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**THE ECONOMIC IMPACT OF WAL-MART:  
AN ASSESSMENT OF THE WAL-MART STORE PROPOSED  
FOR CHICAGO'S WEST SIDE**

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## **INTRODUCTION**

The prospect of the opening of a new Wal-Mart store on the west side of Chicago has raised concerns about its potential impact on existing retailers. While Wal-Mart and its advocates suggest that the store will have a positive impact by adding jobs and income to the local economy, a more careful analysis is necessary to understand the *net benefits* associated with the proposed development. This study assesses the likely impact of a new Wal-Mart store on other local retailers and the resulting employment and tax revenue impacts on the City of Chicago and its residents.

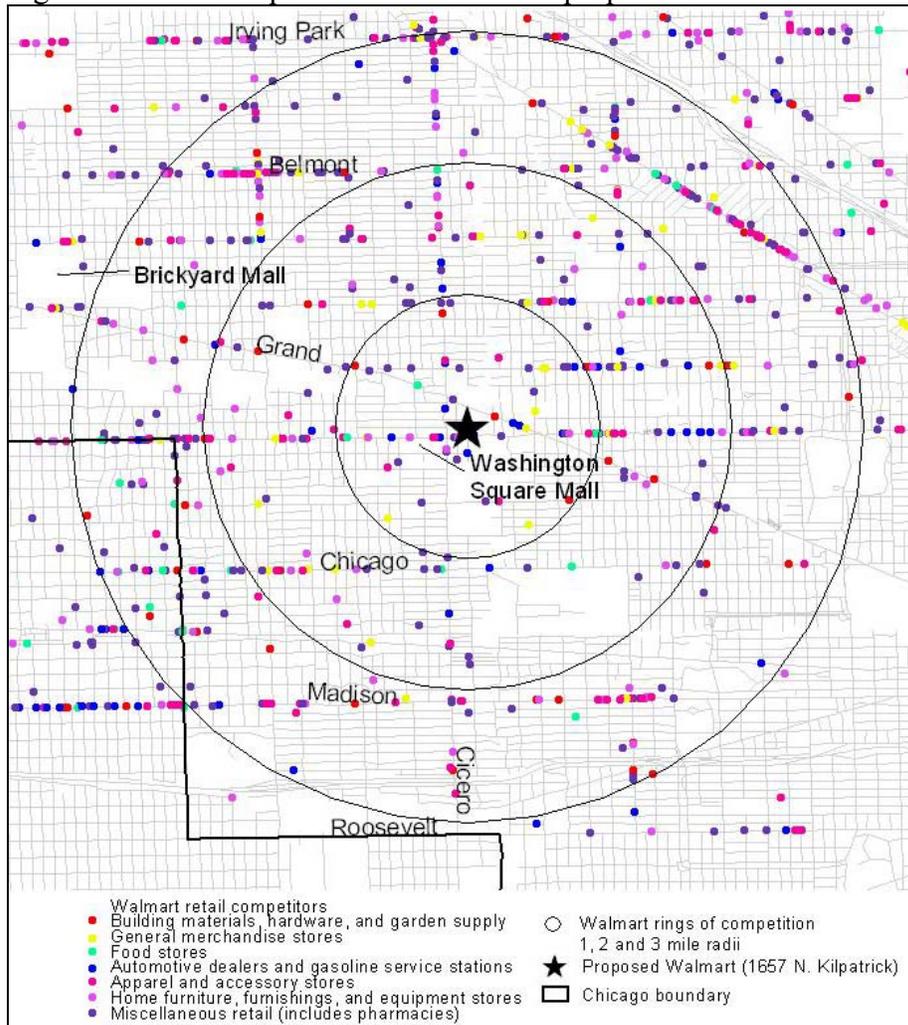
## **RETAIL COMPETITION IN WAL-MART SERVICE AREA**

Figure 1 graphically depicts the current retail market in the future service area of the proposed Wal-Mart store that is planned for 1657 N. Kilpatrick in Chicago. General merchandise stores like Wal-Mart typically have a three-mile service area. The three rings in the map indicate the existing retailers that fall within the one-, two- and three-mile radii around the proposed store.

