

LARRY HOLLAND

AS THE

DOLLAR

URNS

WHAT YOU CAN DO TO BRING
PROSPERITY BACK TO AMERICA

As the Dollar Turns

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Prosperity Back to America

100.00

\$↓



100.00

\$↓

Larry Holland
Holland's Office Technologies

December, 2013
As the Dollar Turns - Part 1

To the Reader

This is an incomplete work, which is being updated with additional information, sources and professional editing.

About the Author: Larry Holland is a small business owner living in Lubbock, Texas. Larry has been married for over 30 years and has two children and two grandchildren.

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Introduction

This booklet explains how national chains and Big Box retailers are increasing the poverty levels of our communities and how a 10% shift in buying from Big Box to locally owned businesses can add thousands of jobs and millions in economic activity. Wal-Mart is just one of many Big Box retailers taking over our cities and towns. It is not my intention to create animosity against Wal-Mart or any other Big Box Retailer, but simply to present the facts about how we can increase prosperity for all. I reference Wal-Mart the most since it is the biggest of all the Big Boxes and many other Big Box retailers would like to emulate it. There is also a great deal of data on Wal-Mart, but I believe that the same trends can be seen in varying degrees in all other Big Box retailers. Earnings reports and shareholder equity of Big Box retail may be only marginally effected by the “buy local” message; the suggested 10% shift is a drop in an ocean of economic activity; however, it is still more than enough to be felt dramatically by the locally owned business. Wal-Mart and other Big Box retailers are a part of our economy. It has taken decades to increase the poverty levels of the United States, and it will take decades to reverse the trend. We will all have to work together to make positive changes for our nation.

There are other factors that contribute to poverty, but the purpose of this work is to focus on this one aspect, the concept of shifting 10% of your purchasing to a locally owned business, which is an economic measure.

Buy Local

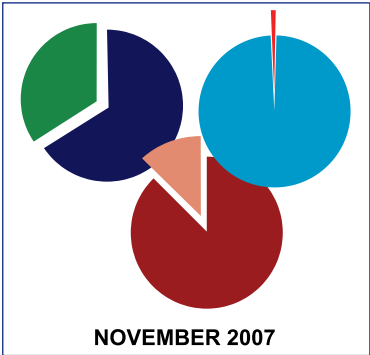
We hear the mantra, “Buy local,” and we do so when it is convenient. What does Buy Local mean? Many of the reports on local spending and the impact of Big Box retail are difficult to understand. Many of these reports are written in a foreign language: Academic. It’s kind of like Legalese. For example, there’s $\Delta\text{POV}_0 + t = f_2(\Psi_0, \text{POV}_0, \text{WM}_0, \Delta\text{WM}_0 + t)$. This is an equation demonstrating Wal-Mart’s contribution to poverty. It uses big words like “coefficient” and, Greek symbols like “delta.” “Wal-Mart and County-Wide Poverty” provided in the Appendix, is one such report.¹ In addition to all the economic reports are books and books and books. My aim is to condense all this information and make it understandable so that we can make intelligent decisions.

I am the owner of Holland’s Office Technologies, an independent, locally owned business in the Lubbock Texas area. I grew up in the office supply business working with my dad in Clovis New Mexico. In 1989, with the help of my family, I moved to Lubbock Texas and purchased a local office supply, Poteet Office Suppliers, located at 3833 50th street. After three years I moved to 4431 50th and in 2007 I moved the business to Wolfforth Texas. I have operated the business for over 20 years.

In the early years of the business I made sales calls to a few of the small communities in the surrounding area, one of which was Wolfforth. Wolfforth is located just outside of Lubbock and there was a sign that read “Wolfforth Ten Miles.” Today the two cities’ limits are touching and the sign reads “Wolfforth Next Two Exits.” In Wolfforth (population 3600) we jokingly say that Lubbock is our largest suburb.

I wish to draw on a lifetime of business experience to discuss the economics of the locally owned business versus the non-locally owned Big Box retailer. Locally owned businesses tend to be smaller than their non-locally owned counterparts. A small business is one that employs fewer than 500 people. I have 7. That makes me not just small but very small. “Mom and Pop” is a common term for such operations, although now it’s “Granny and Papa.”

