

# The Economics of Going Local:

## Oliver's Market as a Case Study

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## Executive Summary

This study examines the economic impacts of using a “go-local” strategy concerning business behavior. Retail trade is an industry in which a go-local strategy can provide benefits everywhere on the local economy’s distribution chain. There are leakages when goods are purchased outside the local area. For retailers, buying from local suppliers reduces leakages and provides a more robust multiplier effect from local economic activity. Local merchants add value to locally-sourced goods such as bakery items, fresh dairy and deli products, and many other goods. Non-local retailers also add value, but not as much for the local economy as do locally-headquartered firms. The value chain is larger for a local retailer selling the same goods as a non-local company; the economic impact of local firms is larger for each dollar spent versus non-local firms. Going local is also about behavior change, where merchants and consumers choose to buy local over lowest price due to incentives to invest in the local community.

This study uses Oliver’s Market as a case study. Oliver’s hires local workers and buys and sells many locally-produced goods. As a local grocer, when Oliver’s buys local goods, labor and other resources, it generates economic activity in larger volume than non-local grocers. When non-local retailers, those headquartered elsewhere such as Safeway and Raley’s, buy and sell local goods, the effects are still less than Oliver’s selling the same goods; non-local grocers do not keep as much revenue from each dollar of sales local. When buying non-local goods from non-local grocers that have local substitutes at local grocers, the economic effects on Sonoma County are less than half what they could be by “going local”. Simple economics suggest that the more locally-sourced goods purchased from locally-owned grocers, the larger the benefits to the local community. If Oliver’s sourced all its goods locally, over \$102 million of economic

impact would be generated locally for Sonoma County. When Oliver’s sources goods locally, which it does for 22.2% of its items, more of the \$113 million potential economic impact of a local grocer is retained by Sonoma County versus other grocers who source fewer local goods and services. Oliver’s also hires local labor and is headquartered locally, adding to Sonoma County’s retention of Oliver’s economic effects.

For every \$100 spent at Oliver’s on local goods versus buying the same goods at a national or regional chain, there is at least a 32% larger economic impact on Sonoma County. Oliver’s generates over 100% more of local economic impacts when selling local goods versus non-local stores selling the same goods sourced outside Sonoma County. Oliver’s generates at least 32% more in local and state taxes due to buying and selling local. Oliver's Markets current operations provide over \$84 million in business revenue for Sonoma County, \$8.5 million in state and local taxes, and create or sustain over 667 jobs locally.

**Table EX-1: Summary Effects of Local Buying Behavior by Oliver’s Market**

| <b>\$100 sold of Local Goods</b>  | At Oliver's | At Non-local | % Difference  |
|---|-------------|--------------|---------------|
| Additional Business Revenue Generated   | \$120.92    | \$91.55      | <b>32.1%</b>  |
| State and Local Taxes Generated   | \$11.78     | \$8.92       | <b>32.1%</b>  |
|   |             |              |               |
| <b>\$100 sold of Local Goods at Oliver's vs. \$100 of same goods at a non-local Grocer from Non-Local Sources</b> | At Oliver's | At Non-local | % Difference  |
| Additional Business Revenue Generated   | \$120.92    | \$59.61      | <b>102.8%</b> |
| State and Local Taxes Generated   | \$11.78     | \$8.29       | <b>42.1%</b>  |

## 1. Introduction

This project provides an analysis of a “Go Local” strategy by retailers who have local retail outlets and provide goods for sale that are both locally produced and produced outside Sonoma County<sup>1</sup>. The analysis here focuses on the grocery/retail industry in Sonoma County using Oliver’s Market in specific for data. This analysis can be applied to any locally-owned business depending on their customer base, supplier locations and purchasing habits. In the ultimate “Go-Local” scenario, a retailer would have all goods sold come from either local workers or suppliers; all firms and workers in the distribution chain would be locally owned and operated. There would be a “multiplier” effect from local spending that is optimized given local production constraints; there would be a minimum of import leakage from purchases of similar items that originate outside Sonoma County. Oliver’s Market provides a case study in such a business.

This report is split into four parts from here. The first is an overview of how a locally-based economy differs from one with more "foreign" purchases<sup>2</sup>. The second section discusses the “multiplier” effect from economic activity and why economic actions, such as the purchase of goods produced outside the local area, reduce the local effects. The third section uses Oliver’s Market and their 2010 data for a simple analysis of buying and selling local. Sonoma County will be used as the definition of the “local area”. Oliver’s purchasing and sales habits provide a way to look at how “buying local” affects the Sonoma County economy. The final

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<sup>1</sup> See Hinrichs and Allen (2008) and Bougherara (2009) for overviews of buying local in terms of economic and sociological incentives respectively.

<sup>2</sup> Foreign, in this context, is any purchase of goods and services outside of Sonoma County.

section provides conclusions and a summary of Oliver's effects on the local economy and how such buying behavior generates a larger economic effect than buying outside Sonoma County.

