just under $345 per person in the United States.

2. **There appears to be relatively little direct competition between big boxes and local retailers; where competition exists; prices tend to be comparable. In general, locally-owned retailers employ a different business model to succeed.**

As the market basket survey indicates, it is difficult to find many true apples-to-apples comparisons between local retailers and the big boxes in Austin. Where direct competition does exist, prices will be comparable, unless the local provider is adding value in some way. This is consistent with economic theory; in a competitive market, prices of comparable goods must move toward equilibrium, and if deviations remain, it likely will be because the goods are not truly comparable.

Economist Kenneth Stone of Iowa State University is perhaps the most widely known researcher on the impact of big box retail on local businesses. The focus of most of his work has been on the effects of Wal-Mart on small towns and rural communities in the Midwest. In a twelve year study of "regular" Wal-Mart stores in Iowa (as opposed to superstores), his overall conclusion was twofold:

> Local businesses that are selling something <u>different</u> are in good luck and will probably experience an increase in sales because of the "spillover" effect of the additional traffic.
>
> Local businesses that are selling the <u>same</u> merchandise as the big box store will probably lose sales unless they reposition themselves.

While small-town Iowa is a different market than urban Austin, the basic point is correct: locally-owned retailers can seldom compete directly on price, for all the reasons related to economies

of scale and cost containment previously discussed. There are three main ways that local merchants can compete:

- occupy a niche or sell a product not available from big boxes;
- offer some combination of service, convenience, customization, or "experience" that adds value for the customer over and above the basic product; or,
- employ cross-subsidization and loss-leaders, where the local store price-matches certain items also available from the big boxes at little or no profit, but makes it up on higher margin products elsewhere in the store.

For example, one successful local retailer competes with their big box competition using a combination of all three methods: 1) their stores, with a much smaller footprint, are more easily accessible, and their floor staff is more knowledgeable and service-oriented; 2) they price-match the 200 or so items in the store that are also offered by the big box at little or no profit to them, and rely on higher margins elsewhere in the store to create profits; and 3) they are able to generate higher margins elsewhere because they offer products that are not available from the big box.

The ability to employ a business model that is some version of the above is predicated on being in a large enough urban area to allow diversity in the retail base. This works in a relatively large, affluent area like Austin, but is a much tougher proposition in small towns.

3. All big boxes are not identical, and shifts in consumer preferences may widen these differences going forward.

While all big boxes are based on a fundamentally similar business model, there are differences. Target, Costco, and HEB here in Texas all employ profitable variations on the basic theme: low prices, with something extra on top, be it a nicer shopping experience or more upscale goods. Conceivably, this is the harbinger of a market change that would threaten Wal-Mart's dominance – that consumers are beginning to tire of goods whose value is based solely on rock-bottom prices. Michael Silverstein has written a book describing how American shoppers are becoming increasingly sophisticated in their discrimination between "trading up" to goods they think of as luxury items, and "trading down" to the rest. According to an interview in the December 3, 2003 edition of *BusinessWeek*,

> There are six things contributing to the growth of new luxury. The first is powerful growth in real income. For the top 40% of households, real income doubled in the last 30 years. Secondly, there has been a tremendous gain in home values, increasing families' net worth. Thirdly, growth in discount shopping at department stores like Wal-Mart and Target has put a windfall into consumers' pockets, freeing up cash for consumption in other categories. The fourth and most important trend is that all the real income growth at the household level is associated with women going to work and women earning higher wages. Women are smart consumers who now have the authority and responsibility to say: "This is what we're buying." Another contributing factor is that the people who are making more money are highly educated. If you didn't finish college, your real income declined. That means we have more educated

> consumers making the purchasing decisions. Finally, there's what we call the "Oprah effect." There are lots of people like her -- who have great influence over the public -- who say it's O.K. to spend to take care of yourself. It's O.K. to consume.

In separate interview, Silverstein goes on to say that "Costco does trading up and trading down under the same roof. Wal-Mart just does trading down. At some point, that will have played out."[4] While this does not necessarily forecast Wal-Mart's demise, it does suggest that continued growth will require evolution of the business model.

4. The healthiest consumer market is the market that maximizes consumer choice on a sustainable basis, ie, a market that is competitive.

One of the tools used by the Justice Department in evaluating the competitiveness of a given industry for anti-trust purposes is the Herfindahl-Hirschman Index (HHI). The HHI is a commonly accepted measure of market concentration that is calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of thirty, thirty, twenty and twenty percent, the HHI is 2,600 ($30^2 + 30^2 + 20^2 + 20^2 = 2{,}600$).

The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases. Markets in which the HHI is between 1,000 and 1,800 points are considered to be moderately concentrated, and those in which the HHI is in excess of 1,800 points are considered to be concentrated. Transactions that increase the HHI by more than 100 points in concentrated markets presumptively raise antitrust concerns under the Horizontal Merger Guidelines issued by the U.S. Department of Justice and the Federal Trade Commission.

Traditional industry concentration analysis is focused at the firm level, and would show that the retail sector in the Austin area is not concentrated and is competitive, as Wal-Mart's estimated local market share is approximately 7.2 percent (versus 8 percent nationwide). Taken together, the big boxes are estimated to represent 21.2 percent of the market, a figure that is still well below a level that suggests that competition is being undermined.

An alternative approach to this question would be to focus not just on the market share of the big boxes, but to also measure the total market share of locally-owned, independent retailers as well. While likely requiring extensive primary research, this may be the more pressing question from an economic development and cultural vitality point of view.

5. New Urbanism (which entails pedestrian-friendly scale, mixing a variety of land uses, connectivity with adjacent neighborhoods, facilitation of transportation choice, and a range of retail formats) offers the possibility of mitigating some of the concerns associated with the big boxes, as well as potentially creating an opportunity to leverage destination consumers for local businesses.

[4] "Trading Up: The New American Luxury," by Michael Silverstein and Neil Fiske. 2003

Concerns about big boxes fall generally into three broad categories: economic, social, and community character, with community character in this case including many of the issues raised by the Columbia researchers (i.e., large, windowless, rectangular single-story buildings; standardized facades; reliance on auto-borne shoppers; acres of parking; no-frills site development that eschews any pedestrian amenities; etc.) The case studies and analysis detailed in Appendix A suggest that careful planning can mitigate many of these effects, while also facilitating built environments that encourage neighborhood retail. There are financial and other barriers to the implementation of New Urbansim, not the least of which is that it is not standard practice. However, some of these constraints can be at least partially offset through public sector policy and participation.

6. **The City should promote design standards that reflect community values; but those standards should not be so onerous or prescriptive that neither national nor local retailers can justify doing business in Austin**.

Striking the balance between regulatory and market-driven design standards will be critical as the City seeks to promote retailing environments that are considered inviting and sustainable. Adopting a “one-size-fits-all” approach should be avoided in order to promote creativity and variety in design. On the other hand, establishing a design baseline facilitates predictability for entering and maintaining their position in the Austin market.

7. Big boxes put downward pressure on wages

Since cost-containment is such a crucial element of the big box equation, it is no surprise that wages are subject to downward pressure. While wage rates for discount department stores and warehouse clubs have risen at comparable rates to other comparable segments of retail trade in recent years, they remain below the overall industry average. Table 10 provides detail on average wage rates for different segments over the recent past.

Table 10: Average National Hourly Wages by Selected Sector

	Total Retail	Discount Dept Stores	Warehouse Clubs	Home Centers	Non-discount Department Stores
1995	$8.85	$7.02	$6.82	$8.58	$8.56
1996	$9.21	$7.34	$7.16	$9.01	$8.99
1997	$9.59	$7.61	$7.42	$9.33	$9.31
1998	$10.05	$8.00	$7.82	$9.77	$9.81
1999	$10.45	$8.33	$8.17	$10.27	$10.25
2000	$10.86	$8.78	$8.68	$10.97	$10.89
2001	$11.29	$9.15	$9.05	$11.60	$11.38
2002	$11.67	$9.54	$9.42	$12.07	$11.39
2003	$11.90	$9.76	$9.60	$12.64	$11.83

Source: Bureau of Labor Statistics

Specific information was available on wage rates for employees at Wal-Mart, where wages vary based on job classification. At year end 2002, there were 930,000 total Wal-Mart employees in the United States, 15% of whom were part-time (defined by Wal-Mart as less than 32 hours per week), and 30% of whom were full-time but worked less than 45 weeks during fiscal year 2002. Of the balance (approximately 508,724 full-time employees), 94% were paid hourly and earned an average of $17,800 per year. The 6% who were salaried earned an average of $50,600 per year.

Table 11 shows the average wages of the four largest hourly jobs at Wal-Mart in 2002. The data was obtained by a statistician as part of a class action lawsuit [5].

