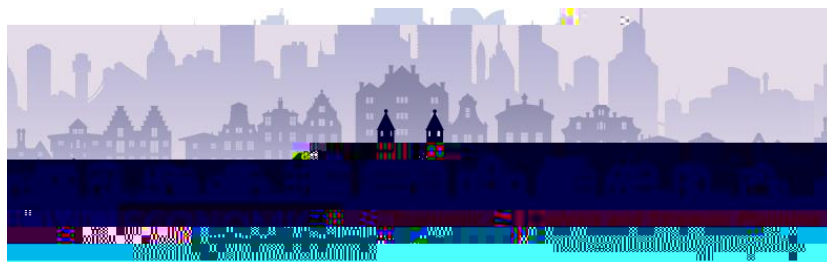




MAY 2017



INTRODUCTION

Civic Economics is pleased to present Independent We Stand and the North American Retail Hardware Association with this, a second analysis of the economic impact of supporting independent building supply, hardware, power equipment, and paint dealers in support of the construction industry.

In 2015, our organizations collaborated on the groundbreaking Home Sweet Home study, which quantified the enhanced impacts associated with a homeowner using independent, locally-owned suppliers to complete a modest home improvement project. In this iteration, dubbed the Pros Edition, we expand that analysis to the scale of a sizeable home constructed by a professional building contractor.

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In 2015, Civic Economics partnered with the National Retail Hardware Association and Independent We Stand to produce Home Sweet Home, applying this analytical approach to the hardware and building materials sector. In that case, we found that purchases of tangible goods from independents produced roughly double the local economic impact compared to national chains.

For 2017, we have expanded the approach of Home Sweet Home to consider the choices facing professional contractors engaged in bigger projects.

Home Sweet Home: Pros **1**Edition presents us with an opportunity to reach out to an important audience for the independent business message. Through the years, Civic Economics has emphasized that supporting local business provides a clear return to a few sectors in a community that thrive only when the local economy thrives. Think, for example, of a locally based hospital: a stronger local economy yields more paying patients, which leads directly to a stronger hospital. Conversely, a weakening local economy, with weak locally-owned businesses, deprives the hospital of the healthy, paying clientele it requires to thrive.

Project Description

Our hypothetical for this study is the construction of a single-family home with a total budget of \$1 million. Of that, roughly 45% is allocated to fees and labor while the remaining budget is split among the various retail sectors described in the following section:

- x \$350,000 (35% of the budget) will be spent in the building materials sector;
- x \$150,000 (15% of the budget) will be spent in the hardware sector; and
- x \$50,000 (5%) will be allocated to power tools and equipment

different color schemes, they offer remarkably similar goods and services and they procure and distribute those goods in similar fashion.

Additionally, for this study we have added another national competitor to the mix. Builders Firstsource operates a 400-location chain of building material outlets under various names throughout the United States. Often these names may sound like they are independent locations (Kalamazoo Lumber RU 7XOVD 0LOOZRUN IRU H[DPSOH UHIOHFWLQJ acquisition strategy through the years and, perhaps, a desire to appear local and independent.

Methodology

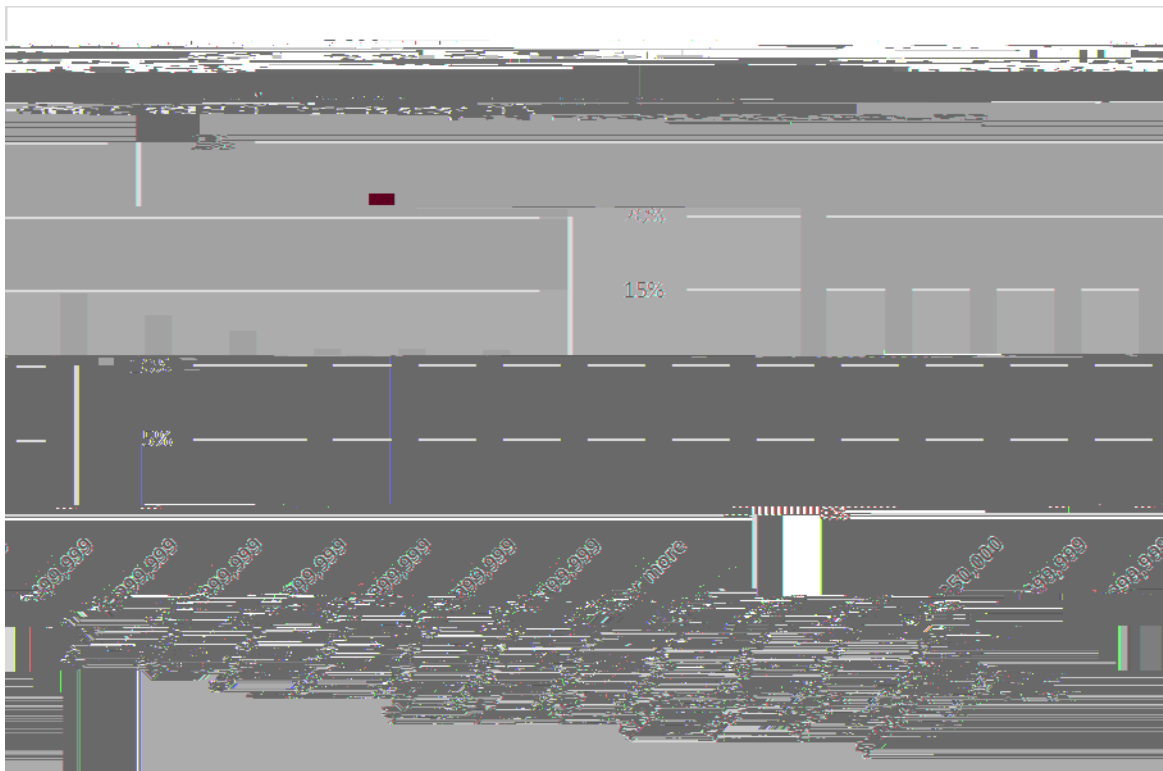
When updating this study the choice was made early on to maintain the same essential methodology we used in Home Sweet Home. However, there are some minor changes that will be detailed below, as we are constantly tweaking our approach as we learn more about the way local and chain businesses operate and discover new data sources for each.