## **2. Simple Economics of Going Local**

Economics is fundamentally about human behavior following self-interested incentives. Behavioral economics suggests that consumers may be driven by non-price incentives; altruism and buying behavior may be driven by a common goal or something beyond the individual's needs and wants<sup>3</sup>. Many advocates of go-local strategies advertise that buying goods that are sourced locally has large effects on the local economy. However, it is difficult to fight the natural incentives of price, convenience and other factors; national chains attempt to take advantage of these incentives by sourcing goods globally and having local retail outlets. These large chains seek to build regional market share and segment markets once market share is established. Local merchants, as this study shows, can provide the local economy with incentives to shop locally: by sourcing goods locally, these merchants provide more jobs, business income and tax revenue than national brands headquartered outside the local area. Going local is also about behavior change, where merchants and consumers choose to buy local over lowest price due to incentives to invest in the local community.

The ultimate case of going local is when economic activity begins and ends within a defined, "local" area. There is a multiplicative effect of economic activity on a local economy. Because commerce takes place across many political borders, it is important to recognize that these flows are driven by incentives due to a foundational idea in economics called comparative

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<sup>3</sup> See DellaVigna (2009) for a survey of the behavioral economics literature.

advantage<sup>4</sup>. For example, Napa County exports more wine than it consumes because it has built a comparative advantage in producing wine; Napa County also buys more automobiles than it produces due to the same incentives in reverse: some other county, state or country produces cars more efficiently.

Some examples are not as obvious as others, and can affect the way we look at buying local. For example, when Sonoma County residents buy wine that originates in Napa County (even from merchants within Sonoma County), there is at least a partial choice not to buy Sonoma County wine. Such behavior triggers a “leakage” of economic benefit from Sonoma to Napa. The revenue local shoppers provide the local wine merchant is a local benefit, but some or all of the transaction is not local when the product is produced outside the defined area. It is difficult for an entire economy to buy everything locally, but the economics of that choice boil down to simple concepts from international economics. So the first issue with generating gains from local businesses is defining a local area that makes economic sense given consumption patterns.

Going local has two specific aspects: buying goods and also buying services. When buying goods (groceries, refrigerators, computers, cars, etc.), people generally buy from local merchants, who provide a service (retail sales) to local residents. When that merchant buys goods from outside the local area, the “foreign” area receives revenue initially. The local merchant provides “value-added” services, charges a higher price than the cost of the goods to be sold, and covers these services (labor, storage, utilities, etc.) and a profit (if possible). These

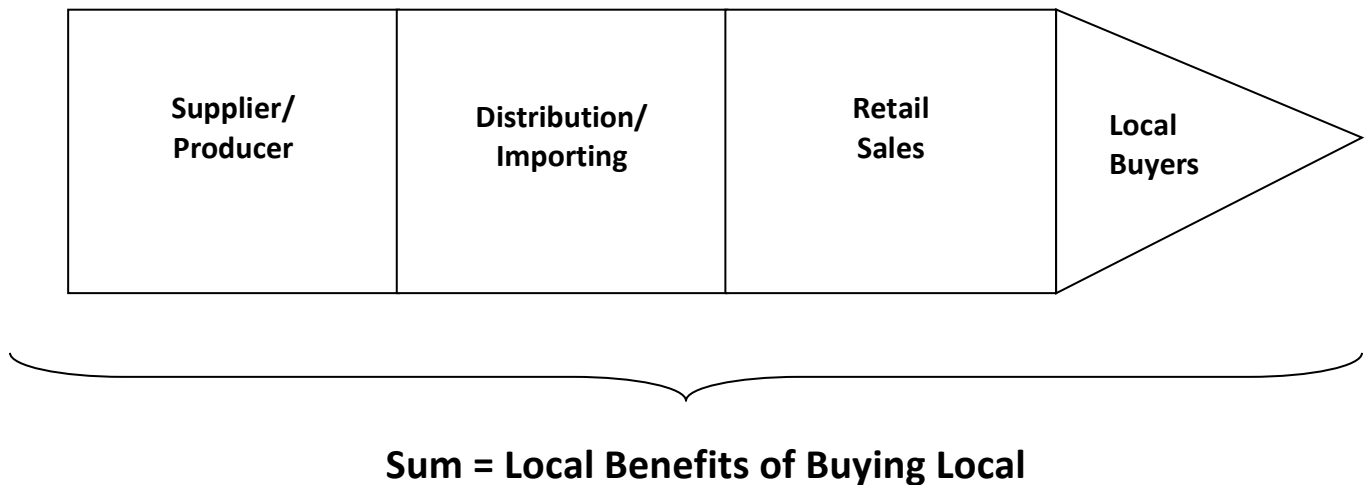
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<sup>4</sup> See Mankiw and Ball (2011) for an encyclopedic look at macroeconomics, including basic ideas of comparative advantage and how imports act as leakages from domestic economic activity.

value-added services are generally local: local workers, real estate firms/owners, utilities, and others<sup>5</sup>.

For some goods, a local purchase is not possible in the North Bay; for any go-local strategy, building a local supply chain is essential, which becomes a “value chain” with local economic benefits<sup>6</sup>. Figure 1 provides a simple, retail value chain diagram; Figure 2 shows what happens to the value retained locally when goods are purchased outside the local area.

**Figure 1: The Retail Value Chain and Distribution System**



A simple example is a local farmer growing vegetables and selling them to a local grocer. The grocer then sells to a local restaurateur who then cooks the vegetables in a local restaurant and serves that food to a local resident. The value chain, where each step in the process adds value to the original product, is contained completely within the local area. Each step that adds value provides three payments to the local area: new business revenues, new wages and other

<sup>5</sup> Utilities are likely the most disputable here, as most utilities are regional and locally serviced. There are movements to make energy production, for example, more local: see Marin Energy Authority as an example.