Table 11: Average Wages of Wal-Mart Employees in 2002 – Four Largest Hourly Jobs

Job	Total Employees	Average Hourly Rate*	Average Annual Earnings
Sales Associate	100,003	$8.42	$15,537
Cashier	50,987	$8.07	$13,876
Overnight	29,333	$9.40	$18,403
Department Head	63,747	$10.73	$22,102
Total Four	**244,070**	**$9.08**	**$15,109**
Total All Hourly	**476,813**	**$9.35**	**$17,802**

* Average hourly rates are reported for the end of fiscal year 2001.

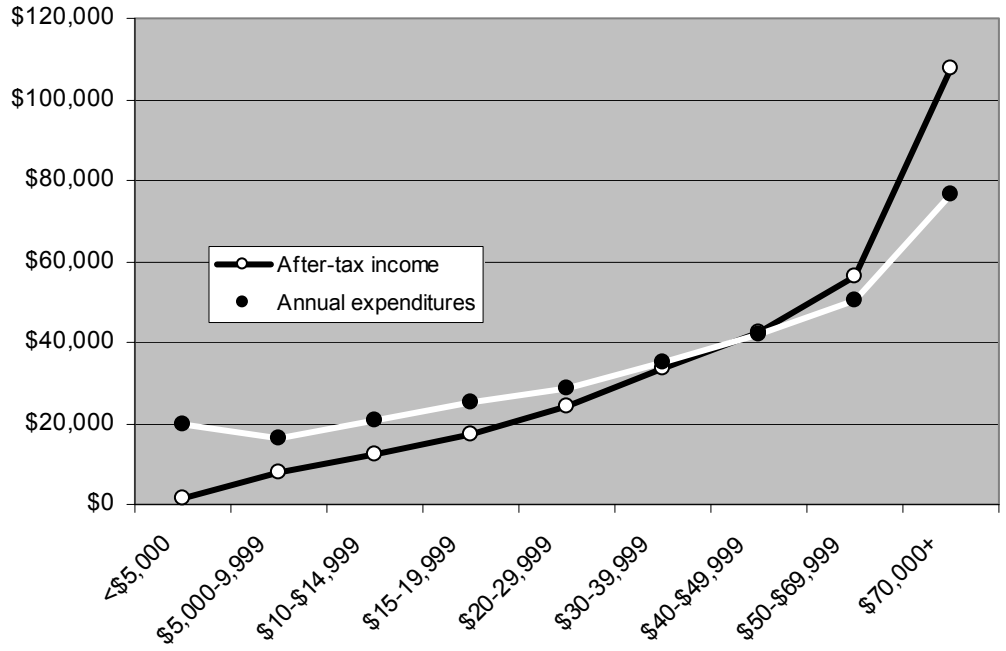
As the data indicates, Wal-Mart average hourly wages during 2002 were very similar to those paid overall in discount department stores and warehouse clubs, which in turn were below the average for retail trade in the aggregate. At $17,802 annually, a Wal-Mart hourly employee would be hard-pressed to make ends meet as the head of a household.

[5] Dr. Richard Drogin obtained the information from Wal-Mart employment records, as directed by the court.

8. Lower wages tend to create social costs that are not fully accounted for in the price of the goods that consumers purchase.

Spending and income are not necessarily directly connected, as data from the Consumer Expenditure Survey shows that even those who report very low levels of income consistently spend more than they earn. The tipping point where average household spending and after-tax income meet is somewhere around $35,000, suggesting that something other than earned income supports households who earn below that level. This support likely comes from a variety of sources; debt, family and friends, non wage & salary work, and public assistance are but a few of the possibilities. To the extent that public assistance is required (either in the form of direct transfer payments or the provision of uncompensated services), a financial burden to the community is created. The full impact of these costs is likely unaccounted for. As mentioned in Section 4, reduced retail wages and the lack of adequate health care benefits can have serious implications beyond the direct financial impact to a household budget. People who delay medical care and treatment due to insufficient or nonexistent health insurance miss more days of work, require longer recovery periods, and may be unavailable to attend to family responsibilities. It is beyond the capacity of this analysis to fully measure these social costs, but that does not make them any less significant.

Figure 2: Income and Expenditures by Income Bracket



9. Local retailers may have stronger linkages, per dollar of revenue, to the local economy than the big boxes.

The finding of several studies of limited scope is that the proportion of retail procurement that occurs in the local economy is greater for local firms than those who operate nationwide. The data was unavailable to confirm or refute this finding in Austin, but it is logical; relatively few physical products that are sold in retail stores are made locally (although local food producers are making inroads into the grocery business), but a firm that does business in a single market (where the firm's management by definition is located) will more than likely concentrate a greater share of their procurement, especially for services, in their home community. This basic relationship, by the way, is one of the main reasons why the recruitment and retention of headquarters firms is considered a desirable economic development practice. One caveat: if a national firm sources a product or service for its entire market in the local community (if Target, for example, buys all the toothbrushes it sells nationwide from an Austin-based manufacturer), their local linkage is obviously increased.

10. Small/local retailers enhance the local economy over and above the value created for consumers through contribution to the area's cultural vitality.

There is an emerging understanding of the link between quality of life, cultural amenities, and economic activity, as the definition of economic development has broadened beyond traditional recruitment and retention. The character of a community (including its look and feel, infrastructure, cultural amenities, and overall quality of life) is an increasingly key determinant of a region's economic future. Unique local business is a vital part of this equation, in two ways. First, just like the commercial and not-for-profit arts, the environment, and other cultural institutions, small, unique retail helps differentiate Austin from other areas, enhancing the overall "brand" that the community presents to the outside world. Second, the customer base for many local firms is the broadly-defined "creative-class" that is the basis of much of Austin's competitive advantage going forward. These ideas are expressed succinctly in an excerpt from a May 2003 talk by a representative from the Institute for Local Self-Reliance, a national nonprofit organization that helps communities develop policies and strategies to strengthen locally owned retail:

> Relying on a diversity of small businesses, which answer only to local residents, not to global investors, is far safer than having all your eggs in a handful of big boxes. What's more, in an increasingly homogenized world, cities that have preserved their one-of-a-kind stores and distinctive character have an economic edge. They have a strong sense of local identity. They are more interesting places to live and visit. And they are, according to a growing body of research, better able to attract entrepreneurs and skilled workers, and thus to prosper over the long-term.

11. The local fiscal impact of retail is a function of maintaining a retail base that can meet local demand.

Evaluation of the fiscal impact of retail depends on the area of analysis. When looking at an aggregate trade area (which in this case is the Austin MSA), total consumer demand determines the level of retail activity, and, by extension, the fiscal impacts. In a 2000 paper entitled *The Flow of Money and Its Impact on Local Economies*, economist William H. Fruth writes:

> Retail is absolutely dependent upon the condition of the local economy. It cannot grow any greater than the amount of disposable income within the economy. It will decline if the flow of money into an area is reduced. It does not create wealth, but absorbs wealth. A vibrant, dynamic retail sector is not the cause of a strong local economy, but the result of it.

At some point in the future, Internet shopping may change this equation to a significant degree, as local consumers in theory could buy products from anywhere in the world. However, that day appears to be some time away, as the vast bulk of retail trade occurs within a given geographic area. In fact, most retail purchases are made within reasonable proximity (as defined by either distance or drive-time) of the shopper's home or workplace, meaning that those who live in the central city probably make relatively few purchases outside of Austin. Closer to the city limits, "reasonable proximity" will tend to cross political boundaries, meaning that retail demand within the area is somewhat independent of municipal jurisdictions. When retail demand is unmet within a given city inside a metro area (or more attractive options exist in nearby cities), the process is called "leakage." Sunset Valley is a good example: the rise of city sales tax revenues from just over $8,000 in 1990 to more than $3.8 million last year can hardly be attributed to the community's approximately 400 residents (up from the 327 reported in the 1990 Census).

Conclusion

Evaluation of the impact of big boxes appears to depend largely on the stakeholder lens through which it is viewed. From the consumer's point of view, the big box business model has led to an unprecedented availability of goods at very low prices. However, the emphasis on cost-containment has put downward pressure on labor costs throughout retail trade, making it very difficult for primary breadwinners working hourly jobs to make ends meet. Meanwhile, the sourcing of an increasing range of products overseas, normally at a substantial cost savings, is a significant factor in domestic manufacturing job loss (at least in the short run). Finally, lower labor compensation (which includes benefits) and lost jobs contribute to a range of social costs, some of which are borne by the public sector.

Encapsulated in the above paragraph is an array of economic and social issues that are worthy of national dialogue, and should play out on a national stage. Closer to home, the City of Austin has oversight over two primary issues: preservation and enhancement of its tax base (both in the short and longer-term), and the nature and character of the physical context of the city.

