

## Douglas County Opportunities and Challenges in Retail and Services Businesses For the Development Association

### Introduction

With the closure of two large big-box retailers in the City of Superior during 2016, the health of retailing and services has been a widely discussed topic. While several economic development groups are working to market Superior and Douglas County to potential investors, data continues to come in to demonstrate the strength of the area for retailing and services. In the spring of 2017, Bill Ryan from UW-Extension Center for Community & Economic Development released a study that demonstrated how important Minnesota consumers are to City of Superior businesses (Ryan, Lutz, & Anderson, 2017). Further demonstrating how important Minnesota and tourism revenue is to Douglas County, Steven Deller, also from UW-Extension Center for Community & Economic Development has released an updated trade area analysis.

### Douglas County Trade Area Analysis

Deller's (2017) study examined data from the 62 of 72 Wisconsin counties that collect a county-wide ½% sales tax. The study examines sales by business type or cluster, and measures the competitiveness of each of the clusters based on local population and income data. The study, which examined 2016 sales tax data, determined that Douglas County sales of taxable purchases overperforms based on the population and income. This measure in economic terms is called a *pull factor*, and means that Douglas County is likely attracting consumers from neighboring areas and tourism.

Deller last completed a comprehensive trade area analysis in 2006 using 2005 sales tax data. Douglas County had a slightly larger pull factor in Deller's (2005) 2005 trade area study than the 2016 data supports. However, the 2016 data includes the loss of Target in January 2016 and K-Mart in April 2016.

### Cluster Performance

Overall, Douglas County has a higher percentage of retail and services clusters that are experiencing strength and over-performing for our population. 48% of the clusters with 2005 and 2016 data show that they exhibit strength for our population and income base. Further, these clusters account for 70% of all taxable goods and services sold in Douglas County, which amounts to over \$350 million in 2016.

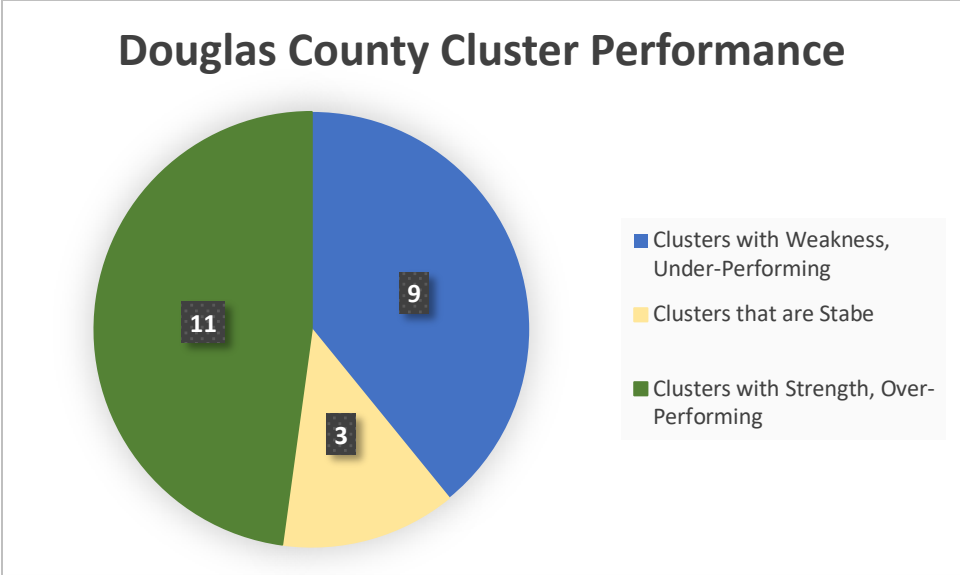


Figure 1. Number of clusters experiencing weakness, strength, or stability from Deller (2017) trade area study.

**Specific cluster performance.**

Using data from the 2016 and 2005 trade area analysis helps to identify the clusters that are performing strong, in comparison to the population and income, and which are struggling. Table 1 identifies notable clusters that are exhibiting strength and growing, strength and declining, weak and growing, or weak and declining. Wholesale of durable goods, food and beverage stores, banking and financial services, and professional and technical services are the four leading clusters that are exhibiting both a strong pull factor and growth over the last 11-years.

