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Room for More: A study of Minnesota retail and service businesses that open or expand after the opening of Walmart Supercenters

Authored by Bruce W. Schwartau

PROGRAM SPONSORS: Presented in partnership with the EDA Center at the University of Minnesota Crookston

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October 1, 2014

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STUDY SUMMARY

The University of Minnesota Extension Center for Community Vitality recently studied the retail market of thirteen Greater Minnesota cities where a Walmart Supercenter opened between 2000 and 2008. This report explores which types of retail and consumer services businesses have coexisted with the retail giant, as identified by openings and expansions and retail sales tax records. Interviews with local economic development professionals revealed the following:

- A wide variety of business types coexist with a supercenter. The 13 cities reported that more than 115 business types opened or expanded since the supercenter opened. (NAICS 4-digit level)
- Of the 779 total retail and consumer services businesses reported by the 13 cities to have opened or expanded, more than 17% (135) were eating or drinking establishments, and of this percentage, more than half were limited-service eating places.
- Business types providing personal services such as hair and nail care, spa treatments, and pet care comprised the second largest group of new or expanded businesses after a Walmart Supercenter opened.
- Gift shops, office supply stores, second hand stores, antique shops, smoke shops, and pet supply stores made up the third largest category of new or expanded businesses after a Walmart Supercenter opened.

The location of the study cities and the year the Walmart Supercenter opened.

Using Minnesota Department of Revenue statistics to compare the cities in this study to other Greater Minnesota cities, differences emerged. They included the following:

- There was greater growth in the number of eating and drinking establishments and in the total taxable sales from eating and drinking establishments in supercenter cities than there were in other Greater Minnesota cities on average.
- Although the Minnesota retail economy experienced a downturn between 2004 and 2011, based on state data for taxable retail sales, most cities in the study had total retail business taxable sales declines that were less severe than the Greater Minnesota average. Five cities even grew their taxable sales.
- Walmart Supercenters are classified in the NAICS retail business category "general merchandise." The study was able to examine six cities where the general merchandise sales could be segregated from the sales of other retail businesses. The study found total sales in other retail categories were more favorable in four of the six cities than the Greater Minnesota average.
- Food and beverage retail stores in the Walmart Superstore cities experienced a greater drop in sales compared to the Greater Minnesota average.

STUDY PURPOSE

The mention of "Walmart" likely evokes an emotional response among people. Contemporary media has often focused on Walmart's reported negative effects on wages, poverty, and small businesses, as well as the authentic culture of a community. Nonetheless, the store remains the largest retailer in both the U.S. and the world. Walmart's 2013 U.S. sales of $334 billion far surpassed second place Kroger's $94 billion.

The first Walmart Supercenter, with a larger footprint that includes space for groceries, opened in Greater Minnesota in 2000. The University of Minnesota Extension community economics educators conducted Small Store Success Strategies workshops in several communities to help prepare existing retailers to coexist with the new competitor. Workshop information was developed by researching the business practices of 27 retailers considered successful by chamber of commerce directors in three Minnesota cities that already had Walmart stores. Customer surveys also provided feedback on which customer service and business practices were more important to them.

This study does not intend to address the broad question of whether a supercenter is "good for communities"; rather, it is designed to understand retail and service business successes in 13 Greater Minnesota cities after the arrival of a Walmart Supercenter. The study also considers a snapshot in time of other businesses currently open in 2014 that either launched or expanded since a supercenter opened. It addresses the questions of what types of businesses have opened or expanded since the arrival of a Walmart Supercenter, as well as how the presence of Walmart affected the local retail and service business climate. The findings here offer guidance for communities and entrepreneurs interested in new retail businesses and business expansions.

METHODOLOGY

Extension educators conducted interviews with leaders of chambers of commerce, economic development organizations, Main Street programs, and city government to gain information about existing stores within the study's 13 cities. Community leaders reviewed ribbon cutting records, newsletters, and other sources to recall retail developments. The 13 cities included in the study and the respective dates of their supercenter opening are as follows: Austin (2008), Bemidji (2002), Crookston (2006), Detroit Lakes (2001), Elk River (2005), Grand Rapids (2008), Hutchinson (2002), Marshall (2005), Monticello (2005), Red Wing (2003), Thief River Falls (2005), Winona (2004), and Worthington (2000). These 13 cities were selected to give the study geographic diversity and to examine approximately 50% of the Greater Minnesota cities where a Walmart Supercenter opened.

Community leaders identified current businesses that either opened or expanded after the arrival of a Walmart Supercenter. For the purpose of this study, expansions included such things as significant remodeling, enlarging, or relocation of the business. Businesses that opened and subsequently closed were not counted.

Business names and type were recorded at the NAICS 4-digit level from information provided by local leaders. Information about taxable sales and total number of businesses in each city was retrieved from the Minnesota Department of Revenue.

What is NAICS?

The North American Industry Classification System (NAICS) is the standard used by federal agencies to classify business types. NAICS at the 2-digit level indicates what overarching category a business is in, such as construction, manufacturing, or retail. When sorted by 3-digits, business types are more precise, for example a clothing retailer rather than an electronics store. At the 4-digit level, distinguishes between clothing and shoe stores.

44-45 Retail Trade
443 Electronics & Appliances
448 Clothing and Accessories
4481 Clothing Store
4482 Shoe Store

48-81 Service Businesses
62 Health Care/Social Assistance
72 Accommodations/Food Service
722 Food Services/Drinking Places
7221 Full-Service Restaurants
7222 Limited Service Eating Places

CAUTIONS AND CONSIDERATIONS

Information about business openings and expansions was collected through recollections of local leaders. This method likely misses small businesses that may operate without a store front; therefore, this study is concerned with businesses that have an easily identifiable location.

Data from the Minnesota Department of Revenue is released at the NAICS 3-digit level, most recently for the year 2012. There were twelve retail business categories: furniture, electronics, building materials, general merchandise, and clothing stores, among others. If a minimum of four businesses were not listed in a retail category, then that particular information was included as a miscellaneous store retailer in order to ensure business privacy. Because Crookston and Monticello did not have four businesses in the general merchandise category (which includes Walmart), certain analyses measuring the influence on other retail taxable sales could not use the data from these cities.