Given these areas of responsibility, it makes sense that the City should seek to achieve the following broad goals:

- insure that it both continues to capture its “fair share” of total local retail demand,
- monitor the market share of local retailers, with the goal that it at least remains constant;
- recognize the contribution to cultural vitality made by small local retail through proactive fiscally sound assistance, (which could take a variety of forms)
- continue to work with the development sector and other stakeholders to ensure that community goals and business needs are carefully integrated into any ultimate regulatory scheme providing for enhanced retail design and urbanism.

Appendix A: Planning and Design Considerations Related to Retail Development

Overview

Shopping is ubiquitous within the economy and, consequently, the physical form of our towns. Retail construction accounts for the largest portion of nonresidential construction - nearly 25 percent. Its sheer presence means that it is continually being reinvented and reformulated to keep up with societal change and consumer preferences. (Leong, 2001) Within the context of this rapid change—especially in light of the proliferation of the large format discount retailers—cities, developers, civic leaders and neighborhood activists are seeking strategies in an attempt to harness the benefits of retail while also mitigating its negative impacts.

Retailing, physical design, geography and transportation are inextricably intertwined. Although the tendency is to view those considerations in isolation, the shopping dynamic has always been based on the intersection of those factors. The downtown department store and the neighborhood corner store reflected the physical design of our cities and their transportation systems. For example, the Fresh Plus grocery store in Hyde Park, a robust neighborhood store, revitalized its vibrancy from an earlier era because Hyde Park has re-established its residential mix and intensity within the "trolley suburb" design of the 1920s and 1930s.

Today's retail environment has been captured most succinctly by the observation of retail expert and town planner Robert Gibbs that "form follows freeway." (ULI Austin, 2004) Seth Harry, also a nationally recognized expert in the relationship of urban form and retail, explains that because the current suburban retail formats depend on size as their principal tool for winning in the highly competitive retail markets, they locate themselves as far "downstream" on the dendritic roadway network of a given region to capture the largest possible share of potential car traffic that suburban-style developments generate.

Fundamentally, the patterns of suburban growth and destination retail have become truly symbiotic, creating a highly efficient form of market capture, from distribution to point of sale. The implications of this symbiosis fundamentally point towards the larger issue of regional planning, or a lack thereof, a discussion beyond the scope of this study.[6]

Two generations ago, Victor Gruen, acknowledged widely as the inventor of the modern day mall, envisioned the mall, not just as means for shopping, but as a way to redefine the contemporary city through urbanity. Gruen had intended for his concept to lead to the renaissance of America's downtowns via a learning of lessons from the suburban mall. (Leong, 2001) In many respects, Gruen's vision has been realized with the well managed renaissance of downtown retailing. But at the metropolitan level, ironically, the question is now being raised, how can the "suburban" shopping experience be informed by the urban experience of place?

That question is prompted by concerns about aesthetics, lifestyle and, as is the case in many cities like Austin, the impacts on locally owned retailers. In turn, another question raised is what role can urban design play to integrate local businesses into the context of destination retail for

[6] The discussion of regional planning as it impacts the symbiosis of the dendritic roadway system and large scale retail formats implicates questions of the mixing of uses, the location and scale of public spaces, the nature of the regional transportation system, the design of the streets in terms of typologies, the scale of neighborhoods and the relationship of neighborhoods to one another.

their mutual benefit? Yet another question is how compatible is large format retail within the walkable "Main Street" environment? Those questions also raise the issue of the extent to which national retailers are willing to modify their formats to accommodate local design goals and community preferences. And, correspondingly, to what extent are local retailers willing to expand their businesses to take advantage of co-location opportunities with national retail chains?

Capturing the critical relationship of urban design and retail, New Urbanist Lee Sobel of EPA's Office of Policy, Economics and Innovation, has coined the term "context sensitive retail." Sobel frames the issue with two models, both of which are likely valid: "Will New Urbanists design retail space within traditional places regardless of their size and scale, or will they have retailers conform to the building types that are appropriately designed to harmonize within the realm of hamlet, village, town and urban district?" (New Urban Post, 2004)

Regardless of one's perspective or concern, trends of the largest retailers suggest that shifting preferences are indeed impacting design strategies. Gibbs estimates, for example, as many as 15 percent of new Targets could be developed in the two-story urban format. On the other hand, functional operational factors continue to drive the decisions of national chains on building footprint design and size, as well as site plan design. Ultimately, national retailers make decisions based on why and how people shop, a process capable of technical examination in terms of business operations—in many respects, a science. (Paco Underhill, 1999) This reality must undergird any meaningful analysis of the opportunities and negative impacts of retail within a community if, in any credible way, those opportunities are to be seized and those negative impacts ameliorated.

Retail Format Trends

Opened in the 1920's, J.C. Nichols' Country Club Plaza in Kansas City is considered the first modern large scale shopping district located outside of a downtown. Its unified architecture and sense of place began a trend that was often poorly mimicked in the strip centers propagated throughout America. The Highland Park Village Shopping Center in Dallas, opened in 1931, was the first true self-contained shopping center, and remains one of the more successful neighborhood-friendly centers in the United States. In the mid-50's, after the rise of the Sears and Wards department stores, enclosed malls began their rise to dominance. Another non-anchored shopping concept was born in 1976, the "festival marketplace" of Faneuil Hall, developed by The Rouse Co. (ICSC, History of Shopping Centers) After a surge and then a drop in conventional shopping centers in the 1980s and early 1990s, the factory outlet store was born, setting the stage for the power center. (ICSC, History of Shopping Centers)

Placing large "boxes" back along the rear property line fronted by large parking lots, the power center dedicated most of its space to "category killers," such as large electronics or home furnishing stores. The power center seeks to locate near and dominate the conventional regional malls in terms of convenience and price. The advent of the power center spurred on the reinvention of the mall through the incorporation of entertainment and service-oriented

businesses such as banks. At the same time, the large-scale discount merchandisers, such as Wal-Mart, began to emerge in the market as a dominant force.

The combination of the category killers anchored in the power centers, and the emerging large-scale general discount merchandisers such as Wal-Mart, spurred on another invention of specialty shopping, the "lifestyle center." An understanding of lifestyle centers is important as the number of identified lifestyle centers by the International Council of Shopping Centers (ICSC) has tripled over the past three years.[7] For upscale shopping, lifestyle centers have truly become the market leaders.

As defined by the ICSC, a lifestyle center caters to the retail needs and lifestyle pursuits of consumers in its trading area. Including restaurants and entertainment, they are typically located near affluent residential neighborhoods. Lifestyle centers range from 150,000 square feet to 500,000 square feet or more. Anchored by at least 50,000 square feet of national chain specialty stores, the design format is based on an open air or "Main Street" concept.

Concerned with the larger context, some New Urbanists have concluded that lifestyle centers are essentially "anchorless specialty retail centers." (Harry, 2003) University of Miami Professor Chuck Bohl (author of *Place Making*) has observed that "the only thing that has changed is that the success of early anchorless lifestyle centers has led to the subsequent development of larger ones with anchors…no mixed uses (either adjacent to one another or vertical), nothing specific in terms of urban design (although some lifestyle centers typically include some street-oriented retail), no relationship to anything else in terms of adjacent land uses, and no larger plan for adding neighborhoods and making these part of a larger community." (New Urban Post, 2004) Bohl goes on to characterize the rise of the lifestyle center as Darwinist: the mall kills off the strip center; the power center kills off the mall; and now the lifestyle center is trying to kill off the power center.

Paralleling the advent of the lifestyle center, the town center has emerged as a means to facilitate sustainable retail—retail that evolves over time in terms of specific uses within specific buildings. That dynamic is facilitated through true mixed use—shopping, employment, higher density residential and transit, all anchoring adjacent mixed residential neighborhoods. Pac Trust's Orenco Station outside Portland is an example of a town center.

Hybrid formats have also emerged in the past few years, incorporating residential and employment/office uses within specialty retail or lifestyle center formats. Birkdale Village in Charlotte, North Carolina and Town Square in Southlake, Texas are examples of hybrid formats. A second type of hybrid design co-locates town centers directly adjacent to "big box" clusters. The Kentlands in Gaithersburg, Maryland and Orenco Station provide examples of the co-location hybrid.

The Retail "Reality"

[7] The original term, "lifestyle center," was trademarked by Poag and McEwen for the Shops at Saddle Creek in Memphis, which opened in 1987. The ICSC definition of lifestyle center is somewhat controversial in terms of a usable metric due to its breadth of coverage. For example, the Alamo Quarry Marketplace in San Antonio, Town Square in Southlake, the Arboretum in Austin, the

Today, American retail development is based primarily on a "develop and flip" strategy, rather than on a "build and hold" approach. Accordingly, retail projects are pursued with low development costs in order to achieve competitive rents and quickly ramped up sales revenue streams so that projects can be sold to institutional investors such as Real Estate Investment Trusts.