The same data is presented as a graphic in Figure 2, which maps each of these clusters into quadrants: exhibiting strength and growing, strength and declining, weak and growing, or weak and declining. The size of the circle is the comparative size of the 2016 sales for the cluster.

Table 1

*Douglas County Trade Area, Strong and Weak Clusters*

|  | 2016<br>Pull | 2005<br>Pull | Change in<br>Pull Factor<br>2005 to<br>2016 | 2016 Potential<br>Sales (Thousands) |
|--|--------------|--------------|---|-------------------------------------|
| <u>Strength and Growing</u>                      |              |              |   |                                     |
| Merchant Wholesalers, Nondurable Goods           | 1.515        | 0.9          | 0.615                                       | \$ 8,453.95                         |
| Food and Beverage Stores                         | 1.126        | 0.87         | 0.256                                       | \$ 24,145.59                        |
| Credit Intermediation and Related Activities     | 1.091        | 0.49         | 0.601                                       | \$ 3,237.12                         |
| Professional, Scientific, and Technical Services | 1.038        | 0.55         | 0.488                                       | \$ 15,131.02                        |
| <u>Strength and Declining</u>                    |              |              |   |                                     |
| Gasoline Stations                                | 1.757        | 2.13         | -0.373                                      | \$ 26,235.17                        |
| Food Services and Drinking Places                | 1.259        | 1.78         | -0.521                                      | \$ 69,953.20                        |
| <u>Weakness and Growing</u>                      |              |              |   |                                     |
| Rental and Leasing Services                      | 0.974        | 0.61         | 0.364                                       | \$ 13,154.65                        |
| Nonstore Retailers                               | 0.806        | 0.66         | 0.146                                       | \$ 11,348.01                        |
| Sporting Goods, Hobby, Book, and Music Stores    | 0.800        | 0.57         | 0.230                                       | \$ 6,509.65                         |
| <u>Weakness and Declining</u>                    |              |              |   |                                     |
| Health and Personal Care Stores                  | 0.773        | 1.21         | -0.437                                      | \$ 5,079.98                         |
| Amusement, Gambling, and Recreation Industries   | 0.719        | 1.32         | -0.601                                      | \$ 3,399.47                         |
| Administrative and Support Services              | 0.618        | 1.46         | -0.842                                      | \$ 3,137.13                         |

