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The Benefits of Doing Business Locally

People across the country decry losing the sense of community in their towns and cities. And more national chains displace locally owned businesses throughout the country each year. Most consider this trend symptomatic of our loss of community orientation, but could it be a cause as well? What are the impacts of this trend on our economic well being?

It seems obvious that we do business where we perceive we receive the best value for our time and money. Perceptions, however, are not always accurate when confronted with the omnipresent ads of corporate chains every day, while as community members may be under-informed about the values independent businesses provide, both individually and collectively. With better information, we might more often choose to patronize local businesses because doing so benefits our communities and ourselves.

The disappearance of local businesses leaves a social and economic void that is palpable and real--even when it is unmeasured. The quality of life of a community changes in ways that macroeconomics is slow to measure or ignores completely. The giant chains often win a town's consent to build new stores with promises of growth and tax revenues. But when communities such as St Albans, Vermont & New Paltz, New York performed thorough analyses, they concluded proposed new "big box" retailers would create economic costs exceeding benefits, (loss of existing jobs and increased infrastructure demands being the top two) and rejected them on those grounds. They are among more than 120 U.S. communities to reject new chain retailers in recent years.

Such scrutiny inevitably shows that most income of new chains comes directly from established businesses. For example, an extensive study of new Wal-Marts by Iowa State University found 84% of sales simply shifted dollars away from existing local merchants.

Economic Value of Independent Businesses

It's time to consider the real costs to a community that loses its local business base. Independent local businesses employ a wide array of supporting services. They hire architects, designers, cabinet shops, sign makers, and contractors for construction. Opportunities grow for local accountants, insurance brokers, computer consultants, attorneys, advertising agencies, and others to help run it. Local retailers and distributors also carry a higher percentage of locally made goods than the chains, creating more jobs for local producers. In contrast, a new chain store typically puts in place a clone of other units, eliminates the need for local planning, and uses a minimum of local goods and services. In a company-owned store, the profits promptly are exported to corporate headquarters. These factors lead to dollars spent at local independent merchants to create a *multiplier effect* in the local economy--up to five times that of a chain outlet.

Small manufacturers also are affected since they rely on local retailers to give their new products a chance. Local retailers are freer to test market the goods of a new manufacturer, or a product that is not part of a national sales plan. Therefore, small manufacturers and a wide variety of service industries have a clear stake in the nationwide health of local retailers.

Local officials nationwide often fall for the seductions and political appeal of luring new national chains. They often look at promises of jobs and tax revenues, but fail to consider the greater losses that occur when the local business base is undermined. For example, the chains may boast of creating up to 300 new jobs for a new big box store, but they displace more than one job for each (mostly part-time and lower-wage) job created.

In the larger picture, profits of the 200 largest corporations grew 362.4 percent between 1983 and 1999 (the equivalent of

27.5% of the World Gross Domestic Product), yet those corporations now are net disemployers, firing more people than they hire despite record profits. That our economy is still in decent health is testimony to the employment generated by small business during this time. We need to recognize the impact of our dollars and support institutions that benefit our common interests.

Ensuring Choice and Diversity

Retailers sift through competing goods and services to find those that appeal to their customers. Even though a single local shop may have a smaller selection than a big chain outlet, a multiplicity of independent retailers creates great diversity. For example, when 3,000 or so independent book and music shops serve their local customers' tastes and each owner's preferences, the cumulative effect is demand for a wide variety of ideas and music. This makes accessible controversial books or music from new artists with the expectation that there will be a market somewhere within a variety of stores. As fewer giant corporations dominate both production and sales, our options – determined by a powerful few - will be greatly reduced. Our freedom of choice is imperiled when a few buyers from national chains choose what reaches consumers. This may be only moderately disturbing for most goods, but truly frightening when you consider the impact on our choice of news sources, books, music, and other modes of expression.

Maintaining Community Character

When asked to name our favorite restaurant, cafe, or shop, people are inclined to cite a unique local business--just look at the results in any community's "Best of_____" polls as proof. We embrace the idea of distinctive businesses with local character, but often forget their survival depends on our patronage. It is easy to get so consumed by bargain-hunting that we forget how much of our lives we spend eating out, shopping, and doing other business. We owe it to ourselves to consider the quality of our experience and ask if we benefit when we choose a community-based business.

Local owners, often having invested much of their life savings in their businesses, have a natural interest in the long-term health of the community. Community-based businesses are essential to charitable endeavors; their owners frequently serve on local boards and support a variety of causes. Yes, there are some corporate chains that give back to towns in which they do business, and not all local businesses are models to follow. However, the overall impacts are clear: local businesses play a vital role in our community that corporate chains rarely do, while chains often even undermine community interests.

For long-term progress, a conceptual change also is necessary. Each time we spend a dollar, we should consider the full value of our choices and remember that each dollar is a vote for the future direction of our community. The votes we cast with our dollars every day influence our community at least as much as those on elections days.

Editorial by Jeff Milchen,
BIBA co-founder © 1997

The Boulder Independent Business Alliance is a non-profit organization representing independent businesses in Boulder County. Call (720) 565-3854 or email biba@boulder-iba.org to learn more.

To reach Jeff Milchen contact Jeff@amiba.net. Jeff is the co-founder of BIBA as well as the newly formed American Independent Business Alliance(AMIBA) which will assist communities trying to set up their own IBA's.

BIBA consults on a per hour basis by phone on Thursday's regarding the 'Boulder model of independent business alliances'.