Developing more sophisticated projects contrary to this formula is difficult due to the highly competitive retail markets. In suburban locations, for example, development costs of 20 to 50 percent higher can be expected in order to incorporate pedestrian scale building frontages, public spaces and site designs that integrate adjacent neighborhoods. The resulting need to charge significantly higher rents makes it virtually impossible to entice national discount retailers to locate within such projects. (ULI, 2002) Paradoxically, national discount retailers can command higher per-square-foot sales in downtown locations to justify paying higher rents due to pent-up demand in inner-city locations; but, high land prices, scarce locations suitable for large store formats and other insurmountable land development factors make downtown projects virtually impossible, pushing large scale format retail further into suburban locations. (Gibbs, 2003)

Even if an alternative retail format were economically feasible for a particular opportunity, retail investments are commonly driven by formulaic considerations at the corporate level in order to maintain stock value. Retailers commonly make new location investment decisions through a corporate group called the "Real Estate" or "Investment" Committee. Seeking appropriate investment returns, such committees will ask whether the proposed location is within an emerging retail trade area; whether needed market share can be realized quickly; and whether the proposed location is at a highly desirable intersection. The retailer will also want to know whether the site will accommodate the retailer's standard building footprint; whether the site will easily accommodate auto ingress and egress; and whether the retailer will be located on a site designed so that it can effectively take advantage of intercept traffic from another particular retailer of a complementary type. In light of this decision-making methodology, retailers are extremely reticent to adjust conventional building and site designs that impact real and perceived standard business operations.

The committee process is facilitated commonly through a local retail broker on the lookout for "deal" locations. Those brokers become savvy and efficient seekers of sites that readily provide affirmative answers to the anticipated inquiries of the particular retailer's committee under the company's specific retailing formula. This system works in terms of corporate goals of expansion and profitability. Accordingly, retail chains are reluctant to alter their nationally branded site and building designs, especially in mature markets such as Austin where competitors have already made significant market penetrations. These realities are not inviolate; but they are difficult to sidestep and, therefore, must be understood and appreciated.

The Big Box Format and the Pedestrian-Scale Context

Centre at Post Oak in Houston, Lincoln Square in Arlington, Texas, River Oaks in Houston, Highland Park Village in Dallas, and even Country Club Plaza in Kansas City have all been deemed lifestyle centers by ICSC.

A critical understanding of human nature in terms of walking habits is basic to the issue of creating walkable retail environments. Although not a complete analog, studies undertaken by Bill Lieberman, AICP, for transit ridership indicate that most people are not willing to walk very far. His studies show that an almost 100 percent inclination to walk to a transit stop just one city block falls off to 58 percent of willing people for two blocks, and down to 17 percent for just four blocks. Accordingly, strategic locations for the retailer and well designed continuous walking environments are critical to the meshing of the goals of urbanism and retailing.

Accordingly, the particular scale of a retail use may be incompatible with the ability to maintain pedestrian-environments and the capacity of smaller adjacent retailers to intercept traffic from the big box traffic generator. Two of the leading retail design experts, Robert Gibbs and Seth Harry, offer different opinions as to whether size matters and in what context. Gibbs points out that many pre-war department stores were of a very large format in size such as the 500,000 square foot Macy's in New York but were designed to fit within the urbanism of the site. He therefore concludes that the size of the store in and of itself does not matter.[8]

Seth Harry counters that a 500,000 square foot Macy's in the middle of Manhattan is not the same as a 500,000 square foot Macy's in the middle of a former cornfield in Kansas. He argues, "Who cares if it's a great 'urban building,' and well sited, if 98 percent of its customers drove 20 miles on a crowded 10-lane highway to shop there." (New Urban Post, 2004) Similarly, University of Michigan Professor Doug Kelbaugh is concerned that the national large format chains will continue to first locate in a market via a "small big box," and then they will leave that location to build a larger box to secure a larger catchment area once they have secured a foothold in the market. (New Urban Post, 2004)

But as Gibbs has encouraged, a walkable scale enveloping the use can be achieved through urban formats such as his "reverse double-L" design. The reverse double-L design utilizes "liner" retail reducing the scale of the main frontage of the large destination anchor, combined with substantial amounts of parking set behind the anchor and the adjacent inline "Main Street" shops through a system of second entrances on the backside of the stores. Combined with denser adjacent New Urban neighborhoods, these large scale urban-format retail centers could potentially facilitate a town center role akin to the dynamic of a downtown. (Gibbs, 2003) Accordingly, this context could increase and sustain the per-square-foot sales of the major anchor, lessening the likelihood of abandonment of the location in search of a new location for a larger format store to consolidate market share. (Gibbs, 2003)

By all accounts, City Place in downtown Long Beach, California, has successfully integrated large discount anchors, including Wal-Mart, into a mixed use walkable environment. A redeveloped shopping center, City Place utilized an existing building for the Wal-Mart with continuous streetscapes opening the retail to the surrounding community, aided by hidden parking decks and inline retailers wrapping the exterior of the large stores. This design strategy complements and connects the project with the adjacent downtown businesses and the urban

context of Long Beach. Wal-Mart's utilization of an existing urban building and parking decks appears to be the rare exception; but, as Gibbs has commented, large discount retailers may embrace more and more urban formats if the stores could be located within denser locations. (Gibbs, 2003) Regardless of the context, the economics of store rents versus sales revenues will continue to drive the resulting design outcome.

Co-locating large format retail and small scale stores in the same context poses additional challenges due to the impacts of large surface parking lots and other anti-pedestrian factors. The power center concept, for example, was originally intended to link destination retail and smaller scale specialty retail on pad sites in order to compete against the conventional malls offering their inline specialty retail supported by department store traffic. But the power center concept quickly evolved such that the proportion of major large format stores grew with few, if any, specialty retailers located within the newer projects. (Gibbs, 2003) Why? The design environment of the typical power centers is simply not conducive to pedestrian circulation moving from store to store to store through the large parking field. However, studies have shown that the intercept of shoppers from large destination retailers can occur with some success in a particular design context.

For example, the redevelopment of the Rutland Plaza Shopping Center in downtown Rutland, Vermont, included a Wal-Mart along with several locally-based retailers. A cross-shopping study was undertaken by DANTH, Inc. to determine the level of intercept traffic by the other Plaza shops from Wal-Mart, as well as other local retailers across the street from the Plaza Shopping Center. Significantly, the study revealed that 65 percent of the Wal-Mart shoppers went into other Plaza shops, undermining the assumption that Wal-Mart would be a retail black hole. (*Urban Land*, July 1999) However, the study showed a very low intercept rate of shoppers going from the Plaza shops to the local downtown shops across from the Plaza Shopping Center.

A follow up phone survey revealed that shoppers likely to go to the local shops across the street from the Plaza Center were inclined to do so mainly if they were on their way to eat at one of the adjacent downtown restaurants. Not surprisingly, the phone survey also revealed that many shoppers at the Plaza Shopping Center were not inclined to venture to other nearby local stores because getting across the major street, Merchants Row, was difficult for pedestrians, especially as people had to traverse a large parking field to do so. In addition, the immediate pedestrian context across the street, that one would be walking through in order to get to the other local retail establishments, was one of a substantial number of street-level offices and financial institutions that were uninviting in terms of the walking experience.

In a different design context, the local businesses in the Kentlands Town Center saw business improve after the big boxes developed across the street. (Duany, 2003) The difference of the local retailers' plight in downtown Rutland and the merchants' situation in the Kentlands Town Center is that the walking experience between the Kentlands Town Center and the big box

[8] Gibbs also points out that the size of the box does not necessarily relate proportionally to the size of its impacts. For example, a 40,000 to 60,000 square foot conventional grocery store may only serve 5,000 households; while a Whole Foods may need over

development across the street is semi-urban and somewhat continuous. Although parking fields must also be traversed in the Kentlands, the parking lots are designed in a more urban and pedestrian-scale pattern.

At the regional level, Seth Harry has observed that "the biggest threat and the biggest opportunity for urbanity lies in the fact that open air retail, in a traditional urban setting (whether contrived or not) has been demonstrated to be viable once again. If that notion can be translated into real mixed use urban centers, great. However, if it's just another reason not to go downtown then I think our challenges may have only become compounded." (New Urban Post, 2004)

The Physical Relationship of National Retailers and Local Businesses

What design strategies provide opportunities for locally owned businesses? Lessons from Birkdale Village and Southwest Marketplace are instructive.

Birkdale Village

Birkdale Village, located about 18 miles from downtown Charlotte, North Carolina, started as an apartment project, in an area very similar to suburban north Austin. Shook Kelley, a design firm from North Carolina, convinced the developer to pursue and develop a more robust mix of residential, retail and office. Transformed into a hybrid lifestyle center and town center, the project has 275,000 square feet of retail, 320 loft apartments, 40 town homes, 230 single family homes and 50,000 square feet of office.