**PROCUREMENT MATTERS:
THE ECONOMIC IMPACT OF LOCAL SUPPLIERS**



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Density. Opportunity. Prosperity.

Procurement Matters

The Procurement Matters chart represents three competitors in the same community. The full report is referenced in the Appendix.² That little sliver of economic impact is Staples, one of the nations leading national chains. They give back such a small amount to the local community that their economic impact is virtually zero. They actually send more dollars out of the community than they bring in. I’ll

go into this in more depth in a moment; first, I want to show you some of the economic inflows into my community of Lubbock and the importance of the dollars turning within that community.

Economic Inflows

Lubbock is a medium sized city on the High Plains Of Texas. In 1990 Lubbock’s population was about 186,000, and in 2010 the population was approaching 230,000. It is known as “The Hub of the Plains.” The chart above shows some of the industries that play an important role in the overall health of its economy: cotton (representing agriculture); medical (representating various hospitals, clinics and an array of doctor’s offices); and education (representing Texas Tech, Lubbock Christian University and South Plains College).³



Texas Tech alone has an estimated 1.26 billion dollars of economic impact, and is growing. (The full story can be accessed in the publication, “The Economic Impacts of Texas Tech University on Lubbock County,” prepared by Bradley T. Ewing, Ph.D.)⁴ There are also many other industries that play an important role in its economy: manufacturing, distribution centers, and a large retail sector. Lubbock attracts an economic inflow of activity from all around the region. People go to Lubbock to shop, see the doctor, and go to school.

The turning of a dollar in a community has a multiplier effect, making a hundred dollars spent into a much larger figure. This is known as the Lo-

cal Economic Multiplier. When the dollar leaves the community, the dollar deflates to its original size. Local First, an economic alliance in West Michigan found that 68 cents out of every dollar when spent with a locally owned business stayed in the community to turn again compared to only 43 cents out of every dollar spent with a non-locally owned business (see the Executive Summary of Local Works in the Appendix).⁵ When spent with a locally owned business, \$100.00 can turn into as much as \$312.50 worth of local economic activity! I wish to make it very clear that there is a huge difference between a locally owned business and a non-locally owned business that is local. When my wife was looking for a lawn mower, she asked around to find out if there were any locally owned mower businesses. She was referred to LOWE'S, the closest Big Box hardware store. She replied, "Not just local, but locally owned." She did find a locally owned business and bought a Toro mower for about \$35.00 more than the one at LOWE'S. She may have paid more, but the help from the owner at the store was well worth the difference.

Economic Outflows

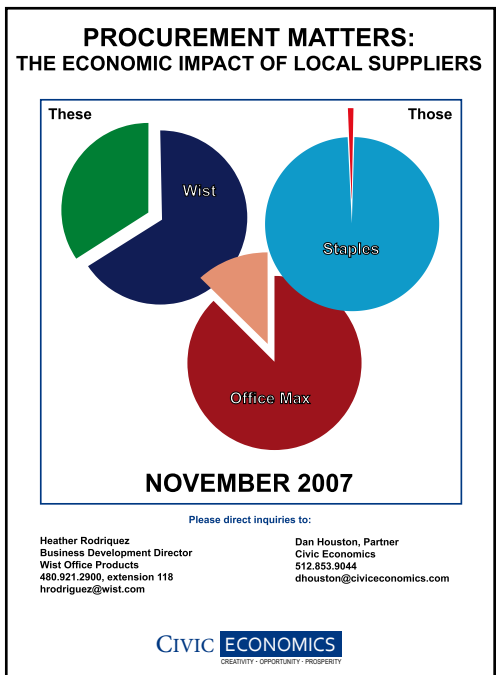
Economic outflows include the purchase of raw materials for manufacturing and the purchase of consumer goods to be sold at the retail level and any business that is not locally owned, such as the Wal-Marts of the world (Big Box retailers) and internet purchasing. Once a dollar leaves the community, the profits go to the owners and share holders of these Big Box corporations, and the manufacturing cost of the products ends up in places like China. That is, \$100.00 spent with a non-locally owned business only turns into as much as \$175.44 worth of local economic activity. More dollars are leaving the community than the Big Box retailers bring in. The following are a few studies to further explain this point.

