

"BIG BOX" RETAILING

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FOREWORD

This report was undertaken in response to Senate Concurrent Resolution No. 6, S.D. 1, H.D. 1, adopted during the Regular Session of 2003. The Resolution asked for an examination of the effects of "big box" retailers on "...local small and medium retail businesses" in Hawaii, including any positive effects on the "...local community, including benefits to consumers and economic revitalization...." The study was to be "... based on information, data, and analysis obtained or developed by appropriate executive agencies." The following executive agencies were asked by the Resolution to generate this data: the Department of Business, Economic Development, and Tourism, the Department of Labor and Industrial Relations, and the Department of Taxation. The Resolution also requested the county departments of finance and the University of Hawaii's Department of Urban and Regional Planning to assist. The Bureau was given a "coordinating role" (*see discussion in chapter 1*).

Ken H. Takayama
Acting Director

December 2003

FACT SHEET

Summary

This study responds to S.C.R. No. 6, H.D. 1, 2003, which asked the Bureau to coordinate certain executive agencies in examining the effects of "big box" retailers on local small and medium retail businesses in Hawaii.

The resolution asked the Department of Business, Economic Development, and Tourism (DBEDT) to perform the core of the data generation and analysis. However, the DBEDT declined, offering a feasibility analysis of the requested research and analytic tasks showing how it lacked the resources to carry out the tasks. Absent the core data and analysis, the Bureau collected consolidated employment and tax data for certain "big boxes" in Hawaii for 2000 to 2002 as follows.

Annual Average Employment by "Big Boxes" in Hawaii for 2001 & 2002

Year	Annual Average Employment
2001	6,364
2002	6,881

Tax Data for "Big Boxes" in Hawaii for 2000 & 2001

	2000	2001
General Excise Taxable Income	<i>Not available</i>	\$2,362,538,586
General Excise Tax	<i>Not available</i>	\$ 60,769,824
Hawaii gross business receipts	\$1,341,349,302	\$1,705,258,158
Hawaii wages paid	\$ 107,322,496	\$ 139,256,700
Hawaii corporate income tax	\$ 2,844,006	\$ 3,359,639

Property Taxes for "Big Boxes" in Hawaii for 2000-2002

	2000	2001	2002
City & County of Honolulu	\$1,197,322.11	\$1,381,001.73	\$1,386,105.89
Hawaii County	\$ 569,375.98	\$ 574,236.23	\$ 673,160.37

The study identifies and discusses several problematic issues stemming from the resolution's requests:

- (1) The DBEDT agrees that there are inherent difficulties in accurately identifying small and medium local retailers in Hawaii that compete with "big boxes" in any kind of merchandise;

- (2) The DBEDT also agrees that it is hardly possible to accurately determine whether "big box" competition caused smaller retailers to close;
- (3) Although "big boxes" may indeed command cheaper shipping rates, the problematic issue lies in the tendency to see this competitive advantage as an unfair one. Concomitantly, the public policy issue of government's proper role arises. The DBEDT further agrees that government should ensure a level playing field on which all competitors have an equal chance to gain a competitive advantage. Its role is not to automatically protect local business from competition; and
- (4) The DBEDT agrees that its input-output model is unable to analyze the "comparative economic impact" of "big boxes" in Hawaii at this time.

This study also reviewed several relevant publications, including:

- (1) A recent DBEDT article on retailing in Hawaii;
- (2) A Maryland study reporting on the experiences of other jurisdictions with "big boxes" and potential regulatory strategies; and
- (3) A study estimating the effects of the potential entry of Wal-Mart supercenters into southern California.

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Chapter 1

INTRODUCTION

S.C.R. No. 6, S.D. 1, H.D. 1: Senate Concurrent Resolution No. 6, S.D. 1, H.D. 1 – the measure to which this report responds – is attached as *Appendix A*. This resolution passed out of the House Committee on Economic Development and Business Concerns under Standing Committee Report No. 1652, on April 21, 2003 as an H.D. 1. It is this H.D. 1 that was finally jointly adopted by the legislature.

The H.D. 1 incorporated several amendments to the previous version. The first amendment requested the Bureau, rather than the University of Hawaii, to conduct the study. That amendment also gave "... the Bureau more of a coordinating role in collecting information from other state agencies to include in the study." Another amendment requested

"... the Department of Labor and Industrial Relations, the Department of Taxation, and the Department of Business, Economic Development, and Tourism to provide the relevant information and data to the Bureau by August 31, 2003"

In other words, unlike most studies the Bureau conducts, the actual research was specifically tasked to other bodies – three executive agencies – and not to the Bureau. The Bureau was specifically instructed to conduct the study "based on information, data, and analysis obtained or developed by [the three executive agencies]." Thus, for this study, the Bureau was in the position of having to rely on third parties to develop and research data.

The resolution asked the Department of Business, Economic Development, and Tourism (hereafter DBEDT) to research and develop the core of the data. However, the DBEDT declined to carry out the research requested of it and provided a detailed explanation for its action. (*See chapter 2 for a more detailed discussion.*) As a result, although the Bureau collected whatever supplementary data it could from the Department of Labor and Industrial Relations (hereafter DLIR) and the Department of Taxation (hereafter DoTAX), that data cannot be meaningfully interpreted absent the core research and data. Nonetheless, the Bureau feels that a brief examination of other jurisdictions that have experienced the introduction and location of "big box" retailers may be useful. (*See chapter 4.*)

Organization of the Study: Chapter 2 explores in more detail the requirements and ramifications of the questions posed by the resolution and the responses of the executive agencies. Chapter 3 presents some limited data from Hawaii. Chapter 4 examines the experiences of other jurisdictions in which "big box" retailers had either made an entrance or were considering entry.

Chapter 2

DATA AND ANALYSIS REQUESTED BY S.C.R. NO. 6, S.D. 1, H.D. 1

Specific Departments to Provide Certain Data and Analysis: S.C.R. No. 6, S.D. 1, H.D. 1, specifically requested the Departments of Business, Economic Development, and Tourism (DBEDT); Labor and Industrial Relations (DLIR); and Taxation (DoTAX) to provide certain data and analysis to the Bureau by August 31, 2003. The resolution requested data and analysis in five areas:

- (1) Comparison of "big box" retailers and competing "small and medium locally owned retail businesses" in the State in terms of number of employees and taxes generated;
- (2) Determination of the number of small and medium local competitors that have closed due to "big box" competition;
- (3) Determination of whether "big boxes" can negotiate preferential shipping rates to Hawaii;
- (4) Determination and analysis regarding "comparative economic impact" of "big boxes" on Hawaii's economy; and
- (5) Determination of positive impacts of "big boxes," including "benefits to consumers and economic revitalization."

Specific Data and Analysis Requested: Before the DBEDT proceeds, however, two questions first need to be answered. *First*, who are the "big boxes" in Hawaii? To answer this, "big box" needs to be defined. *Second*, who are their "small and medium locally owned" competitors?

Big Boxes. The resolution specifically tasked the DBEDT to identify "the number, types, and locations of big box retailers in Hawaii." The resolution itself specifically mentioned "Home Depot, Wal-Mart, Kmart, Costco, Sam's Club, Ross, and Old Navy."