The Shook Kelley design strategy was based on the creation of a true Main Street environment with ground level retail, apartments above the retail and hidden parking decks behind the Main Street buildings, which are hidden on the backside by apartments and office buildings. The leasing strategy sought to complement national anchors such as the Gap and Banana Republic, with local businesses selling complementary goods such as high end clothing.

Today, the retail tenant mix is almost 50:50, local[9] to national, and 30:70 in terms of square footage. The national tenants include a 53,000 square foot theater, a 33,000 square foot Dick's Sporting Goods, a 28,000 square foot Barnes & Noble, an 18,000 square foot Pier One, a 9,000 square foot Gap, and Talbots and Williams & Sonoma. The locals include a high-end Belgian furniture store and a European style clothier. The Urban Evolution, a modern clothier located in Bohemian downtown Charlotte, opened a sister store in Birkdale Village called the Civilian. They were drawn in by the eclecticism of the project even though it was located in the suburbs.

According to Michael Dunning, AIA, Principal in Charge for the master plan and construction, both the local businesses and the national chains have been very successful, for several reasons. First, the "Main Street" environment attracts a customer base that likes both the local and national retailers. Second, through support from a unified marketing office run by Birkdale Village, the locals are able to merchandise and operate at the same level of customer care and quality as the national tenants. Third, the integrated residential component of the project

20,000 households to satisfy its needed market share (New Urban Post, 2004).

[9] "Local" is defined as a company based within a 50-mile capture area.

prompted the local retailers to add staff to keep their doors open later because the residents frequented the restaurants and shops after returning home for the day.

Dunning notes that the key to encouraging the residents from the apartments above the retail to enjoy Main Street was the utilization of gang stairways enabling easy access from the apartments down to the street. (The apartments are also served at the rear by breezeway entries into the parking decks.) Just as importantly, the balcony design of the apartments above the retail created an excitement not seen in any other part of suburban Charlotte, creating the "eyes on the street" phenomena observed and written about so eloquently by Jane Jacobs, author of many books on urban life, most notably *Death and Life of Great American Cities*. Dunning also notes that people are paying a significant premium to live in the apartments above Main Street. Dunning estimates that rents for the apartments over Main Street are yielding about $1.30 per square foot, while the rents for the apartments on the backside are yielding about 75 to 85 cents per square foot, which is the approximate average of suburban Charlotte. Interestingly, the demographic character of the residents is broad: employees of the Birkdale Village businesses, empty-nesters, local police, single moms, NASCAR drivers, transplants and folks from traditional neighborhoods in Central Charlotte.

The viability of the Main Street environment was a factor in the size of the "boxes" utilized. Larger format stores did seek to locate in the project; but the limitation of the site resulted in the developer deciding to forego the additional larger format retailers. In order to accommodate those larger format stores, the Main Street design would have had to have been altered, likely disrupting the Main Street pedestrian flow. The site itself and the desire to maintain the continuity of the "Main Street" design would not allow for the additional depth of the larger stores; moreover, soil conditions precluded economical structured parking underground, which would have been necessary to park the site.

The decision to forego the additional larger format stores has played out well as Birkdale Village enjoys a robust business today. It should be noted, however, that if the site conditions had been different, and certain urban design strategies were employed as discussed above, the larger format retail stores might have been accommodated without interrupting the pedestrian continuity of the Main Street design of the project.

Terry Shook of Shook Kelley believes that the success of the design and mix strategy for Birkdale Village is grounded in a sophisticated concept of "anchoring." (Harvard, 2003) He underscores that people are looking for meaningful places to convene. Birkdale Village provides that place to convene in the context of a highly sophisticated branding and merchandising strategy that literally leverages the power of emotion that evokes the desired lifestyle of consumers.

At Birkdale Village this dynamic is achieved through a careful combination of national and local retailers, an integrated residential community, and a range of employment through the integration of office uses. Birkdale Village is an enjoyable place to be, all pulled together through careful place making. Shook Kelley's design and merchandising strategy recognized that consumers will ultimately reject sameness and hype; therefore, Birkdale Village was

conceived and implemented to accommodate deeper needs—the ability to form relationships, grow, change and, ultimately, to provide experiences that are both individual and shared.

Not every project can achieve the goals of Birkdale Village. But the Birkdale Village strategy is instructive because it expanded the competitive attributes that are necessary to attract the national chains and their continual flow of destination consumers, while at the same time creating a real place where local businesses can thrive.

Southwest Marketplace

Often, finding local businesses willing to expand and integrate into national destination retailing formats is challenging. William Chaffe of Cardinal Paragon and his attorney, Steve Drenner, have been seeking local tenants for the proposed Southwest Marketplace at MoPac and William Cannon in Southwest Austin in order to complement the national retailers slated for the site. Their work with the neighborhood stakeholders confirmed the desire for some eclecticism within the project.

From a design perspective, a prior site plan for Southwest Marketplace called for three 100,000 square foot “boxes” with some additional office and just a handful of small out-parcel retailers. By contrast, the proposed site plan calls for a large format national discount retailer and number of small inline retailers, all under 50,000 square feet in size so that a number of local businesses can be accommodated as well. The new site design also includes substantial onsite preservation of natural vegetation and trees as well as a pedestrian system that enables easy access to and from the adjacent neighborhood and the perimeter of the site.

Chaffe and Stewart have faced significant inertia in locating local businesses for a host of reasons. First, the potential local tenants are simply not on the radar screen of the commercial leasing brokers, who tend to track the national inline tenants that typically provide synergies with particular national anchors. In other words, when a retail broker calls on a national retailer to locate adjacent to a particular anchor, the broker knows exactly what that retailer is looking for. However, when a broker calls on a local retailer or restaurateur, neither the local business nor the particular anchor know much about what one another is looking for in terms of adjacency benefits. This situation is akin to the broker starting from scratch in terms of information every time he or she calls upon a local business for potential location in a project.

Second, Chaffe and Drenner are finding that many local businesses simply do not have the resources or the desire to expand into additional locations. Management capacity and capital resource limitations make it difficult for even the most successful local businesses to consider expanding into new locations. And because the national retailers desire local businesses that possess the capacity to design and operate their businesses as if they were nationals, it is difficult to recruit and incorporate completely new local retail startups into a destination retail context. In other words, as alluded to above, “mom and pops” must operate at the same level of the national chains if they are to take advantage of and be successful in destination retail environments.

Since inclusion of local businesses in Southwest Marketplace is a key element of their market strategy, Chaffe and Drenner have set out to comprehensively recruit on a continuing basis as they move through the entitlement process, treating potential locals as a mainstay of the project. They recognize that the factors of inertia can be overcome through a comprehensive and committed effort.

The Public Sector and Retail Place Making

Professor Bohl observes that "great places seldom sprout from the ground fully formed." (New Urban Post, 2004) The key to facilitating such opportunities is to recognize the role of the public sector in place making. Currently, the community and business culture of America encourages a "develop and flip" mentality, not a "build and hold" approach that supports long term place making. Although it is beyond the scope of this study to analyze all of the factors that stymie the proliferation of "build and hold" projects, including the role of project financing, the experience of the development of Town Square in Southlake, Texas is instructive.

North of Fort Worth, the City of Southlake literally did not have a downtown—a true community gathering place. The developers of Town Square, Cooper & Stebbins, purchased property and worked with architect David Schwarz to create a downtown and mall anchored by a new city hall. In a sense, Town Square is a hybrid lifestyle center and town center, with 260,000 square feet of ground floor retail, 160,000 square feet of second story office, 100,000 square feet of government use - the new Southlake City Hall and post office - and 114 town homes.

Cooper & Stebbins retained ownership of the private buildings but dedicated the city hall site and the streets to the City of Southlake. The city hall, grand plaza and streetscape were financed through a Tax Increment Financing (TIF) Zone. Although the circumstance of the Town Square project is truly unique, the public-private partnership in developing the public spaces, including the plaza and streets, offers lessons in terms of creating "build and hold" environments for retail. Frank Bliss of Cooper & Stebbins has observed that, but for the ability of the developer to partner with the city in creating the authentic Town Square, the higher level of urbanism and amenities, including the truly urban street system, would not have been possible. Without those urban attributes, Town Square would have been just another mall facing increasing competition in the fast-growing affluent suburbs north of Fort Worth; Cooper and Stebbins could not have afforded on its own the level of investment required for the Town Square concept in light of the fundamental need to deliver retail and office space at market rents.

