In a study comparing the economic impact of ten Andersonville businesses and their chain competitors, it was found that:

Locally-owned businesses generate a substantial Local Premium in enhanced economic impact.

- For every $100 in consumer spending with a local firm, $68 remains in the Chicago economy.
- For every $100 in consumer spending with a chain firm, $43 remains in the Chicago economy.
- For every square foot occupied by a local firm, local economic impact is $179.
- For every square foot occupied by a chain firm, local economic impact is $105.

Consumers surveyed on the streets of Andersonville strongly prefer the neighborhood over agglomerations of common chain stores.

- Over 70% prefer to patronize locally-owned businesses.
- Over 80% prefer traditional urban business districts.
- Over 10% of respondents reside outside the City of Chicago.

The study points to clear policy implications.

- Local merchants generate substantially greater economic impact than chain firms.
- Replacement of local businesses with chains will reduce the overall vigor of the local economy.
- Changes in consumer spending habits can generate substantial local economic impact.
- Great care must be taken to ensure that public policy decisions do not inadvertently disadvantage locally owned businesses. Indeed, it may be in the best interests of communities to institute policies that directly protect them.
EXECUTIVE SUMMARY

Abstract:

The Andersonville Development Corporation, with the support of The Andersonville Chamber of Commerce and funding by Andersonville Special Service Area #22, retained Civic Economics to evaluate the economic impact of the neighborhood’s locally-owned businesses and compare that with the impact of competitive chains. With the active participation of ten local firms, economic impacts were determined for each. Economic impacts for ten chains were then determined. To account for differences in revenue and size, those impacts were adjusted to two measures: impact per $100 revenue and impact per square foot. Because the locally-owned businesses and national chains were found to generate comparable revenue per square foot of retail space, the local firms were found to generate 70 percent greater local economic impact than chains per square foot, or 58 percent by revenue.

Andersonville is a neighborhood on Chicago’s north side. Its primary thoroughfare, Clark Street, bisects the neighborhood and serves as its commercial center. The commercial district is distinctive for its quaint facades and greenery, its history as a Swedish settlement, its current diversity, and the notable dearth of chain outlets among its countless shops, restaurants, and service providers. However, national chains have expressed interest in the community as disposable income continues to increase. These national chains are able to pay above present market value on their leases, which has begun driving commercial rental rates up and longstanding local businesses out.

The Andersonville Development Corporation (ADC), the Andersonville Chamber of Commerce (ACC) and Andersonville Special Service Area provide economic and market development services to the area. Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and, coincidentally, Andersonville.

Civic Economics previously conducted a widely cited study in Austin, Texas, assessing the economic impact of a publicly subsidized Borders Books & Music store seeking to locate across the street from locally-owned Book People and Waterloo Records. In those unique circumstances, it was demonstrated that the
local merchants generated three times as much local economic activity as the chain store, adjusted for revenue. That study, known as the Liveable City Study, has been replicated in two very different circumstances with similar findings: Maine’s Mid-Coast region and Toledo, Ohio.

ADC retained Civic Economics to build upon that research, studying the role of Andersonville’s diverse business community in the Chicago economy. ADC recruited ten local businesses to participate fully in the study, opening their books to the firm to facilitate a complete economic impact analysis of each. Civic Economics then prepared economic impact analyses of ten chain competitors selected in consultation with ADC and with consideration given to data availability. We adjusted those impacts to account for variations in revenue and square footage, and, to further explore the meaning of the data, businesses were categorized into three segments: restaurants, retailers, and service providers.

ADC also conducted a Customer Preference Survey of 512 randomly selected shoppers within the neighborhood during the month of May 2004. While this was an unscientific survey it provided interesting background information about where patrons are drawn from and why they choose to shop in Andersonville. Just under 40 percent of survey respondents came from outside the two main zip codes for the Andersonville area, and ten percent were from outside the City of Chicago. These visitors bring money into the district and into the city.

When asked to express a preference on the type of business shoppers patronize, over 70 percent preferred locally-owned businesses while less than three percent preferred chain businesses. Additionally, an overwhelming 80 percent of respondents identified Andersonville’s traditional neighborhood district, with locally-owned independent businesses, as their preferred shopping environment.

These results lend support to the preexisting belief in the neighborhood that the unique businesses and layout of Andersonville are a draw, attracting people from both inside and outside the region. Visitors are consciously choosing this type of commercial district over others.
Aggregate Economic Impacts

Using the City of Chicago as the relevant jurisdiction, economic impacts were calculated and aggregated (all local businesses and all chain businesses). Including direct, indirect, and induced effects, we found that the ten local firms generate a combined $6.7 million in annual economic impact compared to $8.8 million for the ten chains.