However, "big box" is a flexible term. According to a Maryland study on "big box" retail development:¹

1. Theodis L. Perry and James T. Noonan. "Big Box" Retail Development. Managing Maryland's Growth: Models and Guidelines, Maryland, Department of Planning, October, 2001, (hereafter "Maryland Report"), p. 3.

"Big-box retail facilities are large, industrial-style buildings or stores with footprints that generally range from 20,000 square feet to 200,000 square feet. While most big-boxes operate as a single-story structure, they typically have a three-story mass that stands more than 30 feet tall. The definition or perhaps the description of a big-box store can be better understood through its product category. For example, book retailers like Barnes & Noble generally range from 25,000 square feet to 50,000 square feet, whereas in the general merchandise category, big-boxes like Wal-Mart range from 80,000 square feet to 130,000 square feet."

Thus, there is no one single criterion or definition identifying a commercial establishment as a "big box." Because of product category, "big" is relative. For example, a book retailer occupying 25,000 square feet would qualify as a "big box." On the other hand, a "big box" warehouse outlet like Costco may occupy 120,000 square feet or more. In fact, there are four major types of establishments generally considered "big boxes":

- *Category killers:* These specialty or niche stores offer a very large selection of merchandise in a particular product category. Sporting goods and toys are examples. Stores can range from 20,000 to 120,000 square feet in size. Category killers depend on very high sales volumes, not price markup. Dealing directly with product manufacturers eliminates middleman charges. Thus, prices are generally low. In Hawaii, examples include Barnes & Noble, Blockbuster Video, Borders Books Music and Cafe, Circuit City, CompUSA, Lowe's Home Improvement Warehouse, Office Depot, Office Max, Sack 'n Save Foods, Sephora, Sports Authority, and Toys 'R Us.
- *Discount department stores:* These stores typically range from 80,000 to 200,000 square feet. They carry a very wide variety of merchandise – up to 60,000 distinct items² – at low prices. Like category killers, discount department stores operate on high sales volume and offer low pricing. Kmart and Wal-Mart are the most prominent examples in Hawaii.
- *Outlet stores:* Major department stores sometimes sell discounted items through outlet stores. These stores can range in size from 20,000 to 80,000 square feet. Some manufacturers also sell their merchandise directly through retail outlet stores. They reduce costs by eliminating middleman charges. The most visible example on Oahu is at the Waikele Premium Outlets. This center features literally dozens of factory outlets including Anne Klein Factory, Banana Republic (The Gap), Bass Shoes, Brooks Brothers, California Luggage Outlet, Crazy Shirts, Donna Karan Company Store, Geoffrey Beene, IZOD, Jockey, Kenneth Cole, Levi's Outlet By Most, Mikasa Factory Stores, Nine West Group (shoes), OshKosh B'Gosh Factory Store, Polo Jeans Co., Rocky Mountain Chocolate Factory, Saks Fifth Avenue Outlet Off-5th, Samsonite Company Store, Skechers, USA Inc., Sunglass Hut International, Tommy Hilfiger Company Store, United Colors of Benetton, Van Heusen, and Vans Shoes.

2. Columbia University, Graduate School of Architecture, Preservation, and Planning, Spring 2001 Planning Studio (New Rochelle Studio). "big box retail" http://www.columbia.edu/itc/architecture/bass/newrochelle/extra/big_box.html.

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- *Warehouse Clubs:* High volumes and low pricing drive membership warehouse clubs, like the other categories. Product lines are more diverse than category killers. However, selling from 3,000 to 5,000 items, they offer a markedly less extensive product mix than discount department stores. Costco Wholesale Corporation and Sam's Club, which is part of Wal-Mart, are prime examples in Hawaii.

The definition of "big box" is not ironclad, but dynamic and evolving. Similarly, retail marketing, of which "big boxes" are a significant and growing segment, is driven by various dynamic factors. For example, consumer preferences and demands are major drivers. At the same time, demarcations between "big box" categories are beginning to blur. For example, some discount clothing stores sell more than apparel. A major shift is taking place in discount department stores as they begin to sell grocery items, cannibalizing their own grocery superstore brethren. Nonetheless, in the evolution and development of "big boxes," several features characterize all categories: size much larger than traditional stores, either widely diverse or highly concentrated product lines, high sales volume, and low pricing.

It is not clear whether the resolution intended to obtain data from *all* "big boxes" from *all* categories currently operating in Hawaii. If so, the obstacles to accurately analyzing and determining their "comparative economic impact" would be enormously complex. (See *"Comparative Economic Impact" and "DBEDT Response" below.*)

Small and Medium Locally Owned Retail Competitors. However, the larger problem lies in identifying which businesses are:

- "small and medium"
- "locally owned"
- "are in competition with the big box retailers in any type of merchandise"

First, it is not clear how businesses are to be judged "small" or "medium." What are the criteria: sales, revenues, gross or net profits, intrinsic value of the business, number of employees, gross area, or some formula weighting each factor? *Second*, what determines that a business is "locally owned?" Each proprietor, partner, owner, co-owner, and investor would need to be investigated to determine percentage of ownership. What percentage of "local" ownership qualifies a business as "locally owned?" Would a business partnership between a Hawaii resident and a California resident qualify? Would a business owner's residency need to be investigated? How long must an individual owner or partner live in Hawaii to qualify as a resident? Would a statement of intent to reside in Hawaii suffice?

Third, but most importantly, identifying which businesses are competitors of "big boxes retailers in any type of merchandise" would be a monumental undertaking under any circumstances. This effort, by itself, would constitute an entirely separate study. Yet, in order to conduct the further analysis requested by the resolution, it would be essential to resolve this third component. To do this, the DBEDT would almost need to carry out a full-fledged general

market analysis, which is normally done to assess the need for and the feasibility of locating a "big box" at a certain location. According to the Maryland study:³

"The initial step to conducting a market analysis often begins with determining the trade area of a subject location. A trade area is generally described as the geographic boundary that surrounds a proposed or existing development from which 70 percent to 80 percent of the customers are typically drawn. The geographic boundary can also be determined by driving times to the subject location. Typically, the primary trade area is often described as a two-mile radius or polygon of a subject location, and the secondary trade area is described as a three-mile radius or polygon of a subject location."

Unfortunately, for research purposes, businesses are not conveniently categorized or listed by geographic location within a "big box" retailer's trade area. The area around a "big box" would need to be canvassed manually (assuming that the "locally owned" and "small and medium" issues can be workably resolved).

The DBEDT would need to conduct an exhaustive investigation to determine whether such businesses, if identifiable, are "competitors" with the "big box" around which they orbit. The magnitude of the problem can be glimpsed with the example of a discount department store. Such a store typically carries 50,000 to 60,000 distinct items. Each potential competitor's inventory needs to be assayed to see if its products are sufficiently similar to be in competition with those offered by the "big box." However, given the plethora of items sold by a Wal-Mart, for example, almost *any* retailer can be considered a competitor.