When referencing Minnesota Department of Revenue data, there were instances when city taxable sales indicated a large one-year drop in a category and then completely recovered the following year. Late tax filing, data suppression, or inadvertent geocoding errors may have caused such sales fluctuations to be reflected in data though they did not actually occur. These possible discrepancies will be noted on related graphs in this study.

Two changes in how the Minnesota Department of Revenue records information prevented the inclusion of some cities in the financial analysis. Prior to 2003, sales information released for each city included businesses located in the city zip code but outside city limits. From 2003 on, businesses were only included if they were within the city limits. Also, prior to 2003, businesses were not classified using NAICS business types but instead by Standard Industrial Classification (SIC). Only eight retail categories existed in SIC rather than twelve as in NAICS. These two factors preclude comparisons that cross the year 2003.

It is important to remember when reviewing this report that business flows may not occur *because* of the supercenter opening but possibly happened *despite* the supercenter opening. In many cases, Walmart might have chosen a particular city because the organization believed growth would occur there. Each of the thirteen cities was in the trade center hierarchy[1] Level 2 or Level 3, meaning they were already locations where people in Greater Minnesota shopped. Hierarchy Level 3 cities are often county seats that offer a full range of businesses, and Level 2 cities are larger cities with more industries but less than 50% of the $1 billion retail and service sales of hierarchy Level 1 cities (Duluth, Mankato, Rochester, and St. Cloud).

WHAT STORES OPENED OR EXPANDED AFTER THE SUPERCENTER?

The 13 cities included in this study listed 779 current businesses that either expanded or opened since the arrival of a Walmart Supercenter. Figure 1 illustrates the 21 NAICS 3-digit level business types that had more than ten openings or expansions and represent 89% of the 779 businesses. Note that the top two business types are providers of consumer services rather than retail. As such, they complement rather than compete with a Walmart Supercenter. The top three business types are explored in more depth using NAICS 4-digit level data in Figures 2, 3, and 4.

[1] W. Casey, Update on the Upper Midwest's Trade Centers (Minneapolis: Center for Urban and Regional Affairs, 1999). In that study, Crookston, Monticello, and Thief River Falls were trade center hierarchy Level 3; the remaining 11 cities were Level 2.

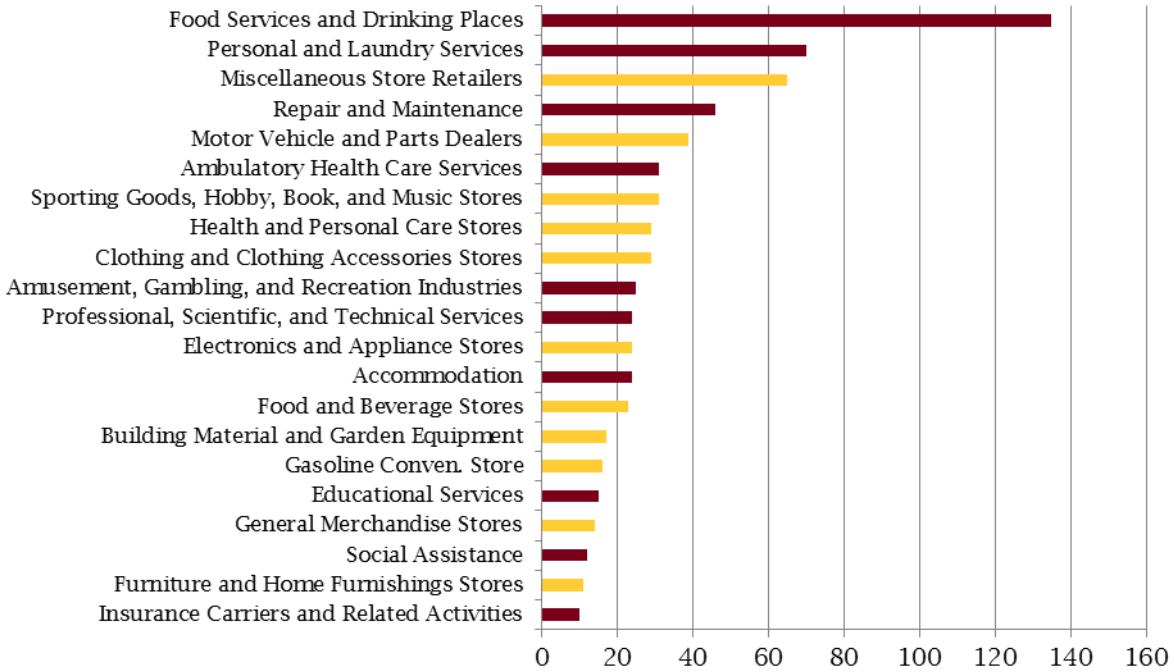

Figure 1. Number of stores in selected categories.
Note: This is the number of 2014 businesses that opened or expanded after a supercenter opened in 13 Minnesota cities in selected retail and service categories. This graph is limited to those sectors with at least 10 openings or expansions. Maroon bars are service type businesses. Gold bars are retail type businesses.

The business categories with the greatest number of openings or expansion were the 135 establishments that served food and drink. Figure 2 illustrates that within this category, limited-service eating places had the greatest number of openings or expansions. Limited-service establishments are places that collect money before you eat. A large majority of limited-service eateries are name brand fast food and coffee franchises.

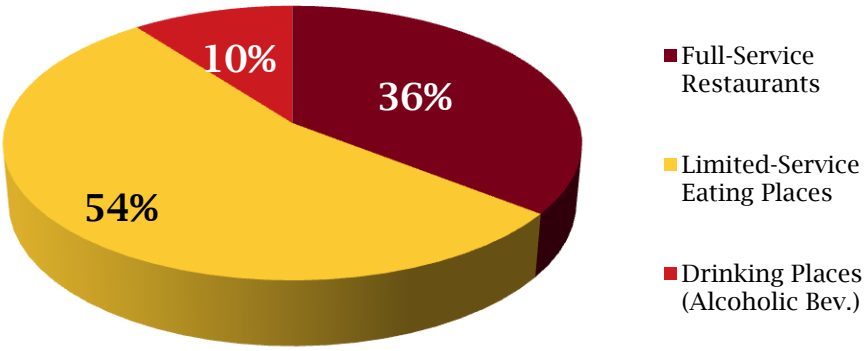

Figure 2. Eating/drinking establishments opening or expanding after supercenter opening, NAICS 4-digit level

The second largest business categories were those providing personal and laundry services. These 93 businesses were much more likely to be owned by local entrepreneurs without a franchise. Hair care businesses were the largest in this category with 46 percent of the listed businesses, as seen in Figure 3.

