

## ***Wal-Mart's Holiday Sales Create a \$20 Billion Loss for Local Economies***

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Despite lower than expected holiday sales growth, Wal-Mart still brought in more than \$66 billion for the two months leading up to Christmas. Crowds fighting to take advantage of the company's aggressive discounts gave the retail behemoth more than five times the sales of its closest competitor. But what does Wal-Mart's good fortune cost local communities?

### *Wal-Mart's Holiday Cost:*

For this holiday season, Wal-Mart's record-breaking sales mean staggering losses for Main Street, U.S.A. Wal-Mart earned \$1.5 billion on the day after Thanksgiving alone, \$25.8 billion for the month of November<sup>i</sup> and another \$40.8 billion for December<sup>ii</sup>. For those two months, Wal-Mart generated some \$66,596,000,000.

This results in a loss of nearly \$20.3 billion to local economies. Had that \$66.6 billion been spent at locally owned businesses, it would have generated some \$29.7 billion for local communities. However, thanks to Wal-Mart, that \$66.6 billion translates to only \$9.4 billion going into local economies.

For many locally owned businesses Wal-Mart is the Grim Reaper. The company presents itself as an economic anchor around which local businesses will flourish, but reality does not bear that out. Within the first five years of Wal-Mart's arrival in nearly 1,800 U.S. counties, an average of four small businesses, one mid-sized store and one large store went out of business<sup>iii</sup>. Wal-Mart's entrance into communities provides few of the promised benefits and if the initial shock of the retailer's arrival does not constitute "killing local business," the slow death caused by draining money away from local economies certainly does.

Wal-Mart's drain on local economies has been calculated using a formula developed in a report by the Institute for Local Self-Reliance. According to that report \$100 spent in locally-owned businesses provides the town and surrounding area \$44.60. In contrast, large retail chains only give back \$14.10 to local communities, mainly in the form of wages and service. Therefore, local communities lose at least \$30.50 for every \$100 spent at Wal-Mart.<sup>iv</sup>

Looking more closely, Wal-Mart's siphoning means a loss of \$5.7 billion in wages and benefits paid, \$3.4 billion in lost purchases of inventory, supplies and services from other local businesses, \$487 million in lost tax revenue to local government, and \$81.2 million in lost contributions to local charities.<sup>v</sup>

The new campaign slogan “Wal-Mart: Killing Local Businesses One Main Street at a Time” isn’t just rhetoric, it is reality. Across the country, from Beaverton, Ore., to Batesburg-Leesville, S.C., and even New York City, the announcement of a coming Wal-Mart sends shivers down the collective spine of local business owners.

Wal-Mart sells itself as a job creator (around 200-400 per new store, so they say<sup>vi</sup>), but after factoring the long-term job losses by shrinking revenue and local business closure, we find that five years after a Wal-Mart store is built there is only a net gain of about 30 new jobs<sup>vii</sup>. The company also hypes itself to local governments as a massive sales tax generator, but the tax subsidies Wal-Mart receives from local governments to the tune of at the least \$1 billion in tax breaks, cut substantially into the sales tax gains<sup>viii</sup>. Furthermore, rather than creating substantial new business, newly built Wal-Marts suck 84% of their business (and the resulting sales tax) from existing area stores.<sup>ix</sup>

The ILSR formula also applies to other chain retailers. However with sales totaling roughly \$30 billion for the same period, Wal-Mart’s three closest retail competitors by sales: Target (with roughly \$12 billion), Costco (roughly \$11 billion) and Federated (roughly \$7 billion),<sup>x</sup> aren’t nearly the threat that Wal-Mart is.

Ironically, Wal-Mart’s large sales came from a relatively tepid holiday season. Same store sales for December were only up 2.2% as compared to last year, Yet Wal-Mart remains the largest drain on local economies.

### *Conclusions*

In just two months Wal-Mart siphoned off more than \$20 billion from local communities and redirected it into the Walton coffers. Across the country, city councils, community groups and state legislatures are beginning to stand up for main-street and to question the high cost of Wal-Mart’s low prices. Instead of subsidizing Wal-Mart’s low road strategy, communities are beginning to call on Wal-Mart to be the good neighbor that it claims to be. The Wal-Mart model –a company that pockets millions in public subsidies, while providing poverty wages to workers, buying sweatshop products from China and driving countless small businesses into bankruptcy– isn’t good for America.