To further illustrate, a grocery store carries packaged and canned food items similar to those sold in a Wal-Mart. The same is true for a stationery store selling pens and greeting cards, or an apparel store, a fishing supplies store, a shoe shop, a gardening store, a pharmacy, etc. A photo portrait shop would be in direct competition with the small portrait store located in the Kunia Wal-Mart on Oahu. However, in this case, the Wal-Mart operation may be the "smaller" competitor. On the other hand, how many items would retailers with more diverse product mixes need to carry to qualify as competitors? Is it the absolute number or a certain percentage of inventory items? Or would the determining factor be something else like absolute amount or percentage of sales or revenues? For example, a small retailer's product lines could overlap only slightly with those of a "big box" but sales from only one competitive item may account for a significant portion of the retailer's overall sales.

In other words, there appears to be no hard and fast rule by which to determine whether a smaller retailer is in competition with a "big box." At its broadest, almost *any* smaller retailer in Hawaii can be considered a competitor of *some* "big box" in the State. It is unclear whether the DBEDT can track sales of the 50,000 to 60,000 items of a discount department store – not to mention the other three categories of "big box" – and compare them to the sales of almost every smaller retailer in the State. Given the large number of "big boxes" in all four categories operating in the State, it would not be too far off the mark to consider almost *all* other retailers in the State as "big box" competitors. Aside from the enormity of the task, it is likely that neither

3. Maryland, p. 51.

the "big boxes" nor their smaller competitors would be willing to divulge proprietary data regarding product sales, inventory, analyses of market trends, etc.

Small and Medium Locally Owned Retailers Closed Due to Adverse "Big Box" Competition. Note that determining this assumes that the DBEDT *can* successfully identify small and medium locally owned "big box" competitors. (*See discussion immediately above.*) It would then need to determine how many bankruptcies and winding up of businesses were due to adverse competition from "big boxes." The resolution does not ask for simple *correlation*. The resolution's language asks for *causation*: "due to adverse competition." [*Emphasis added.*]

This is a demanding, if not impossible, task. Businesses close for a host of reasons aside from adverse competition from "big boxes." To adequately determine whether "big box" competition *caused* smaller competitors to go out of business, the DBEDT would need to rule out at least the following factors (or combination of factors):

- Land – expiration of lease, prohibitive increase in lease rental, or poor location
- Labor – inability or unwillingness to hire, adequately pay, or train staff
- Capital:
 - Failure to obtain adequate financing for:
 - Debt
 - Operations, including costs for:
 - Insurance
 - Inventory
 - Professional and ancillary services
 - Labor
 - Lease or rent or mortgage payments
 - Taxes
 - Expansion
- Lack of management skill including inability to adequately manage:
 - Finances, including handling debt and receivables
 - Marketing, including selecting appropriate merchandise, shaping and adapting product mix, conducting advertising, generating sales
 - Negotiating pricing with suppliers, buyers, agents, shippers, and professional and ancillary service providers
 - Inventory, including pricing, length of storage, and returns
 - Customer service
 - Personnel training
- Lack of motivation or interest to continue operating a business including:
 - Retirement of proprietor(s), including no willing family members to take over family business
 - Death of partner(s)
 - Voluntary change in career path due to burnout or loss of interest
 - More profitable or exciting opportunity elsewhere
 - Migrating out of the State for various reasons

- Winding up due to other reasons, such as inability to continue due to lawsuits, health
- Increase in costs, such as:
 - Insurance premiums for:
 - Property, personal and product liability
 - Unemployment compensation
 - Workers' compensation
 - Mandatory health insurance
 - Inventory
 - Lease or rental costs
 - Cost of goods
 - Cost of labor
 - Cost of financing

To close, a business need not always declare bankruptcy. If not declaring bankruptcy, a business is not required to inform any governmental body of its winding up. Thus, on the one hand, the DBEDT can examine general excise tax records to see how many businesses have voluntarily informed the DoTAX that they have closed. However, on the other hand, many continue to file GET returns even though they have stopped operating – declaring no tax liability – in the event they decide to start up again. Or, the DBEDT could compare year-over-year lists of identified small and medium locally owned retailers that competed with a "big box" to see how many have stopped paying GET taxes. This may provide a tenuous indication of how many businesses may have stopped operating. Yet, even if successful, this tortuous examination can reveal nothing about *why* a business closed. That is, there will be no indication and certainly no proof that any closings were *caused* by "big box" competition.

Furthermore, there is no statutory or other requirement for a business to record its reason for filing in bankruptcy court. For the same reason, simply examining bankruptcies would not reveal the reasons *why* bankrupt retailers went out of business.

Even if the DBEDT could identify small and medium locally owned retailers that claimed "big box" competition caused them to close down, there is no guarantee those claims were true. It would be naïve to expect unbiased recountings by failed retailers that placed at least partial blame on themselves. Moreover, events seldom have a single clear-cut cause. Even if "big box" competition did actually factor in to a business's decision to close, it would probably be impossible for the DBEDT to determine and accurately allocate causation over multiple factors.

Preferential Shipping Rates. Whether the DBEDT can figure out whether "big boxes" can negotiate cheaper shipping rates than their smaller competitors depends on several factors. First, of course, the DBEDT would need to identify, and justify, the designation of any comparison group of "smaller competitors." (*See the discussion on "Small and Medium Locally Owned Retail Competitors", above.*) Nonetheless, it is unclear how valid a comparison would be, given the different products shipped in by a "big box" and a "smaller competitor." In other words, what kind of comparison can be made between a "big box" that ships in apples, oranges, and bananas and a "smaller competitor" that ships in only apples?

It is probably true that "big boxes" can ship cheaper than their smaller competitors. In a 1998 publication, the DBEDT noted that:⁴

"The big-box discount retailers and category killers rely on a national inventory and purchasing system, which can provide goods quickly and cheaply, and on a store operation designed for maximum efficiency."

Nonetheless, the underlying tacit objection is that it is somehow unfair that smaller competitors cannot expropriate, or at least share in, a competitive advantage accruing to a larger or more efficient competitor.

The salient point is that there is nothing inherently unfair if "big boxes" actually *can* ship items cheaper. The situation is simply a result of the workings of the marketplace. If a shipper wishes to offer a discount to a retailer for shipping in bulk, it is the shipper's right to do so. The retailer who engages in bulk shipping gains a competitive advantage by virtue of its ability to negotiate cheaper shipping rates. That competitive advantage, however, is one achieved through a natural supply and demand dynamic, and not one obtained unfairly.

Commerce in a free society is based on fair competition where businesses strive to gain just such competitive advantages. It would be dubious public policy to force a business to divest or share that advantage with its competitors. Nor would it be appropriate for government to grant privileges or concessions to a business's smaller competitors in the name of "leveling the playing field." Assuming that it adheres to regulations, a business achieves size and market share on its own merits. A "level playing field" means giving all competitors the same opportunity to compete. Under the condition of fair competition, a business may gain a competitive advantage over its competitors. Why would government "level the playing field" by conferring on competitors the essence of a competitive advantage that they have failed to achieve on their own, or to compensate them in some way. The public interest is served by ensuring a "level playing field" on which all competitors have an equal chance to gain a competitive advantage. It is not served by ensuring a "level playing field" on which all competitors share whatever competitive advantages one, or several, businesses achieve.⁵

A DBEDT article echoes the idea of a limited government role in the adjustment process within the retailing revolution:⁶

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4. Hawaii, Department of Business, Economic Development, and Tourism. Hawaii's Economy, August, 1998 "Retailing and Hawaii's Economy" (hereafter "Hawaii's Economy"), p. 16.
 5. One possible exception lies in the case of monopolies, even when they have developed based on fair competition. An example would be public utilities – where barriers to entry are prohibitive – but which are regulated.
 6. Hawaii's Economy, p. 19.

