

# Economic Drivers Of Retail Trade

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Today, it is common for local consumers to drive 60 to 80 miles to shop at major retail establishments, such as Wal-Mart or Sam's Discount Warehouse. While in these retail trade centers, consumers also buy other goods and services, such as food and beverages, furniture, electronics, clothing, and automobiles.

Consumers' decisions about where to shop depend on the trade area, availability of local goods and services, and other amenities in the area. The development of retail trade sectors within towns and counties is an essential part of local economic development plans. When community residents shop outside the local trade area, these purchases represent "leakages" of retail dollars.

Many factors contribute to an area's (city, county, or state) ability to capture retail sales. This publication highlights several trends impacting retail sales in both rural and small areas of the United States. Knowing how these factors affect local and regional economies is important for economic developers, chamber of commerce groups, regional development organizations, and local government officials.

## Community Appearance

A pleasing appearance helps create a feeling of identity among citizens about the community as a place to live and work. Communities with good infrastructure provide places for citizens to relax and interact by developing public meeting facilities, green spaces, flower gardens, hiking trails, parks, and other recreational facilities that support an enhanced quality of life. Community appearance is vital to

growth. Many businesses and industries gauge communities with a "windshield survey" before giving the area serious consideration for locating there.

## Trade Centers

Many factors determine whether an area will exceed its retail sales potential. An important factor is the presence of a regional trade center in the area. Regional trade centers have many economic, cultural, and social characteristics that make them attractive shopping destinations. As a result, many developers and decision makers believe consumers will travel to trade centers to shop for goods and services. Such characteristics as stable and growing labor markets, fine restaurants, malls, discount retailers, entertainment, recreation, and transportation infrastructure combine to make an area a popular trade destination.

Because of their size and the existence of large shopping centers and health facilities, trade centers draw shoppers from surrounding counties, which increases retail sales in these areas. Improved transportation, especially state highways and interstates, has changed shoppers' perspective of time and distance, which have expanded the size of a trade area. With travel becoming more frequent because of cars, the distance that once discouraged people from shopping is now more acceptable. Market research shows that some customers will drive up to 125 miles to shop at major mall facilities, especially outlet malls. Although rural residents frequently travel to trade areas for employment, medical, and dental appointments, they also are likely to avail themselves of

shopping, dining, entertainment, and recreational facilities when visiting these places.

### **Interstates and Major Highways**

Tourism and travel along major interstates and highways can provide communities with a large source of retail sales. For example, thousands of people visit the Gulf Coast states of Alabama, Florida, Louisiana, Mississippi, and Texas each year. Communities along commonly traveled routes also benefit from tourism. Tourism and recreation dollars spent at highway establishments, such as fast food restaurants, gas and convenience stores, and overnight lodging facilities, can significantly increase total retail sales in the area.

### **New and Expanding Industries**

Counties with large trade centers and diversified economies attract people from other places into the area for employment. These commuters often do their shopping after work, spending their dollars in the area before traveling home for the day. New and expanding businesses, such as automotive assembly plants, computer companies, and construction firms, draw workers to the area, which creates positive economic benefits for local retailers. In short, there is a direct correlation between the local labor force and retail sales. This relationship indicates that as the labor force expands, more people will have incomes to spend, which they do. Employees will spend a percentage of this new income in the place in which they work, thereby raising total retail sales in the area. The multiplier effect associated with the new income will further boost total retail sales.

### **Natural Resources**

Quality fishing, hunting, hiking, nature watching, and other outdoor recreational activities combine to create local ambience that positively impact retail sales. Thousands of outdoor enthusiasts take advantage of these opportunities every year in states like Arkansas, Georgia, Louisiana, Mississippi, North Carolina, and Tennessee. Many other goods and services are purchased on these sporting trips, including fishing and hunting licenses, gas, ammunition, bait, tackle, groceries and other supplies. Many of the sportsmen are non-residents from across the country, which raises retail sales without affecting per capita personal income or other local facilities and services on a long-term basis.

A 1995 study of outdoor recreation in southwest Mississippi found that retail sales and property leasing

generated almost \$9 million in income for the area. The study concluded that about 15 percent of all retail sales was from outdoor-related activities in the county. In fact, some merchants acknowledged a heavy dependency upon the influx of outdoor sportsman to the area. Interviews with local merchants found that some would have closed their businesses or laid off employees if all outdoor recreation had ceased to exist in the county.

### **Educational Institutions**

Secondary and higher education institutions add to retail sales by bringing students, parents, and friends to the area. Students generally tend to spend more than local residents in the community, especially on food, entertainment, and clothing. They tend to eat more food away from home than full-time residents in the community. Students view their current economic situations as short-term, and their spending habits reflect this. Studies suggest they spend more in areas like housing, food and beverages, gasoline, entertainment, and other general retail categories. For host communities, a community or a four-year college can represent a significant portion of total retail sales in the area.

### **Multipurpose Arenas**

Counties with auditoriums, convention centers, and agriculture facilities can draw people and retail spending to the area. These facilities also host a variety of activities and events such as business and professional conferences, large meetings, horse shows, trade shows, concerts, and regional and state athletic tournaments, creating primary and secondary economic impacts in the area during the year<sup>1</sup>. Extension specialists throughout the country frequently conduct studies showing the economic impact of these facilities on host communities<sup>2</sup>.

### **Sports Entertainment**

Athletic events such as basketball, baseball, and football games also create increased retail sales in host communities. Thousands of fans and alumni converge on these communities to support their teams, dine out, and shop. Again, many of the fans and participants in these events come from other towns and states.

The level of economic impact from fans and participating teams depends on several factors. These include distance traveled by the visiting teams, which will determine the demand for overnight lodging and for how many nights; the type of athletic event; the

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<sup>1</sup>To what extent this happens depends on the facility's ability to draw crowds from outside the area, and not every facility can draw such crowds.

<sup>2</sup>For example, the director of the Mississippi State University agriculture center conducts an economic impact study of the facility annually. The results are shared with university and city officials throughout the year.

gender of the athletic event; and whether the team has a winning record. Other important drivers of retail sales include the availability and capacity of local lodging facilities, number and type of local restaurants, level of entertainment, and if there are local ties to the area either home or school related. Combined presence of these establishments and services can create a tremendous economic windfall for retail merchants and government officials in college towns. The impact of this windfall will be multiplied if government officials and merchants work to expand local goods and services and keep visitors in the area longer.

## **Electronic Commerce**

Other developments, however, such as the Internet and e-commerce may hurt retail sales, since many states do not tax e-commerce purchases. Tourism, a major contributor to local retail sales, may experience little impact from e-commerce, but other activities will. Local, rural merchants argue that not taxing or collecting taxes where appropriate gives Internet merchants an unfair price advantage over merchandise sold in conventional outlets. As Internet's share of total retail sales continues to grow, debate on this issue will likely intensify.

### **For More Information**

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