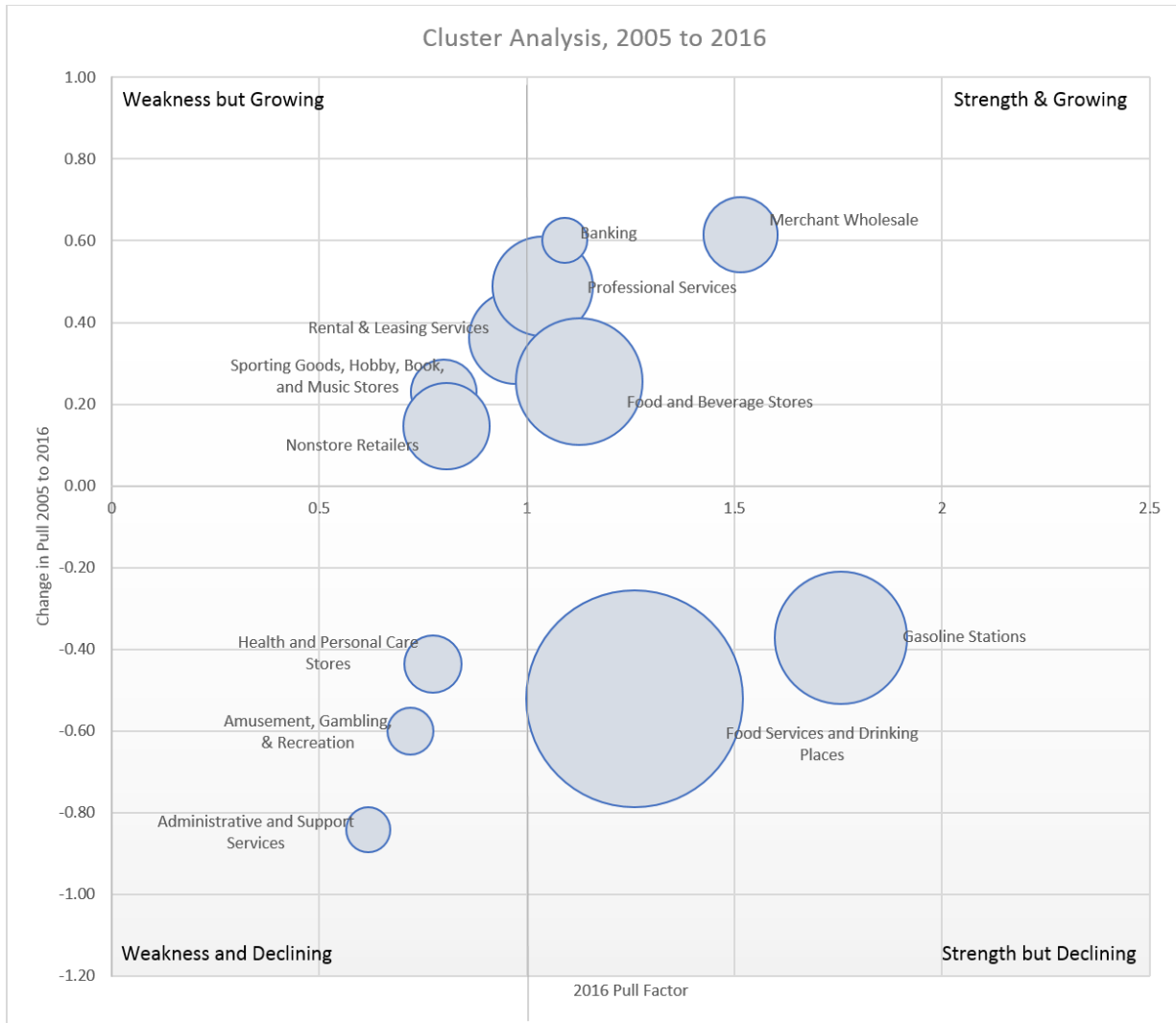


Figure 2. Cluster analysis from Deller (2017) trade area analysis paper.

Table 2 includes all of the cluster data available from 2016 and 2005. The 2005 data did not include data for four clusters, therefore the trend for construction of buildings, specialty trades, building materials & gardening equipment dealers, and publishing could not be calculated.

Table 2

*Douglas County Trade Area Data for Cluster Analysis*

|   | 2016<br>Pull | 2005<br>Pull | Change<br>in Pull | 2016 Taxable Sales<br>(Thousands) |
|---|--------------|--------------|-------------------|-----------------------------------|
| Construction of Buildings                                   | 0.83586      | NA           | -                 | \$ 1,549.54                       |
| Specialty Trade Contractors                                 | 1.40929      | NA           | -                 | \$ 14,761.50                      |
| Merchant Wholesalers, Durable Goods                         | 1.24214      | 1.00         | 0.24214           | \$ 40,120.51                      |
| Merchant Wholesalers, Nondurable Goods                      | 1.51477      | 0.90         | 0.61477           | \$ 8,453.95                       |
| Motor Vehicle and Parts Dealers                             | 0.95789      | 1.13         | -0.17211          | \$ 70,377.55                      |
| Furniture and Home Furnishings Stores                       | 0.47638      | 1.62         | -1.14362          | \$ 4,592.87                       |
| Electronics and Appliance Stores                            | 0.52772      | 0.40         | 0.12772           | \$ 4,464.69                       |
| Building Material and Garden Equipment and Supplies Dealers | 1.55437      | NA           | -                 | \$ 59,357.06                      |
| Food and Beverage Stores                                    | 1.12600      | 0.87         | 0.25600           | \$ 24,145.59                      |
| Health and Personal Care Stores                             | 0.77298      | 1.21         | -0.43702          | \$ 5,079.98                       |
| Gasoline Stations   | 1.75722      | 2.13         | -0.37278          | \$ 26,235.17                      |
| Clothing and Clothing Accessories Stores                    | 0.22698      | 0.48         | -0.25302          | \$ 3,570.72                       |
| Sporting Goods, Hobby, Book, and Music Stores               | 0.79985      | 0.57         | 0.22985           | \$ 6,509.65                       |
| General Merchandise Stores                                  | 1.19617      | 1.20         | -0.00383          | \$ 64,100.46                      |
| Miscellaneous Store Retailers                               | 1.10694      | 1.27         | -0.16306          | \$ 35,772.56                      |
| Nonstore Retailers  | 0.80604      | 0.66         | 0.14604           | \$ 11,348.01                      |
| Publishing Industries (except Internet)                     | 0.57307      | NA           | -                 | \$ 1,137.99                       |
| Telecommunications  | 1.38246      | 1.03         | 0.35246           | \$ 48,470.26                      |
| Credit Intermediation and Related Activities                | 1.09088      | 0.49         | 0.60088           | \$ 3,237.12                       |
| Rental and Leasing Services                                 | 0.97369      | 0.61         | 0.36369           | \$ 13,154.65                      |
| Professional, Scientific, and Technical Services            | 1.03849      | 0.55         | 0.48849           | \$ 15,131.02                      |
| Administrative and Support Services                         | 0.61818      | 1.46         | -0.84182          | \$ 3,137.13                       |
| Amusement, Gambling, and Recreation Industries              | 0.71897      | 1.32         | -0.60103          | \$ 3,399.47                       |
| Accommodation   | 0.70221      | 0.93         | -0.22779          | \$ 10,199.68                      |
| Food Services and Drinking Places                           | 1.25897      | 1.78         | -0.52103          | \$ 69,953.20                      |
| Repair and Maintenance                                      | 1.49729      | 1.49         | 0.00729           | \$ 20,277.97                      |
| Personal and Laundry Services                               | 1.25638      | 1.08         | 0.17638           | \$ 16,771.64                      |
| Total Taxable Sales   | 1.12204      | 0.96         | 0.16204           | \$ 585,309.91                     |