As with the previous iteration of this report the analysis begins with the same four major activities

A smaller yet significant share of the local advantage is charitable giving. Local resident owners are more likely to contribute to local causes of interest to their families and employees. We have found many small businesses fail to account for charitable giving in full. National chains, by contrast, more often support non-local causes. And when they do support local organizations, the marketing campaign may exceed the value of any gift.

For independent businesses, Civic Economics surveys or interviews owners to quantify accurate numbers for the proportion of revenue that goes to each. In this study, interviews with business owners in the Chicago and Tulsa areas is supplemented by two invaluable sources. The North American Retail Hardware Association provided us with their 2016 Cost of Business Survey, which broke out costs and revenues in hardware and lumber sectors. Independent We Stand FRQWDFWHG 6WLKO , QF DQG SURYLGHG DQ DYHUDJH GHDOHU P power equipment. Civic Economics further estimated the local dealers likely revenue from ZDUUDQW\ VHUYLFH DQG UHSDLUV DVVRFLDWHG ZLWK 6WLKO VD information, we have here aggregated those two numbers and further discounted occupancy costs from the total.

For chains, we analyzed Annual Reports, in this case for fiscal year 2016, for both Home Depot DQG / RZHWI as Builders FirstSource. This information was compared to data provided in the 2012 Economic Census, which was released this past year. The Economic Census provided sales, employment, and wage data for all retail sectors in the United States that are further broken out by total sales of the firms. By using the largest firm size as determined by total sales (over \$250 million) we were able to determine wages as a percentage of sales revenue. The following chart shows how the percentage of sales dedicated to wages declines as the stores grow in size and provides the economic advantage to independent retailers in terms of keeping money in the local community.