"The retail sector of the economy is undergoing a revolution that challenges all business [*sic*] in the industry. However, the role of government in the retailing industry's adjustment process is a limited one. This is because competition within the private sector for markets is the basis of our economic system and contributes to our higher standard of living. In our economic system it is not government's role to always protect local business from competition. This could have the effect of denying consumers the opportunity to enjoy a higher level of consumption on their limited income.... Government ... [makes] sure that laws regarding anti-trust, unfair competition, protections for labor and for the consumer, are enforced. By allowing the players in the economic process to experiment and adjust to the changing nature of competition, the development of a strong, adaptable business structure is fostered." [*Emphasis added.*]

For example, pharmaceutical companies routinely spend millions of dollars researching and developing new drugs. The federal Food and Drug Administration certainly does not force them to share their discoveries, or even their methodologies, with smaller drug companies who do not or cannot invest as much in research and development. Employee groups band together to achieve leverage to negotiate cheaper insurance rates from their carriers. Should states' insurance commissioners force carriers to grant the same preferential rates to all individuals?

Viewing the issue from a different perspective, the absolute size or market share of a retailer does not, in and of itself, render a retailer either "good" or "bad." No one would fault Ba-Le, a local, small, immigrant-founded sandwich shop, from spawning an entire chain of franchise shops, thus increasing its market share. Similarly, it was exemplary for the local, smaller American Savings Bank to buy up the remnant branches of the mainland-based Bank of America when the latter exited the islands. In these cases, it seems bigger is better.

On the other hand, expanding Tamashiro's in Kalihi – a virtual institution – into a stand-alone or chain of 20,000 square foot chrome-and-glass mega-fish markets may not be desirable. In another type of market – the mutual fund market – investors are loath to see certain successful "small cap" funds get bigger for several reasons. Small cap funds invest in companies capitalized at roughly \$250 million to \$1 billion. (Capitalization for "mid-cap" companies generally ranges from \$1 billion to \$5 billion, and in excess of \$5 billion for "large-cap" companies.) First, as investors pour more money in, small cap funds often find it increasingly difficult to identify worthy small cap companies in which to profitably invest. When a small cap fund needs to invest in less than desirable companies due to the limitation on capitalization size, its rate of return frequently suffers. Second, because fund expenses are tied to fund capitalization, as the small cap fund grows, investors' returns are reduced by ever-mounting fund expenses. For these reasons, small-cap funds that promptly close their funds to new investments when they become too large are praised in the financial press. By the same token, funds of any size that seek to increase its size (fund capitalization) – and thus boost profits from expenses – without increasing investors' returns, are routinely castigated. In these cases, it appears that smaller is better.

What really does matter to the consumer is not how big or how much market share a retailer has. Absolute size is neither inherently "good" nor "bad." Rather, a retailer's intrinsic worth depends on the value it gives the consumer. It is consumer demand that often shapes a retailer's physical size and market share. Sometimes consumers prefer small, sometimes big.

That said, it needs to be recognized that *consumers* and *retailers* often have differing demands. That is, what is good for consumers may not always be good for competing retailers.

Consumers want a variety of things. Just as one consumer might opt to economize by paying only low prices, another consumer may prefer spending conspicuously and pay high prices. While one consumer may seek out the cozy ambiance of a specialty shop, another may favor the convenience of a discount department store. On the other hand, retailers are driven by and often pay lip service to competition. Yet, no sane retailer, if given the legal permission, would turn down a chance at a monopoly, or to "corner the market." After all, increasing one's market share and achieving a monopoly are results that vary only in degree.

Having pride in one's products or services is one thing, but a company's bottom line is always the driving force for any business. Retailers are not governmental entities and do not provide public goods and services. They provide goods and services not for the public good – although their provision may indirectly serve the public good – but for a profit. In this context, businesses have no incentive to court competition, if it means reducing profits or market share. Yet, a business cannot be faulted for one-upping its competitors – and increasing its market share or profits – by gaining a competitive advantage, if that advantage were gained fairly.

Comparative Economic Impact. The DBEDT has the expertise to construct macroeconomic input-output models. These gauge the effects of certain factors on the State's economy as a whole. According to the DBEDT:⁷

"An input-output (I-O) model depicts a comprehensive and detailed set of accounts of sales and purchases of goods and services among the producing industries, final consumers (households, visitors, exports, and government), and resource owners (labor, capital, and land) during a particular time period (usually a year) for a specific economy or region... The I-O model follows an accounting framework in which the total receipts of sellers must balance the total expenditures of buyers. By that convention, total output (sales, including final demands) is equal to total input (purchases, including final payments) for each producing sector in the economy...."

The I-O analysis furnishes important information on inter-relationships that exist among industries, final users (households, visitors, government, and exports), and factors of production within an economy. This information can be used to determine the role and relative importance of each sector in terms of its output, value added, income, and employment contributions and to analyze inter-sectoral linkages in the economy...[The] comprehensive and detailed information on sales and purchases of goods and services among the various sectors in the economy ... provide a useful analytical tool for ... assessing impacts of new economic development efforts and exogenous (external) changes on the economy (e.g. development of new exports)."

The DBEDT's 1997 input-output study uses 131 industry sectors. However, it is unclear whether this economic model is appropriate or adequate to assess the "comparative economic impact of big box retailers on Hawaii's economy." It is also unclear what exactly is meant by

7. Hawaii, Department of Business, Economic Development and Tourism. The Hawaii Input –Output Study: 1997 Benchmark Report, Research and Economic Analysis Division, March 2002, (hereafter "Input-Output"), pp. 10 & 7.

"comparative economic impact." Presumably, the comparison is between "big boxes" and their "small and medium locally owned competitors." The comparison would then consist of analyzing the monetary value of each group's contribution to Hawaii's economy.

Contrary to a layman's understanding of the term "input-output," the term "input" does not mean how much money enters the State's economy, and "output" does not mean how much money leaves the State. Likewise, "input" does not mean how much money a business generates in the economy. Nor does "output" mean how much money it takes out. According to the DBEDT, "total input" consists of purchases, including final payments, and "total output" consists of sales, including final demands.⁸ Purchases are primary payments to the owners of factors of production. These include payments to the primary factors of production (labor, land, and capital), business tax payments to government, interest payments for business loans, and payments for imported goods and services for intermediate use. On the other side, sales are made to inter-industry entities and to "final demands" which are sales to "...final users, namely households (personal consumption expenditures or PCEs), Federal, state and local government units (government expenditures), visitors (visitor expenditures), investors (private investment), and exports."