### **Who will compete with Wal-Mart?**

Within the three-mile service area of the proposed Wal-Mart, there are an estimated 763 establishments retailing in sectors that will compete directly for Wal-Mart's customers. Among this universe of establishments, 61 stores will compete with Wal-Mart in the general merchandise sector (represented by yellow dots in Figure 1) and 40 stores will compete with Wal-Mart in the discount department and variety store sectors. Furthermore, within a few blocks of the proposed site, there are several recently developed retail stores in Washington Square Mall that will be directly competing with Wal-Mart for customers in the apparel and accessory merchandise sector. Just outside the service area is Brickyard Mall, a full-service shopping center. It can be assumed that the majority of jobs lost because of competition with Wal-Mart will be lost from retailers within the three-mile service area.

Figure 1: Retail competition in Wal-Mart’s proposed service area<sup>1</sup>



Source: Dun and Bradstreet *Marketplace* 2003 (July-September)<sup>2</sup>

### Will Wal-Mart draw suburban consumers to Chicago?

The scale of Wal-Mart’s economic impact on the City of Chicago in part depends on how many suburban customers it can draw into the city to shop at the proposed store (“exports”), and on how many Chicago residents who currently shop in the suburbs Wal-Mart can be attracted back into the city (“import substitution”).

<sup>1</sup> Not all retail stores outside the three-mile service area indicated by the outer-most ring were included in the map.

<sup>2</sup> To verify the accuracy of the Dun and Bradstreet *Marketplace* list of businesses, researchers checked the name and location of 100 randomly selected businesses located in the service area and found that approximately 90 percent of the business names and addresses were correct. Researchers augmented the list with the names and addresses of 10 new businesses visually identified in the service area that were not included in the *Marketplace* list.

Regarding the “export” potential of the proposed store, the service area for the proposed Wal-Mart extends only slightly into the suburban region. For this reason, it is unlikely that Wal-Mart will draw a substantial share of its customer base from outside the city limits. In addition, the closest suburban community (northern Oak Park) is a high-income area with already extensive local retail development that is almost two miles west of the proposed site.

The new Wal-Mart will have a limited “import substitution” effect. Given that the store will be located approximately five miles northwest of the nearest Wal-Mart in Forest Park, it is reasonable to assume that it will attract some of the Chicago residents currently shopping at the Wal-Mart in Forest Park back to the city. However, overall, the new Wal-Mart will mainly attract city customers from existing city retailers, such as those located in Washington Square Mall and the Brickyard Shopping Mall.

## **ESTIMATED ECONOMIC IMPACT OF THE PROPOSED WAL-MART STORE**

In its promotional literature, Wal-Mart indicates that it will create 250 jobs (70 percent of which will be full-time jobs), and it further suggests that the store will add \$600,000 in annual tax revenue to the City of Chicago.<sup>3</sup> Taken at face value, these claims suggest that the introduction of a Wal-Mart store at the proposed location will result in net employment, income and fiscal gains for the City of Chicago and its residents. Wal-Mart’s estimates, however, do not take into account employment and income losses that will occur when other businesses in the service area close or scale back their operations because they lose customers to Wal-Mart. This section of the report estimates net changes in employment, income and tax revenue for the City of Chicago if Wal-Mart opens a store at the proposed location, taking into account jobs and income that will be lost due to competition.

The analysis that follows suggests that after accounting for jobs and income lost due to competition, the overall employment and income impact of the new Wal-Mart store will be negative. In other words, despite creating approximately 250 jobs, Wal-Mart’s net impact will be a *reduction* in local jobs and income. On the other hand, the City of Chicago can expect a slight net increase in tax revenue from the new store. The analysis begins with a description of the model used and the assumptions made to predict the economic impact of the proposed Wal-Mart store.

### **Description of the economic impact model and assumptions**

The estimated economic impact of the proposed Wal-Mart store was derived using input-output analysis, customer survey data, and publicly available business sales

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<sup>3</sup> “Wal-Mart in Chicago: Questions and Answers,” Wal-Mart flyer (date not available).

and tax data.<sup>4</sup> An input-output multiplier was used to estimate the number of direct and indirect jobs that would be generated by a general merchandise retailer of average size and efficiency based on the number of direct jobs added to the local economy by the new store. Customer survey data was used to estimate the share of new customers that will be attracted above and beyond the customers drawn from existing local retailers. Average sales per employee by store size from the 1997 U.S. Economic Census for the retail industry was used to estimate the loss of jobs at competing retailers.