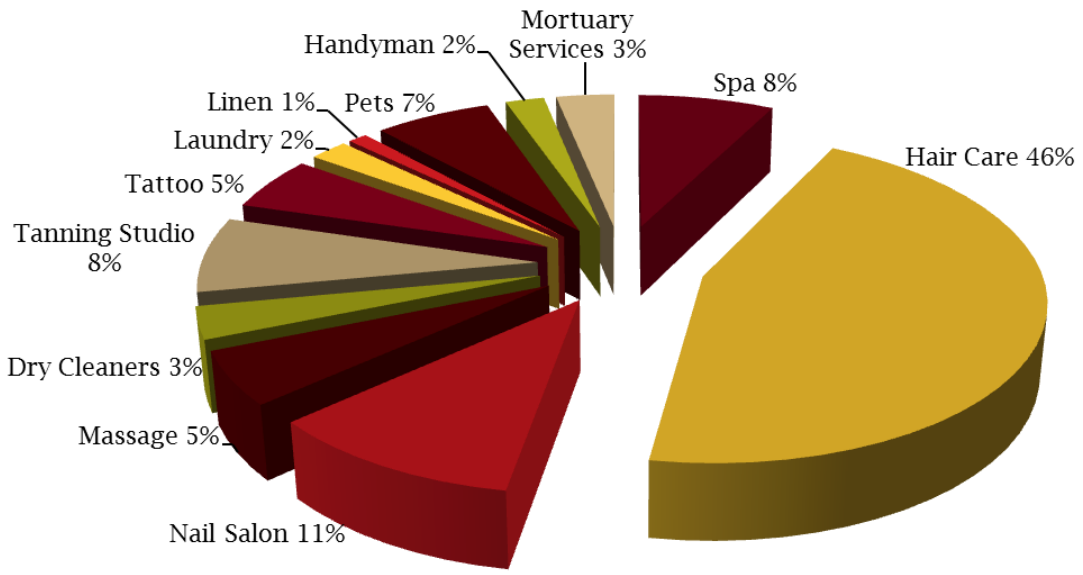

Figure 3. Personal and laundry services opening or expanding after a supercenter opened at the NAICS 4-digit level.

The 65 miscellaneous retail businesses that opened or expanded after the supercenter opened are split into three NAICS 4-digit level categories, as seen in Figure 4. The most frequently found business type is listed first in each section of the pie chart, but none were overly dominant within their category. Products sold in these stores, such as antiques or business supplies, are not found in large quantities in a supercenter. Many second hand stores have an online presence and advertise that they are selective in their merchandise. Office Max was the only business name that was found in multiple cities in its NAICS category. Goodwill and Salvation Army were among the charity-run retailers found in multiple cities.

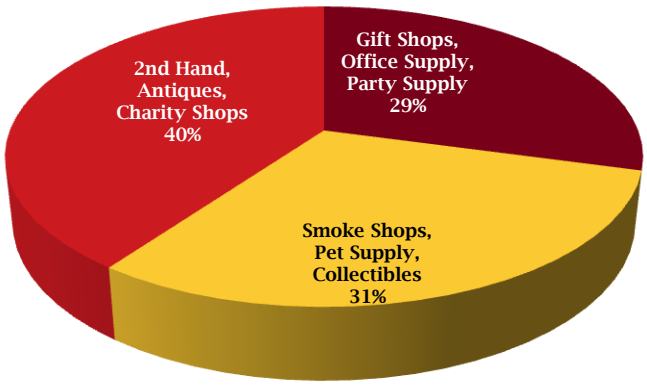

Figure 4. Miscellaneous retail businesses opening or expanding after supercenter opening, NAICS 4-digit level.

ARE THERE MEASURABLE DIFFERENCES?

The previous section illustrated that the largest number of new and expanding businesses after a supercenter opened were eating and drinking establishments. Using Minnesota Department of Revenue sales tax information, it appears these additional businesses in many of the studied cities opened at an increased rate or created more sales than the Greater Minnesota average. Prior to 2003, the Department of Revenue used Standard Industrial Classification (SIC) instead of NAICS to report the number of businesses and taxable sales. Therefore, most of these comparisons will be made using city data where supercenters opened after 2004.

Eating and Drinking Establishments

Four cities in Greater Minnesota had a supercenter that opened in 2005. Figure 5 illustrates that these cities experienced an increase of 29% more eating and drinking establishments by 2012. In comparison, Greater Minnesota experienced only 2% percent more during the same time period.

Figure 6 indicates that the city with the largest number of eating and drinking establishments before a supercenter opened had the least amount of growth in these establishments, with the addition of only one more in 2012 than it had previously in 2004. Of note, Elk River and Marshall also had a standard Walmart discount store prior to the opening of the supercenters.

