

Locally Owned vs. Chain: The Local Premium



Big-box stores function like colonizers: they siphon dollars out of the local economy. Meanwhile, every time you make a purchase at a locally owned store, it sends a ripple of economic benefits through the community.



Trading independent retailers for big-box chains weakens the local economy. This is because local stores recycle a much larger share of their sales revenue back into the local economy, while chains siphon most of the dollars spent at their stores out of the community, funneling them back to corporate headquarters or to distant suppliers.

The added economic benefit of local stores has been dubbed the "local premium." Several studies have quantified it.

One was conducted in Chicago's Andersonville neighborhood by the firm Civic Economics. The study analyzed ten locally owned restaurants, retail stores, and service providers and compared them with ten national chains competing in the same categories. The study found that spending \$100 at one of the neighborhood's independent businesses created \$68 in additional local economic activity, while spending \$100 at a chain produced only \$43 worth of local impact. The difference was due to four factors:

Local Payroll—The locally owned businesses spent a larger share of their revenue on local labor (29 vs. 23 percent), because they carried out all management functions on-site, rather than at corporate headquarters.

Procurement—The local retailers spent more than twice as much buying goods and services from other local businesses. They banked locally; hired local accountants, attorneys, designers, and other professionals; advertised in local media; and sourced inventory from local firms.

Profits—Because their owners live in the area, a larger portion of the local retailers' profits stayed within the local economy.

Charitable giving—The local retailers donated more on average to local charities

and community organizations than the chains did.

Added dollars circulating in the local economy translate into a larger number and wider variety of available jobs.

The implications of the local premium for how cities approach economic development are significant. Not only do big-box stores eliminate more retail jobs than they create (see our fact-sheet, *Impact of Big-Box Stores on Existing Jobs*), but they reduce local economic activity and job creation in other sectors. Conversely, expanding local businesses generates substantially greater economic benefits.

Local vs. Chain
Local Economic Activity
Generated by \$100 in Spending