The economic impact model is based on three key assumptions related to the relative productivity of Wal-Mart compared to other general merchandise retailers and the share of customers from the Chicago suburbs that will shop at the proposed store. Below is a summary of these key assumptions. A detailed summary of all assumptions made to generate the economic and fiscal impact of the proposed Wal-Mart store is included in Appendix A.

**Assumption #1: Wal-Mart uses fewer employees to generate the same amount of sales as its competitors**

Wal-Mart's position as a market leader in terms of labor productivity is well documented. They consistently generate more sales per employee than their smaller competitors.<sup>5</sup> On average, the largest retail trade establishments are 51 percent more productive (they generate 51 percent more sales per employee) than all other retail trade establishments combined.<sup>6</sup> Based on these statistics, it is assumed that the proposed Wal-Mart will use 51 percent fewer employees to generate the same amount of sales as its competitors.

**Assumption #2: Wal-Mart will attract some Chicago customers back to the city**

As a general rule, new retail stores rarely expand the total amount of sales generated in an urban market, particularly in a market as dense with existing retail establishments as is the market for the proposed Wal-Mart. Rather, when new retail stores enter the market, they take customers away from existing retailers. The end result is that while the new retailers create jobs, jobs are lost elsewhere in the market due to competition. However, given the size of Wal-Mart and its ability to attract new customers to a local market, it is assumed that Wal-Mart will increase the number of customers shopping in the local market in part by recapturing a share of Chicago residents who currently shop in suburban Wal-Mart stores. Thus, it is

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<sup>4</sup> Input-output multipliers obtained from software developed by "IMPLAN Professional, Version 2.0, Social Accounting and Impact Analysis Software" with the latest available 2001 data for Cook County Illinois was used for this analysis. This software is widely used for economic impact analysis and is produced by Minnesota IMPLAN Group, Inc.

<sup>5</sup> Sources: Johnson, Bradford C. (2002) "Retail: The Wal-Mart Effect," *The McKinsey Quarterly* (1); "Formula Reveals Year-to-Year Gains," *USA Today*, August 12, 2003.

<sup>6</sup> According to the latest "Sales Size of Establishments" from the 1997 U.S. Economic Census for the Retail Trade Industry, retail establishments with over \$25 million in sales have a 51 percent higher sales/employee ratio than the weighted average for all other stores.

estimated that 10 percent of Wal-Mart's customers will be Chicago residents who formerly shopped in the suburbs.

**Assumption #3: Wal-Mart will attract new suburban customers to the city**

It is estimated that, on average, 12 percent of the current customer base of all local retailers consist of suburban customers. An estimated 50 percent of Wal-Mart's suburban customers will come from other local retailers. Therefore, six percent of its customers will be new suburban shoppers.<sup>7</sup>

**Employment and income impact**

If Wal-Mart opens its proposed store, it is expected that while it will create 200 jobs for Chicago residents,<sup>8</sup> 254 jobs held by Chicago residents will be lost by other competing general merchandise stores in Chicago and an additional 11 jobs will be lost mostly in other sectors of the retail industry. The direct and indirect employment and income impacts are presented in Table 1.<sup>9</sup>

Table 1: Estimated economic impact on Chicago of the proposed Wal-Mart store

Direct Chicago jobs created in the general merchandising sector	200
Direct jobs held by Chicago residents lost in the general merchandising sector in Chicago <sup>10</sup>	- 254
Net direct jobs held by Chicago residents lost in the general merchandising sector in Chicago	- 54
Net indirect jobs held by Chicago residents lost outside of the general merchandising sector in Chicago	- 11
Net direct loss of benefits to Chicago residents <sup>11</sup>	- \$851,000
Net indirect loss of benefits to Chicago residents <sup>12</sup>	- \$332,000

<sup>7</sup> Assumptions #2 and #3 combined imply that 16 percent of Wal-Mart's customers will be new customers that are not currently customers of other existing local retailers.

<sup>8</sup> It is estimated that about 80 percent of all jobs created and lost are held by Chicago residents.

<sup>9</sup> These estimates are based on an IMPLAN, version 2.0, 2001, Cook County, Illinois, input-output model and multiplier. The most recent data were available for 2001 and for Cook County.

