

Buy Local

The Impact of Spending at Local Business in Alaska

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Why Local?

Local small businesses make up the backbone of Alaska's economy. Across the state, small businesses employ approximately 137,000 individuals and provide critical goods and services to residents and other businesses.¹

"Shop local" initiatives across the globe extoll the impacts purchasing from local businesses has on jobs, wealth, and community self-reliance and resilience. Studies show that other benefits of local support for small businesses include reductions in inequality and increased social and civic well-being.²

This report was conducted by the *University of Alaska Center for Economic Development* in partnership with *BuyAlaska* under the *Alaska Small Business Development Center*. It attempts to quantify the impacts of buying from local businesses compared to national businesses, chiefly chain retailers and restaurants, in Alaska. The state's supply chain, the revenue distribution of local businesses compared to non-local businesses, and the economic impact of spending at local businesses on local jobs and wages were all assessed.



Seward Brewing Company, Alaska SBDC

Findings include:

- **For every dollar spent at local businesses, 63 cents stays in Alaska.** Three times more value is retained in Alaska when consumers shop at local businesses than when they spend at non-local big box stores and chain restaurants. For every dollar spent at non-local businesses, an estimated 22 cents stay in Alaska.
- **If every Alaska household spent \$1,000 at local businesses instead of non-locally owned businesses, an estimated additional \$103 million would stay and circulate through the Alaska economy.** This difference is largely derived from retention of profits, sourcing of goods and services from other local businesses, and community based charitable giving. Non-local businesses are more likely to source goods and services from their own national supply chains and profits are largely returned to corporate headquarters out of state.
- **If every household shifted \$1,000 of spending to local businesses it would support more jobs in Alaska.** Greater local capture of dollars enables more economic activity. We estimate that if every Alaska household shifted \$1,000 in spending from non-local businesses to local businesses, it would support an estimated 5,850 additional jobs statewide.
- **The unknown impact of franchises.** This analysis does not look at the impacts of locally owned franchises, which are common across the state. The impact of those businesses on the Alaska economy is likely somewhere between purely local businesses and non-local businesses.

Impacts of spending at local businesses



63¢

of every dollar
stays in AK

\$103

Million

in additional revenue if every
household spent \$1,000



5,850 jobs

supported by \$1,000
in spending

Figure 1: Impacts of spending at local business.

Given the globalization of the world economy and the increasing ease of online retail, it is unlikely that 100 percent of business revenue could ever be retained locally by the Alaska economy. Access to online retail and the overall import dependence of Alaska leads to value leakages from the state.³

Buy local campaigns attempt to stem the flow of money out of a given local economy by supporting and marketing local businesses. Being cognizant of how and where your dollar moves when you make a purchase can make a difference to local businesses and your community's economy.⁴

Why Does Leakage Matter?

To assess the comparative impact of locally-owned versus non-local businesses, a survey was used to collect information from Alaskan businesses on the percent of revenues that get redistributed to local sources, and where those dollars go.

Spending patterns of non-local businesses were determined using publicly available resources. Data was gathered from the financial statements of national chain, or “big box” stores that have at least one location in Alaska.⁵

Spending was calculated as a percent of total revenue and grouped into the following categories:

Local Revenue Retention for Local and Non-Local Businesses






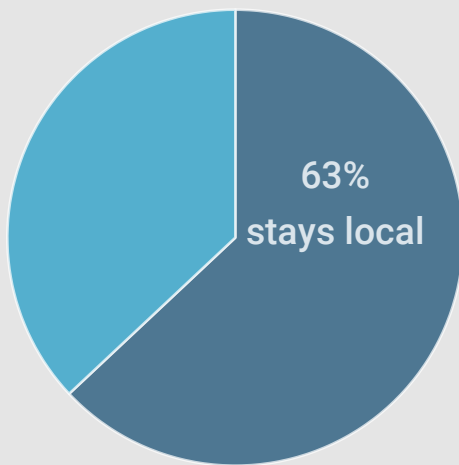
| | | Local Business | Non-Local Business |
|---|-----------------------------------|----------------|--------------------|
|  | Owner or Investor Income/Profits | 11% | 0% |
|  | Employee Wages and Benefits | 19% | 10% |
|  | Goods and Services (Internal Use) | 12% | 11% |
|  | Goods and Services (Resale) | 17% | 0% |
|  | Charitable Donations | 4% | 0.9% |
| | Total | 63% | 22% |

Figure 2: Local Revenue Retention for Local and Non-Local Businesses.

A total of 63 percent of the revenue of locally owned Alaskan businesses stays in the state, compared to an estimated 22 percent of revenues retained in Alaska by non-local businesses. Framed differently, for every dollar spent at a local business, 63 cents are retained and recirculated through the Alaska economy. Compared to local businesses, a dollar spent at a local business has approximately three times the impact locally of a dollar spent at a non-local business.