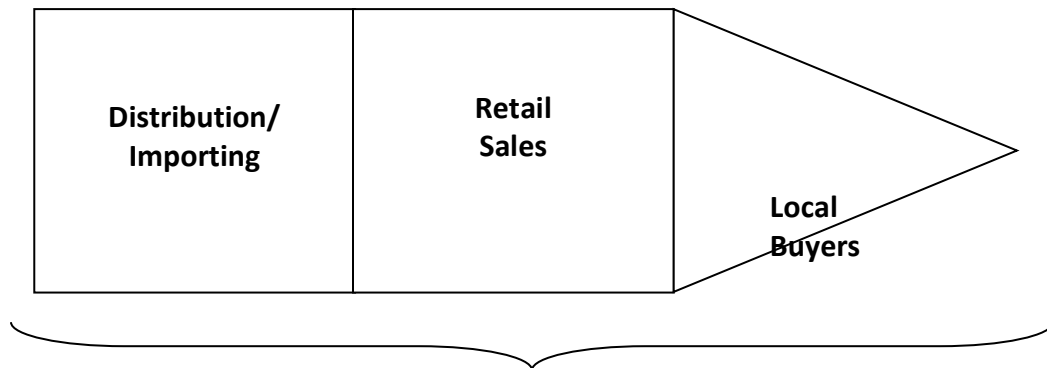
<sup>6</sup> See Oster, 1999, for a basic explanation of a value chain, pp. 131-33. Also see Porter (2008) for the seminal ideas on the value chain and sustaining competitive edge in business.

payments for resources (real estate, profits, physical capital, etc.), and new taxes. At some level of new business revenues, we would expect more jobs to be created, which augments the effects on wages. The importance of job creation is that a new set of effects take place because wages generate an ability to buy more goods and services; some percentage of this additional spending is purchased locally, and the original effect creates more than itself in terms of economic impact: it multiplies as it moves through the value chain.

The challenge with the going-local concept, as discussed above, is leakage. Consumers are bombarded with incentives to buy from non-local producers far and wide; internet shopping is rising as a competitive force in all retail markets. Local retail is a specific industry where the go-local idea is salient and allows residents and businesses to buy local. If local grocers purchase goods from local suppliers, hire local workers, and keep the profits local (which is the major argument against the expansion of chain/big-box retail versus an expansion of local retail and other firms) for potential reinvestment in the community, the multiplier effect is more robust than the chain store will provide per square foot of retail space. The focus of this study will be on local grocery retail as an illustration of buying local and its effects.

The more a retailer buys local goods to sell, the more the local economy retains the economic value of its production, as revenue is made at every stage of the value chain in Figure 1. What Figure 2 shows is that when foreign suppliers are used, and substituted for local suppliers, the economic benefits of local retail activity shrink from what they could be. The value chain loses a whole or partial link to another area. The next section provides more detail on the economic multiplier effect and how Oliver's captures potential leakage that other grocers do not.

**Figure 2: Purchases from Outside Local Area Imply a Smaller Value Chain<sup>7</sup>**



**Sum = Local Benefits of Buying Local Less Benefits to Local Suppliers**

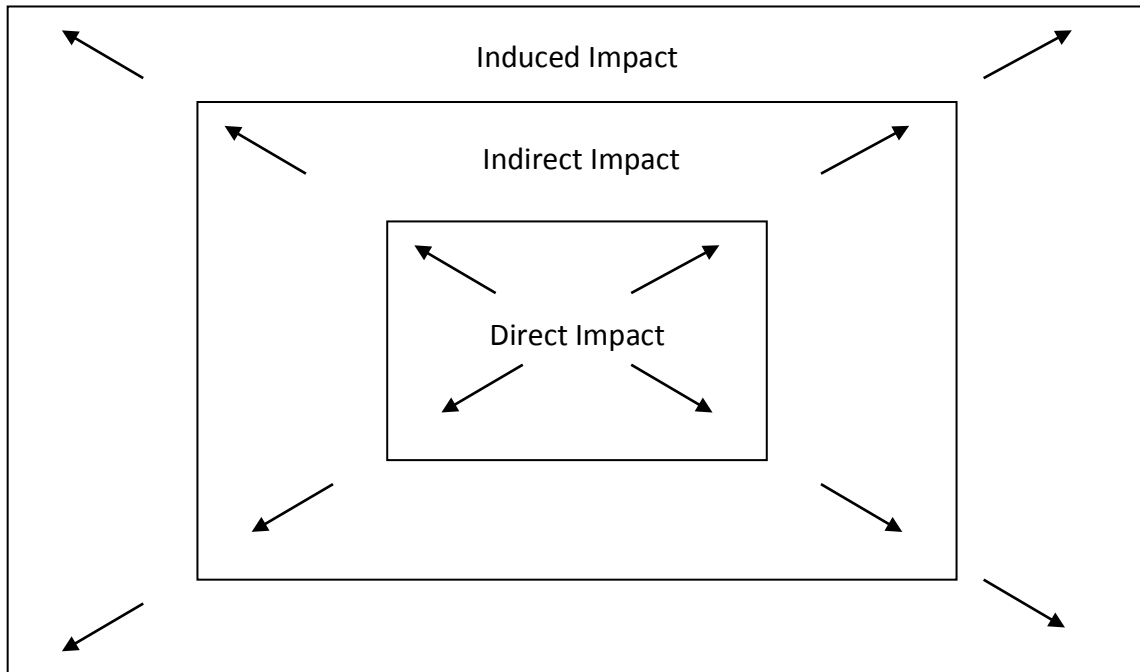
### **3. The Economic Multiplier Concept**