In this case, **direct** effects reflect the first round of local spending, such as wages and benefits, profits to local owners, local procurement, and charitable contributions. **Indirect** and **induced** effects reflect the continuing circulation of that first round of spending by businesses and individuals respectively.

Local economic impacts for businesses that serve a local market are primarily made up of four components: labor, profit, procurement, and charity.

Looking only at the chart above, the simplest policy conclusion jumps to the fore: these ten chain businesses create greater economic impact than the ten local firms. However, the following pages demonstrate that this simple assumption neglects to account for two essential variables: the revenue and square footage of each business. These variables, as we shall see, thoroughly erase the apparent economic impact advantage of chain businesses.
Adjusted Economic Impacts

Among the firms studied, chain businesses took in an average of over twice the revenue and occupied twice the square footage of the locals. Therefore, it was necessary to adjust raw economic impact values to account for these substantial differences. When those adjustments are made, the apparent economic impact benefit of the chain businesses is completely erased. The fact that locally-owned businesses ($263 revenue per square foot) and national chains ($243 revenue per square foot) generated comparable sales per square foot of retail space negates any size advantage the chains have over their locally-owned competitors.

For every $100 in consumer spending with chain firms, $43 will remain in the local economy; if that same spending occurs with a locally-owned firm, that value jumps by 58 percent, to $68. Similarly, for every square foot of space occupied by a chain, the local economic impact is $105; if a local firm occupies that same space, impact jumps by 70 percent, to $179.

This Local Premium represents the quantifiable advantage to the city provided by locally-owned businesses. Whether measured as a share of revenue or by square footage, local firms generate a substantial Local Premium over their chain competitors. That means more money circulating in the local economy, which may mean more home improvement, more in the collection plate, and more in taxable transactions to fund city services.
Across the board, locally-owned businesses substantially exceed their chain competitors in all four components. For example, local firms spent an average of 28 percent of revenue on labor compared to 23 percent for chains. Additionally, eight of the ten local firms are owned by Chicago residents, so profits largely remain in the city. Local firms procure local goods and services at more than twice the rate of chains. Finally, locally-owned firms in the study contribute more to local charities and fundraisers than do their national counterparts and, although this provides the smallest local advantage of the four categories, this difference is important to the community.
Economic Impacts by Sector

In order to gain a fuller understanding of these results, businesses were further categorized as restaurants, retailers, and service providers. This further analysis reveals that the Local Premium ranges from 144 percent per square foot among service providers to 63 percent among retailers and 22 percent per square foot among restaurants.

SOURCES: Interviews with all local businesses, Annual Reports for all chain businesses, Minnesota Implan Group, Urban Land Institute Dollars and Cents of Shopping Centers 2004, Civic Economics.
These differences are largely accounted for by one factor: labor costs. Restaurants, for example, are heavily dependent on employed labor. Locally-owned restaurants tend to employ more workers, have them work slightly longer hours, and pay them slightly more than their chain competitors. Local service providers, at the other end, are heavily dependent on the labors of the owner while their chain competitors rely more on employees, resulting in the most substantial Local Premium.

Policy Implications

A careful reading of the data demonstrates that locally-owned businesses provide substantial economic benefits to the city, benefits that are in danger of being measurably diluted by increasing chain competition. While fair competition and consumer choice are the touchstones of urban economics, great care must be taken to ensure that public policy decisions do not inadvertently disadvantage local firms. Indeed, it may well be in the best interests of communities to institute policies that protect them.

Andersonville is a model for prosperous communities nationwide. There, Chicagoans offer a wide array of products and services, keep local dollars in the local economy, and contribute to Chicago's privileged place among American cities. But Andersonville and the dozens of neighborhoods like it are particularly threatened by the proliferation of chain businesses.

Future public policies in Chicago must seek to protect and promote the Andersonville model rather than facilitate its demise. Equally important is the matter of consumer choice. With each purchase, consumers put into play their hard earned dollars; the consumer’s decision to patronize a local firm versus a chain competitor ripples through the economy with dramatic results.
ABOUT THE STUDY

About Andersonville

Andersonville is a distinctive neighborhood on the north side of Chicago. Locally-owned businesses have been a primary element in its success throughout its history. First established as a farming community in the 1850s, the retail district began as an enclave of small businesses when Swedes moved north to escape the neighborhoods that had been ravaged by the Great Chicago Fire in 1871. The residential community remained primarily Swedish for decades, until, like many established groups, the Swedes began migrating to the suburbs in the 1950s.

In 1964, the small business owners banded together to organize a huge parade, led by Mayor Richard J. Daley, in a celebration to rededicate the neighborhood to its Swedish roots. In the mid-1980s, the neighborhood was experiencing disinvestment in the commercial district. The business owners again organized, with the help of locally-owned banks, and provided financing for new start-ups to revitalize the district, as well as community-wide marketing. The combined efforts drew key new local enterprises onto Clark Street, and with them came renewed interest in Andersonville’s residential areas.