<sup>10</sup> Due to their relatively higher productivity, the 250 Wal-Mart workers will sell as much as 378 average retail workers (see footnote 6) currently working for other local retailers. However, Wal-Mart will not displace 378 retail workers because some of the sales that it will generate will not come at the expense of other local retailers. The sum of the 10 percent gain in sales from "import substitution" and the 6 percent gain in sales from its "export" implies that 16 percent of Wal-Mart's sales will be to new customers who currently shop in the suburbs. The new Wal-Mart will therefore displace 318 retail workers in other stores (378 \* 84 percent). Based on the assumption that 80 percent of jobs lost are held by residents of Chicago, a total of 254 jobs held by Chicago residents will be lost in the local market.

<sup>11</sup> This figure reflects the estimated labor compensation in 2004 dollars for 54 jobs lost in the local general merchandising sector held by Chicago residents. Labor compensation was discounted by 40 percent to adjust for the share of total income lost that is estimated to be earned by Chicago residents (see assumption #2 in Appendix A).

Overall, the opening of Wal-Mart at the proposed location would directly eliminate 54 net jobs in the general merchandising sector and indirectly lead to the elimination of another 11 jobs outside of the general merchandising sector, for a total net employment loss of 65 full-time and part-time jobs.<sup>13</sup> The jobs, once lost, will generate an annual loss of income for city residents totaling approximately \$1.2 million in current dollars.

### **Fiscal impact of the proposed Wal-Mart store**

Sales and tax data were used to estimate the net change in tax revenue attributable to the new Wal-Mart store. The analysis of the fiscal impact is based on assumptions described in Appendix A. Table 2 includes estimates of tax revenue increases for Chicago municipal governments. The estimates indicate a \$197,000 net annual tax revenue gain from the new Wal-Mart, considerably lower than the estimate of \$600,000 provided by Wal-Mart. The net increase in tax revenue is driven by the gain in sales tax revenue.

**Table 2: Annual tax revenue impact of the proposed Wal-Mart store**

Net increase in sales tax revenue from Wal-Mart sales after discounting loss of sales tax revenue from other area retailers	\$247,000
Indirect loss in sales, property, and other local tax and fee revenue from losses in gross income by Chicago residents as a result of net jobs lost	- \$71,000
Net new property tax revenue from the proposed Wal-Mart store	\$21,000
<b>Total increase in tax revenue (sales and property tax)</b>	<b>\$197,000</b>

### **Summary of employment, income and fiscal impacts**

Wal-Mart's claim that it will create new employment and generate new taxes for the City of Chicago is only part of the story. This study forecasts that Wal-Mart will displace more jobs and income than it creates. Generally, the entrance of new general merchandise stores in an urban community simply displaces existing economic activity in the service area and only rarely adds a considerable number of jobs and income to the city. In the case of Wal-Mart, the fact that it uses substantially fewer employees to

<sup>12</sup> This figure reflects the estimated total labor and proprietor compensation lost in 2004 dollars because of the indirect loss of 11 jobs lost in the local market. Indirect income was discounted by 40 percent to adjust for the share of total income lost that is estimated to be earned by Chicago residents (see assumption #2 in Appendix A).

<sup>13</sup> It is assumed that the share of jobs lost that are full-time jobs is the same as the U.S. average for retail establishments.

generate the same amount of sales as its competitors means that it will displace more jobs than it creates. In regard to the fiscal impact, while it is estimated that the proposed store would generate a net gain in taxes for the City of Chicago, the net annual gain is minimal.

**APPENDIX A: ASSUMPTIONS MADE TO PREDICT JOB IMPACT**

1. The proposed Wal-Mart will be located at 1657 North Kilpatrick Avenue (at the corner of North and Kilpatrick Avenues) in the Austin Neighborhood on the west side of Chicago. This will be a standard Wal-Mart (not a “Wal-Mart Supercenter” or “Neighborhood Market”) store.
2. Wal-Mart will hire 250 full- and part-time employees to operate the store.<sup>14</sup> Approximately 80 percent of all jobs created will be Chicago residents.<sup>15</sup> Approximately 60 percent of employee compensation is attributed to Chicago residents.<sup>16</sup>
3. The ratio of part-time to full-time workers will be equal to the Cook County average for the “General Merchandise Stores” (1987 Standard Industrial Classification code 5300) for Cook County in 2001.<sup>17</sup>
4. Workers’ average overall compensation (including cash and non-cash benefits) will equal the IMPLAN average for this sector for Cook County in 2001 (\$20,087 per year).<sup>18</sup>
5. Thirty percent of the shoppers at the closest suburban Wal-Mart are Chicago residents.<sup>19</sup> The proposed new Wal-Mart will attract 33 percent of these customers who shop outside the area, for an “import substitution” gain of 10 percent.<sup>20</sup>
6. Twelve percent of customers currently shopping at competing stores in Wal-Mart’s proposed service area are from outside the City of Chicago.<sup>21</sup> Because of the close

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<sup>14</sup> “Wal-Mart in Chicago: Questions and Answers,” Wal-Mart flyer (date not available).

