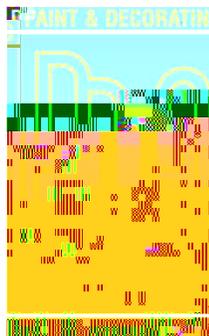




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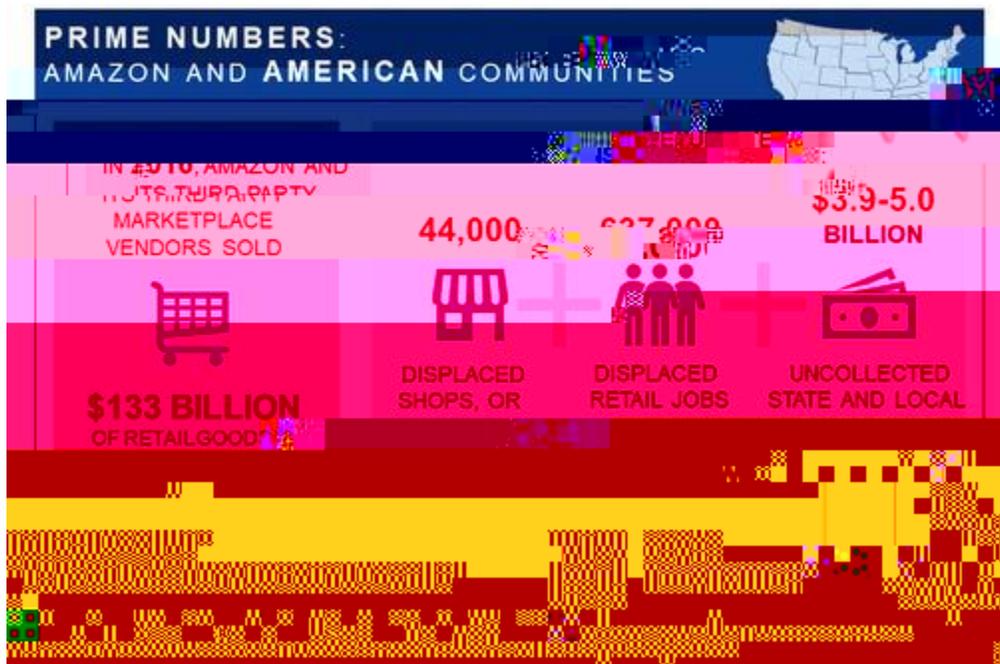


INTRODUCTION

Civic Economics is pleased to present Independent We Stand (IWS), the North American Retail Hardware Association (NRHA)

Amazon Analysis

In April 2018, Civic Economics and the American Booksellers Association released *Prime Numbers: Amazon and American Communities*, which quantifies the impact of Amazon online retail nationally and at the state level. That study capitalized on a recent revelation from Amazon that allows a reasonable estimate of the company's real sales total, including sales from third-party merchants in Marketplace.



Data from that report, including a detailed estimate of employment and payroll associated with Amazon distribution facilities in each state, has been incorporated into this study.

An additional finding of relevance to this analysis is that, while Amazon has begun remitting sales taxes on sales of its own inventory in all states with a sales tax, it does not generally do so for sales by third-party sellers. Thus, any shift in hardware sales from bricks and mortar retailers to Amazon will also bring a reduction in sales tax collections.

For more information about that *Prime Numbers*, please visit www.civiceconomics.com/primenumbers.html.