*Notes on the research:*

The ILSR report surveyed local businesses in multiple communities on the Maine coast and compared them to discount retail chain outlets in the same communities to determine their figures. The study found that 44.6% of the local business revenue went primarily to four components: wages and benefits, goods and services purchased locally, taxes and charitable giving. Another 8.7% of the revenue went such costs elsewhere in the state, while the remaining 46.7% of revenue left the state to pay for inventory, mortgage interest, rent, credit card fees, insurance and equipment.<sup>xi</sup>

Using a similar expenditure profile on big box retail outlets in the same communities, the study found 14.1% of their revenue went to the above local costs while the rest left the state to suppliers and corporate headquarters. Although this report focused on the difference between locally owned and chain store revenue generally, Wal-Mart was among the chain stores considered.<sup>xii</sup> If anything Wal-Mart's lower than average wages and benefit costs and marginally tighter supply chain would mean an even greater impact on local economies than the results of this report.

Two studies conducted by Civic Economics centering on the same question of relative impact of chain stores and locally owned businesses bear out similar differences the recycling of chain and local revenue. The survey of the Andersonville neighborhood in Chicago, IL found \$.68 of every dollar spent at local stores recycled back into the local economy while only \$.43 of every dollar spent at chain retailers followed suit. This results in a 25% loss of money for local economies (it is important to note that this study also compared restaurants, which likely accounts for the comparatively higher figures, because restaurant chains typically have a greater need for local suppliers than retailers).<sup>xiii</sup> The same group's study of the Austin, TX economy found 45% of the money spent at a locally owned bookstore was recycled in the community, while only 13% of a national chain bookstore's revenue was recycled, resulting in a 32% loss.<sup>xiv</sup>

Neither of these reports factored Wal-Mart or similar big box chains into their study and thus was not factored into this paper. However it is interesting to note these two studies yield results with very similar percentages of loss to local economies (25% and 32% respectively) as that of the ILSR's 30.5% loss.

*Cost of Wal-Mart's Holiday Sales to Local Economies:*

Time Period	WM Sales	WM sales recycled into local economies	Recycled sales had money gone to local business instead of WM	Money lost to local economies
Black Friday '05	\$1,520,000,000	\$214,320,000	\$677,920,000	\$463,600,000
November '05	\$25,770,000,000	\$3,633,570,000	\$11,493,420,000	\$7,859,850,000
December '05	\$40,826,000,000	\$5,756,466,000	\$18,208,396,000	\$12,451,930,000
Holidays '05	\$66,596,000,000	\$9,390,036,000	\$29,701,816,000	\$20,311,780,000

<sup>i</sup> November, Retail Sales, Associated Press, December 1, 2005

<sup>ii</sup> Wal-Mart Reports December Sales, PR Newswire Business News, January 5, 2005

<http://news.moneycentral.msn.com/provider/providerarticle.asp?feed=PR&Date=20060105&ID=5393661>

<sup>iii</sup> Job Creation or Destruction? Labor-Market Effects of Wal-Mart Expansion, Emek Basker, University of Missouri, Review of Economics & Statistics, February 2005 <http://www.missouri.edu/~baskere/papers/>

<sup>iv</sup> The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine, Institute for Local Self-Reliance and Friends of Midcoast Maine, September 2003.

<http://www.newrules.org/retail/midcoaststudy.pdf>

<sup>v</sup> Ibid

<sup>vi</sup> Basker, February 2005

<sup>vii</sup> Ibid

<sup>viii</sup> Shopping for Subsidies: How Wal-Mart Uses Taxpayer Money to Finance Its Never-Ending Growth, Philip Mattera and Anna Purinton, Good Jobs First, May 2004 <http://goodjobsfirst.org/pdf/wmtstudy.pdf>

<sup>ix</sup> What Happened When Wal-Mart Came to Town? A Report on Three Iowa Communities with a Statistical Analysis of Seven Iowa Counties, Thomas Muller and Elizabeth Humstone, National Trust For Historic Preservation, 1996.

<sup>x</sup> Holiday retail is ho, ho hum, CNNMoney.com December 1, 2005

[http://money.cnn.com/2005/12/01/news/economy/holiday\\_retailsales/](http://money.cnn.com/2005/12/01/news/economy/holiday_retailsales/)

<sup>xi</sup> ILSR 2003

<sup>xii</sup> Ibid

<sup>xiii</sup> The Andersonville Study of Retail Economics, Civic Economics, October 2004

<http://www.civiceconomics.com/Andersonville>

<sup>xiv</sup> Economic Impact Analysis: A Case Study, Civic Economics, December 2002.

<http://www.liveablecity.org/lcfullreport.pdf>