Ultimately, the ability to mix national chains and local businesses synergistically with office tenants as well as city hall workers and citizen visitors enabled Town Square to achieve and maintain high occupancy rates and robust per square foot sales even during a time of significant economic downturn in the Metroplex. This synergy is expected to be enhanced once the residents move into the recently approved town homes just down the street from city hall.

A regulatory scheme providing a careful design context was crafted to suit the long term build out character of Town Square. According to Bliss, the design standards and implementing regulations were crafted in partnership with the City through a process in which the developer

took the initial lead. This enabled the City and the developer to ensure the long term realization of community goals and business considerations, both of which have been meshed together through a shared place making strategy.

One of the shared long term strategies is the requirement that surface parking lots be designed in a grid block pattern, with corresponding utility runs, so the lots can be redeveloped vertically as structured parking or buildings as the market evolves and Town Square grows. This strategy was originally employed in the layout of the commercial center for the Kentlands and was incorporated as a code requirement in the New Urban code prepared by Gateway Planning Group for the Regional Employment Center in McKinney, Texas. This strategy recognizes fundamentally Professor Bohl's observation that great places seldom sprout from the ground fully formed.

Another consideration for public-private investment is structured parking. The reality of destination retail necessitates substantial parking regardless of the pedestrian-scale and functionality of a project. Whether in an urban or suburban design context, it is axiomatic that businesses rise and fall on the availability of convenient parking. Urbanity is often not possible if all the needed parking is relegated to surface parking for large projects. Accordingly, structured parking is often utilized to facilitate a more pedestrian scale. But structured parking is expensive, and unrealistic costs could force the charging of uncompetitive rents to retailers in order to make the project perform under the project's *pro forma.* This is especially true in more urban contexts where the cost of land is significantly higher.

Accordingly, some communities are investing in public parking garages in order to facilitate and encourage urbane retail environments. For example, the City of Minneapolis provided 60 million dollars in TIF financing to help finance parcel consolidation and infrastructure for a two-story Target-anchored mixed use project. The TIF financing helped pay for the 825-space underground parking facility that made the urban project possible. (Urban Land, February 2002)

If implemented correctly, a city's participation in structured parking operations themselves can be successful in the business sense, in addition to aiding the development of desired urban mixed use retail projects. According to Irene Van Sant of the Baltimore Economic Development Corporation, their city has been almost as successful from a business perspective in operating city parking facilities needed to alleviate the downtown parking deficit as are the private sector parking operations.

Regardless of whether a municipality chooses to help finance the cost of a structured facility, or operate one itself as a business, consideration should be given in certain locations and for certain projects to provide the necessary gap assistance for the investment in structured parking. This strategy can facilitate the urban design and functionality of a retail project or area, helping it achieve the attributes of an integrated place of living, working, shopping and playing.[10]

[10] It should be noted that not all mixed use urban retail centers would require public assistance to make the economics of structured parking work. Birkdale Village, for example, was able to employ a hidden deck design utilizing breezeway connections to the buildings that made the cost element of the structures acceptable for the projects pro forma.

Appendix B: Profiles of Selected Big Box Firms from Hoovers, Inc.

Wal-Mart

Wal-Mart is the world's number one retailer, with more than 4,800 stores, including some 1,475 discount stores, 1,750 combination discount and grocery stores (Wal-Mart Supercenters in the US and ASDA in the UK), and 540 warehouse stores (SAM'S CLUB). Nearly 75% of its stores are in the US, but Wal-Mart is expanding internationally; it is the number one retailer in Canada and Mexico. It owns nearly 38% of Japanese supermarket chain SEIYU. Wal-Mart also has operations in South America, Asia, and Europe. Founder Sam Walton's heirs own about 39% of Wal-Mart.

Wal-Mart is famous for its low prices and breadth of merchandise. The firm doesn't just compete in discount staples such as food and clothing -- it is a force in many other categories including electronics, health and beauty products, sporting goods, entertainment (CDs, DVDs, and videos), and toys. Its prescription drug sales make it North America's #3 pharmacy operator (behind Walgreen and CVS). Wal-Mart also sells products online.

Already the nation's largest seller of groceries through more than 1,450 Supercenters in 43 states (up from 441 Supercenters in 28 states five years ago), Wal-Mart would like to add California to the list. The retailer plans to open 40 Supercenters there over the next four years, but is meeting resistance from residents and local governments concerned about traffic and preserving open space. In Tampa, Florida, Wal-Mart is testing a slimmed-down version of its massive Supercenters -- the company's most productive format -- designed for urban areas. Overall, Wal-Mart plans to open as many as 240 supercenters by January 2005.

Wal-Mart holds a majority stake in Wal-Mart de México. Wal-Mart Puerto Rico recently bought 33 stores from the island's largest grocery chain, Supermercados Amigo. The company also has stores in Asia, Europe, and South America. Japan too is on Wal-Mart's shopping list. The company, which took a 6% stake in SEIYU in March 2002, has since increased its holding to nearly 38%. One of Japan's top retailers, SEIYU runs more than 400 stores, including supermarkets, shopping centers, and department stores. In China, where Wal-Mart has more than 30 stores, the company is investing $28 million to open three outlets in the northeastern province of Heilongjiang, and has formed a joint venture to open stores in Shanghai and other cities in eastern China. (Wal-Mart imports about $15 billion in goods annually from China.)

To fuel its global expansion, Wal-Mart plans to add 800,000 workers worldwide over the next five years. The retailer is aggressively expanding its supercenters while projecting only modest growth for its Neighborhood Markets grocery stores, which are less profitable.

The company stands accused by federal prosecutors of violating immigration laws and faces a grand jury investigation following midnight raids in October 2003 that uncovered hundreds of illegal immigrants -- employed by outside contractors -- cleaning its stores. Soon after, Wal-Mart became the target of a class-action suit saying it violated federal racketeering laws by conspiring with cleaning contractors to cheat immigrant janitors out of wages and the government out of workers' compensation, social security payments, and federal payroll taxes. An internal audit by the company in July 2000 uncovered extensive violations of child-labor laws

and state regulations requiring time for breaks and meals. Wal-Mart claims the audit, which is under court seal, is flawed and meaningless.

Sam's Club

Sam's Club accounts for nearly 15% of Wal-Mart's sales. As mentioned above, there are nearly 540 Sam's stores in 48 US states, plus another 75 or so stores in Brazil, Canada, China, Mexico, and Puerto Rico. The firm's 46 million-plus members -- many of them small-business owners -- pay an annual fee to shop there. The stores offer more than 4,000 discounted items, including bulk office supplies and foods, electronic goods, jewelry, clothes, insurance and travel services, and Member's Mark store-brand products. Most clubs sell fresh food and have bakeries.

Target

Formerly Dayton Hudson, Target Corporation operates about 1,550 stores in three formats: Target, a discount chain with more than 1,200 stores, including giant Super Target stores; 266 Mervyn's midrange department stores, found mainly in the west and south; and Marshall Field's upscale department stores in the upper Midwest.[11] Target and its cousins, including Super Target and Target Greatland, account for nearly 85% of Target Corporation's sales and have carved out a niche by offering more upscale, fashion-forward merchandise than rivals Wal-Mart and Kmart. Target Corporation also owns apparel supplier The Associated Merchandising Corp.

The company's namesake discount store division is expanding aggressively in the Northeast and Mid-Atlantic. It is expanding its Super Target format (about 120 outlets), a newer 174,000-sq.-ft. grocery/discount store concept that includes groceries under the Archer Farms brand. Other formats include Target Greatland (70% larger than regular Targets) and a growing online store called target.direct. Target is also testing dollar sections, called "The 1 Spot", in about 125 stores. The chain will also build two new import warehouses in a bid to increase direct sourcing. Up to 95 new Target stores are slated to open in 2004, including eight new Super Targets by mid-summer.

Target has distinguished itself from rival Wal-Mart Stores and grown to become the nation's number two discounter by employing a strategy that relies on exclusive private-label offerings from big name designers. Fashion designer Isaac Mizrahi joined the discounter's stable of in-house talent in mid-2003 offering a line of chic and affordable women's apparel and accessories. Other designers with exclusive lines at Target include Amy Coe (children's bedding and accessories), Liz Lange (maternity), Mossimo (junior fashions), and the architect Michael Graves (housewares).

Costco

Wal-Mart isn't the biggest in *every* business. Costco Wholesale (formerly Costco Companies) is the largest wholesale club operator in the US (ahead of Wal-Mart's SAM'S CLUB). The company operates about 430 membership warehouse stores serving 41 million cardholders in 36 US states and Puerto Rico, Canada, Japan, Mexico, South Korea, Taiwan, and the UK, primarily under the Costco Wholesale name. Stores offer discount prices on 3,700 to 4,500

products (many in bulk packaging), ranging from alcoholic beverages and appliances to fresh food, pharmaceuticals, and tires. Certain club memberships also offer products and services such as car and home insurance, mortgage and real estate services, and travel packages.