HOME IMPROVEMENT SALES, IN-STORE AND ONLINE

As a share of sales, the broad home improvement sector, including hardware, paint, and power equipment, has experienced significantly lower online sales than others, prompting some analysts to refer to Home Depot and Lowe's as "Amazon proof." While that may be both an overstatement and premature, the data support the broad assertion that home improvement and building

ONLINE SALES AT MAJOR CHAINS, 2014-16

HOME DEPOT

	2014	2015	2016	2 Year Change
Net Sales (\$ billions)	74.7	80.5	86.6	16%
Online Sales (\$ billions)	3.4	4.3	5.1	52%
Online Sales %	4.5%	5.3%	5.9%	

LOWE'S

	2014	2015	2016	2 Year Change
Net Sales (\$ billions)	56.2	59.1	65.0	16%
Online Sales (\$ billions)	1.4	1.8	2.3	62%
Online Sales %	2.5%	3.0%	3.5%	

Source: 2016 Annual Reports for Home Depot and Lowe's

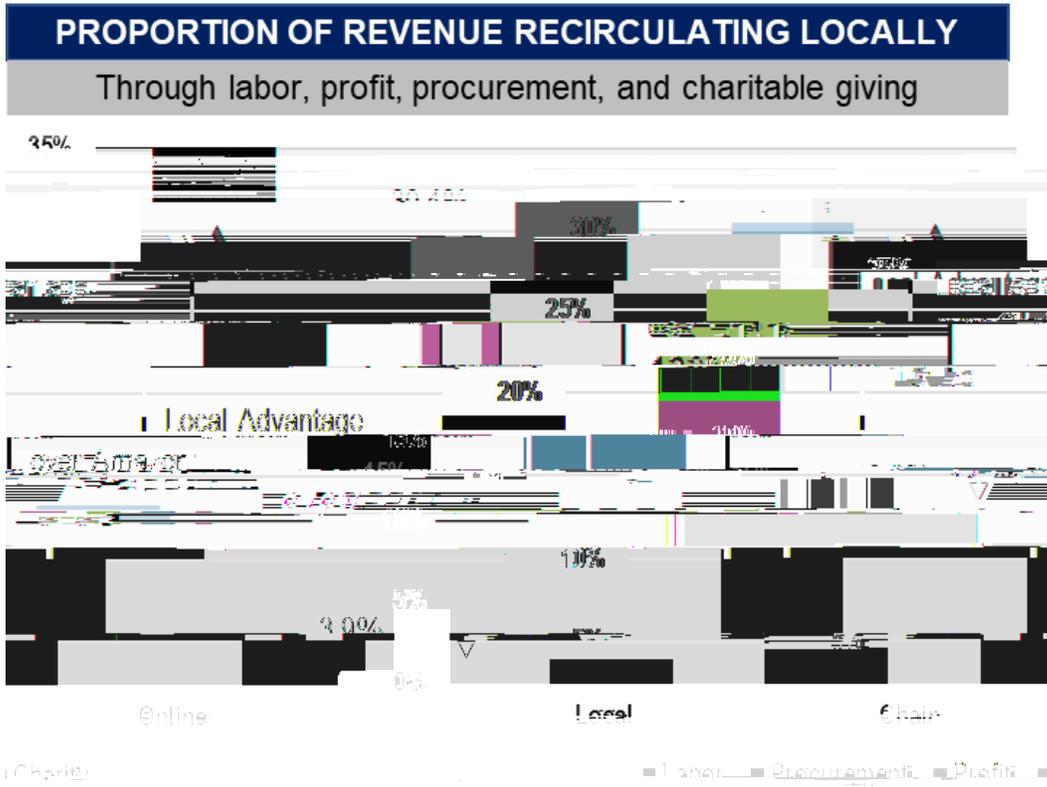
For independents, the best estimate of online sales comes from the Census Bureau, which estimates online sales for home improvement retailers (NAICS 444), excluding the major chains and Amazon, at less than 1% of sales as of 2015, the last year for which data is available. Survey data available from NRHA demonstrates that independents largely understand the benefits of online tools and are working to develop them.

Combining this estimate of online sales at independent retail home improvement dealers and at the major chains produces an estimate of just 2.3% of all sales occurring online in 2015, roughly a quarter of the broader retail rate.

HOME SWEET HOME:

QUANTIFYING LOCAL ADVANTAGES

Using the methodology described above, Civic Economics calculated the percentage of revenue that recirculates in the local economy for all three retail segments: independent retailers, national chain retailers, and Amazon (standing in for all online retailers). The national averages are summarized in the graph below.