The problem is that "big boxes" do not constitute an established industry sector that is ready-made for analysis. Indeed, the "big boxes" mentioned in the resolution and their competitors occupy several of the 131 sectors used by the DBEDT's Input-Output Study. Some of these sectors include:⁹

Table 2-1

Industry Sector	Sector No.
Bakeries and grain product manufacturing	31
Furniture and home furnishing stores	68
Electronics and appliance stores	69
Food stores	71
Gas stations	73
Apparel and accessory stores	74
Sporting goods, hobby, book, and music stores	75
Department stores	76
Other general merchandise stores	77
Miscellaneous store retailers	78
Nonstore retailers	79
Photographic services	94
Eating and drinking places	115

8. Input-Output, p. 10.

9. Input-Output, pp. 40-42.

It is unclear how the DBEDT can address the issue of assessing "comparative economic impact."

Positive Impacts. One obvious positive impact of "big boxes" would be lower prices for the State's consumers, especially those with lower incomes. Others are convenience and variety of products. For example, category killers (shoes, sporting equipment, cosmetics, books, etc.) make available to Hawaii consumers a wider variety of items within product lines in one place than would otherwise be possible. "Big boxes" also offer convenience, which may translate into savings in time and transportation costs. Net increased employment and a net increase in wages may also be a possibility, depending on retailers' staffing structures and hiring and personnel practices. Economic revitalization may be possible when a "big box" enters a depressed community, stimulates other economic activity, and creates jobs. "Big boxes," especially outlets and certain discounters and category killers (like the Waikale Premium Outlets), have also acted as a tourism draw. The DBEDT has made the case that retailing is not a passive beneficiary of tourism but "an increasingly important factor in bringing visitors to [the State.]"¹⁰

DBEDT Response to Request for Data and Analysis: The DBEDT informed the Bureau by letter dated May 28, 2003,¹¹ that it does

"...not have the resources to pursue original research in this subject. Our limited resources for the remainder of the year will be devoted to the development of economic development/diversification strategies and related projects, some of which were requested or mandated by the legislature."

In addition, the DBEDT attached a 3-page "feasibility analysis" assessing the information requested by the resolution. This analysis is attached in its entirety as Appendix B. With the exception of developing a list of probable big-box stores, the DBEDT states that the tasks requested of it are beyond DBEDT's staff and financial resources at this time. The analysis explains in detail why some of the requested information is currently beyond the DBEDT's resources and ability to obtain.

Big Boxes. The resolution asked the DBEDT to determine the number, types, and locations of big box retailers in Hawaii. The DBEDT noted that the generally accepted retail industry definition of a big box is "...a major general merchandise chain store of 100,000 sq. ft. or more." It indicated that it would use that definition in developing the list of probable big-box stores unless the Bureau provides an alternative operational definition.¹² (*See chapter 3 for the Bureau's working definition of "big box."*)

Small and Medium Locally Owned Retail Competitors. The DBEDT also recognized the inherent difficulties in identifying small and medium locally owned retail competitors. In its feasibility analysis, the DBEDT stated that:

10. Hawaii's Economy, pp. 5-9.

11. Letter of 5/28/2003 from Mr. Ted Liu, Director of Business, Economic Development, and Tourism, to Ken Takayama, Acting Director, Legislative Reference Bureau (hereafter "DBEDT letter").

12. DBEDT letter.

"...DBEDT knows of no published data by any agency that identifies retail businesses either by the residence of their owner or by their competitors...we believe the only alternative means of gathering the information would be a survey of retail businesses in various parts of the state within the market range of big-box retailers (which in some cases would be island-wide markets). Such as [sic] survey would be beyond the scope of DBEDT's budgetary and staffing resources and would likely take longer than the three month period allotted in the resolution. Moreover, research would be needed to develop operational definitions for "small and medium" retail business, "local ownership," and how competing versus non-competing businesses would be determined. Thus, we regret that the development of this information would be beyond the resources of the department at this time."

Small and Medium Locally Owned Retailers Closed Due to Adverse "Big Box" Competition. The DBEDT also recognized that tracing the cause of business closings to competition from "big boxes" would be very difficult to pin down. In its feasibility analysis, the DBEDT stated:¹³

"This information would be extremely difficult to reliably estimate. It is not clear what relevant timeframe would serve the purposes of SCR 6. However, even within the very recent past, it would be difficult to identify and locate former owners of retail businesses in all areas of the state that have closed in the proximity of big box retailers. It would also be very difficult to determine whether the reason for the business closure was direct competition from "big box" stores, general competition in the market, or simply poor management. Again, we regret that we do not have the resources to address the challenge of obtaining this particular information."

Preferential Shipping Rates. According to the DBEDT, the chief obstacle to determining the existence of preferential shipping rates is the department's current lack of resources:¹⁴

"This would involve contacting shipping companies, big box retailers and small local retailers for voluntary information. A set of questions would need to be developed about the types of shipments, methods of shipments and times of shipments to ensure that information on the costs to large and small retailers is comparable. We regret that DBEDT does not currently have the available resources to pursue such a survey."

Comparative Economic Impact. On the question of "comparative economic impact," the DBEDT had the following comments:¹⁵

"Normally, economic impact analyses are conducted on industries and activities that generate new income for the state such as more construction, tourism or more exports. With the possible exception of some visitor segments, retailing does not by itself bring significant new business to the state. Big box and other retailers share, but do not significantly affect the size of the market. *The differential impact on the economy as a*

13. Ibid.

14. Ibid.

15. Ibid.

whole between big box and other retailing is not likely very large. The issues between big box and other retailing are more likely to be the relative efficiency of the different types of retailing and their impact on competitors rather than their economic impact on the state as a whole.

Moreover, the major tool for analyzing any economic impacts would be DBEDT's Input-Output model. However, this model is not structured to differentiate between large businesses and small businesses or big box vs. non-big box stores. To incorporate this capability into the model would take considerable time and research, which is beyond our resources at this time." [*Emphasis added.*]

In other words, the relevant issue with respect to economic impact is the effect of competition between "big boxes" and other retailers. The issue is not the very likely insignificant effects of that competition on the State's economy as a whole. In any case, DBEDT's input-output model is currently unable to handle that type of analysis.

Positive Impacts. On this issue, the DBEDT recognizes that it would be impractical to survey the entire State, since most retailers can be considered competitors of existing "big boxes." Consequently, it proposes to conduct "case studies":¹⁶

"The impact of larger retailers varies from community to community. Case studies would need to be performed for selected communities to fully address the question of community and consumer benefit. Such research would be beyond our current resources."

Further DBEDT Responses: In addition to specific analysis of information requested by the resolution, the DBEDT provided further comments in two areas.

Previous DBEDT Research. The DBEDT advised us that it has studied the issues surrounding Hawaii's changing retail make up in the past. The department provided us with a copy of a report it published in August 1998 entitled Retailing and Hawaii's Economy. Among other issues, that report discussed the extent and impact of national retail chains in Hawaii. The DBEDT found that mainland retail chains have been entering (and occasionally leaving) the Hawaii market since Kress Department Store entered the Hilo market in 1932. Whether they are called *big boxes*, *department stores*, *category killers*, or *membership stores*, this trend has been going on for more than seventy years. The DBEDT further comments that it found that it is not just big retailers that have entered the Hawaii market. Small convenience stores like Seven-Eleven and fast food chains like McDonald's have thrived because they filled a niche that was not being filled well by existing merchants. In the process, the department comments, such retail chains undoubtedly have caused other businesses to leave the market.