Phoenix Study

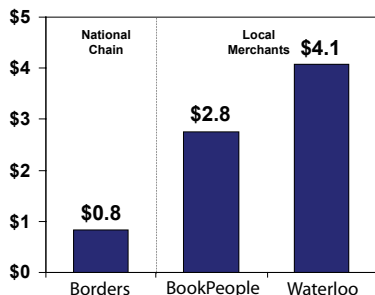
The Phoenix study is the first study that caught my attention, mainly because it is about one of my biggest competitors, the megastore Staples. When I first moved to Lubbock and purchased the small local office supply the main competition was other locally owned office supply stores and Sams. There were also some Quill, Viking and Reliable mail order catalogues. When the Office Depot opened their first location in Lubbock, I

lost a lot of business. I mentioned this to one of my vendors and I was told that they actually put large office supply stores out of business when they first went into the Dallas area. This was frightening. I survived only by diversifying into other areas that Office Depot did not deal in, but a handful of other competitor office supply stores did not. Later, when Office Max and Staples opened, there was no noticeable change. They took more business from each other than they did from me. Today, Big Box retailers populate the landscape. They advertise and claim to be cheaper than anyone else, thus drawing customers through their door. A common practice of a Big Box retailer is to first come in with a bang and have low prices in order to drive out their competition, and then raise prices to a more sustainable level. They may continue with loss leaders in their advertising, but the average price for their product mix will increase significantly. They even have different retail pricing for different markets. Check out the *Wall Street Journal* article in the appendix. It is amazing what they do to track your buying habits.⁶ For example, a metroplex based Big Box store with competitors in close proximity may have a lower overall price mix than the individual store in a smaller city with fewer competitors.

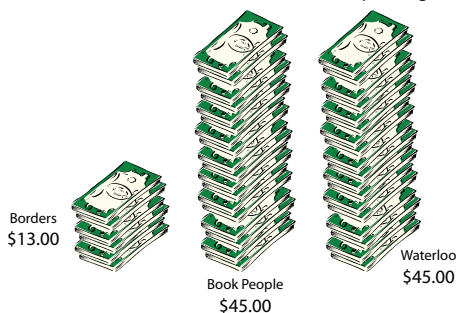
Let's get back to the Phoenix Study chart presented earlier, which represents three office supply businesses in the Phoenix area, showing dollar-for-dollar economic impact.² The reason Staples has such a small impact, even though they have a large number of outlets, is that all the profits leave the community. The next largest presence is the Office Max Contract Division. Office Max maintains one of its 52 national warehouses in the Phoenix area, thus providing more jobs. The largest impact is Wist Office Supply, the largest locally owned and operated office supply in the area. The dollar-for-dollar impact is 2.5 times that of Office Max. Isn't it clear that we need more of these (local) and less of those (national)?



Annual Economic Impact per Store
(millions in 2002)



Local Economic Return from \$100.00 spending



Consider this: If each household in Travis County redirected just \$100 in holiday spending, the local economic impact of that simple act would reach approximately \$10 Million.

Austin Study

The Austin study chart, also reproduced from Civic Economics, is derived from a study conducted in the city of Austin commissioned by Liveablecity and the Austin Independent Business Alliance.⁷ The study analyses three free standing bookstores: Borders, a national chain, and Waterloo and BookPeople, both locally owned businesses. Borders would return only \$13 out of every \$100 spent, whereas the locally owned stores would return as much as \$45 for every \$100. The reason for the disparity of the economic impact is that local businesses spend more locally. They keep all of their basic operations such as bookkeeping and advertising in house. They purchase more goods and services from the local economy and, lastly, they keep their profits local. Also note that the cost of merchandise from store to store is virtually the same. We now know that Borders filed