The 2017 NRHA Cost of Doing Business Study conducted by the NRHA surveyed nearly 1,000 merchants representing 1,235 independent storefronts. The typical small-format stores in that survey averaged \$1.9 million in store sales and returned 30.4% of revenue to the local community through labor, profit, procurement, and charity. This rate of return is 130% higher than competing national chains and 676% greater than the returns, on average, for Amazon.

The impact differential between independents and chains, both brick and mortar and internet based, in the home improvement category is striking, with more than double the local recirculation of dollars when compared to Home Depot and Lowe’s and more than seven times that Amazon. Civic Economics calls that differential the **Local Advantage**, which provides a clean factor for estimating the change in local economic activity associated with any shift in sales venue, from indies to chains, from indies to the internet, or even from chains to the internet.

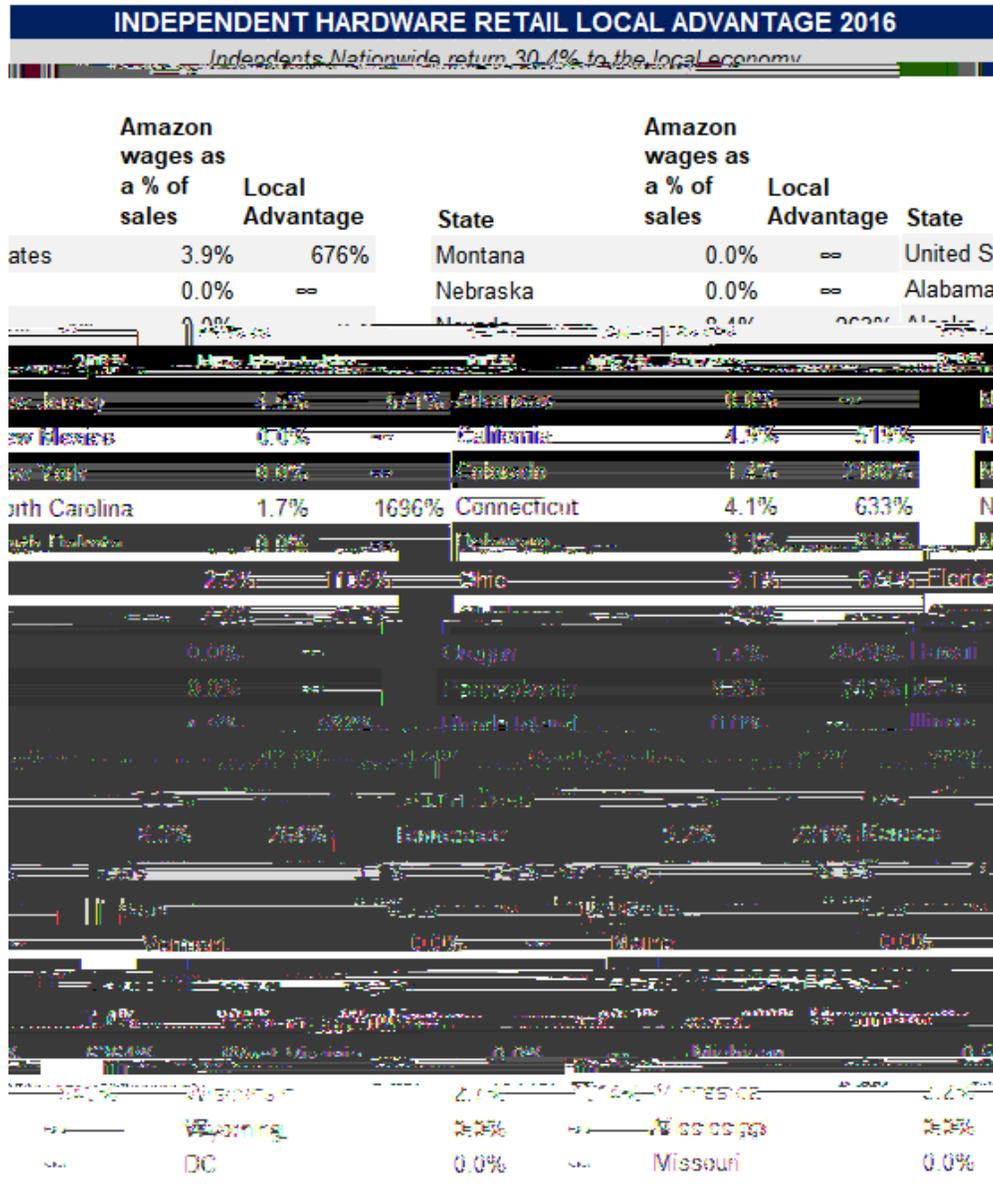
These striking numbers highlight what many Americans already know: their helpful local hardware and paint stores are an important part of the local economy.