How much business revenue stays in Alaska?

Local Businesses



Non-Local Businesses

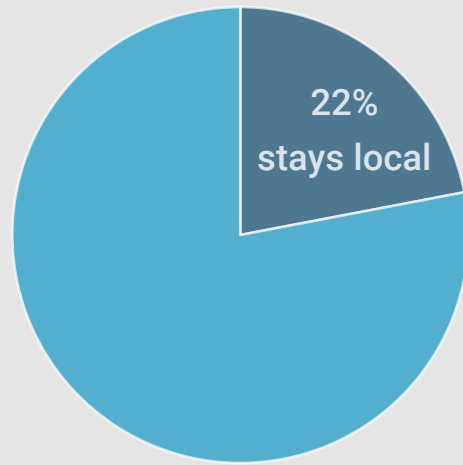


Figure 3: Percent of business revenue retained in Alaska by location of business ownership.

Studies conducted by other counties and communities exhibit similar results. Local businesses in British Columbia;⁶ Portland, Maine;⁷ and West Michigan⁸ all retain a larger percentage of revenues than their non-local counterparts.

In British Columbia, 46 percent of local business revenue is retained in the region, 2.5 times the impact of revenues of non-local businesses. Comparatively, revenues retained by local businesses in Portland, Maine and West Michigan are 1.75⁷ and 1.4⁸ times greater than their non-local counterparts, respectively.