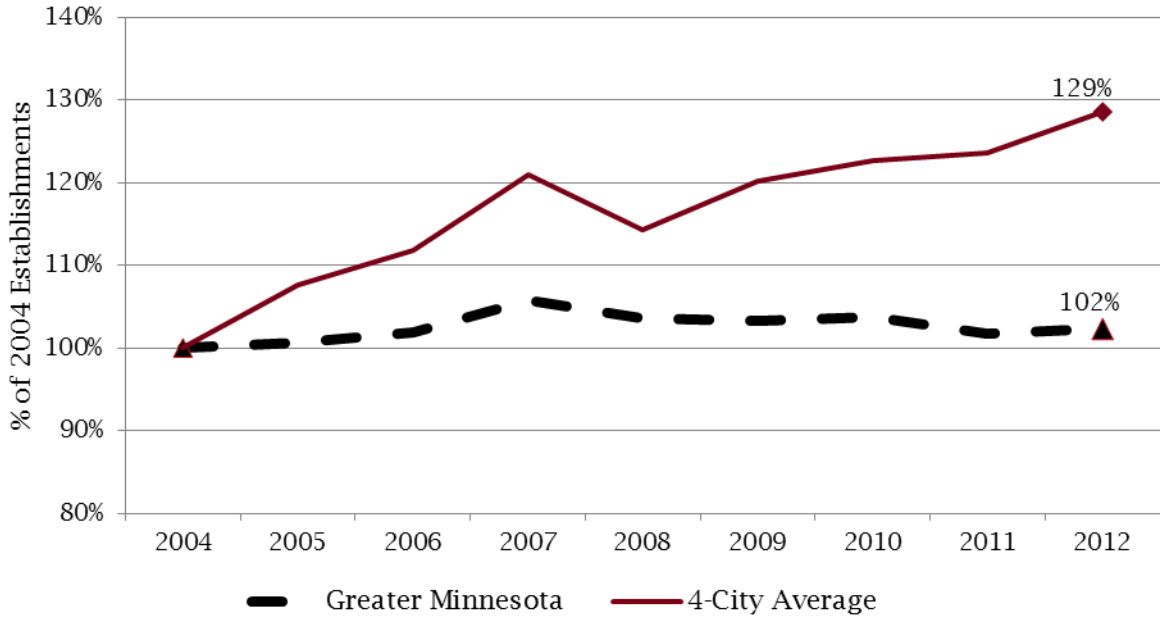

Figure 5. Change in the number of eating and drinking establishments in the four cities with supercenters opened in 2005 (Data Source: Minnesota Department of Revenue)
Note: Base year is 2004.

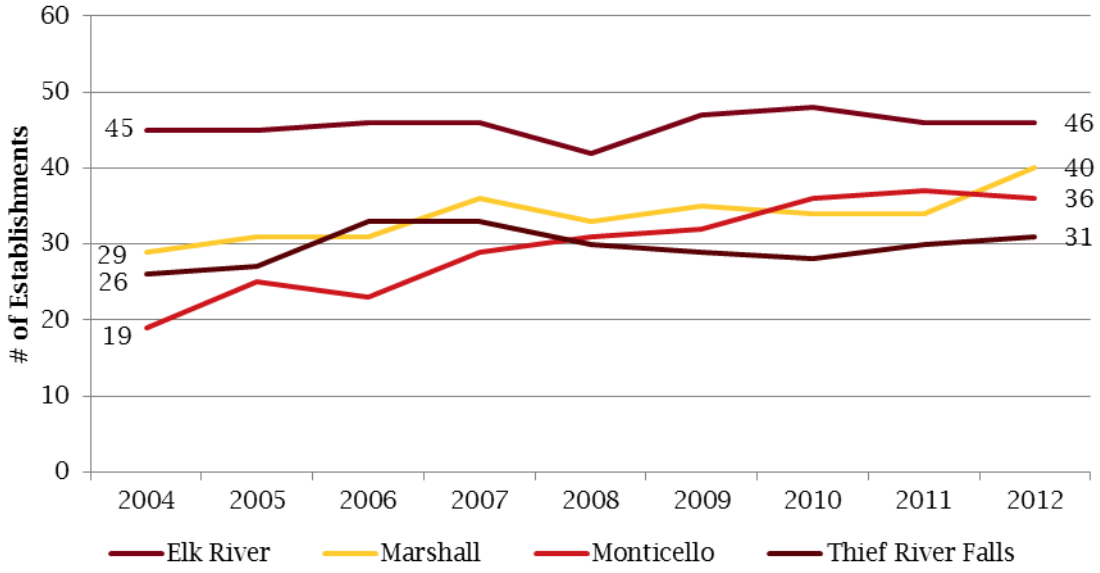

Figure 6. Number of eating and drinking establishments in cities with a supercenter opening in 2005 (Data Source: Minnesota Department of Revenue)

Taxable sales from these eating and drinking establishments also increased at a faster rate than the average for Greater Minnesota, as indicated in Figure 7. Adjusting for inflation, a 34% growth rate occurred from the year before the supercenter opening to 2012. Greater Minnesota averaged only six percent more during that same period. Figure 8 shows how each city performed. Marshall and Elk River did not have as much growth in eating and drinking taxable sales but they both had traditional Walmart discount stores prior to the supercenter.

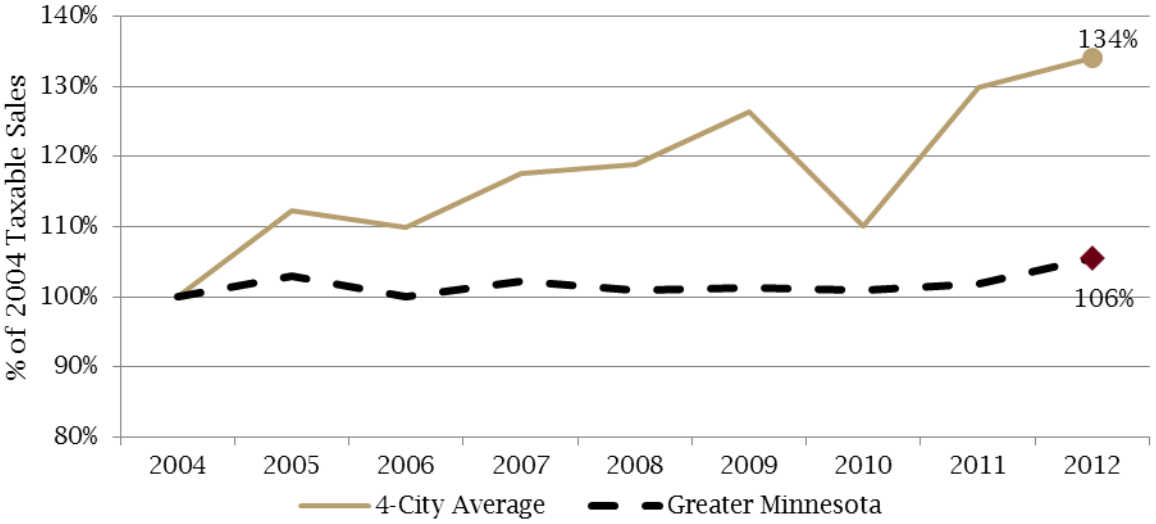

Figure 7. Change in eating and drinking taxable sales, cities with a supercenter opening in 2005. Sales amounts adjusted for inflation. (Data Source: Minnesota Department of Revenue)