State by State Advantages

The impact of Amazon varies from state to state based on the locations of its fulfillment facilities around the nation. Nationally, the share of Amazon retail sales revenue that we attribute to this retail-driven employment is just 3.9%, but it is effectively zero in many states where Amazon maintains no distribution infrastructure (20 plus the District of Columbia in 2016).

Building on the tireless tracking work of MWPVL International in tracking the opening and closing of Amazon distribution facilities, we are able to estimate Amazon employment and wages by state, and thus the proportion of revenue earned in any given state that is captured within the state.

The following chart breaks down the results for each state:



Source: Civic Economics

CONCLUSION

Civic Economics is grateful to the North American Retail Hardware Association, the Paint and Decorating Retailers Association, and Independent We Stand for driving and funding this series of studies on the local economic impact of independent hardware, paint, power tool, lawn and garden, and building materials dealers. We believe that clear, data-driven information can be of real value in educating consumers and policymakers about the importance of independent, locally-owned businesses, and these organizations are at the forefront of doing so.

Civic Economics has a long history of studying the comparative economic impact advantages provided by independent, locally-owned merchants. Through fifteen years of studies and countless media appearances, we believe our work has made a tangible difference in the health of small business in those communities where “local first” has become part of the ethos.

In our first study for IWS and the NRHA, *Home Sweet Home* (2015), for example, we documented that even modest home improvement projects provide strong local impacts when goods and services are purchased from locally-owned, independent businesses. With every dollar spent on such a project, a homeowner can produce twice the local economic impact by supporting independents.

In the second, *Home Sweet Home: Locals vs. Amazon* (2017), we found similar impact boosts when a builder procures necessary inputs from independent local suppliers. The contractor for our one hypothetical home, with \$550,000 in goods purchased, recirculates an additional \$65,000 in the local economy just by directing business to other local business owners.

This third study, *Home Sweet Home: Locals vs. Amazon*, carries those findings forward and incorporates Amazon into the mix, demonstrating that sales through local hardware and paint dealers have a local impact nearly seven times greater than sales through Amazon, even when including all of Amazon’s distribution employment as if it were unique. Amazon employment varies between states, of course, so we have provided state level detail. Indeed, in many states, Amazon has no distribution employment, rendering the local impact at effectively zero.

Our local advantage studies typically conclude with a look at the impact of a 10% shift in sales from chains to independents, but at this point that appears to overshoot home improvement sales at Amazon. So, we considered the reverse: What would be lost in American communities if Amazon captured 10% of sales from independents? Well, in 2016, the American home improvement market (NAICS Code 444, including hardware and paint), totaled roughly \$350 billion.

If Amazon were to capture just 10% more of the home improvement market from independents, American communities would see a loss of \$9.3 billion in local economic activity. In addition, because roughly half of Amazon sales comes from third-party sellers who collect sales tax on a very limited basis, states and communities would see a substantial loss of revenue. Th

CONTACTS

To learn more about this study and the organizations behind it, contact the individuals below.

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