Today, Andersonville is one of Chicago’s most popular neighborhoods. It is still considered one of the most concentrated areas of Swedish culture in the United States and is home to the renowned Swedish American Museum. In addition, Andersonville hosts a diverse assortment of devoted residents and businesses, including one of Chicago’s largest gay & lesbian communities, a large collection of Middle Eastern restaurants and bakeries, and a thriving Hispanic commercial area on its north end.

Discover the small-town charm of Chicago’s Andersonville neighborhood. A great place to start is the website of the Andersonville Chamber of Commerce, www.Andersonville.org.
About Civic Economics

Civic Economics is an economic analysis and strategic planning consultancy with offices in Austin and Chicago. Since its founding in 2002, the firm has established itself as a leader in progressive economic development, taking its unique vision of sustainable prosperity across the USA and Mexico.

More importantly, the firm has emerged at the center of a network of planners and independent businesses promoting reasoned analysis of the evolving American retail scene. We’ve provided information and counsel to dozens of civic organizations in the USA and Canada. Our observations have appeared in news outlets from New York Times to San Diego. We have developed an unmatched understanding of the dynamics of local retail and service provision, a library of best practices information, and a network of contacts from business, government, and civic organizations nationwide.

Learn more about the firm and “The Civic Economics of Retail” by visiting us online at www.CivicEconomics.com.
Participating Firms

**Andies Restaurant** is a family owned restaurant serving Mediterranean, Lebanese, and Greek foods. Owner Andie Tamras has been serving Andersonville residents and visitors for 30 years. He participates in many local fundraisers and enjoys being a community destination for many holiday meals.

**The Chicago Aquarium and Pond Company** meets all the needs of the pond and aquarium hobbyist. It was started back in 1981 and owners Harold Ellis and Ken Riley have lived above their shop since 1988. As such, they are invested in Andersonville in both their professional and personal spheres.

**The Joel Hall Dancers and Center** was founded in 1974 by Joel Hall and Joseph Ehrenberg. Offering over 150 weekly classes for dancers of all ages, the studio reaches out to those who would not otherwise be exposed to the arts for classes, educational outreach programs and performances.

**M Henry** is a recent addition to the Andersonville scene. This restaurant features a breakfast and brunch menu that puts a modern spin on some classic dishes. Owner Michael Moorman chose a location at the northern end of the neighborhood, expanding the geographic diversity in Andersonville.

**Star Gaze** is a restaurant and bar catering primarily to the neighborhood’s lesbian population. The community minded owners donate time and space to many nonprofit organizations that cannot afford those expenses.

**Swedish Bakery** is the ultimate neighborhood sweet shop. Traditional Swedish products are featured, as well as a selection of other European and old fashioned American items. An expansion in 1989 tripled the size of the Swedish Bakery, raising employment from 19 to its current 55 employees.

**Toujours Spa and Salon** is another recent addition to Andersonville. This upscale salon and spa provides a service more commonly found downtown. The quality of work provides residents of Andersonville an amenity they once had to travel outside the neighborhood to enjoy.
Visionary Eye Care is a full service eye care facility, providing a unique health service and a full range of stylish eyewear. Drs. Michael Ciszek and Barbara Butler-Schneider and all their employees live in Andersonville.

White Hen Pantry is the locally-owned outlet of a well-known convenience store franchisor. Owner Cecilia Lemus was an employee at the store before recently purchasing the franchise rights.

Women and Children First is one of the largest feminist bookstores in the country, with over 30,000 books, and plays host to many book signings and events from local, regional, and national figures. Co-owner Ann Christopherson has been a vocal proponent of independent bookstores and retailers throughout the country and has recently served as President of the American Booksellers Association.
Contact Information

To learn more about the Andersonville Study of Retail Economics, please contact the sponsors and authors:

Ellen Shepard, Executive Director
Andersonville Chamber of Commerce
1478 West Catalpa Avenue
Chicago, Illinois 60640
773.728.2995
eshepard@andersonville.org
www.Andersonville.org

Matt Cunningham, Partner
Civic Economics
1425 West Summerdale, #3A
Chicago, Illinois 60640
773.251.5926
mattc@civiceconomics.com
www.CivicEconomics.com

Dan Houston, Partner
Civic Economics
Post Office Box 49061
Austin, Texas 78765
512.853.9044
dhouston@civiceconomics.com
www.CivicEconomics.com

To learn more about the Andersonville and to obtain copies of study documents, please visit www.AndersonvilleStudy.com.