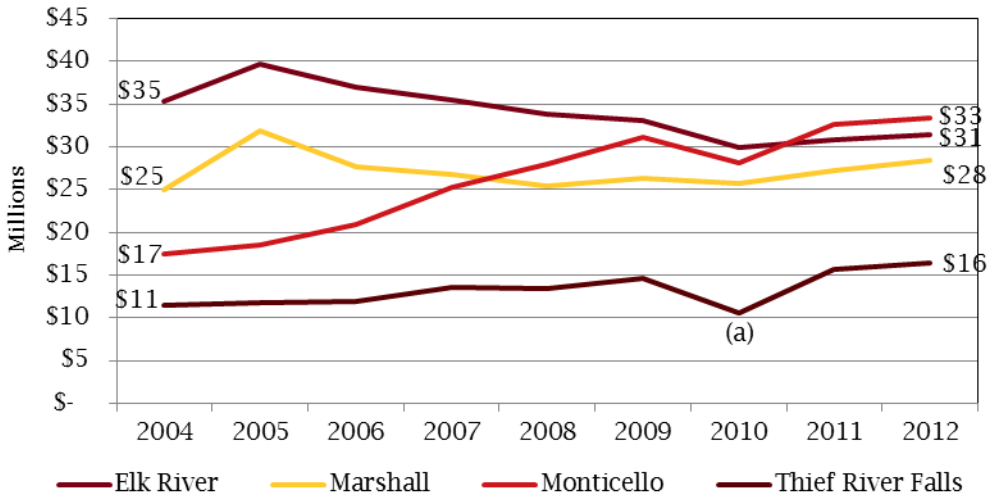

Figure 8. Eating and Drinking Taxable Sales, Cities with a 2005 Supercenter Opening. Sales amounts adjusted for inflation. (Data Source: Minnesota Department of Revenue)
Note: (a) According to MN Dept. of Revenue data, county sales in eating and drinking did not match the Thief River Falls decline in 2010. This suggests that geocoding errors placed some city businesses outside the border of Thief River Falls. It would be reasonable to estimate sales of $15 million in 2010.

Retail Business Taxable Sales

It is logical to expect that when the world's largest retailer opens a store in a city, *service* businesses flourish (NAICS 48-81), and the total dollars of *retail* sales would also increase (NAICS 44-45). However, the period of time examined includes a downturn that the Minnesota retail economy experienced from 2004 to about 2011 (Figure 9). Adjusting for inflation, Greater Minnesota's taxable retail sales dropped 14.8%, during that timeframe. The five cities that had supercenters open before 2004 (Detroit Lakes, Hutchinson, Red Wing, Bemidji, and Worthington) experienced a drop of only 7.7% in that same time frame. There were variations in performance among the studied cities because Red Wing actually increased sales in that time period and Hutchinson had a greater decrease than the Greater Minnesota average.

In Figure 10 we observe that taxable retail sales changed in the eight cities where a supercenter opened after 2003. Each city is tracked from the year before the supercenter opened to 2012. Many of these cities had their lowest sales in 2010 and 2011, the years right after the official end to the 2007-2009 recession.

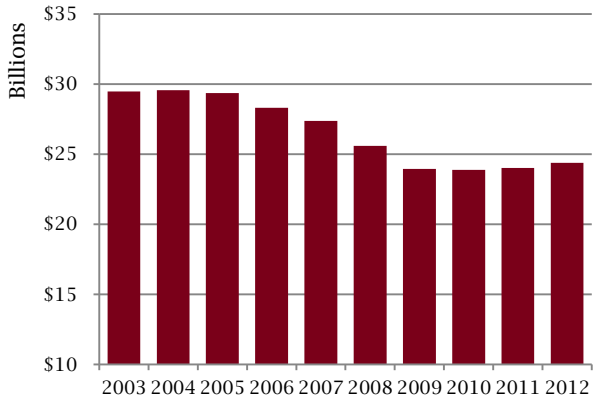

Figure 9. Minnesota taxable retail sales, NAICS 44-45 (Data Source: Minnesota Department of Revenue)
Note: Adjusting for inflation, the taxable sales in retail business types decreased every year after 2004 until a 0.6% increase in 2011.

