WHAT HAPPENED WHEN WAL-MART CAME TO TOWN?

A Report on Three Iowa Communities
with a Statistical Analysis of Seven Iowa Counties

FOR THE NATIONAL TRUST FOR HISTORIC PRESERVATION

by

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May 1996

This report was prepared with the assistance of the Henry M. Jackson Foundation.

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PURPOSE

The purpose of this report is to provide information to communities - public officials and citizens - on the impacts of megastores on local economies, land use, social character, and downtowns. The report is based on case studies of three Iowa communities - Boone, LeMars, and Iowa Falls - where Wal-Mart stores were constructed between 1989 and 1990. In addition, nine counties with Wal-Mart stores were analyzed to determine economic effects of the retailer. This information is intended to help communities that are faced with planning and zoning decisions on megastores and to increase public awareness of the effects of large retail stores located on highways outside of traditional downtowns

This report is needed because the impact of megastores on communities has not been the subject of known rigorous analysis. The most comprehensive work to date has been by Dr. Kenneth Stone of Iowa State University, who has been tracking Wal-Mart's impact on retail sales activity in Iowa for over a decade. There have been prospective studies of the potential impact megastores on communities, but retrospective analyses are very limited.

SELECTION OF WAL-MART STORES AND STATE OF IOWA FOR ANALYSIS

For this report, we selected Wal-Mart as representative of megastores for several reasons. First, the focus of the report is the impact of the megastore on small communities and the Wal-Mart chain is located in numerous smaller communities across the United States. Second, it is the nation's largest retail chain (in terms of sales), and, apparently, the largest in the world. Wal-Mart met all the necessary criteria for this analysis. Other megastore chains, including K-Mart, typically had older stores while Target, a newer chain, remains concentrated on the West Coast.

The State of Iowa was selected as the site of the analysis primarily because there are about 46 Wal-Mart stores in the State of Iowa, and the state collects, on an annual basis, detailed data on sales volume for taxable goods, retail employment levels, the number of stores by category, and property values. These data are available at the county level, and sometimes at the city level as well. In addition, a number of Wal-Mart stores opened within Iowa in recent years, facilitating the tabulation of appropriate data and interviews with persons in these localities.[1]

Although Wal-Mart is the focus of this study, the results are applicable to other megastores. For example, a Target store of similar size at a similar location would have approximately the same impact on existing businesses. The only potential difference among would be that sales per square foot are higher at Wal-Mart than its competitors, thus, the Target store impact might be somewhat less than the Wal-Mart impact.

THE DEBATE ABOUT MEGASTORES

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[1] Most governments do not retain detailed records for more than five years.

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At meetings with communities or state agencies on permits for construction or rezoning, Wal-Mart or its representatives have stated often that the store's presence will have a positive impact on local business. For example, one hears that some of the traffic from the Wal-Mart store will spill over to the nearby downtown, boosting sales in smaller businesses. The corporation and its representatives also point to its job generation record - over a 1/2 million employees. And Wal-Mart notes that their market area is much larger than that of the typical store, drawing persons from a considerable distance. The expanded market, the company argues, will mitigate any adverse effect on local retail business.

This positive outlook is not necessarily shared by others. Small businesses in general -- and those in traditional downtown areas in particular -- often claim that these megastores are a threat to their survival. Residents of communities also fear that the megastore will contribute to sprawl, traffic congestion, and the decline in civic centers. During the past three years, grassroots organizations in close to 100 communities across the country have mounted campaigns to keep Wal-Mart out or to get the company to modify its design or consider a downtown location.

This report is intended to shed some light on several aspects of the megastore debate based on case studies in Iowa.

REPORT ORGANIZATION

The report is divided into four sections: I. Executive Summary and Introduction; II. Major Findings; III. Community Case Studies; and IV. Analysis of Counties. Part III contains the three case studies on how communities and their downtown areas were affected by and responded to the presence of a new Wal-Mart store. This analysis includes detailed descriptions of stores that closed and opened, services that were demanded, property values that changed, and the social fabric and land uses that were affected after Wal-Mart came to town. In Part IV quantitative methods are applied to estimate changes in sales, employment, the number of businesses and property values before and after Wal-Mart opened in a larger group of Iowa counties that experienced openings of Wal-Mart stores in recent years.