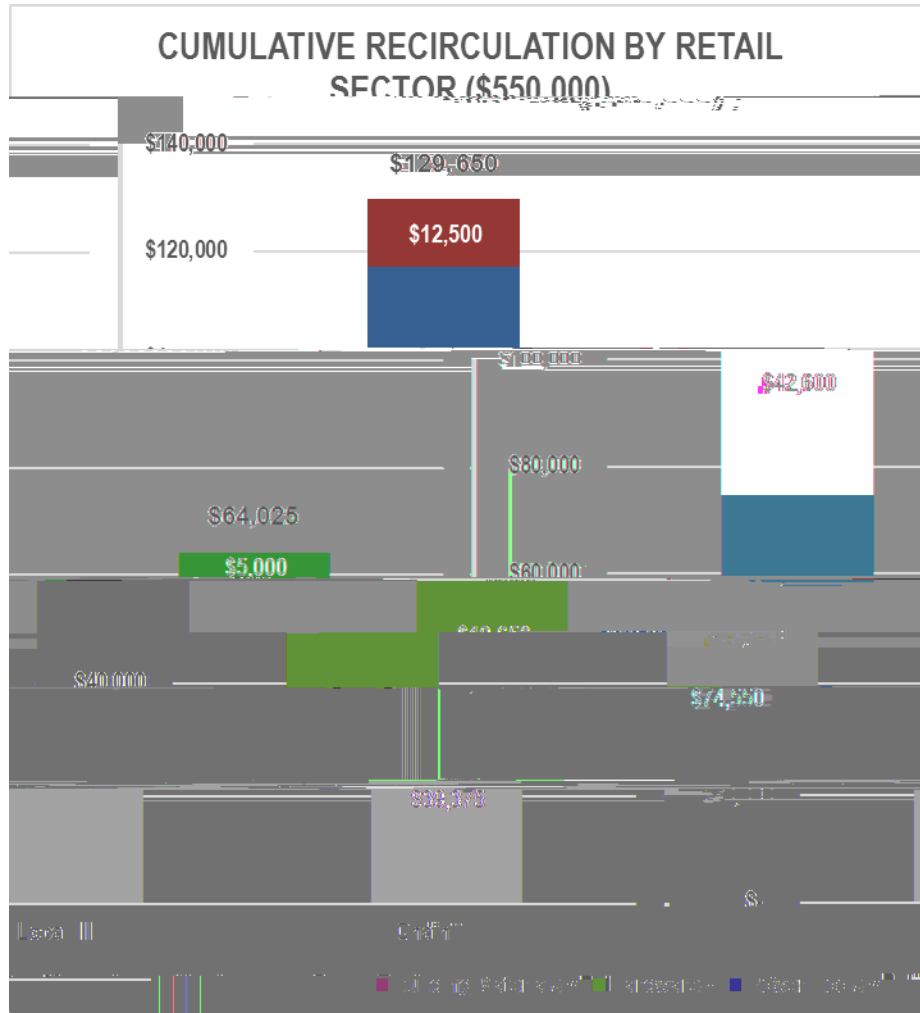
Hardware and Finish Purchases

As the project proceeds, our contractor and subcontractors will purchase a vast array of goods in addition to those described above from the building materials supplier. Where concrete and bricks, lumber and sheetrock will be delivered to the site in bulk, every specialist on the site will need to procure additional materials necessary to the project. These purchases range from simple items like nails and screws and spackle to unusual items like millwork and plumbing fixtures that make our project special. For these purchases, they may visit a locally-owned, independent hardware store or a unit of one of the two dominant national chains.

Power Tools and Equipment Purchases

Power tools and equipment purchased by contractors are utilized on multiple projects, and the cost of these items are generally accounted for in contractor fees. For this study, focused as it is on independent merchants, we decided to isolate the proportio

CUMULATIVE LOCAL ADVANTAGE



In this hypothetical project, a contractor will be retained to build a home with a total budget of \$1 million. Of that, our contractor and subcontractors will expend \$550,000 on building materials, hardware, and power equipment. For every purchase, they will face a choice: supporting a local supplier or turning to a national chain competitor.

Assuming competitive pricing in the market area, the value received will be comparable. Across all three sectors (building materials, hardware, and power equipment), those purchases will generate more than twice the local economic activity if made at the independents.

CONCLUSION

Civic Economics has a long history of studying the comparative economic impact advantages provided by independent, locally-owned merchants. Through nearly 15 years of studies and countless media appearances, these studies have made a tangible difference in the health of

an issue of great and growing importance in the movement for independent, locally-owned business: procurement by businesses from other businesses.

Just as with individual consumers, business owners face consequential choices in procurement. But more than most households, contractors are in a position to benefit from the virtuous cycle of local economic activity they themselves can kick start by supporting other locally-owned, independent businesses.

Our hypothetical client here is prosperous enough and confident enough in the community to erect a million- G R O O D U K R P H W K H U H E X W W K D W S U R V S H U L W \ D Q G F R Q I L G healthy business community. By supporting fellow local business owners, the contractor can feed the cycle that feeds his

ABOUT CIVIC ECONOMICS

CIVIC ECONOMICS

Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. Since its founding in 2002, the work of Civic Economics has been nothing if not diverse, in both subject matter and geography. One area to which we frequently return, however, is the economics of regional retail and service provision - what we've taken to calling the Civic Economics of Retail.

Retail development and redevelopment bring significant impacts to any community. Civic Economics provides communities with the tools to manage those impacts, magnifying the benefits and mitigating the challenges.

Civic Economics is the acclaimed leader in understanding the economics of regional retail and service activities. From its founding, the firm has focused on the critical and often misunderstood role of retail in economic development and urban planning policy.

Civic Economics analyzes the economics of retail and service provision using time-tested, industry standard approaches tailored to the needs and circumstances of each community. These include trade area analysis, demographic analysis, consumer and business surveys, retail prospect identification, retail gap analysis, adaptive reuse of mature retail centers, and economic and fiscal impact analysis.

More importantly, the partners of Civic Economics monitor the ever-evolving retail industry. We know where market forces are heading and what retailers are doing in response. We know, too, what other communities are doing, providing us with an unmatched knowledge of best and worst practices. In contrast to our larger, convention-bound peers and academic researchers, Civic Economics has developed innovative methodologies for analyzing this unique industry sector.

Learn more at: CivicEconomics.com



CONTACTS