16. Ibid.

Approximation of Cost to Develop Requested Data and Analysis. In response to the Bureau's request, the DBEDT graciously provided a rough estimate¹⁷ of the possible costs that might be incurred to generate the data and analysis contained in the resolution. The full estimate is attached as Appendix C. We wish to especially acknowledge the DBEDT's caution that:

"...this is very problematic because there are few previous efforts like this that would serve as a guide. It is certain the task is beyond DBEDT's internal staff resources. Therefore, any such effort would require the services of qualified consultants."

The DBEDT assumes that a reasonable expectation of average consultant services for such a project might be around \$5,000 per month, per full-time researcher. This rough estimate includes compensation for the researchers' time, as well as travel, per diem, and compensation to the firm for overhead and profit. The DBEDT's estimate is divided into four parts as follows:¹⁸

- **Identify businesses in competition with big box retailers and their employment & taxes paid, &**
- **Identify businesses closed due to big box competition**
(These two components would best be conducted simultaneously during the same fieldwork.)
Cost Estimate: 2.5 month study, 8 researchers (4 Oahu, 2 Hawaii County, 1 each Maui & Kauai Counties) = \$100,000.
- **Determine the number, types, and locations of big box retailers in Hawaii**
Cost Estimate: No outside cost.
- **Determine preferential shipping rates**
Cost Estimate: 1 month, 1 researcher @ \$5,000/mo. = \$5,000.
- **Economic impact of big box retailers**
Cost Estimate: 2 months, 2 researchers (including one qualified economist) = \$20,000.

Under these assumptions, the total outside cost would be about \$125,000. However, the DBEDT says that it would incur unavoidable internal costs associated with the development and administration of the contract or contracts involved. The department estimates these responsibilities would require the time of a qualified DBEDT staff member for the equivalent of at least one full-time month over the period of the pre-project development and project execution and analysis. The services of DBEDT's contract/fiscal staff and the Attorney General's Office would also be required in the processing and administration of the contracts.¹⁹

17. Letter of August 11, 2003 from Glenn Ifuku, Head, Research and Economic Analysis Division, Department of Business, Economic Development, and Tourism, to Ken Takayama, Acting Director, Legislative Reference Bureau (hereafter "DBEDT estimate").

18. DBEDT estimate.

19. Ibid.

Chapter 3

AVAILABLE DATA AND ANALYSIS

Number and Types of "Big Boxes": The resolution asked the DBEDT to determine the number, types, and locations of big box retailers in Hawaii. The DBEDT noted that the generally accepted retail industry definition of a big box is "... a major general merchandise chain store of 100,000 sq. ft. or more." It would use that definition unless the Bureau provides an alternative operational definition. However, the DBEDT's definition would not be useful in light of the different categories of "big boxes" in operation now. (See discussion on "big boxes" in chapter 2 – "Specific Data and Analysis Requested, Big Boxes.") Consequently, for the purpose of collecting employee and tax data from the Departments of Labor and Industrial Relations and Taxation, the Bureau decided to use only those "big boxes" cited in the resolution itself. The stores and their locations are shown in the table below.

**Table 3-1
"Big Boxes" in Hawaii**

	Oahu	Hawaii	Maui	Kauai
Home Depot	<ul style="list-style-type: none"> • Iwilei • Pearl City • Kapolei ? 	<ul style="list-style-type: none"> • Kailua-Kona 	<ul style="list-style-type: none"> • Kahului 	<ul style="list-style-type: none"> • Lihue ??
Wal-Mart	<ul style="list-style-type: none"> • Waipahu • Mililani 	<ul style="list-style-type: none"> • Hilo • Kailua-Kona 	<ul style="list-style-type: none"> • Kahului 	<ul style="list-style-type: none"> • Kuhio Hwy
Kmart	<ul style="list-style-type: none"> • Iwilei • Halawa • Kapolei 		<ul style="list-style-type: none"> • Kahului 	<ul style="list-style-type: none"> • Lihue
Costco	<ul style="list-style-type: none"> • Hawaii Kai • Iwilei • Waipahu 	<ul style="list-style-type: none"> • Kailua-Kona 	<ul style="list-style-type: none"> • Kahului 	
Ross Stores	<ul style="list-style-type: none"> • Pearl Ridge • Pearl City • Mililani • Fort Street • Ward Avenue • Keeaumoku • Kaneohe • Hawaii Kai 	<ul style="list-style-type: none"> • Hilo • Kailua-Kona 	<ul style="list-style-type: none"> • Kahului 	

	Oahu	Hawaii	Maui	Kauai
The Gap ???	<ul style="list-style-type: none"> • Ala Moana • Pearl Highlands • Waikiki • Kahala • Waikele 	<ul style="list-style-type: none"> • Lahaina 	<ul style="list-style-type: none"> • Kahului • Waialea 	

? Scheduled to open March, 2004.

?? Scheduled to open October 23, 2003.

??? Includes Old Navy and the Banana Republic stores.

Tax and Employment Data Requested: Although the core of the data and analysis requested by the resolution is not available, some ancillary data can be obtained. The Department of Labor and Industrial Relations supplied employment data for "big boxes" in Hawaii, as previously defined for the purposes of this report. The Department of Taxation and two of the four counties provided property tax data. All agreed that, to preserve confidentiality, this study can report only consolidated figures for the entire State. Obviously, tax and employment data cannot be presented by company. Even if data were reported by county, it is clear from the preceding table that confidentiality would be jeopardized in certain cases.

Employment Data. The DLIR notes¹ that "big box" is not a category under the North American Industry Classification System (NAICS). It further notes that the "big boxes" for which data were requested fall into a variety of NAICS industries. With this in mind, the DLIR provided the following data:

**Table 3-2
Annual Average Employment by "Big Boxes" in Hawaii for 2001 & 2002**

Year	Annual Average Employment
2001	6,364
2002	6,881

Tax Data. The Department of Taxation provided general excise and corporate income tax data for the "big boxes" in Hawaii as defined for this study. Again, only consolidated figures are available. The department noted that general excise taxable income is much larger than Hawaii business receipts because a particular item is often reported in two general excise categories, once as retail income and once as imports for resale at retail.² The data are as follows:

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1. Letter of July 7, 2003, from Nelson B. Befitel, Director of Labor and Industrial Relations, to Ken Takayama, Acting Director, Legislative Reference Bureau.
 2. Memoranda of June 23, 2003, and July 2, 2003, from Francis Okano, Tax Research and Planning Officer, Department of Taxation, to Peter G. Pan, Legislative Reference Bureau.