The Megastore Phenomenon

In recent years a relatively new form of retailer known as the "megastore," or "superstore" has been gaining an increasing share[2] of the retail dollar. Megastores share several common characteristics, the most obvious being size. Typically these stores have between 50,000 and 200,000 square feet of retail space, are part of a national chain, and aim to capture a large percentage of the local market for their products. They are usually located outside of downtowns in highway commercial areas in big one story box-like buildings, surrounded by vast expanses of parking. The stores are accessible primarily by the automobile.

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[2] See, for example, Hearings of Committee on Small Businesses. House of Representatives. August 10, 1994.

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Megastores can be divided into two broad categories. The first category concentrates on a particular type of merchandise (such as Staples selling office supplies, and Circuit City selling appliances), so-called "category killers." The second category has an inventory of general merchandise, ranging from clothing, home furnishings, and sporting goods to food and drug store items. These stores include "warehouse" or "wholesale clubs," such as Sam's Club and Costco, as well as more traditional discount department stores, such as K-Mart, Target and Wal-Mart.

Wal-Mart, the megastore selected for this analysis, is the nation's leading retail store. In fact, according to Fortune magazine, today Wal-Mart ranks among the twelve largest business firms in the world (the top three are Japanese). By the end of 1994, Wal-Mart had 1990 Wal-Mart stores, 143 Supercenters, 428 Sam's Clubs, and 30 distribution centers in 49 states, the exception being the State of Vermont.[3] Wal-Mart also operates 196 Wal-Mart stores, 11 Supercenters, and 25 Sam's Clubs in Canada, Mexico, and Hong Kong. Net sales for Wal-Mart were $82.5 billion in 1994, an increase of 22% over 1993. In the United States alone, total sales at Wal-Mart stores were $53.35 billion, at Supercenters were $4.65 billion, and at Sam's Clubs were $19 billion for the year ending January, 1995. Wal-Mart's total sales are projected to grow to $97 billion in fiscal 1996, according to the 1995 annual report. Only three corporations in the country have higher sales - General Motors, Ford Motor and Exxon.[4]

Nationally total retail sales in 1993 in Department Store Type Merchandise (DSTM) were about $530 billion. In 1993 Wal-Mart had an estimated 14.5% percent of all U.S. retail DSTM sales.[5] Because most Wal-Mart stores are concentrated outside large metropolitan areas, their percentage of DSTM sales is substantially above 14.5% in small city and rural markets.

Wal-Mart has captured a substantial share of all DSTM retail sales in smaller cities. The market share of Wal-Mart in predominantly rural states may well be unprecedented in the annals of American economic history. For example, Wal-Mart sales in Mississippi during 1992 are estimated (based on data tabulated from the company's annual report) to have been $1.2 billion. Total DSTM sales in the state during 1992 are estimated to have been about $3.9 billion. Given that $900 million of Wal-Mart sales are in the DSTM category, Wal-Mart has captured 23 percent of all such sales in the state. If one includes Sam's, Wal-Mart has captured over one quarter of the state's DSTM purchases. In Arkansas, another predominantly rural state, Wal-Mart sales are estimated to be $1.6 billion, with total DSTM sales at $4.0 billion. Thus, Wal-Mart has captured $1.2 of $4.0 billion, or 30 percent of all DSTM sales. Including Sam's, the total approaches one third of the market.

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[3] Wal-Mart opened its first Vermont store in 1995, has one under construction in 1996, another planned for opening in 1996, and two proposals pending.
[4] Wal-Mart Annual Report, 1995, p. 5.
[5] Sources: U.S. Statistical Abstract, 1994; Wal-Mart Annual Report, 1995.

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> "Total general merchandise sales in the state (of Iowa) last year were just a little short of $1.88 billion. My best estimate is that Wal-Mart has about $1 billion, so they have a little over half. And that includes stores, such as Yonkers, which is a state-based chain, and a lot of department stores that anchor malls. It includes Sears, Penneys, K-Mart, and Target. So, that is a remarkable share (for Wal-Mart) to have after coming in (to Iowa) in 1983."
>
> *Dr. Kenneth Stone, Iowa State University*

In 1995, there was a Wal-Mart store for every 100,000 people in the United States.[6] However, this total includes northeastern states, which have been targeted by Wal-Mart only in recent years. (In 1992 Wal-Mart entered the New England market with the opening of 16 stores.) Southern states, where Wal-Mart has been established longer, have as few as 28,000 persons per store.

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[6]All stores included: Wal-Mart, Sam's Club, Supercenters, and McLanes.