

INTRODUCTION

Civic Economics is pleased to present Independent We Stand and the North American Retail Hardware Association with this analysis of the economic impact of supporting independent hardware, outdoor power equipment, paint, and lumber retailers.

This report builds on previous Civic Economics analyses comparing the local economic impact of conducting business through a locally-owned independent business (or businesses) and doing it through a major national home center chain. (See *CivicEconomics.com/retail* for summaries and downloads). While these studies have looked at various lines of goods and services in several American and Canadian communities, the essential findings are broadly consistent:

Independent businesses provide their communities with substantial, quantifiable economic benefits relative to their chain competitors, and modest changes in purchasing habits can produce meaningful impacts.

Independent We Stand and the North American Retail Hardware Association have asked Civic Economics to study whether the same is true in the hardware and outdoor power equipment sectors.

INTRODUCTION 1

HYPOTHETICAL PROJECT APPROACH 2

Locally-owned, independent retailers 3

National Chain Competitors 3

QUANTIFYING LOCAL

HYPOTHETICAL PROJECT APPROACH

The independent merchants under review are complex. Within the same business, there may be a hardware store with everything from nuts and bolts to bolts of fabric. There may be a lumberyard, with racks of building materials ready for loading onto trucks of all sizes. There may be an outdoor power equipment department, offering bigger ticket items and, often, repairs. Finally, the merchant may provide customers with installation services after the sale. Many include indoor and outdoor garden centers, as well. In some cases, all these goods and services are offered under one roof.

These varied departments may function as a single business, but the business model is different for each. Building material sales, for example, are less labor intensive than hardware sales. In order to accurately capture impacts, then, Civic Economics developed a hypothetical home improvement that might be undertaken by a typical homeowner.

PROJECT DESCRIPTION

In this hypothetical, the customer will purchase the hardware, power equipment, and building materials needed for a sizeable outdoor project. While she may intend to complete much of the work herself, she will also hire a contractor to complete a portion of the project that requires special expertise. All told, the customer plans to spend **\$10,000**, budgeted as follows:

\$4000 will be spent on a wide range of hardware from a retail hardware store.

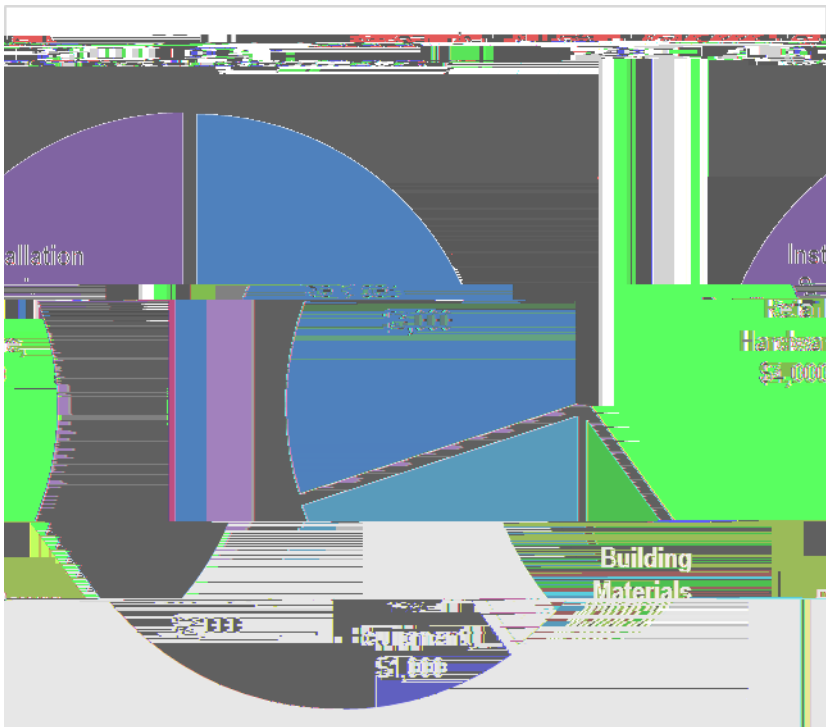
\$1000 will be spent on a single, specialized power tool needed for the job.