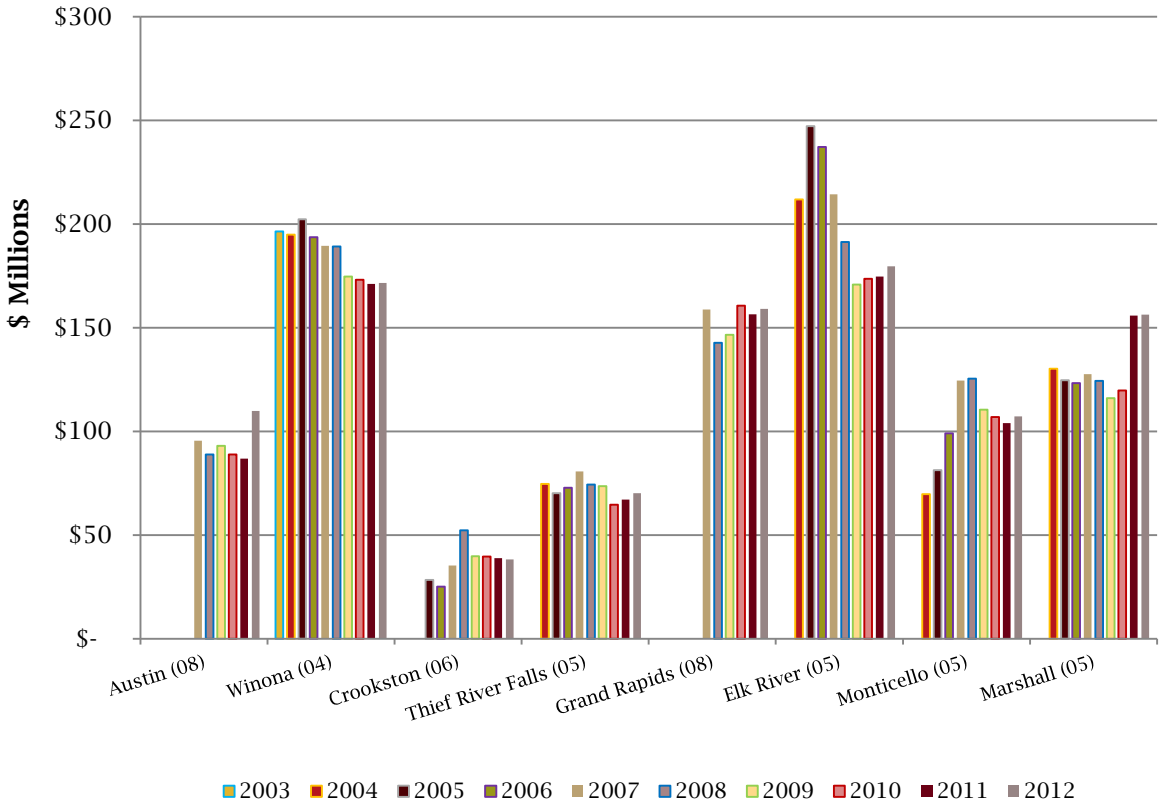

Figure 10. Taxable retail sales including general merchandise, from year prior to supercenter opening through 2012, adjusted for inflation (Data Source: Minnesota Department of Revenue)
Note: Cities with a supercenter opening after 2003. Number behind the city name indicates the year the supercenter opened.

The eight cities in Figure 10 had superstores openings in various years. Note that none of these cities followed the same pattern illustrated in Figure 9, with six consecutive years of sales declines after 2004. The retail downturn is evident in most of the study cities, although the effects are somewhat delayed. Some of the largest retail market changes are shown in Elk River and Monticello. Closer examination of the taxable sales found that Elk River had over a 30% decline of building material sales between 2005 and 2009. Monticello, a market area competitor to Elk River, added a big box building materials competitor and gained many of the sales Elk River lost.

Figure 9 illustrates a slow Minnesota retail sales recovery. In Figure 11 we compare total taxable retail sales in each city to the Greater Minnesota average from the year before the supercenter opened until 2012. Austin, Marshall, Crookston, and Monticello had increasing retail sales; Grand Rapids remained steady; Thief River Falls decreased at a level that was better than the Greater Minnesota average; and Elk River and Winona were very close to the Greater Minnesota average.

To determine if the Walmart Supercenter was the driving force behind a city's retail growth or if the rest of the retail sector was also growing, the study looked at retail sales excluding NAICS 452 (general merchandise), the category which contains the sales by Walmart stores.

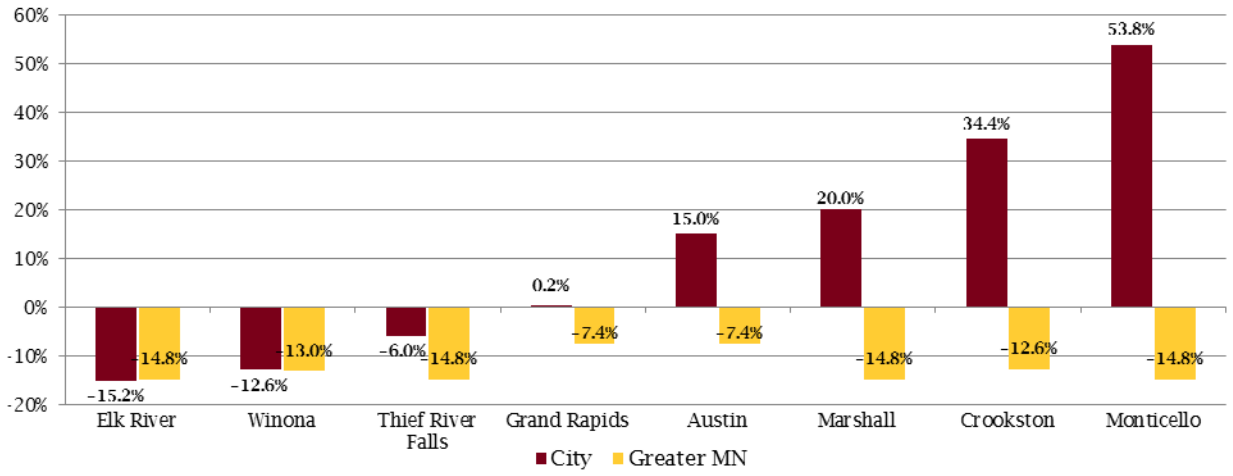

Figure 11. Change in retail taxable sales from year before a supercenter opened and 2012 (Data Source: Minnesota Department of Revenue)
Note: Sales in general merchandise category are included. Adjusted for Inflation

Figure 12 examines many of the same cities as Figure 11, but Crookston and Monticello were removed because they did not have enough general merchandise businesses to have reportable sales numbers. Any NAICS retail category with less than four businesses will have its sales reported in the miscellaneous retail category. Only Marshall showed a true taxable retail sales increase in the retail categories, excluding general merchandise, and only Thief River Falls and Winona performed less than the Greater Minnesota average. This data suggests that the four cities on the right within Figure 12 have had increased sales in stores that coexist well with a Walmart Supercenter.