Table 3-3
Tax Data for "Big Boxes" in Hawaii for 2000 & 2001

	2000	2001
General Excise Taxable Income	<i>Not available</i>	\$2,362,538,586
General Excise Tax	<i>Not available</i>	\$ 60,769,824
Hawaii Gross Business Receipts	\$1,341,349,302	\$1,705,258,158
Hawaii Wages Paid	\$ 107,322,496	\$ 139,256,700
Hawaii Corporate Income Tax	\$ 2,844,006	\$ 3,359,639

The City and County of Honolulu and the County of Hawaii responded to the Bureau's request for property tax data. The data are as follows:³

Table 3-4
Property Taxes for "Big Boxes" in Hawaii for 2000-2002

	2000	2001	2002
City & County of Honolulu	\$1,197,322.11	\$1,381,001.73	\$1,386,105.89
Hawaii County	\$ 569,375.98	\$ 574,236.23	\$ 673,160.37

3. Email of July 29, 2003, from Bill Takaba, Director of Finance, County of Hawaii, and letter of August 19, 2003, from Ivan M. Lui-Kwan, Director of Budget and Fiscal Services, City and County of Honolulu.

Chapter 4

EXPERIENCE IN OTHER JURISDICTIONS

Department of Business, Economic Development, and Tourism Report: In a 1998 report entitled "Retailing and Hawaii's Economy," the DBEDT discussed several salient points regarding retailing in Hawaii, especially in the context of "big boxes." These are detailed below.

Mainland Competition is Not New. The *first point* made by the DBEDT report is that the entry of larger mainland chain stores like Wal-Mart is not new in Hawaii. The Kress department store opened its first outlet in Hilo in 1932. Sears and Roebuck entered the State in 1939 with a store on Kapiolani Boulevard. Longs Drugs came in 1954, and F. W. Woolworth opened its first dime store in Hawaii in 1958. The Safeway chain of supermarkets entered Hawaii in the 1960s. These and other mainland stores have been intimately involved in the retailing revolution in Hawaii for over seventy years.

Competition is Integral to the Revolution in Retailing. A *second point* is reflected in the article's acknowledgment of an apparent contradiction. Namely, certain retailers experienced weakening sales or went bankrupt, while at the same time, other retailers were upgrading and expanding dramatically. The answer to this paradox, the article explained, "lies in the current dynamics of the retailing industry."¹

"Hawaii retailing is currently in the process of revolutionary change in which *new forms of retailing are replacing old ones*, with most players working hard to stay competitive in a tough retail environment. The way successful stores stay competitive in such an environment is to continually change and update themselves and their product lines to keep and expand their particular markets." [*Emphasis added.*]

However, revolution entails change. Change means that, ultimately, some retailers will be unable to weather the inevitable periodic shakeouts that occur in every industry, including retailing. For example, local retailers such as Arakawa's General Store, Kuni Dry Goods, GEM Department stores, and Liberty House are no longer in business. Furthermore, mainland chains have not been immune. Payless, Pay 'N Save, Cornet, Woolworth, Home Improvement Warehouse, and J. C. Penney Co. have also left the State. Even the international retailer Duty Free Shops has cut back drastically in Hawaii. According to the DBEDT, the three most important factors leading to changes in the retailing landscape in Hawaii are:²

- Slowdown in the Hawaii economy
- Higher efficiency of most large national chains versus smaller retailers
- Increasingly higher expectations that consumers have about their shopping experience

1. Hawaii's Economy, p. 1.

2. Ibid., p. 13.

The DBEDT report also points to another interesting development. Before World War II, retailing consisted primarily of "Main Street" activity with individual department, drug, and dime stores, and coffee shops. However, the profile of the shopping public changed after World War II. "Main Street" retailing was structured to serve the needs of the traditional nuclear family with a single breadwinner that shopped as a unit once or twice a week. This profile had become only a minor segment by the 1970s and 1980s. Increasingly more families had two-income earners. Individual family members were making their own purchasing decisions, and consumer demand was moving beyond the staple items stocked by Main Street stores.³

It was against this background that the Wal-Mart emerged and that has led to the current revolution in retailing. "Big boxes" were able to better meet the changing demands of consumers by efficiently providing a wide range of items at low prices. In a way, opposition to the proliferation of "big boxes" may also be a nostalgic (and understandable) protest against the loss of a certain idealized "Main Street" way of life.

Satisfying Consumer Demand. Clearly, competition from "big boxes" is only one factor. In a *third point* made by the report, satisfying consumer demand is what appears to drive retailing success. The "big boxes" have focused on price, product selection, and customer satisfaction. With increasing sophistication, customers search out the best price in the quality range they desire. Although customers may have some brand loyalty, they generally have little store loyalty and will go where prices and service are superior.⁴ According to DBEDT, it is the consumer who has benefited most from Hawaii's retailing revolution.⁵

"The winner in this new retailing era would, thus far, appear to be the consumer. There is little doubt that for most Hawaii consumers, the retailing revolution has been a dream come true. The intense competition has presented shoppers with more choices and better prices than [*sic*] even before. It has also made consumers more aware of their choices and has raised their expectations about the shopping experience. Established stores that do not meet the new standard that consumers have come to expect may not be able to count on customer loyalty for long."

On the other hand, the DBEDT also recognized that more competitive conditions might cause concern for a certain segment of consumers. Some 114,000 consumer households in Hawaii have members working in the retailing industry. Changing conditions in retailing create the possibility of fewer full-time positions, shrink fringe benefits, and reduce their economic security in a less stable employment environment.⁶

Competitive Trends. The *fourth point* made by the DBEDT report relates to various competitive trends. In 1988, the entry of Costco Wholesale into Hawaii marked the *first* competitive trend. Costco's entry paralleled a national trend toward "vigorous price discounting." The flat economy in the State at that time and the growing sophistication of consumers contributed to the quick acceptance of the new price discounters. However,

3. Ibid., p. 20.

4. Ibid., p. 17.

5. Ibid., p. 13.

6. Ibid.

according to the DBEDT, there are currently two major sources of competition in the local retail sector. Aside from new large mainland retailers, a *second* factor resulting in stiffer competition among retailers is the ease with which businesses can enter the retail market.⁷

"One reason may be that it is very easy to start a retail operation. All one needs is a location, a source of goods to sell, and a small line of credit to carry inventory. Ironically, these elements are easier to assemble in a slack economy since there is often plenty of empty shop space and manufacturers are motivated to provide products to the retail level. Normally, retailing requires no special license, special training, or even paid employees if partners and family members are available to staff the shop."

According to the DBEDT, a retailer that enters the market need not obtain a large amount of start-up capital or generate a solid business plan to convince potential lenders. This lack of a screening process and the ease of entry result in increasing competition and probably a higher failure rate, particularly in a stagnant economy.⁸

To successfully compete in an environment of power retailers and demanding consumers, smaller retailers cannot contend with giant retailers head-to-head. Instead, they need to carve out unique product and service niches and offer products and services that giant retailers eschew because of their high-volume, low-cost structures. They need to figure out what will attract customers that "big boxes" do not have, and then offer them. For example, customer scan cards that offer instant rebates promote store loyalty. Smaller retailers can remodel physical premises for a more contemporary look. They should ensure merchandise is up-to-date, offer more sophisticated or specialized product lines, and give the customer more advanced products or services that "big boxes" would not find cost-effective to provide. Perhaps they could imaginatively integrate some form of entertainment or other customer-friendly service within their retailing space.⁹ In other words, smaller retailers can no longer compete directly with "big boxes" on high-volume and low-cost, but can offer other attractive alternatives.