Like dropping a rock into a pond, an industry's existence or expansion has ripple effects on a local economy and beyond based on new jobs created. The IMPLAN® model used here, which stands for IMpact analysis for PLANning, is a model by which municipalities and counties worldwide analyze the employment, revenue, wage, and tax effects of economic events. This model has three impact classifications, summing to a total effect. The **direct** effects are those specific to the event. For example, for both the construction of new facilities and their subsequent operations, hiring new employees helps generate the direct effect on local employment, tax and business revenues. The hiring of new grocery clerks can be these direct events. **Indirect** effects come from these workers and businesses taking their new income and spending a portion of that money on other businesses' goods and services. This revenue flow to other businesses leads to more employment, wages, revenue and taxes.

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<sup>7</sup> This figure is the best-case scenario for the local economy; it assumes that the grocer is located locally, hires local labor, and keeps its net revenues local. If this represented a non-local grocer, the value chain gets smaller than what is shown in Figure 2 because the other links in the chain locally shrink.

**Figure 3: Economic Impact Concept**



For example, when a newly-hired grocery clerk goes out to eat at a restaurant in Santa Rosa, there are indirect effects from the original expansion; a restaurant uses a larger amount of a local linen cleaner's services than before, which creates indirect effects from the grocery clerk being hired. These additional, indirect jobs and revenues then create induced effects. The **induced** effects are similar to the indirect effects, but come from indirectly-affected workers and firms and their economic gains. For example, a new linen-service worker, hired due to the restaurant's expansion described above, may go to the grocery store, dry cleaners, or the doctor's office more often, which induces growth in retail sales, employment and taxes. These effects in sum are the total or overall economic impacts. Figure 3 shows the ripple effect idea of the multiplier process.

The tables in section 4 show the direct, indirect and induced effects of both a theoretical grocer that is able to capture all the local effects and of Oliver's attempt to make theory a

reality. The top ten industries affected are shown. The new jobs and income are shown by the top-ten industries affected; new federal and then new state and local receipts show the new taxes by specific categories. In the aggregate, Sonoma County imports more than it exports. In terms of retail, Sonoma County spends about \$1.56 billion in retail sales annually since 2001.

#### **4. Oliver's Market as a Case Study in Going Local**

Oliver's Market is located in Sonoma County, with three locations in both Cotati and Santa Rosa. They sell an array of goods in their markets, taxable and non-taxable, food and general merchandise. Oliver's sources many goods from inside Sonoma County, which is the "local" area we will refer to here, and that provides a multiplier effect that is larger than buying goods produced outside Sonoma County and selling them in Sonoma County. Importation reduces the overall economic effect of retail on the local economy.

Suppose a retailer sold \$100 worth of goods in the local market generating \$100 in revenue. Suppose the retailer purchased goods from local suppliers for \$75 and it costs \$10 to provide value-add services, to which the retailer paid workers that lived locally. That leaves a margin of \$15. The purchase of \$75 worth of goods triggers more spending in the local area, another \$30 for example. Paying local workers the \$10 in wages to add value to the goods triggers another \$5 worth of spending and indirect effects. Finally, the profit of \$15 triggers more spending and creates another \$10 worth of income. The original \$100 of revenue creates an additional \$45 in local spending.

If a retailer purchases all of goods sold from outside the area, the local area has a leakage of \$70, which means the other \$30 of additional spending in the local area is also lost. That \$30 is generated where the goods originate, outside of the local area. That leaves only the

\$15 worth of income created from the \$100 of revenue generated by the retailer, rather than \$45; that assumes all labor is local and the profits remain local as well. Most transactions are mixed; there are local and foreign links to sales.

By capturing the entire retail chain in one local area (local farmers selling their products locally, and those goods are purchased locally), the direct leakages are minimized. These transactions are not without leakage, even for retailers that integrate the entire value chain within a defined area; for example, a local farmer may pay a worker who then buys a DVD from Amazon.com with her wages. There are also indirect or induced leakages; the key is buying local is to minimize the leakages at all tiers of the distribution chain. The most difficult step for retailers is sourcing a supply of goods locally to sell to consumers.

#### *The Economic Impacts of a Sonoma County Grocer/Retailer*

As a locally owned retailer, Oliver's Market provides a case study in both selling and buying locally; Oliver's bought 22.2% of its goods sold from suppliers in Sonoma County in 2010. A grocer is a simple case of the retail value chain. The grocer sells both value-added goods (packaged goods, sundries, general merchandise, on-site prepared foods and goods, etc.) and primary product goods that can come from local sources in raw form (for example, fruits and vegetables and meats). From 2005 to 2010, Sonoma County had an annual average of approximately \$1.536 billion in retail sales.