\$2000 will be spent on lumber and materials from a lumberyard facility.

\$3000 will be spent hiring a professional to complete a part of the project.

This budget of diverse goods and services allows us to study various business segments represented by both independents and chains within the hardware and outdoor power equipment sectors.

We also analyze the retail portions of the project separately in order to understand the impact of purchasing decisions.



MERCHANT TYPES

Our customer is fortunate to have a wide array of merchants eager to meet her needs in each of these categories. For simplicity, we will look two types of stores:

Locally-owned, independent retailers

The items needed for this project may be purchased at one or more local businesses. Most Americans live within a short distance of several locally owned businesses offering some or all of the materials and services required for this project.

Independent retailers in these lines of goods may, of course, operate branded stores, but they are not franchises. Within the hardware category, for example, there are competing merchant cooperatives that provide members with purchasing power as well as branding and advertising services. True cooperatives provide a periodic rebate to member stores rather than retaining profits. Similarly, independent lumber yards may participate in a purchasing cooperative or service and also support independent distributors.

How does the customer identify independents? Many independent stores do not carry a national brand. Do It Best, Ace, and True Value hardware stores operate on the cooperative model described above. Additionally, any outdoor power equipment dealer carryin

METHODOLOGY

The approach to this study has been developed over years of related analyses conducted by Civic Economics. In order to develop accurate comparisons, we quantify the proportion of revenue that both independents and chains recirculate in the local economy.

Spending on independent retail and service businesses is attributable to four factors: labor, profit, procurement, and charity.

Spending on local **labor** comprises a larger share of operating costs for a locally-owned establishment than for an outlet of a national chain. While the latter are able to consolidate

QUANTIFYING LOCAL ADVANTAGES

Retail Hardware Purchases

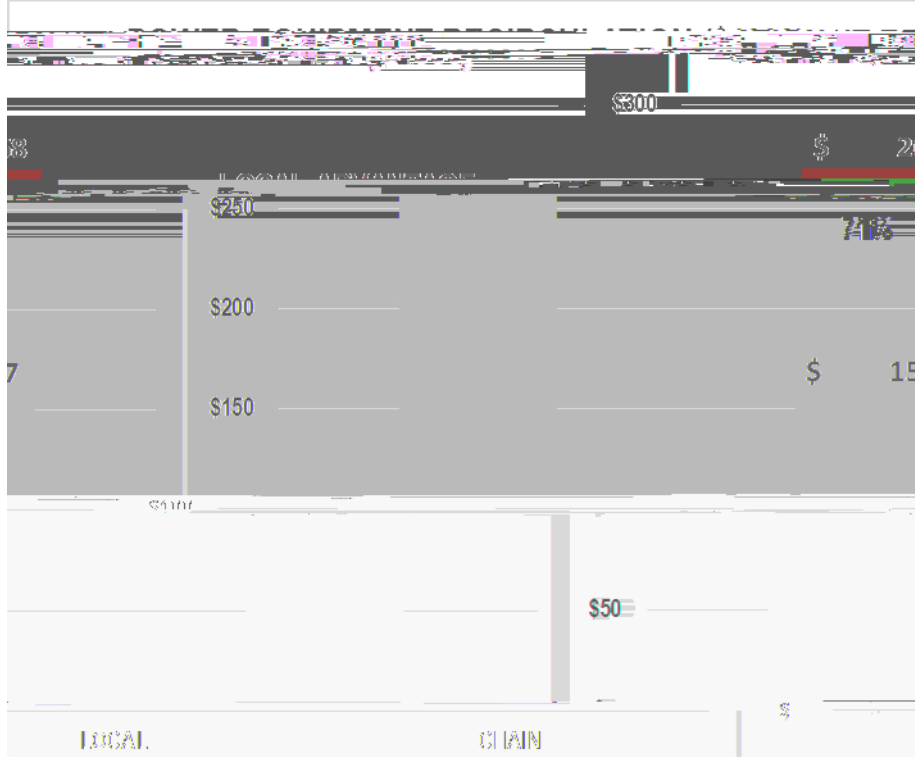
Of the \$10,000 project, our homeowner will need \$4000 of goods purchased from a retail hardware store. These might include fasteners and screws and paints, as well as a host of small purchases to make the job work.