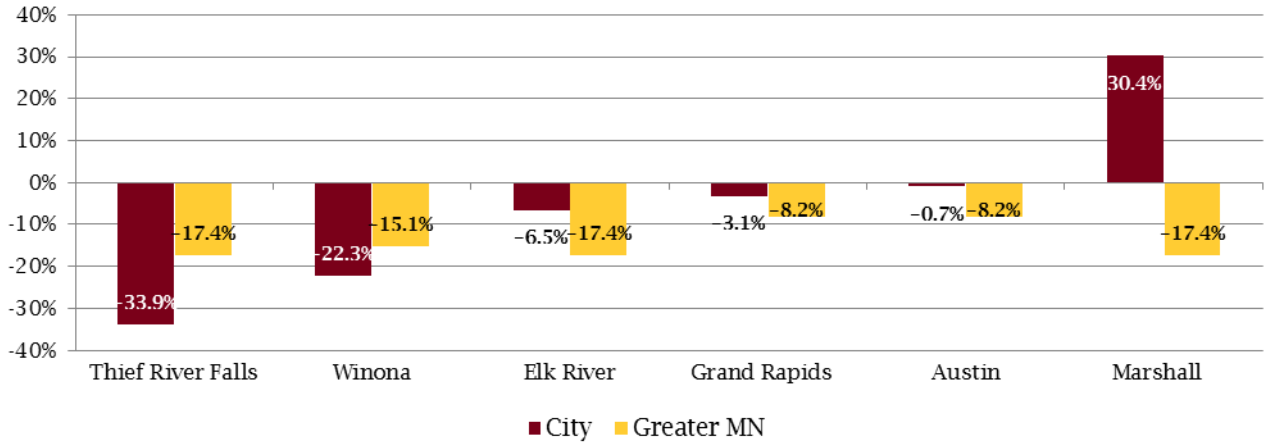

Figure 12. Change in retail taxable sales from year before a supercenter opened and 2012 (Data Source: Minnesota Department of Revenue)
Note: This chart compares retail sales other than general merchandise in cities that had a supercenter open after 2003 with the average in Greater Minnesota during that same period. Sales in the general merchandise category were excluded. Data is adjusted for Inflation.

As mentioned in the Cautions and Considerations section, this study refrains from making recent sales comparisons with MN Department of Revenue data prior to geocoding (2003). For each city in Figure 13, data were not available for a base year (one year prior to a supercenter opening) before 2003. In the five cities, there does not appear to be erosion in the total sales of the other retail categories as illustrated in Figure 13. Four of the five cities had 2012 retail sales, excluding general merchandise, which exceeded 2004 sales. Although affected by the retail downturn, these businesses made faster recoveries.

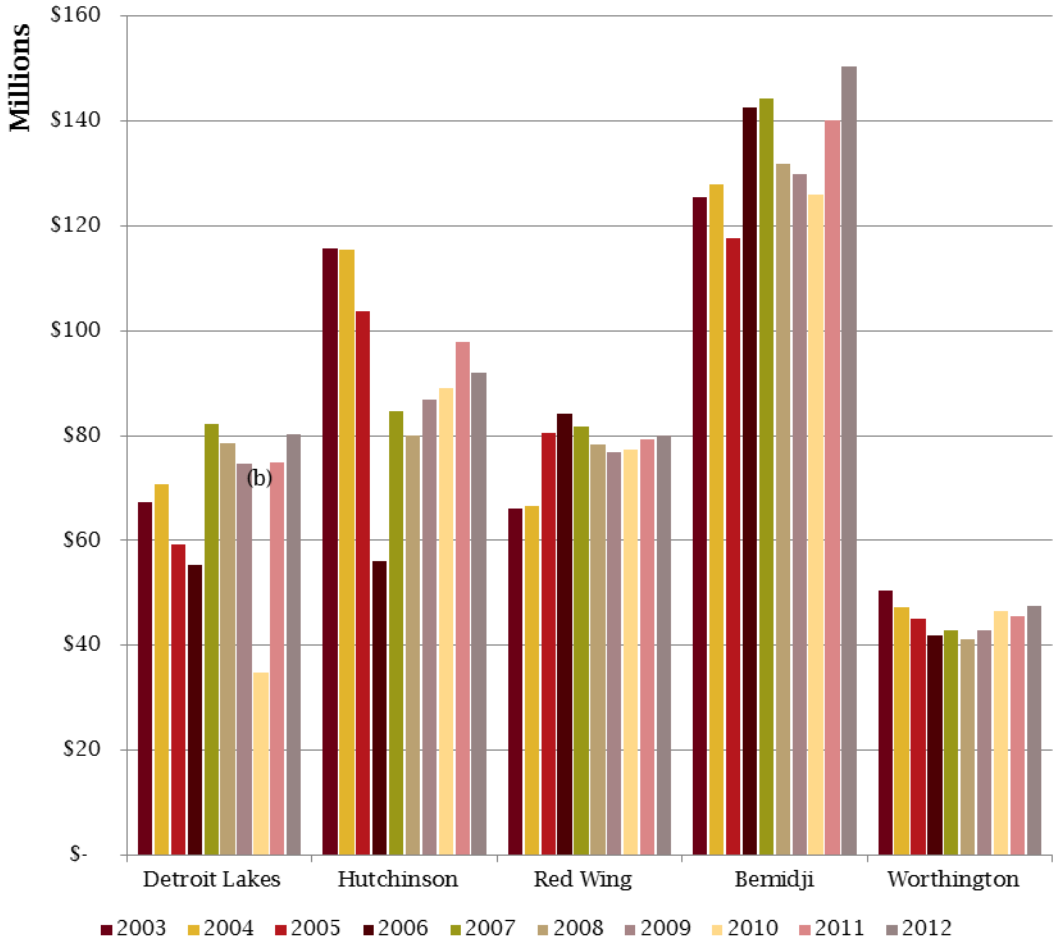

Figure 13. Taxable retail sales, excluding general merchandise, in cities that had a supercenter before 2004. Sales adjusted for inflation. (Data Source: Minnesota Department of Revenue)
Note: (b) County retail data provided by the MN Department of Revenue did not indicate the same 2010 decline. This suggests a geocoding error placed some businesses outside the border of Detroit Lakes. A reasonable estimate of taxable sales for Detroit Lakes that year is $74 million.

Food and Beverage Stores Taxable Sales

One of the attributes that made the Walmart Supercenters different from their previous stores was the addition of large grocery departments. Groceries sold in supercenters are classified as general merchandise sales rather than being included with other food and beverage stores. Greater Minnesota food and beverage stores averaged a 15% decline in taxable sales from 2003 to 2012 and the cities with supercenters had even larger sales reductions. Figure 14 shows the sales decreases in the cities where supercenters opened after 2003. However, even with this apparently heavy competition from the supercenter, the thirteen cities added a total of ten grocery, nine specialty food, and four liquor stores. Internet research found that several of the food stores in these cities specialized in food designed for healthy lifestyles and did not offer full line groceries.