Estimating the potential effect of a retailer on the local economy helps provide a perspective of what is retained by Oliver's from the potential leakages and what is not by grocers that source goods outside Sonoma County. Table 1 shows the potential economic

impact on business revenues from a retailer that is able to source all goods and labor inside the local area. If this grocer had the same revenues as Oliver's did in 2010 of approximately \$70 million, over \$113 million would be generated by the locally-focused grocer. Oliver's also had 363 full-time equivalent employees in 2010.

**Table 1: Potential Economic Impact for a Local Grocer, \$70 million in Revenue**

| Industry                               | Direct       | Indirect     | Induced      | Total         |
|--|--------------|--------------|--------------|---------------|
| Grocery Stores                         | \$70,000,000 | \$205,000    | \$497,000    | \$70,702,000  |
| Animal (except poultry) processing     |              | 3,212,000    | 1,253,000    | 4,465,000     |
| Real estate establishments             |              |              | 3,333,000    | 3,333,000     |
| Rental Income for Property Owners      |              | 698,000      | 912,000      | 1,610,000     |
| Dairy cattle and milk production       |              | 644,000      | 495,000      | 1,140,000     |
| Cattle ranching and farming            |              | 242,000      | 869,000      | 1,111,000     |
| Wholesale trade businesses             |              |              | 1,052,000    | 1,052,000     |
| Poultry and egg production             |              | 605,000      | 374,000      | 979,000       |
| Bread and bakery product manufacturing |              | 386,000      | 574,000      | 960,000       |
| All other food manufacturing           |              |              | 924,000      | 924,000       |
| All Others                             |              | 13,378,000   | 13,631,000   | 27,009,000    |
| Totals                                 | \$70,000,000 | \$19,370,000 | \$23,914,000 | \$113,285,000 |

**Table 2: Potential Economic Impact of Local Grocer on Jobs**

| Industry                                    | Direct | Indirect | Induced | Total |
|---|--------|----------|---------|-------|
| Grocery Stores                              | 393.2  | 1.3      | 3.1     | 397.6 |
| Cattle ranching and farming                 | 3.0    | 22.3     |         | 25.3  |
| Dairy cattle and milk production            | 22.7   | 0.4      |         | 23.1  |
| Animal (except poultry & cattle) processing | 15.6   | 3.8      |         | 19.4  |
| Real state Agencies                         |        | 9.5      | 3.7     | 13.2  |
| Bars and Restaurants                        |        | 1.9      | 6.7     | 8.6   |
| Bread and bakery product manufacturing      | 7.2    |          |         | 7.2   |
| Employment services                         |        | 3.9      | 1.0     | 4.9   |
| Support activities for agriculture          |        | 4.9      |         | 4.9   |
| Wholesale trade businesses                  |        | 3.5      | 0.6     | 4.1   |
| All Others                                  | 23.4   | 62.2     | 73.9    | 159.5 |
| Totals                                      | 465.1  | 113.7    | 88.9    | 667.8 |

Table 2 shows the jobs that Oliver's directly hires (393 full-time equivalent jobs) and the top ten industries that hire as a result of Oliver's operations most likely spend their wages, but also based on Oliver's purchases of local goods that sustain or create jobs for those suppliers.

Notice that the industries otherwise affected are a mix of services and local producers, including many agricultural businesses. For every 10 grocery workers hired by Oliver's, there is approximately total of 17 jobs created in Sonoma County. Table 3 shows the economic impacts of grocer operations and tax revenue at all levels of government. Notice that sales and property taxes are the largest state and local taxes generated. For every \$100 of goods purchased at Oliver's, about \$20.8 of new tax revenues are provided to California, Sonoma County and city governments if all effects were local.

**Table 3: Potential Tax Revenues Created/Sustained by Local Grocer**

| State and Local Taxes              | Amount                     | Federal Taxes        | Amount                     |
|------------------------------------|----------------------------|----------------------|----------------------------|
| Employment Taxes                   | \$202,000                  | Employment Taxes     | \$5,319,000                |
| Sales taxes                        | 5,545,000                  | Corporate Income     | 564,000                    |
| Property Tax: Commercial           | 4,417,000                  | Personal Income      | 4,755,000                  |
| Property Tax: Residential          | 18,000                     | Other Taxes and Fees | 1,670,000                  |
| Corporate Income                   | 202,000                    |                      |                            |
| Personal Income                    | 1,701,000                  |                      |                            |
| Other Taxes and Fees               | 2,509,000                  |                      |                            |
| <b>Total State and Local taxes</b> | <b><u>\$14,594,000</u></b> | <b>Total Federal</b> | <b><u>\$12,308,000</u></b> |

What Tables 1,2 and 3 provide is the best-case scenario. These economic impacts, specifically the \$113 million in business revenues that pay for labor and taxes and business-owner profits, are split into four major categories, which follow the value chain idea above:

- Leakages to suppliers of goods and services outside of Sonoma County;
- Payments to suppliers of goods and services inside of Sonoma County;
- Margin for the grocer; and
- Payments to workers in Sonoma County.

