Community and Economic Development Department
Analysis of the Economic Impacts of Large Retail Establishments

Big box development projects without question impose economic changes on a community. Those changes must be measured against the underlying assumption of a free market economy, that competition is fundamentally good for the consumer. Competition is assumed to drive prices down and to stimulate improvements and diversity in product design, performance, and availability. Big box competition in the retail sales sector clearly has been a successful competition strategy, as evidenced by Wal-Mart becoming the number one "Fortune 500" company in 2002, supplanting industrial firms for the first time. Consumers often support land use decisions allowing big box projects, despite their size, traffic demands, and other concerns, because big boxes economies of scale have driven consumer prices for many goods to historic lows (as measured in constant dollars), and consumers like low prices. The question, thus, is whether the economic benefit of big box development - lower cost and increased availability - is outweighed by the economic costs imposed on the community.

Big boxes are not a new phenomenon. Economies of scale were the primary feature in the growth of department stores in the early 20th century. Stand-alone Sears stores and their competitors aggressively sought market share from traditional "mom and pop" retailers, eventually eliminating them from the market. Name brand hardware stores and, later, the Home Depots and their ilk eliminated independent hardware stores from the market. And "supermarkets" have all but eliminated the corner grocery store.

Big box projects are essentially the next step in a half century trend toward suburbanization and shopping centers. Shopping centers, with their automobile-serving design, competed aggressively with more compactly designed urban businesses and, along with freeway construction and the home mortgage deduction, caused investment to flee from the inner-city. In San Diego's case, and in many cities, this disinvestment led to large public expenditures to redevelop downtown and other older commercial areas. In hindsight, shopping centers perhaps should have been strictly regulated because of their contribution to disinvestment and the consequent public costs of redevelopment.

It has been argued that big box projects destroy small businesses, eliminate the wealth creation opportunities that small businesses provide, and drive down wage rates. It is certainly true that Wal-Mart's growth in rural areas closed down businesses in small-town main streets, taking the private wealth tied up in the small businesses that lost in that competition. The growth of big boxes in rural communities, however, was simply a belated battle in the war for market share that shopping centers in urban and suburban America had previously fought. In urban and suburban areas, shopping centers have long since eliminated the small purveyors of basic retail goods and commodities. But the competition fought back: While small businesses no longer compete in basic retail sales, they now compete – aggressively and successfully - in niche markets, providing boutique goods and serving neighborhood and other limited clientele needs overlooked by mass market retailers. Regarding wage rates, few "mom and pop shops" of a former era or the current niche market businesses have a much better record than their big box counterparts in providing full time jobs with wages at a livable rate or with health and retirement benefits. What differentiates current big box development from shopping center predecessors is the combination of sheer size, market reach, and design. Big boxes now compete primarily with each other and with shopping centers. While the competition is played out at a corporate level, the economic impacts are felt locally. For example, Wal-Mart's success contributed to K-Mart's bankruptcy, forcing hundreds of K-Mart outlets to close while the company restructured. The local economic impacts included thousands of job losses for K-Mart employees, service dislocations and their ripple effects, and, if the empty K-Mart box did not find another user, a blighting influence for the surrounding businesses or neighborhood. Some big box retailers are beginning to sell groceries, competing aggressively with supermarkets (the big box "category killers" of two generations ago). Supermarkets operate at a narrow profit margin, and big box retailers can exploit that with their greater economies of scale and lower distribution costs. A single big box project could effectively force several community-serving supermarkets to close, while a big box chain's concerted campaign could force a supermarket chain out of business. Supermarkets have largely stabilized their employee costs through union representation or middle-income wage rates coupled with health and retirement benefits. Thus, a supermarket's closure would result in lost full-time jobs at middle-income wage rates with benefits. There is already a society-wide erosion of middle-income jobs, and in periods of high unemployment, a supermarket's job losses would be difficult to replace elsewhere and would have numerous social impacts. With regard to service losses, most Californians have automobiles, and for them the lower costs coupled with the convenience of access to many other goods may outweigh the higher costs of driving further to a big box for groceries. However, neighborhood residents who do not have access to transportation (who in most cases have low incomes) will likely be forced to shop at higher-cost niche markets. A solution for them is public transportation connecting residents to big boxes, but this simply transfers the cost impact to government. It is unclear whether the longer trips to big boxes result in increased air pollution impacts, or whether consumers instead save up their purchasing needs to combine food purchase trips with other trips. Finally, regarding blighting influences, supermarkets are the most common anchor tenant at neighborhood-serving shopping centers, so when they leave for whatever reason, they leave behind the slow and painful closure of all the surrounding businesses. The anchor site is often the wrong size for an alternative user, and the shopping center becomes a blighting influence for an entire community. San Diego has experienced this trend in several neighborhoods.

While big box development can have a strongly negative impact on a community, it can be a valuable component to revitalizing an older community. Just as Horton Plaza anchored San Diego's downtown revitalization, a big box project in a strategic location can anchor community revitalization efforts. It can make dormant sites attractive to shoppers, thereby encouraging other business investment, providing new and desired services in the community, and contributing to property tax increases. However, because the costs of building in the inner-city are inherently much higher than at "Greenfield" sites on a city's periphery, big box developers seldom consider such sites despite population densities, preferring instead to rely on consumers' willingness to drive long distances on freeways. In the mid-1990's, New York City learned that it was leaking substantial retail sales (and tax revenues) to suburban big box sites. The city revised its regulations to encourage big boxes to move into metropolitan areas. The strategy was successful, with new retail projects returning sales to the city. In many cases, the big boxes were designed with multiple stories consistent with community design characteristics and some even re-used existing older buildings. Thus, San Diego might consider regulations to encourage big box development at selected inner-city sites.

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