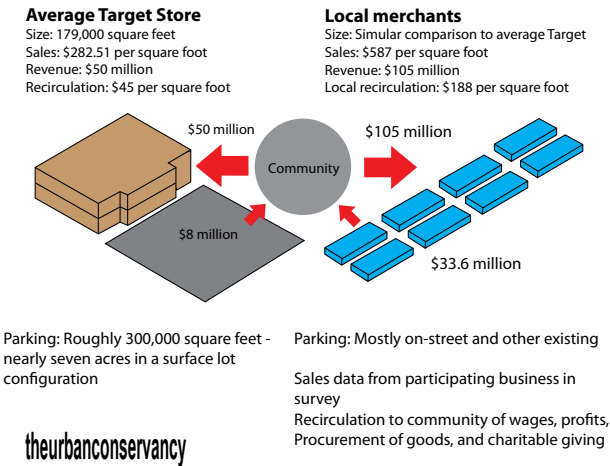
for bankruptcy protection in 2011 and was forced to liquidate all its stores. The following is an excerpt from the Austin chart: “Consider this: If each household in Travis County redirected just \$100 in holiday spending, the local economic impact of that simple act would reach approximately \$10 million.” This is what is meant by the turning of the dollar; the money being spent and re-spent before it leaves the community.

Land Use Considerations

The survey data and analysis present another issue for consideration. Civic Economics asked each participating business to provide data about the size and use of its facilities. Our goal was to quantify sales per square foot, a common measure of commercial success in the retail sector, to identify opportunities for the most productive use of land in a rebuilding New Orleans.

For local businesses, Civic Economics looked at space dedicated to retail services, excluding additional spaces. This was done to account for the odd configurations of many Magazine Street spaces, with deep narrow storefronts and often additional rental space on upper floors or outbuildings. A more conventional, purpose-built store like Target, by contrast, dedicates nearly all space to retail purposes, so this analysis used the full 179,000 square feet

Participating businesses report total sales per square foot of \$587 per retail square foot. Therefore, 179,000 square feet would generate an estimated \$105 million in annual sales revenue across as many as 100 individual stores. Buildable ground floor space on a typical Magazine Street block is 20-25,000 square feet, so these businesses would occupy roughly four blocks, fully built out on both sides of the street.



New Orleans Study

The Urban Conservancy in partnership with Civic Economics carried out a study in New Orleans to understand how they might rebuild their city in the aftermath of Hurricane Katrina. This study is hypothetical, using the statistics of the average Super Target versus small locally owned independent businesses in New Orleans. The focus of the study is on the best

use of the property and the amount of revenue per square foot. This concept is often used to determine the best marketing strategy. Super Target, similar to Wal-Mart, is different from other Big Box retailers in that they carry a large variety of products crossing multiple industries.

The New Orleans chart shows the economic impact per square foot: \$282.51 per square foot for the big guys versus \$587.00 for the little guys.⁸ The average Super Target does 50 million dollars in annual sales and would return back to the community only 8 million dollars annually. If the same square footage to be divided up between 100 different independently owned retailers, they would produce as much as 105 million dollars in annual revenue and would return 33.6 million to the community, a larger amount and a larger percentage.

It appears that different municipalities have different percentages, but the conclusion is the same. Different types of business and industries have different percentages, but the conclusion is the same. Locally owned businesses have an average economic impact twice that of their non-locally owned competitors.

Why Buy Local

Here are a few reasons.

1. Job creation
2. More labor costs paid locally.
3. Profits retained in the community.
4. Purchase of goods and services from other local businesses.
5. Charitable giving within the local community.
6. Keep the community unique.
7. More consumer choices.
8. Reduce environmental impacts
9. Generate local tax dollars for local projects.
10. Sustainability.

Is Big Box really cheaper?