*Going Local as a Grocer/Retailer*

Because Oliver's buys both local labor and goods, Oliver's reduces the leakages inherent to sourcing goods outside the local area versus chains that buy goods and labor outside Sonoma County. We now explore the economic impacts of selling locally-sourced goods to capture the largest portion of the \$113 million of economic impact potential from a grocery operation the size of Oliver's Market.

Tables 4 through 6 show the portion of these effects that Oliver's retains for Sonoma County. Most local buying behavior is in fresh meats, bakery and dairy items, and also produce. These purchases are from local agriculture and basic food manufacturers. When buying outside Sonoma County, retailers provide an injection of spending in another county or region versus the local economy. The largest revenue gains are in those industries that receive direct payments, except for cattle ranching and wholesale trade. As an industry, cattle ranches are not directly related to Oliver's purchases. The process that delivers fresh, local meats to Oliver's is directly related.

For every \$100 of local products bought and sold by Oliver's, there is an additional \$63 of spending in Sonoma County for a total impact of \$163. If Oliver's did not source locally, the \$27.5 million in overall impact shown in Table 4 would flow out to another area. Oliver's buying behavior retains these gains for Sonoma County annually.

**Table 4: Business Revenue Created/Sustained by Oliver’s Local Purchases**

| <b>Industry</b>                          | <b>Direct</b>       | <b>Indirect</b>    | <b>Induced</b>     | <b>Total</b>        |
|--|---------------------|--------------------|--------------------|---------------------|
| Animal (except poultry) processing       | \$5,427,000         | \$36,000           | \$1,000            | \$5,464,000         |
| Dairy cattle and milk production         | 2,304,000           | 43,000             | 4,000              | 2,351,000           |
| Cattle ranching and farming              | 245,000             | 1,849,000          |                    | 2,094,000           |
| Poultry and egg production               | 1,462,000           | 77,000             | 1,000              | 1,540,000           |
| Bread and bakery product manufacturing   | 1,339,000           | 1,000              | 2,000              | 1,342,000           |
| All other food manufacturing             | 1,231,000           | 8,000              | 1,000              | 1,240,000           |
| Wineries                                 | 1,060,000           | 109,000            | 5,000              | 1,174,000           |
| Other food manufacturing                 | 77,000              | 1,011,000          | 2,000              | 1,090,000           |
| Other animal production and ranching     | 737,000             | 179,000            |                    | 916,000             |
| Non-food packaging services and supplies | 795,000             | 27,000             | 4,000              | 826,000             |
| All Other Industries                     | 2,262,000           | 4,948,000          | 2,281,000          | 9,491,000           |
| <b>Total</b>                             | <b>\$16,939,000</b> | <b>\$8,288,000</b> | <b>\$2,301,000</b> | <b>\$27,528,000</b> |

The data in Table 5 imply that there are 154.5 other jobs sustained in Sonoma County annually by Oliver’s buying goods and services locally; of the 667 jobs potentially created in Sonoma County these 154.5 workers would work in some other county if these purchases were from outside suppliers. Suppose Oliver’s sourced these goods elsewhere: that local area would get the 154.5 jobs instead.

**Table 5: Jobs Created/Sustained by Oliver’s Local Purchases**

| <b>Industry</b>                                       | <b>Direct</b> | <b>Indirect</b> | <b>Induced</b> | <b>Total</b> |
|---|---------------|-----------------|----------------|--------------|
| Cattle ranching and farming                           | 3             | 22.3            |                | 25.3         |
| Dairy cattle and milk production                      | 22.7          | 0.4             |                | 23.1         |
| Animal production, except cattle and poultry and eggs | 15.6          | 3.8             |                | 19.4         |
| Animal (except poultry) processing                    | 10.5          | 0.1             |                | 10.6         |
| Bread and bakery product manufacturing                | 7.2           |                 |                | 7.2          |
| Support activities for agriculture and forestry       |               | 4.9             |                | 4.9          |
| Miscellaneous crop farming                            | 0.3           | 3.9             |                | 4.2          |
| Wholesale trade businesses                            |               | 3.5             | 0.6            | 4.1          |
| Miscellaneous food packaging                          | 3.9           |                 |                | 3.9          |
| Non-food packaging services and supplies              | 3.6           | 0.1             |                | 3.7          |
| All Other Industries                                  | 11.9          | 19.9            | 16.3           | 48.1         |
| <b>Total</b>  | <b>78.7</b>   | <b>58.9</b>     | <b>16.9</b>    | <b>154.5</b> |

Oliver’s purchases also provide tax revenue for all levels of government. Notice that there is more federal income due to the personal income taxes paid by Oliver’s employees, as well as the employment taxes paid by Oliver’s. The state and local taxes generated, mainly income, sales and property, are due to retail sales and the occupancy of space. Table 3 shows these data: for every \$1 of revenue generated by Oliver’s buying and selling local goods, state and local taxes increase by \$0.05.