Comparing Alaska to Other Localities

Percent of Revenue Retained Locally

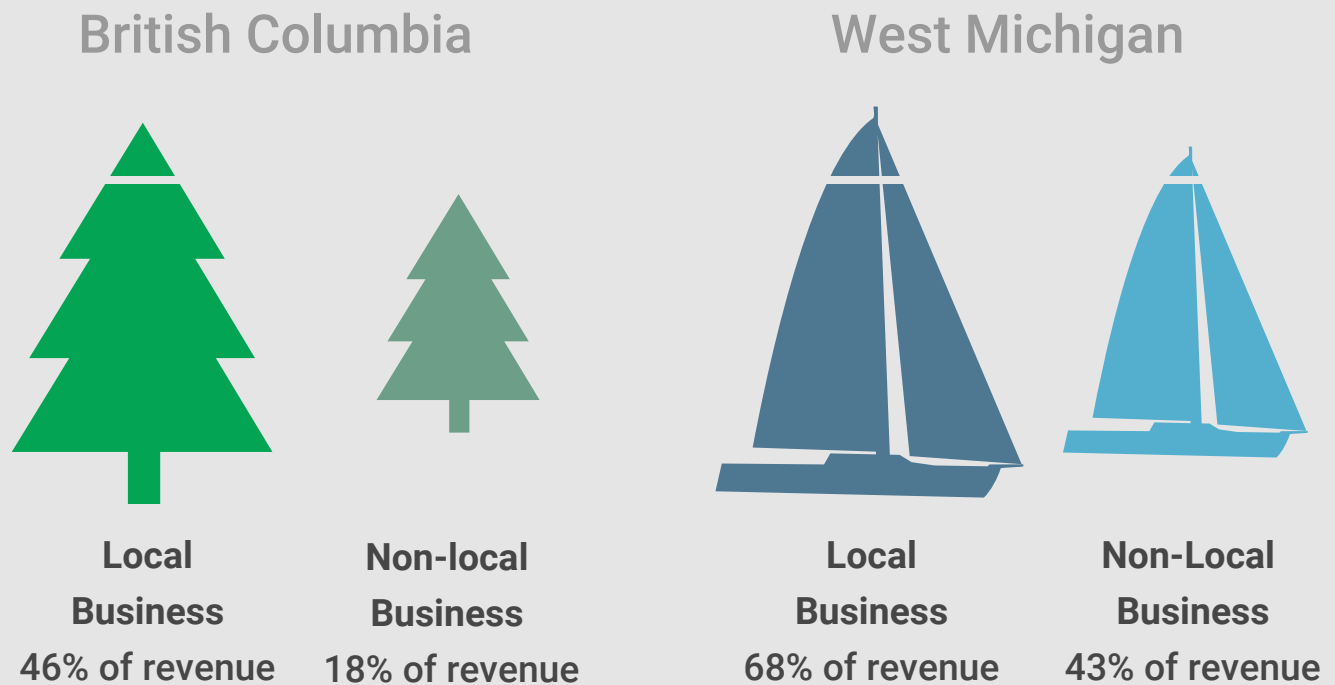
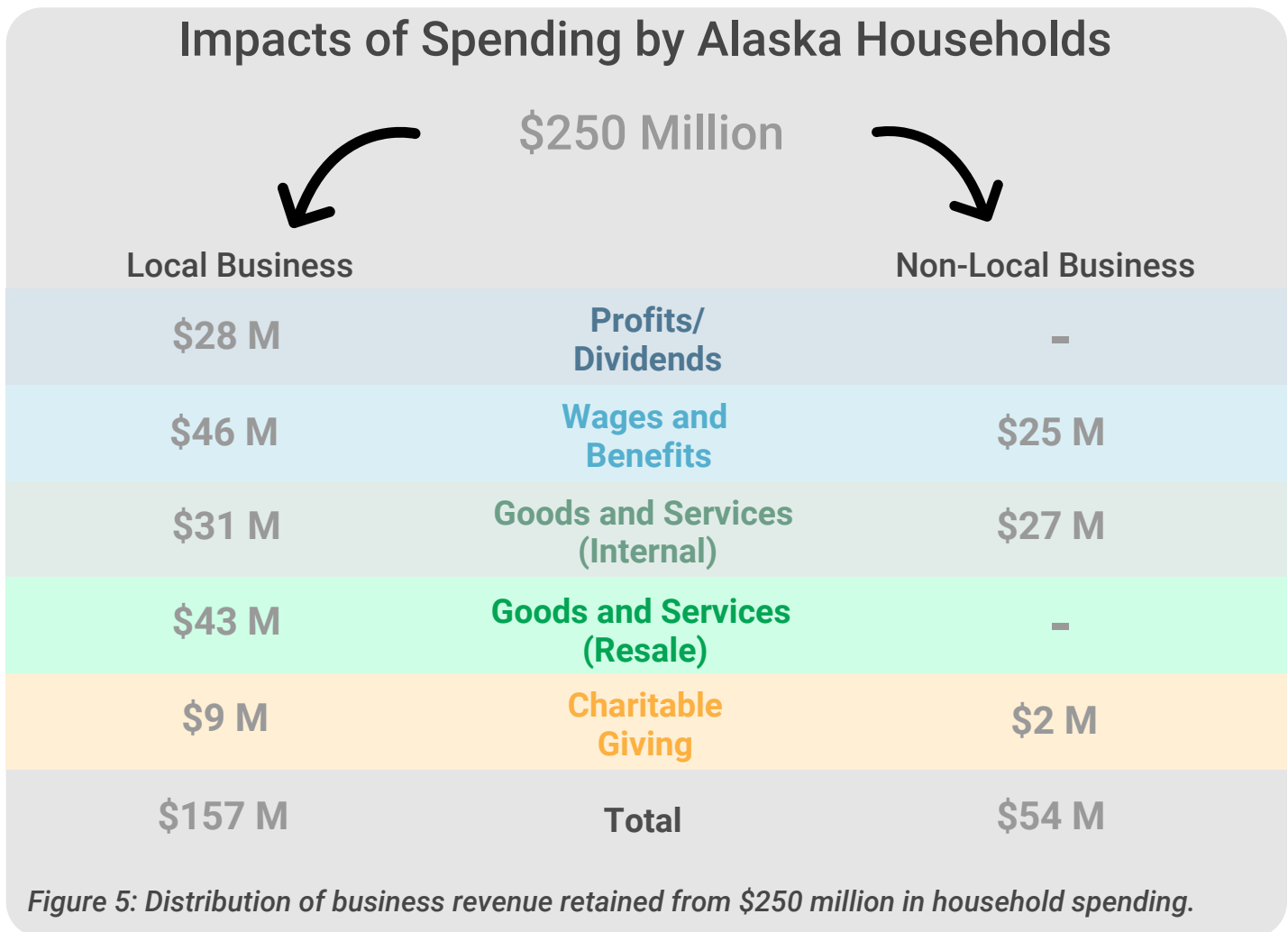


Figure 4: Percent of business revenue retained local and non-local business in B.C. and West Michigan.

What is the Impact of a Spending Shift?

To visualize the impacts of a shift in consumer spending away from non-local businesses and toward locally owned operations, imagine a scenario. If every household in Alaska spent \$1,000 annually at local businesses instead of non-local alternative what would be the impact on the Alaska economy?

Since there are about 250,000 households in Alaska,⁹ \$250 million would be redistributed to Alaskan business owners. With the larger revenue retention of local business, an estimated \$157 million would be recirculated in Alaska. This is compared to the estimated \$53 million in value retained by non-local operations.



Local



Non-Local



A dollar spent at a local business has 3x the impact of a dollar spent at a non-local business.

Figure 6: Impact of spending at local business compared to non-local business.

A spending shift from non-local to local businesses in the size discussed above would result in an estimated \$103 million in additional business expenditures staying in Alaska that would otherwise leave. While a shift in spending would likely result in a redistribution of where jobs are located (fewer jobs supported by non-local businesses and more jobs supported by local business), the net result would be more employment overall.