It's not easy changing the habit of where to go to make a purchase. I found that I have to make an effort to do so. Because of a backyard problem I

needed a 100 ft. measuring tape, so I got in the car and started driving to the hardware store. Well, LOWE'S is about half a mile from my house, so I headed down the street. After a few moments I realized that the Ace Hardware store is only about half mile in the other direction. I had been meaning to go there and said so to myself every time I had passed by, so with a U turn I went the other way. There certainly were fewer people in the store than I remember seeing at LOWE'S. In the smaller store I quickly found the aisle with the tape measures. There it was, a 100 ft. measuring tape for 19.95. I grabbed it and went to the checkout counter. With no standing in line I was out the door with what I needed. A week or two later I found myself at LOWE'S. I don't remember why, but I thought that I might look to see what the price was on their measuring tapes. Bigger store, a lot more people shopping there, but I found the tape aisle with ease. They had a lot of variety. They even had several 100 foot tapes to choose from. Interestingly, though, the least expensive one was 39.95. "Wow," I thought, "that is a big difference." I also found pool supplies to be less expensive at the local Ace store than in the chain stores; smaller variety, but better priced.

Good old-fashioned customer service.

While many Big Box stores have tried to implement better customer service by training their employees or hiring people with a greater knowledge in their particular industry, the greater knowledge is on the side of the local merchant. It is in the self-interest of the local merchant to know more than his Big Box competitor. For example, the local merchant will go out of business if he cannot fulfill the needs of his customers, and he obviously has a lot to lose. The employee of the big box has no real skin in the game. Well, he has his job, which is important to him but, that may simply mean that he follows the store's policies. If you have a problem you can ask for the manager, but the manager may not be able to make a decision. The only answer you get is, again, a policy handed down from the central office. The small business owner is where the buck stops. He can make a decision, then and there.

In my personal business I give purchasing advice everyday. If a customer selects a product for purchase and they ask questions, I can give instructions on the use of the product as well as ask what they need it for to

suggest an alternative product that might be better suited for their needs. I am not saying that a big box retailer's staff can't help, I am saying that as an owner, I have a greater knowledge and greater care as to whether the customer is purchasing the right product for their particular project. I am also readily available for post sales help, which is one of the reasons customers come back to my store.

Keep the business you have.

Here is a story from a banker in a nearby Texas town. He would always go to the Big Box hardware store while he was in Lubbock on other business. His local hardware store usually had what he needed, he just didn't shop there out of habit and a perceived higher price. One day the local hardware store went out of business. Now, when he needs a quick \$2 item it is 40 miles away and that \$2 item has increased in price by a lot of time and gas.

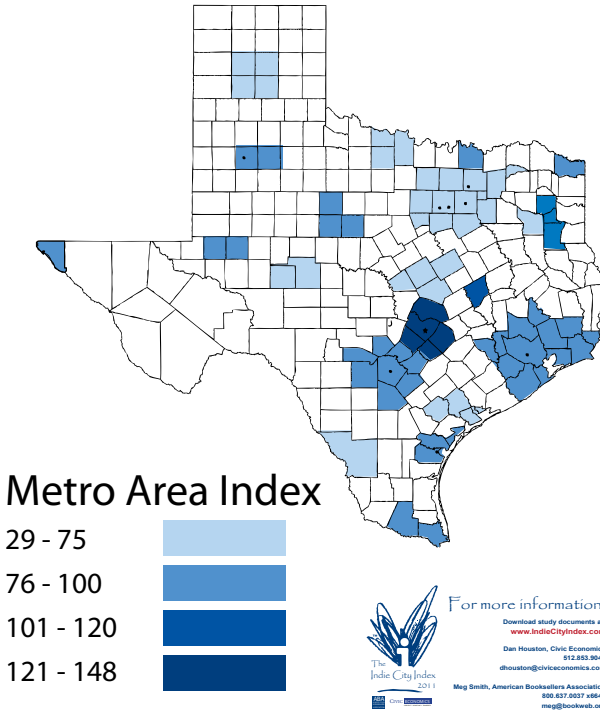
The Increase of Poverty

It has been shown that the impact of the Big Box retailers actually increases poverty in a community by paying lower wages and by sending profits out of the community to their shareholders. Lower wages increase the need for lower prices, which again increases the need for lower wages. Local businesses then attempt to stay in business by also cutting their wages and profits. This then either starts a vicious downward spiral and/or local businesses simply cannot compete and go out of business.