Retail hardware operations are fairly typical of the broader retail sector. Most goods are brought to the store from regional distribution centers, then employees stock the shelves and manage sales, while some goods may be purchased separately from local area suppliers. Truly local procurement is typically limited to a few items of regional interest, but independents do retain local service providers for a variety of functions that chains do not.

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Power Equipment Purchases

Of the \$10,000 project, our homeowner will need to spend \$1000 on specialized outdoor power equipment that will make the job easier and improve results. This purchase might occur at a specialized dealer or within a broader hardware and home improvement store.



The outdoor power equipment segment provides an interesting area of study, as these are typically big ticket items. Here, we compare independent outdoor power equipment dealers (using Stihl products as the representative purchase) and the major chains, which do offer higher quality items in competition with Stihl.

Though Stihl did provide Civic Economics with some data regarding margins and dealer cost, that data is proprietary. In order to shield that information, we have included two additional factors:

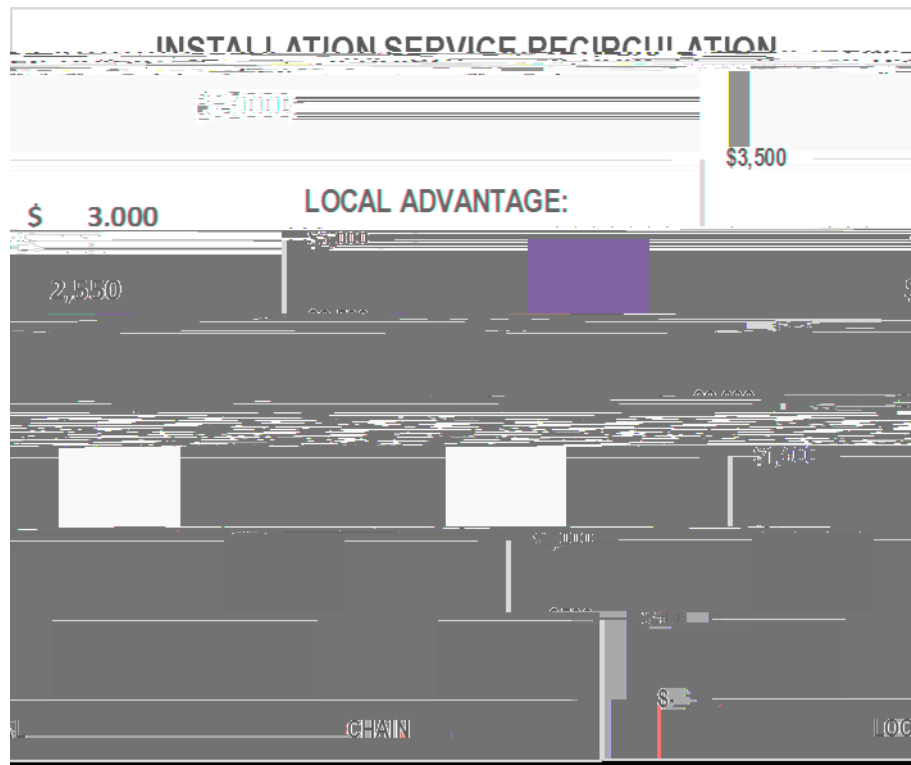
We added maintenance and repair revenues the dealer might expect to earn during and after the warranty period.

We deducted occupancy costs in order to properly compare merchants in this sector with others.

After all calculations, purchasing Stihl products from an independent dealer results in a 71% increase in local economic activity compared to purchasing comparable outdoor power equipment products at the major chains.