*Trade area analysis data (Deller, 2017 & 2006).*

## Challenges Ahead

With the closure of two big-box retailers in 2016, there is considerable concern in the community about the leakage of sales because of the loss of these two anchor businesses. In addition, Douglas County is concerned about the loss of tax revenue from the ½% county-wide sales tax. In the 2016, both stores were absent from the market by May. 2017 will be the first full calendar year that will demonstrate the impact from the loss of this sales tax revenue.

Table 3 lists sales tax collections in Douglas County since 2015, which was provided by the Wisconsin Department of Revenue (2017). With no other significant changes in the retail and services landscape, and a relatively strong economy – it is clear that the loss of these two retail stores has had a significant impact on Douglas County, with an annual loss of revenue close to half a million dollars.

Table 3

*Douglas County Sales Tax Revenue from ½% Local Sales Tax*

| <b>Douglas County Sales Tax Receipts</b> |              |                    |
|--|--------------|--------------------|
|  | Receipts     | Variance from 2015 |
| 2015                                     | \$ 4,322,614 | -                  |
| 2016                                     | \$ 3,852,217 | \$ 470,397         |
| 2017<br><i>Forecasted</i>                | \$ 3,838,711 | \$ 483,904         |

## Conclusion

The research conducted by Ryan et al. (2017), and Deller (2006 & 2017) demonstrates that even with the loss of big-box retailers in the City of Superior, Douglas County is still a vibrant center for retail and services. Ryan’s research of City of Superior businesses examined individual sales transactions, which identified that Duluth and surrounding Minnesota communities make up a significant customer base for participating businesses. Deller’s research supports these conclusions with evidence from sales tax receipts that Douglas County has a strong pull quotient, meaning that it is important consumers for taxable retail and service transactions.

Deller’s research helps to identify clusters that are strong and growing, which include: merchant wholesale, banking, professional services, rental and leasing services, and food and beverage stores. Food services and drinking places, and gasoline stations are also both strong clusters, however they are declining when the data is compared against 2005 receipts. Finally, the data identified three clusters that are at risk as they demonstrate both weakness and a decline in sales, they are: health and personal care stores; amusement, gambling & recreation; and administrative and support services.

A health mix of retail and services business appear to exist within Douglas County. 11 or nearly half of the clusters that collect sales tax are clusters of strength and over-performing based on the area’s population and average income. Further, these 11 clusters account for 70% of all taxable sales in Douglas County. While nine clusters are under-performing, only three of these clusters included weakness and a significant decline in sales from 2005 to 2016.

## References

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