In contrast, one major argument for Big Box retail and Wal-Mart in particular is that the lower prices actually gives the lower wage earner better value per dollar spent, thus increasing the overall prosperity of the poor, but I disagree. Another argument and major accomplishment is that Wal-Mart has increased innovations in inventory control and distribution, thus helping lower the price to the consumer. "Retail Innovations in American Economic History - The Rise of Mass-Market Merchandisers"⁹ is an excellent publication providing the pros and cons of Big Box retail. This innovation is positive and one major reason many other Big Box Retailers want to emulate Wal-Mart. Is it possible for the Wal-Marts of America to change 10% of their products from foreign to domestic and jump start a new era of economic prosperity? Could they stock American made prod-

ucts beside foreign-made products and give the consumer a choice.

Indie City Index of Texas



Indie City Index of Texas

I want to draw attention to Civic Economics' Indie City Index, 2011. The original Index is a chart of the entire county created by Civic Economics.¹⁰ The above chart of the State of Texas shows a color coding of different areas of the state. The darker areas represent a more favorable rating and the lighter colors show a less favorable rating. The index measures the saturation of Big Box retailers in the market area. A benchmark rating of 100 is neutral. Look at Lubbock as compared to a few other areas, such as Austin and Amarillo. The Lubbock rating is 97.3, Amarillo's rating is 57.1 and Austin's rating is 134.2. I choose a comparison with Amarillo because we are considered sister cities. So, what's up with Amarillo? What's happening in Austin? Where is Lubbock heading?

A couple of quotes:

“The study concluded that in West Michigan alone, if just 10% of consumer spending was diverted from the mall to the main street, it would result in an estimated \$140 million in new economic activity, 1,600 new jobs, and \$50 million in new wages.”¹¹

“When we buy from locally owned businesses, more money stays in the local economy and multiplies 2-4 times! A 10% shift from chain to local in Franklin County will generate \$312 million dollars and 5000+ new jobs.”¹²

Conclusion

If we could make that 10% shift of buying from Big Box to local, we could make a difference. How much could that be? Millions, billions. Making that shift will not be easy and will require focus. It will be inconvenient.

Consider the strengths and weaknesses of the small local business.

Usually one location - smaller variety of products

Inconvenient location - family dog at the door

Children and grandchildren in the office

Never gets a vacation - works 24/7

Owner involvement - owner dedication

Top Job Provider in the US - Accounts for Half of the National GDP

Provides over half of all national employment



The Light Comes On

Local ownership is the key to local prosperity.

The effort to bring ever-cheaper products to market has created the downward spiral and started the trade deficit with foreign countries like China.

The dollar turning will lessen the effects of recessions and depressions and may be the only way out.

Spending locally can mean many things. Example: friends and family, members of your church, members of local organizations, business in the same city, county, region, state. An important principal is, “The dollar will turn back to you.”

Our national economy could be better. It will not get better from the top down. It will not get better until every community’s economy is better. A famous politician, Tip O’Neal, made the statement “All Politics is Local.” I would like to say “All spending should be local.”

Howard, South Dakota - Population 858

Dust blowing down the street.

Lost nearly a hundred local businesses between 1960 and 1999.

Kids saying, “What’s the point? There’s no future.”

Integrating of the schools.

The students ask “Why is it we don’t have infrastructure? Why are the buildings in town empty?”

Randy Parry, a basketball coach at Howard High introduces his students to computational software.

They send a ton of questionnaires out over a year.
The whole town gets involved.

They discovered that many Howard residents were routinely commuting 30 miles away to shop. They also learned that dollars spent locally circulated within the community, benefiting the whole town.

The students ask the residents of Howard not to spend more, but to spend 10% more at home.

The results were startling. In the first year after their effort, local retail sales increased 41%.

Today, the town is about the same in population, but: School attendance is growing.

The average age of the population is younger.
Levels of education are up.

Employment per capita is up.

New buildings are being built.

All this from a simple idea of spending 10% more at home.

Appendix

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