<sup>15</sup> It is assumed that the ratio of Chicago to suburban employees at the new Wal-Mart will be higher than the average (70 percent) for Chicago stores because of the nature of the jobs and the location of the proposed site.

<sup>16</sup> This reflects the fact that many of the jobs that will be held by workers not residing in Chicago will be full-time salaried managerial jobs at considerably higher than average pay.

<sup>17</sup> In 2003 production workers in the retail industry worked an average of 30.9 hours a week.

<sup>18</sup> Note that this is an industry *average* figure that includes managerial employees. According to a report by the Democratic staff of the Committee on Education and the Workforce (2004) for the U.S. House of Representatives for Representative George Miller (“Everyday Low Wages: The Hidden Price we all pay for Wal-Mart,” February 16) sales clerks at Wal-Mart were paid only \$13,861 per year in 2001 (approximately \$14,494 in 2004 dollars).

<sup>19</sup> This figure is based on a 2/29/2004 (Sunday) afternoon survey of city parking stickers affixed to automobiles parked at the closest Wal-Mart at 1300 Des Plaines Avenue, Forest Park, Illinois. Note that this estimate may be inflated since customers are more likely to shop outside their local area on weekends rather than during weekdays.

<sup>20</sup> The nearest existing Wal-Mart is 5.0 miles southwest of North and Kilpatrick and is easily accessible from the Des Plaines exit of the Eisenhower expressway. In contrast, the proposed new site is 2.7 miles from the nearest Eisenhower exit. The next closest Wal-Mart is 7 miles away on Touhy Avenue in Niles, Illinois. The nearest suburban community, Oak Park, which has extensive local retail development, is 1.7 miles and 5 minutes away, due west on North Avenue.

<sup>21</sup> This is based on a 2/29/2004 (Sunday) afternoon survey of parking stickers affixed to automobiles parked in front of the “Marshalls” and “A. J. Wright” department stores in the newly developed Washington Square Mall which is located 2 blocks west of the proposed site for the new Wal-Mart.

proximity of competing stores, it is assumed that approximately half of these new suburban shoppers will displace suburban customers currently shopping at existing local area stores for a net “export share” gain of 6 percent.

7. Approximately 2 percent of increased expenditures on sales in Chicago will be remitted to Chicago local government authorities as increased sales tax revenue.
8. Each net new Wal-Mart employee will, on average, generate \$309,000 in increased sales in 2004 dollars.<sup>22</sup>
9. Chicago municipal governments will capture 6 percent of the new income received by Chicago residents, in the form of indirect increases in sales, property, and other local tax and fee revenue.
10. Chicago municipal governments will receive 6.557 percent of the total assessed valuation of the new store as increased property tax revenue.
11. The total assessed valuation of the new Wal-Mart will be approximately equal to the \$2.5 million valuations of similar Wal-Mart stores at other locations in the metropolitan area.<sup>23</sup>
12. The current owners of the 1657 N. Kilpatrick Avenue property, which was assessed at \$516,390 in 2003, are paying property tax at roughly the same rate to Chicago municipal government authorities.
13. The increased property tax revenues by the new Wal-Mart will be offset by declines in property tax value for other local commercial properties proportionate to the amount of business and employment that will be displaced by the new Wal-Mart.

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<sup>22</sup> Authors’ calculations based on the 1997 U.S. Census Bureau Economic Census for the retail industry inflated to 2004 dollars.

<sup>23</sup> 2003 assessed valuations of a Wal-Mart in Northlake, IL (\$2.4 million) and in Bridgeview, IL (\$2.5 million) was obtained from the Cook County Assessor’s website ([www.cookcountyassessor.com](http://www.cookcountyassessor.com)). It is assumed that the new Wal-Mart will require a larger land area than the 1657 N. Kilpatrick lot itself whose 2003 land assessed value is only \$141,000, versus about \$1.1 million for the other Wal-Mart sites.