**Table 6: Tax Revenues Created/Sustained by Oliver’s Local Purchases**

| <b>State and Local Taxes</b> | <b>Amount</b>      | <b>Federal Taxes</b> | <b>Amount</b>      |
|------------------------------|--------------------|----------------------|--------------------|
| Employment Taxes             | \$22,000           | Employment Taxes     | \$582,000          |
| Sales taxes                  | 263,000            | Corporate Income     | 104,000            |
| Property Tax: Commercial     | 209,000            | Personal Income      | 1,151,000          |
| Property Tax: Residential    | 2,000              | Other Taxes and Fees | 79,000             |
| Corporate Income             | 37,000             |                      |                    |
| Personal Income              | 367,000            |                      |                    |
| Other Taxes and Fees         | 198,000            |                      |                    |
| Total State and Local taxes  | <u>\$1,098,000</u> | Total Federal        | <u>\$1,916,000</u> |

We will assume that Oliver's retains a portion of its overall sales as margin. Because Oliver’s is locally headquartered, Sonoma County retains these gains for reinvestment in its businesses, space and as profit for the owners. The key point is that being locally headquartered means additional local taxes are paid as if paying employee/owners. This is integrated into Tables 7 and 8 as further economic impact retention due to local ownership and hiring local workers.

*Going Local as an Employer*

Buying local products is a part of the equation concerning the effects of buying local. For a local grocer, the second major purchase locally is labor. In combination, these are the major local purchases of the local merchant. The goods are purchased and the labor provides a

service that adds value to the goods. For a firm such as a local grocer, local buying is the first part of the process; the labor delivers the products in the marketplace. Of the \$70 million in revenue for Oliver’s in 2010, \$39.1 million paid for labor (32.1 million on wages) and margin on sales (assumed to be 10% of \$70 million of sales revenue or \$7 million).

Table 2 includes the additional jobs created and sustained in Sonoma County because of Oliver’s workforce. In the same way as a local farmer, food or goods distributor otherwise receives revenue for their goods, workers at the local grocer receive revenue for their time. Tables 7 and 8 shows that for every local worker that Oliver’s hires, there is \$129,960 in spending generated for Sonoma County. There are also \$16,915 in state and local taxes generated by each local hire.

**Table 7: Business Revenue Impacts of Oliver's Workers and Margins**

| <b>Industry</b>                   | <b>Direct</b>       | <b>Indirect</b>    | <b>Induced</b>      | <b>Total</b>        |
|-----------------------------------|---------------------|--------------------|---------------------|---------------------|
| Grocery Stores                    | \$39,142,000        | \$114,000          | \$276,000           | \$39,532,000        |
| Real Estate Agencies              |                     | 1,783,000          | 695,000             | 2,478,000           |
| Rental Income for Property Owners |                     |                    | 1,851,000           | 1,851,000           |
| Wholesale trade businesses        |                     | 387,000            | 507,000             | 894,000             |
| Banks and Credit Unions           |                     | 358,000            | 275,000             | 633,000             |
| Bars and Restaurants              |                     | 134,000            | 482,000             | 616,000             |
| Hospitals                         |                     |                    | 583,000             | 583,000             |
| Telecommunications                |                     | 336,000            | 207,000             | 543,000             |
| Insurance carriers                |                     | 214,000            | 319,000             | 533,000             |
| Medical and Dental Offices        |                     |                    | 513,000             | 513,000             |
| All Others                        |                     | 4,428,000          | 4,512,000           | 8,940,000           |
| <b>Total</b>                      | <b>\$39,142,000</b> | <b>\$7,754,000</b> | <b>\$10,220,000</b> | <b>\$57,116,000</b> |

In the same way as a local farmer, food or goods distributor otherwise receives revenue for their goods, workers at the local grocer receive revenue for their time. What Tables 7 and 8 show is that providing local residents with jobs increases the multiplier effect of Oliver’s

operations retained by the Sonoma County economy. Of the \$113 million potentially generated by Oliver’s operations, \$57.1 million comes from hiring locally and margins.

**Table 8: Tax Revenue impacts of Oliver's Workers and Margins**

| <b>State and Local Taxes</b>       |  | <b>Amount</b>             | <b>Federal Taxes</b> |  | <b>Amount</b>             |
|------------------------------------|--|---------------------------|----------------------|--|---------------------------|
| Employment Taxes                   |  | \$100,000                 | Employment Taxes     |  | \$2,629,000               |
| Sales taxes                        |  | 2,932,000                 | Corporate Income     |  | 256,000                   |
| Property Tax: Commercial           |  | 2,336,000                 | Personal Income      |  | 1,854,000                 |
| Property Tax: Residential          |  | 9,000                     | Other Taxes and Fees |  | 883,000                   |
| Corporate Income                   |  | 91,000                    |                      |  |                           |
| Personal Income                    |  | 697,000                   |                      |  |                           |
| Other Taxes and Fees               |  | 1,284,000                 |                      |  |                           |
| <b>Total State and Local taxes</b> |  | <b><u>\$7,449,000</u></b> | <b>Total Federal</b> |  | <b><u>\$5,622,000</u></b> |

*Buying Local from a Non-Local Retailer*

An immediate question about this analysis may be that would there not be similar effects of buying locally-sourced goods from any retailer. The answer is that the effects on local suppliers would be similar, but the gains from local profits made would not circulate through the local community. Buying local begins with locally-sourced products and continues through locally-owned businesses. The effect of such buying is a function of the margins made. The best-case scenario of a non-local grocer delivering local economic effects is sourcing goods locally, hiring local residents as labor, and then taking no margin on goods sold. The final step of that is unlikely to happen, which then implies a leakage that a locally-owned grocer does not generate.