To shop at Costco customers must be members -- a policy the company believes reinforces customer loyalty and provides a steady source of fee revenue. Three types of annual memberships are available: Business ($45 each and $35 for each additional card), Gold Star ($45; for individuals), and Executive ($100; allows members to purchase products and services, including insurance, mortgage services, and long-distance phone service, at reduced rates). Costco's card membership renewal rate is 86%.

Facing competition from discounters, including Target, that don't charge a membership fee, as well as from rival SAM'S CLUB, Costco is expanding and retrofitting its warehouses to accommodate fresh food sections and other ancillary units, such as gas stations and optical departments. Costco's foray into grocery sales has been a success. Food and sundries accounted for about 60% of Costco's total sales in 2002, making it the third-largest seller of groceries in the US behind Wal-Mart Supercenters and Kroger. However, the company has shelved plans for Costco Fresh, a new gourmet grocery format it had planned to launch in the fall of 2003. Costco's is expanding its premium private-label Kirkland Signature line of some 330 items (about 15% of sales) to 500 products within five years. It also plans to grow its e-commerce business, Costco.com.

Despite intense competition in the crowded warehouse club market, the company plans to add about 25 new outlets in the US and Canada by the end of its 2004 fiscal year, including a second furniture warehouse called Costco Home. Through its joint venture with Mexico's Controladora Comercial Mexicana, Costco Mexico operates about 20 stores south of the border.

Home Depot

As the world's largest home improvement chain and second-largest retailer in the US after Wal-Mart, Home Depot operates more than 1,700 stores in the US, Canada, and Mexico. Home Depot targets the do-it-yourself and professional markets with a broad product assortment (about 40,000 to 50,000 items, including lumber, floor and wall coverings, plumbing, gardening supplies, tools, paint, and even appliances). The company also runs more than 50 EXPO Design Center stores (showrooms featuring bath, kitchen, and lighting products).

In a huge remodeling project of its own, Home Depot plans to fork over $3.7 billion in 2004 to modernize stores, as well as upgrade technology and build some 175 new stores. And to remain competitive amid expansion into its markets by rival Lowe's, Home Depot recently invested up to $500 million in new inventory, focusing on products such as rugs, appliances (for which the company has a market share of more than 6%), and bathroom hardware.

Home Depot stores, which average about 108,000 sq. ft., have increasingly been selling to professional builders and contractors. About 540 Home Depot stores offer the Pro program for such customers. And to further build up its base in that sector the company has opened five

[11] For purposes of this study, only the Target brand stores are included.

Home Depot Supply Stores in California, Arizona, Texas, and Colorado. The company's Home Depot Supply division has absorbed the Apex Supply, Maintenance Warehouse America, and HD Builder Solutions Group businesses. Home Depot is also acquiring White Cap Industries with plans to add its branches to Home Depot Supply.

In another field on the professional front, Home Depot operates more than 10 Landscape Supply stores. For professionals and do-it-yourselfers alike, Home Depot has been adding more tool rental centers. Additionally it's begun targeting the urban demographic through a smaller, more big-city friendly format -- stores 61,000 to 80,000 sq. ft. In the summer of 2004 Home Depot will open one such store in Midtown Manhattan, as well as a more ambitious 108,000 square-footer in the borough's Flatiron District.

Having nearly saturated the US market, however, Home Depot is also seeking to grow its business by adding services, such as carpet installation. This strategy is behind Home Depot's recent acquisition of roofing installer IPUSA and replacement windows and siding installer RMA Home Services.

Lowe's

The #2 US home improvement chain (after The Home Depot), Lowe's has more than 930 superstores in about 45 states. The company's stores sell more than 40,000 products for do-it-yourselfers and professionals for home improvement and repair projects, such as gardening products, home fashion items, lumber, millwork, plumbing and electrical supplies, and tools, as well as appliances (for which the company has a market share of 13%) and consumer electronics.

In the past, Lowe's concentrated on small and medium-sized markets, but that trend is changing. With plans to open about 140 stores in 2004 and some 150 in 2005, Lowe's is expanding in large metro areas (with populations of 500,000 or more). But the company is not forgetting its traditional customer base either. About half of the new stores Lowe's plans to open will be smaller stores in rural markets. Lowe's is also trying to attract more female customers, who, the company claims, call the shots on about 80% of home improvement decisions.

Some of the retailing fundamentals Lowe's has traditionally used to differentiate itself from Home Depot are more effective lighting, signage, and store design. In addition, the company has been increasing exclusive product arrangements with suppliers. Like Home Depot, Lowe's is putting more emphasis on services, such as carpet installation.