Hypothetical Impact of a Spending Shift

\$103 million in additional retained business revenue in Alaska means...



5,900
Total Jobs



\$431 M
Total Million

Figure 7: Impact of \$103 million in additional business revenue in Alaska on jobs and wages.

Final Thoughts

Local businesses play an important role in our communities not just as employers and providers of goods and services, but as sustainers of the economic health of a community.¹⁰ Local businesses function like individual, making choices on where and how to spend their revenue, retaining more value in an area. Value which leaves a community rarely returns in the same quantities.

The question buy local campaigns are often attempting to address is, how do we capture and retain a larger portion of the value generated in a region? One of the key features of local purchase campaigns is the promotion of local purchase options and local businesses. Demonstration of the value of local business is an important component of this.

Actions or choices which retain more value mean that more dollars recirculate. Local businesses support jobs and wages for Alaskans. They are more likely to use local supply chains, utilizing other local businesses as suppliers and service providers. Local businesses are also more likely to give to Alaskan charitable organizations, supporting the state's network of nonprofits and service organizations. Choosing local means supporting not just an Alaska business owner, but a system of Alaska organizations and people.



Sunny Cove Kayaking and Foraged&Found, Alaska SBDC



The *Buy Local : the Impact of Spending at Local Businesses in Alaska* brief was created by a team from the University of Alaska Center for Economic Development (CED).



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Appendix - Detailed Methods and Results

To estimate the differential impact of local businesses compared to non-local businesses we assumed that for big box stores located in Alaska, all of their spending on cost of sales or general operating costs left the local economy, and that all of their spending on employee wages and benefits, rent, and facilities stayed in Alaska's economy. We used a survey to collect information from business owners across Alaska on the percentage of revenues that go to local sources.

Based on these assumptions and using data provided by local businesses and financial reports of national chain retailers and restaurants, we calculated an estimated percentage of revenue that stays in the local economy for each business type.

| | Local Business (% of Revenue Retained) | Non-Local Business (% Revenue Retained) |
|---------------------------------|--|---|
| Profits, Owner Wages, Dividends | 11% | 0% |
| Wages and Benefits to Employees | 19% | 10% |
| Goods and Services (Resale) | 12% | 11% |
| Goods and Services (Internal) | 17% | 0% |
| Charitable Giving | 4% | 0.9% |
| Total | 63% | 22% |

Table 1: Percent of business revenue retained in Alaska by local and non-local businesses.

To compare the difference between local and non-local business, we created a scenario which analyzed the projected impact on the local economy if every household in Alaska spending \$1,000 at a locally owned business compared to spending that same \$1,000 at a big box store. That \$1,000 per family amounts to a total of \$250 million in annual household spending across Alaska.

That \$250 million was assumed to be direct revenues to businesses. The following table presents the estimated business revenue retained locally from that \$250 million in total revenues for local businesses and non-local businesses.

| | Local Business | Non-Local Business | Difference |
|---------------------------------|----------------|--------------------|----------------|
| Profits, Owner Wages, Dividends | \$27.5 M | \$0 | \$27.5 M |
| Wages and Benefits to Employees | \$46.3 M | \$25 M | \$21.3 M |
| Goods and Services (Resale) | \$31.3 M | \$36.7 M | \$4.6 M |
| Goods and Services (Internal) | \$42.6 M | \$0 | \$42.6 M |
| Charitable Giving | \$9.2 M | \$2.2 M | \$6.6 M |
| Total | \$157 M | \$53.9 M | \$103 M |

Table 2: Total value of business revenue retained in Alaska by local and non-local businesses.

A commercially available economic input-output model, IMPLAN, was used to estimate the direct, indirect, and induced impacts of the business revenue retained locally from local business compared to non-local businesses.

Employment

Jobs are a valuable indicator of economic impacts. The table below shows the comparative impact of the \$250 million spent at local businesses versus non-local business from the consumer spending scenario discussed above.

| | Local Business | Non-Local Business | Difference |
|--------------|----------------|--------------------|--------------|
| Direct | 6,000 | 1,250 | 4,750 |
| Indirect | 595 | 135 | 460 |
| Induced | 945 | 225 | 720 |
| Total | 7,540 | 1,610 | 5,930 |

Table 3: Jobs impact of spending at local and non-local business in Alaska.

Wages

Wages are another valuable component of economic impacts. Below are the estimated impacts to wages and income from the \$250 million discussed in the scenario above.

| | Local Business | Non-Local Business | Difference |
|----------|----------------|--------------------|------------|
| Direct | \$197 M | \$45 M | \$151 M |
| Indirect | \$33.5 M | \$7.5 M | \$24 M |
| Induced | \$52 M | \$12 M | \$40 M |
| Total | \$282 M | \$65 M | \$215 M |

Table 4: Wages impact of spending at local and non-local business in Alaska.

Endnotes

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