How much smaller the economic effects are depends on three aspects at a minimum: local sourcing of goods, hiring local residents and keeping the profits local. Table 9 provides a comparison of the data above for \$100 of groceries purchased at Oliver's versus a non-local

retailer who also sources 22.2% of their goods locally and a non-local grocer who sources no goods locally as a summary.

**Table 9: Retained Economic Impacts from Buying Local vs. Non-local**

| Every \$100 of Groceries Purchased   | Buying Local        |                     | Buying Local        |                     | Buying Outside Sonoma County |                     |
|--------------------------------------|---------------------|---------------------|---------------------|---------------------|------------------------------|---------------------|
|                                      | Oliver's            |                     | Non-Local           |                     | Non-Local                    |                     |
|                                      | Spending            | Impact              | Spending            | Impact              | Spending                     | Impact              |
| Potential Impact                     | \$70,000,000        | \$113,285,000       | \$70,000,000        | \$113,285,000       | \$70,000,000                 | \$113,285,000       |
| Oliver's Buying Local                | \$16,939,000        | \$27,528,000        | \$16,939,000        | \$27,528,000        |                              |                     |
| Grocer Margin                        | \$7,000,000         | \$10,215,000        |                     |                     |                              |                     |
| Wages and Salaries                   | \$32,142,000        | \$46,901,000        | \$32,142,000        | \$46,901,000        | \$32,142,000                 | \$46,901,000        |
| <b>Retained Impact Sonoma County</b> | <b>\$56,081,000</b> | <b>\$84,644,000</b> | <b>\$49,081,000</b> | <b>\$74,429,000</b> | <b>\$32,142,000</b>          | <b>\$46,901,000</b> |

**5. Conclusions**

This study provides data concerning the economic impacts of using a “go-local” strategy. Basic economic theory suggests that consumers buy goods based on incentives that local businesses may not control versus national brands. The issue of leakage, the flow of income to areas outside the local area, is the bane of the go-local advocate. Non-local firms generate leakages based on being headquartered somewhere else. Regardless of the business’ headquarters location, businesses generate some value for the local economy. They add value to goods and services for each market in which they operate. They buy local labor, local space, and local goods, for example. However, businesses that focus their efforts on sourcing goods locally expand the value chain for the local economy. The value chain, as in Figures 1 and 2, describes the value added for each step of the distribution or production process. Going local is also about behavior change, where merchants and consumers choose to buy local over lowest price due to incentives to invest in the local community.

For local merchants that source local goods, the value chain is increased in size for the local economy versus a non-local merchant. When the non-local merchant sources local goods; the outflow of profits to another area also reduces the local value chain. One of the obvious industries in which a go-local strategy can provide benefits is in retail services, as there are leakages when goods are purchased outside a locally defined area. For grocers specifically, buying local goods to be sold reduces leakages and provides a more robust multiplier effect from local economic activity. The economic impact of buying local goods has direct, indirect and induced effects on the local economy beyond a non-local retailer. A wide breadth of industries is affected by local buying behavior of a merchant.

Going local makes a powerful, economic difference than buying from non-local firms on Sonoma County. For every \$100 spent at Oliver's on local goods versus a national brand, there is at least a 32% larger economic impact on Sonoma County. Oliver's generates over 100% more of local economic impacts when selling local goods versus non-local stores selling the same goods sourced outside Sonoma County. Oliver's generates at least 32% more in local and state taxes due to buying and selling local. Oliver's Markets current operations provide over \$74 million, \$7 million in state and local taxes, and create or sustain over 626 jobs for Sonoma County.

These flows could easily be reduced if Oliver's labor force were coming from points outside Sonoma County and if Oliver's purchases more goods from outside Sonoma County. Oliver's local buying protocols are a simple but powerful example of what it means to go local. Table 10 provides the summary economic impacts; Table EX-1 provides the difference Oliver's makes in the local community over larger chain with headquarters outside Sonoma County.

## 6. References

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## **The North Bay Economic Development and Innovation Accelerator (EDIA)**

The School of Business and Economics at Sonoma State University has as its mission to act as the educational nucleus for economic vitality in the North Bay. In August 2010, we are launching an Economic Development and Innovation Accelerator (The Accelerator) to be located at the Sonoma Mountain Business Cluster. EDIA increases the velocity of a variety of economic development initiatives focused on job creation and business growth. It will be part of the iHub initiative coming to the North Bay.

### **Vision**

The EDIA will be the North Bay's "action tank" for launching new business, growing existing businesses, and creating jobs.

### **Mission**

Accelerate innovation and economic development for California's North Bay region.

### **The Concept**

An economic accelerator boosts existing and successful economic development efforts through collaboration, alignment of efforts, new activity creation to complete the value chain for regional economic development. The iHub, the center of innovation for the North Bay region, acts as the umbrella organization for multiple tasks concerning business and job growth from technology. EDIA provides clients and services for the iHub, as well as support and educational services.

### **EDIA Core Activities Summary**

- **Ideation and innovation:** facilitating new businesses in the North Bay toward commercialization
- **Access to financial resources:** linking equity and debt financing with new and growing firms
- **Education and Mentoring:** providing business planning support to new and growing firms
- **Regional Economic and Business Data:** become a one-stop shop through a website for economic and business information and networking for the North Bay counties.