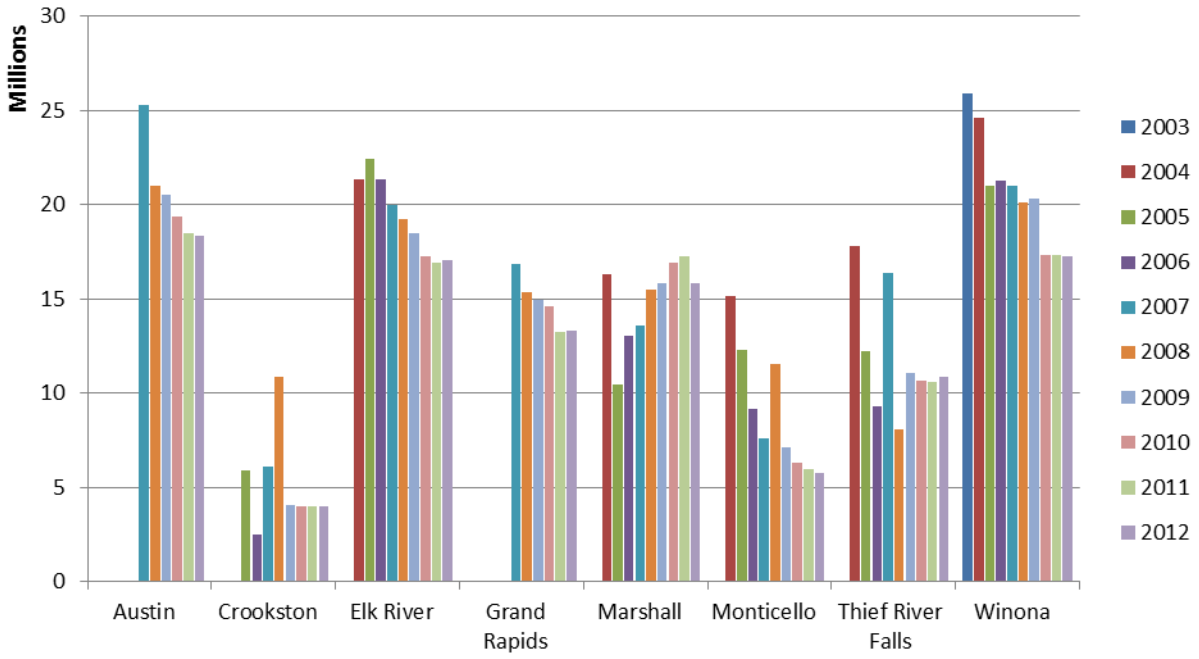

Figure 14. Taxable sales of grocery, food, and liquor stores in cities with a supercenter opening after 2003. Sales adjusted for inflation. (Data Source: Minnesota Department of Revenue)
Note: The first bar in each city is the year prior to supercenter opening.

CONCLUSIONS

Over the years, local governments and chambers of commerce have had concerns when Walmart Supercenters have come to their city. These concerns were fueled by uncertainty about what would happen to downtown businesses and other existing stores competing for customers.

This study found that many different business types coexist with supercenters, as tracked by records of business openings and expansions and retail sales taxes. Most of these businesses offer goods and services not found at Walmart. The most frequently opened businesses were establishments for people to eat and drink, with limited-service eating places being the majority of these storefronts. Also, many new and expanded businesses offered services such as spas, beauty and nail salons, and pet care. Other retail businesses that opened specialized in second-hand clothing, antiques, gift shops, office supplies, pet supplies, smoke shops, and collectibles.

Minnesota Department of Revenue sales tax information indicated that sales in traditional grocery stores fell when a supercenter opened, but city interviews found that new food and beverage stores did open or expand after Supercenter openings. Internet searches on these business names found that several of them specialized in food designed for healthy lifestyles and did not offer full line groceries.

Information gathered indicated that studied cities gained strength as regional trade centers. Figure 13 is a strong indicator that when Minnesota went through a retail downturn from 2004 to 2011, cities that had a supercenter before 2004 maintained a relatively steady retail market. Because these cities had steady markets during a retail downturn, it is likely that smaller cities around them lost sales. But having this larger trade area may also have contributed to openings or expansions for many other businesses in the community.

This study was not designed to answer the broad question of whether or not supercenters were good for these communities because it only discusses a few economic indicators. However, it does show that many business types are able to coexist with the Walmart Supercenters, and the expansion of the market area made a more stable business environment when compared to the average sales of Greater Minnesota.

APPENDIX

Following are the more frequently found business types in the thirteen cities following a supercenter opening. Definitions found at https://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart=2002.

NAICS #	Business	# of stores
7222	Limited-service eating places	73
8121	Personal care services	57
7221	Full-service restaurants	48
4461	Health and personal care stores	31
4511	Sporting goods and hobby stores	27
4539	Other miscellaneous retail	27
8111	Auto repair and maintenance	26
4431	Electronics, appliances & computers	24
7139	Amusement, recreation, and fitness center	24
7211	Lodging	22
4481	Clothing stores (new)	21
4413	Automotive parts and tires	20
4532	Office supplies, stationery and gifts	19
4533	Used merchandise stores	19
4441	Building materials and supplies	16
4471	Gasoline convenience stores	16
6213	Health practitioners (not Physician or Dentist)	16
7224	Drinking establishments	14
4411	Auto dealers	13
4529	General merchandise (dollar stores, Target, etc.)	12
4451	Grocery store	10
5242	Insurance related agencies	10
6116	Schools of instruction (dance, judo, etc.)	10
8112	Electronics repair	10
4452	Specialty food stores	9
4421	Furniture stores	8
5221	Financial institutions	8
8114	Personal and household goods repair	8
5412	Accounting and tax preparation	7
6241	Services for elderly, disabled, or youth	7
8129	Other personal services (pet grooming, wedding planner)	7
4412	Other motor vehicle dealer (RV, ATV, etc.)	6
4483	Jewelry and leather goods stores	6
5419	Technical service provider	6
6212	Dentist offices	5
4453	Beer, wine, liquor stores	4
4482	Shoe stores	4
5312	Real estate offices	4
5411	Legal services	4
6211	Physician offices	4
7121	Museums and historical sites	4