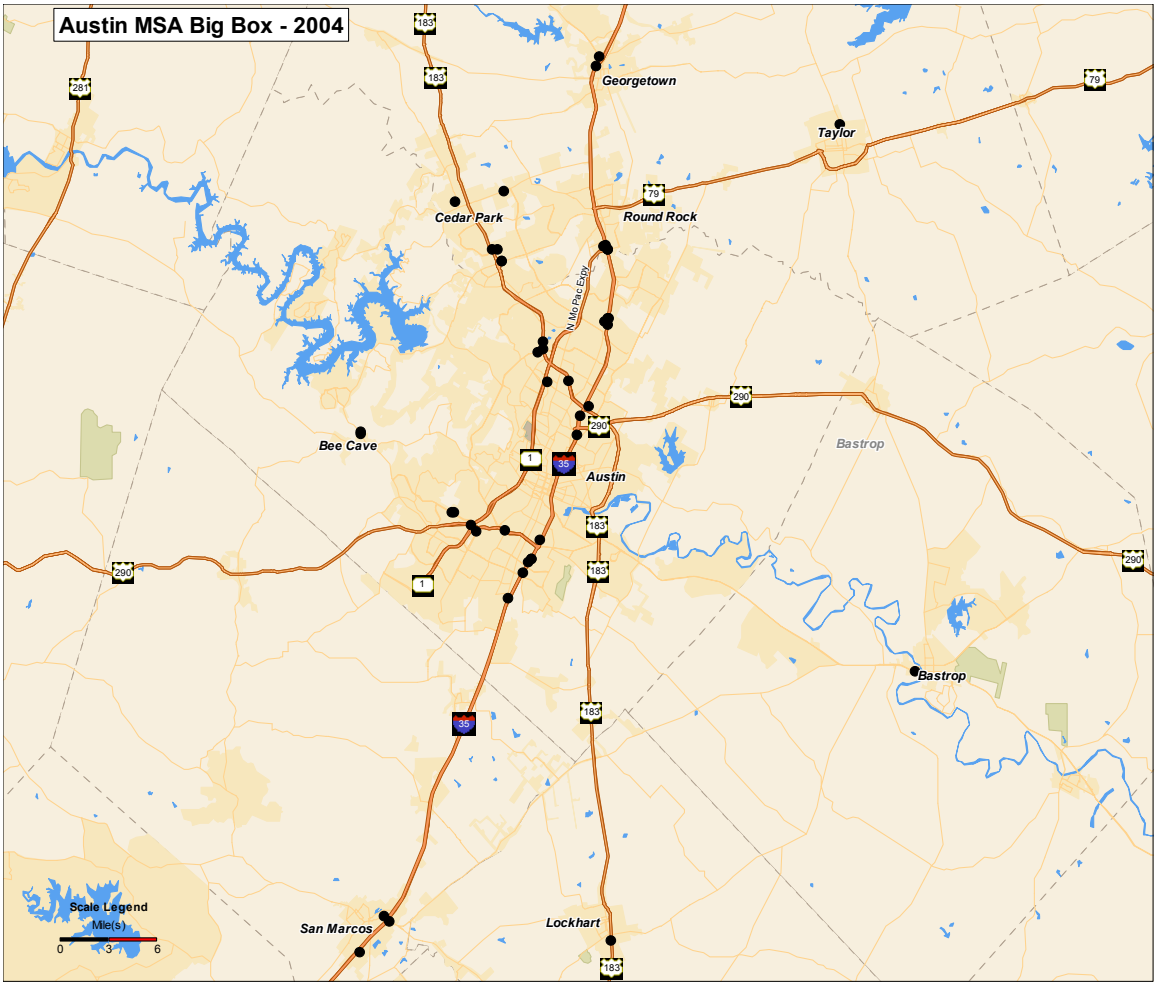
Appendix C: Market Basket Study Data

	Target	HEB	Home Depot	Wal-Mart	Lowes	Babies R Us	Sears	Fresh Plus	Best Buy	Online	Other	Other
Apparel												
Levis 505 jeans							$29.99			$39.99		
Hanes 3-pack Mens Boxer Briefs	$7.99 (2pk)			$8.83			$10.99					
Nike Air Trainer Cardio (Mens)										$79.99		
Oshkosh Denim Overalls (infant)	$14.99					$19.99				$15.90		
Playtex Cross Your Heart bra (pick one)	$15.99			$15.87								
Carter's short sleeved bodysuit	$7.99					$9.99	$14.99 (3pk)			$9.97		
Gerber 3 pack onesies	$8.79			$8.96		$8.99						
Wranglers Classic Fit Jeans				$19.98						$20.99	Sheplers $19.99	Academy $19.99
Appliances												
RCA 27" Stereo TV				$188.64					$189.99	$219.99	Circuit City $229.99	
RCA DVD/CD/MP3 Player				$69.84							Comp USA $79.99	
Canon 4 MP Powershot s400 digital camera				$397.43			$389.97				Wolf Camera $399.99	
Compaq Presario 6000nx Desktop PC				$501.34			$479.99		$479.99	$429.99	Frys $479.95	Comp USA $479.97
GE EnergyStar Super Plus 3.2 cu. Ft. capacity washer, white			$359		$257		$299.99		$331.99			
Food, etc.												
1 gallon 2% milk - Borden	$3.99	$3.99		$3.78				$2.29 (1/2)				
1 dozen large AA eggs	$1.87	$1.29		$1.38				$1.29				
12 pack Diet Coke	$2.33	$2.50		$3.48				$3.99				
Boneless, skinless chicken breast - per lb.	$3.39	$3.79		$2.96				$4.49				
Oscar Meyer All-Beef hot dogs - package of 8	$2.44	$2.50		$2.44				$3.59				
Kellogs Corn Flakes	$1.57	$1.98		$1.96				$3.69				

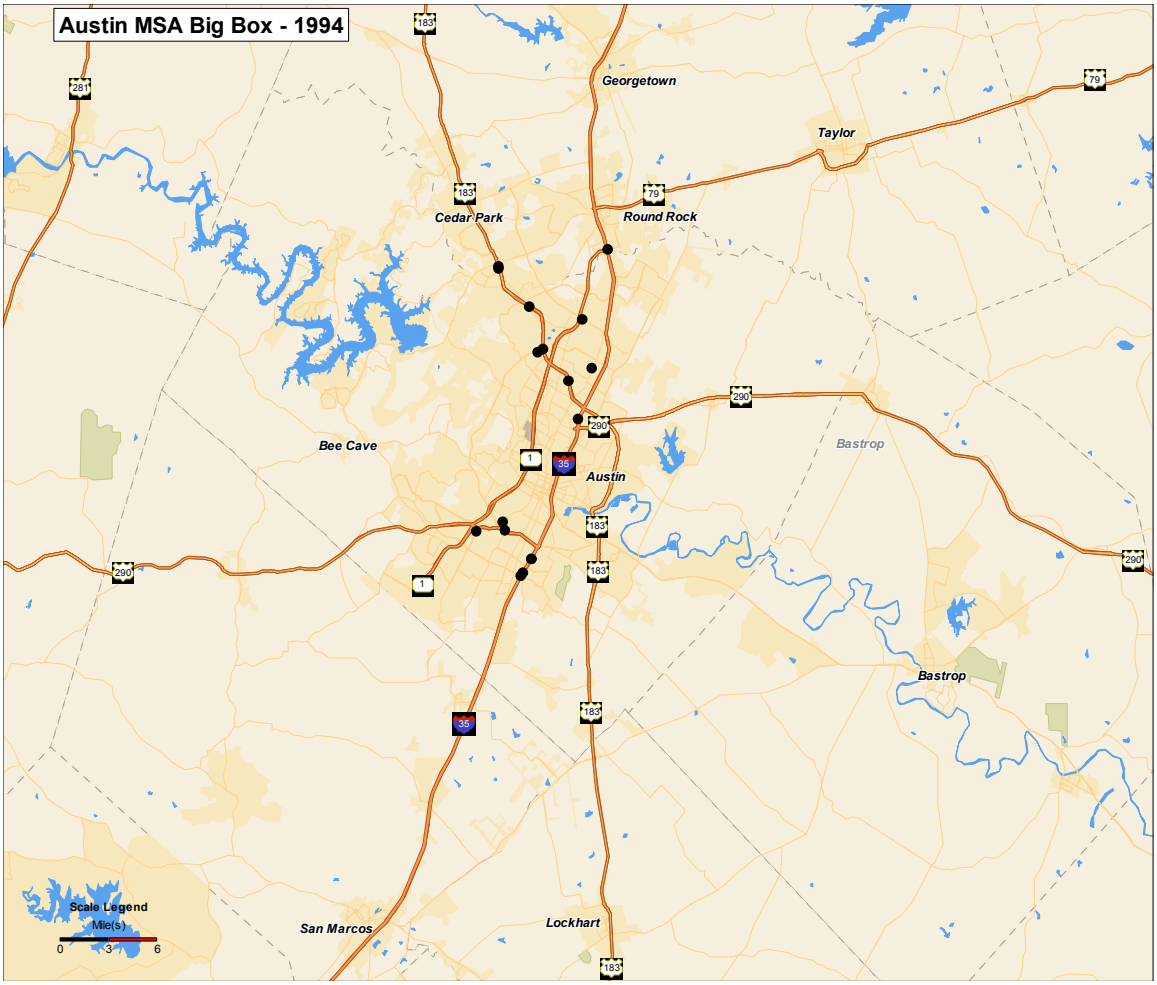
Minute Maid orange juice concentrate - 1 can	$0.99	$0.99		$0.98				$1.89				
Imperial sugar	$1.72	$1.49		$1.50				$1.69				
Jif Creamy peanut butter	$1.77	$1.99		$1.77				$1.99				
Lays potato chips	$2.04	$1.99		$2.00				$2.99				
1 dozen red roses	$12.99	$9.99									Freytags $27.50	
Baush & Lomb Saline Solution	$2.34	$2.37		$2.33				$3.49				
Crest toothpaste	$2.14	$2.07		$1.97				$3.29				
Pampers Custom-fit Cruisers size 3	$8.50	$9.57		$9.44		$14.49						
Enfamil with iron powedered formula 12.9 oz	$11.99			$11.67		$12.99						
Hardware/Home Improvement												
Black & Decker 14.4 volt Firestorm Cordless drill	$59.99	$89.97		$59.96	$79.97		$89.99			$89.99		
Toro 7" Cordless Electric yard trimmer	$59.99		49.99 (8")									
Weber Smokey Joe Grill	$27.79	$27.83		$27.70			$29.99			$24.87	Breed & Co. $35.89	
Poulan Weed Eater 7.5 amp electric leaf blower				$26.76							Breed & Co. $49.89	
Black & Decker 18" 12 amp Lawn Hog Electric mulching mower		$179.00		$172.00	$179.00		$209.99					
Housewares												
George Foreman Lean Mean Contact Grill	$29.99			$29.63			$29.99			$24.95		
G.E. 1.1 cu. Ft. Microwave, Stainless Steel				$78.72			$119.99			$79.00		
Waring kitchen blender, white	$79.99			$57.43							Breed & Co. $134.00	
Braun FlavorSelect 12-cup coffeemaker, black				$58.76							Breed & Co. $29.99	
Hoover Windtunnel Upright vacuum (with bag)	$129.99			$128.88	$139.97		$159.99		$129.99			
Chicago Cutlery 8-piece Centurion knife set				$49.92						$84.95		
Jewelry												
Mens Timex Chronograph Watch	$54.99			$53.72			$39.95					
1 carat round diamond solitaire set in 14kt yellow gold				$2,988.00			$3,999.88				Benolds $3,445.00	

Mont Blanc Generations blue ballpoint				$94.72						$94.99	Colorado Pen Co. $150.00	
Sporting Goods/Toys												
45th Anniversary Barbie by Bob Mackey				$64.77						$44.98	Toys R Us $69.99	
Fisher-Price Power Touch Reading System	$39.89			$34.88			$49.99				Circuit City $29.99	KB Toys 49.99
Spalding NBA Infusion Fastbreak Basketball	$17.99			$14.22							Rooster Andrews $24.95	
Schwinn Sidewinder 2.6 FS bike				$126.72								
Coleman 54 Quart Stainless Steel cooler	$99.99			$94.84							REI $99.95	
Legos Creator Bulk Tub	$9.99	$8.97		$9.97								
Play-Doh 4 pack	$1.89			$1.42			$2.99					
Lawn and Garden												
Miracle Grow 32 Quart Potting soil	$5.99		$4.96	$4.44	$4.97							
4 inch pots Mexican Heather			$3.97		$3.95							
Ortho Bug B Gone Insect Killer (24oz)	$4.94		$4.97	$4.97	$4.98							

Appendix D: Map of Big Box Stores in Austin MSA in 2004



Map of Big Box Stores in Austin MSA in 1994



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