HOME SWEET HOME

Installation Services



Installation services, by their very nature, generally result in most or all of the fee paid remaining in the local economy. Unlike a kitchen faucet that can be produced anywhere in the world and shipped to the end user, the labor must take place locally. However, the retailers under study here present two different ways of reaching that end.

Independents generally handle referrals in an informal manner, offering customers the name of a contractor who the retailer knows to be reputable, responsible, and reliable after extensive dealings. The customer gets a solid reference; the contractor gets a job; and the retailer strengthens the relationship with that contractor. The retailer does not typically receive a referral fee. In this case, of course, a \$3000 expenditure for labor alone to a local resident contractor results in \$3000 of local economic activity.

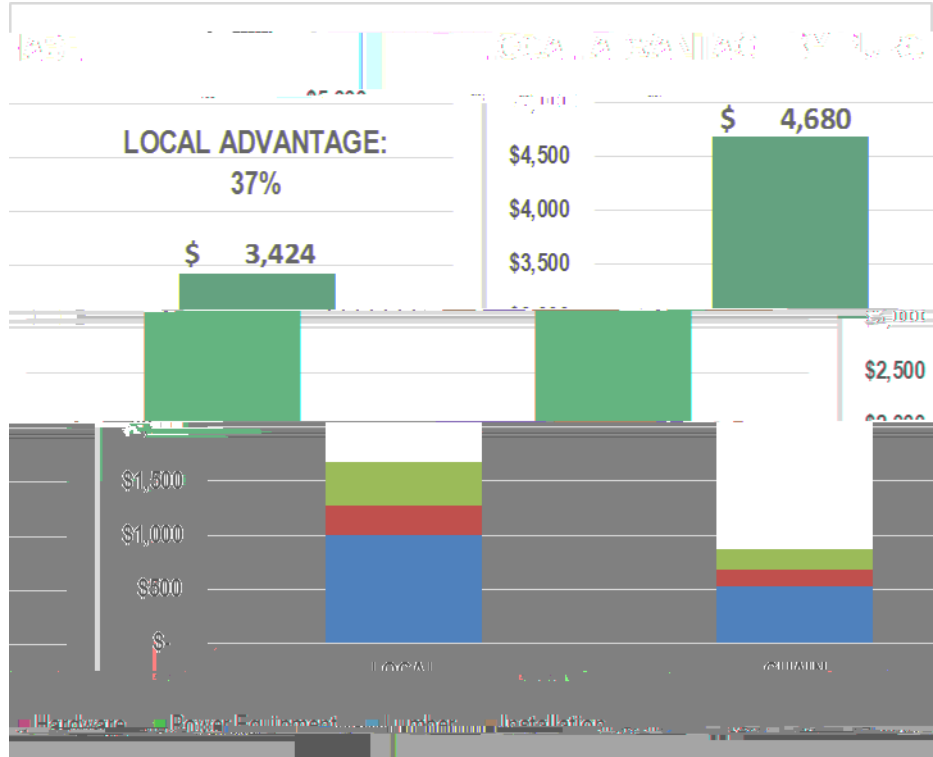
The major national chains, on the other hand, maintain a more formal system of referrals. As with the independent, they seek to use only reliable providers, but the chain stores retain a portion of the customer charge, typically in the range of 15%. If the total price is not increased to cover that fee, the customer will get the same work for the same price, but the local economy will be deprived of those dollars. If the total price is increased, then the homeowner will have received less value for her money at the chain than at the local.

Major shifts are just beginning in the market for work of the sort contemplated here. Amazon Home Services, for example, facilitates a bidding process that will likely drive down total fees while additionally retaining a fee for the transaction. Google, too, is entering that market. How these changes will play out is uncertain, but this study takes place a bit too soon to know.

CUMULATIVE LOCAL ADVANTAGE

At the end of the project, our homeowner will have created an extra \$1250 in local economic boost to the

local economy provided by the retailers under study here.



For the purchase of tangible goods, the local economic advantage associated with independents is 97% greater than that with chain stores.

In other words, independent, locally-owned hardware, power tool, and lumber sellers generate twice the local economic activity on the same revenue.



HOME SWEET HOME
