



# The Local Multiplier Effect

How Independent Local Businesses help your community thrive





# The Multiplier Effect Explained

Clearly communicating the importance of the local economic multiplier effect or “local premium” is a key part of effective “buy local” and public education campaigns.

The Multiplier Effect results from the fact that independent locally-owned businesses recirculate a far greater percentage of revenue locally compared to absentee-owned businesses (or locally-owned franchises\*).

**In other words, spending locally creates more local wealth and jobs.**

As typically used by economic impact studies, a multiplier is comprised of three elements—the direct, indirect, and induced impacts.

- A Direct impact is spending done by a business in the local economy to operate the business, including inventory, utilities, equipment and pay to employees.
- Indirect impact happens as dollars the local business spent at other area businesses re circulate. In other words, indirect impact happens when the recipients of the first businesses’ spending take the money they received and spend it on something else.
- Induced impact refers to the additional consumer spending that happens as employees, business owners and others spend their income in the local economy. Employees and others purchase goods and services for themselves and their families —purchases that they would not be able to make without their income from the first business.



# The Research Behind the Multiplier Effect

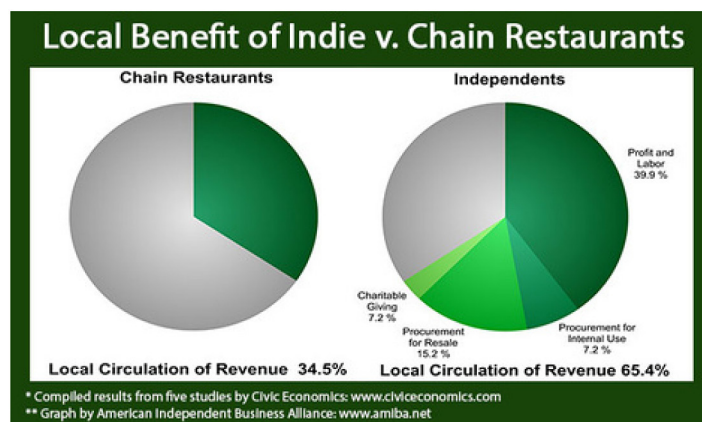
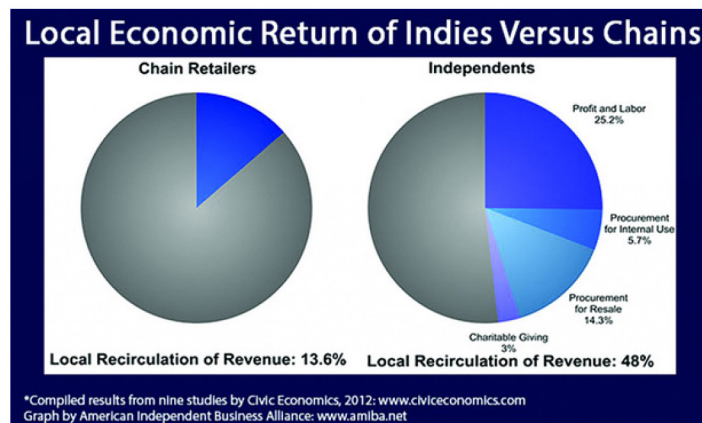
The Research behind The Multiplier Effect The private research firm Civic Economics has executed the bulk of studies attempting to quantify the difference in local economic return between local independents and chain businesses. Their first such study, for the city of Austin, Texas, showed that an independent bookseller and an independent music seller returned **more than three times as much money to the local economy as a proposed Borders Books and Music outlet would.**

Those results since have been mirrored by subsequent studies, each showing a much greater local multiplier for spending at independent businesses than chains. These studies measured the direct and indirect impacts to determine the base level local economic activity of a purchase made at a chain and a local independent business.

**On average, 48 percent of each purchase at local independent businesses was recirculated locally, compared to less than 14 percent of purchases at chain stores.**

The Institute for Local Self-Reliance conducted perhaps the simplest study of the local multiplier effect in several small Maine communities. The study examined how much of a dollar spent at a local independent store is re-spent in the local area as payroll, goods/services purchased from area businesses, profits spent locally by owners, and as donations to area charities.

ISLR's study found that \$100 spent at local independents generated \$45 of local spending, compared to \$14 for a big-box chain—nearly identical to later results across the Civic Economics studies.





# Variations on the Theme

## **The size of the Local Multiplier Effect varies depending on the type of business.**

Restaurants and service providers generate a large multiplier because they are labor-intensive and, therefore, more of each dollar of revenue goes to local payroll.

Most retailers, unless they source an exceptionally high percentage of their goods locally, create a more modest multiplier than restaurants.

But this is not to say restaurants are better for economic development than retail. Many retailers have sizable revenue and professional job opportunities, which are important to any local economy.

It's helpful to be aware of these differences because the mix of businesses involved in a particular study will influence the results if a Local Multiplier Effect Study is done for your community.



# Finding Your Own Local Multiplier Effect and Sharing the Results

You may not need to do your own Local Multiplier study, since several have been conducted and the results are pretty consistent. And in the years since the studies cited in this paper were published, awareness of the Local Multiplier Effect has become more mainstream, so your community may already accept these arguments. But if you are having trouble making headway locally, a Local Multiplier Effect Study might be helpful. AMIBA or a university economics program may be able to help.

With any study conducted for your community, make sure the methodology (the explanation of how the authors figured out the results) is very clear and could be repeated by people with reasonable math skills. Studies using models that cannot be explained clearly to the general public have often lead to distrust of the results, and should be avoided.

## **Making the case for the Local Economy Multiplier**

“independent retailers return more than three times as much money per dollar of sales than chain competitors,” is a far more memorable phrase than talking in terms of percentages, or comparing \$0.48 to \$0.15.

For restaurants, consider framing similar to: “locally owned independent restaurants return twice as much to our local economy than chain restaurants per dollar of revenue.”

Of course, you can also add, “and buying remotely on the web creates almost no local benefit—just a few minutes’ work for a delivery person.”

You might also add something like “That adds up to a huge difference in creating local jobs and local wealth.” Calculating the added local wealth that would be generated by a 10% shift to local independents is one tactic successfully employed by several communities.





# Learn More

For more information on the studies completed by Civic Economics, see their work at <http://www.civiceconomics.com/projects.html>.

For more information on the Institute for Local Self Reliance and their studies, go to <https://ilsr.org>.

For additional resources, training, and connection to a nationwide network of people and organizations who are building the Local Economy Movement, visit [AMIBA.net](http://AMIBA.net).

For a Spanish language version of this content, please email [info@amiba.net](mailto:info@amiba.net).