Role of Government. The DBEDT's report acknowledged the existence of competition from mainland chains in Hawaii retailing. However, it also recognized that the competition is only part of a natural and evolving revolution nationwide in retailing, partly driven by consumer demand. The DBEDT report makes a *fifth point* regarding government's role, as follows:¹⁰

"Rather, the public sector has the role of helping to maintain a level playing field for both business and consumers, so that competition actually does lead to an expanding economy and rising standard of living. Government does this by monitoring changes in competitive conditions to make sure that laws regarding anti-trust, unfair competition, protections for labor and for the consumer, are enforced. By allowing the players in the economic process to experiment and adjust to the changing nature of competition, the development of a strong, adaptable business structure is fostered....

7. Ibid., p. 15.

8. Ibid., p. 16.

9. Ibid., pp. 17-18. These are general concepts cited in this article.

10. Ibid., p. 19.

Of course, the public sector has an economic development interest in the results of the competitive struggle in retailing apart from regulatory concerns. State government would prefer that retail jobs in Hawaii not be lost to other areas outside of the state, unless the net result is that even more economic activity and opportunity are generated within the state. Government would also prefer that retailing provide quality jobs for the roughly 20 percent of the work force employed in the industry. Finally, the public sector would like to facilitate retailing that either enhances Hawaii's position as a destination, or promises to bring the products and services of Hawaii to national and international markets....

The role of the government in the retailing revolution is not to protect existing businesses at the possible expense of consumers, but to ensure a level playing field for all and to work with the private sector to achieve economic development goals for retailing. In this way a strong competitive retail sector can emerge that will be in a better position to provide stable employment, good quality and competitive prices to consumers, as well as help attract visitors to the state." [*Emphasis added.*]

Maryland Report on "Big Box" Retail Development: In October 2001, Maryland published a study on "big boxes" with several objectives in mind including:¹¹

- Examining the trends and impacts of "big box" retail development
- Exploring strategies used to regulate "big box" retailers

The Maryland Report looks at regulatory strategies used in Colorado, Maryland, New Jersey, Oregon, Vermont, and Wisconsin. The Maryland Report is valuable because it covers relevant major elements of the debate regarding "big boxes." A review of the Maryland Report follows.

New Trends in "Big Box" Retailing. The Maryland Report identifies drive-through pharmacies, value malls, and "de-malls" as new trends in "big box" retail development.¹²

Drive-through Pharmacies. Rite Aid Corporation and Eckerd¹³ now provide drive-through prescription services. As of March 1, 2003, Rite Aid operated 3,404 stores in 28 states and in the District of Columbia. It distinguishes its stores from other national chain drugstores, in part, through its private brands and its strategic alliance with GNC, a retailer of vitamin and mineral supplements.¹⁴ Eckerd operates over 2,686 stores in more than 20 states throughout the southwest, southeast, Sunbelt, and northeast regions of the United States.¹⁵

Value Malls. Value malls characterize a second retailing trend. The Maryland Report describes them as a location combining in a single, integrated development various value-

11. Theodis L. Perry and James T. Noonan. "Big Box" Retail Development. Managing Maryland's Growth: Models and Guidelines, Maryland, Department of Planning, October, 2001, (hereafter "Maryland Report").

12. Ibid., pp. 11-12.

13. Eckerd was acquired by J. C. Penney Company, Inc. in 1997 and was combined with Thrift and Fay's drug store chains per Eckerd website: <http://www1.eckerd.com/content.asp?content=company/about/factsataglance>.

14. Yahoo! Finance website: <http://finance.yahoo.com/q/pr?s=RAD>.

15. Eckerd website and Yahoo! Finance website: <http://finance.yahoo.com/q/pr?s=JCP> .

oriented retail types, such as factory and department store outlets, category killers, and large specialty retailers.¹⁶

"De-malls." This is a relatively new trend. Essentially, in creating a "de-mall," an indoor mall is turned into an open-air shopping center by removing the roof and by giving customers street-level access to stores. The stores are turned to face outward, re-creating the folksy look of Main Street. The Maryland Report describes "de-malling" as:¹⁷

"["De-malling"] is described as a retail operation in which storefronts are reversed, or turned inside out, towards parking. De-malls are typically located near existing malls, but do not necessarily compete with them due to different product offerings."

Positive and Negative Aspects of "Big Box" Retail Development. The Maryland Report discussed four types of positive and negative aspects of "big box" retailing:

- Economic and fiscal impact
- Environmental impact
- Social and cultural impact
- Other related impacts

Economic and Fiscal Impacts. These following economic and fiscal impacts are summarized from the Maryland Report.¹⁸

**Table 4-1
Positive and Negative Economic Aspects of "Big Box" Retail Development**

Positive	Negative
Serve under-served ("under-retailed") inner-city communities whose purchasing power far exceeds existing inadequate retail facilities	Over-expansion: too many stores for all to share in sales growth. Discounters over-estimate likely sales growth, build store too big, and buy too much merchandise to be profitable
Help local economies of depressed communities	Retail sector becoming homogenous
Enhance local tax base and revenues with strong initial growth in sales and continued overall retail sales (up 53.6% in 1 st year and up 43.6% in 3 rd and 5 th years) ¹⁹	Reduce sales in towns without a "big box" when near a town with one (down 5.2% in 1 st year and down 12.9% after 5 years) ²⁰

16. Maryland report, p. 11.

17. Ibid., p. 12.

18. Ibid., pp. 29-32.

19. Ibid., referring to study by Kenneth E. Stone, Competing with Discount Mass Merchandisers, Iowa State University, 1995, which examined 34 rural communities in Iowa with populations between 5,000 and 30,000 that have had a Wal-Mart store for at least 10 years, compared to similar towns without a Wal-Mart store.

"BIG BOX" RETAILING

Positive	Negative
Increase jobs in the following big-box formats: toys/sporting goods, supermarkets, electronics, hardware, books and office products by 60.9% between 1993-7) ²¹	Reduce jobs in non-big-box formats in the same 5 categories by 2.1% during same period
Increase sales in eating and drinking establishments near big-box stores	Reduce non-big-box stores, particularly those in close proximity to or in direct competition with big-boxes ²²
Lower prices for consumers	
Increase variety of products for consumers	

Environmental Impacts. The Maryland Report cites examples of environmental and energy impacts that communities across the nation have viewed as elements that affect "community character." The findings are based on a 2000 publication by Duerksen and Goebel,²³ except as noted; a summary is presented below:

"Summary Findings

- A 110,00 square foot shopping center can generate as many as 946 car trips per hour and 9,710 trips per day. While this may be somewhat comparable to conventional retailers, big-box retailers generate far more truck trips due to higher sales volumes and merchandise turnover. For example, a home improvement store can generate 35 tractor-trailer trips per day.²⁴
- The size of most big-box facilities often increases the demand for public water and sewer services. This also imposes a fiscal impact on a local economy.
- A big-box retailer as a "stand alone" structure, or grouped with other structures to form a power center, is often designed to be inaccessible to pedestrians. Moreover, developers of big-boxes often look for sites that are adjacent to two thoroughfares. This often yields concerns regarding pedestrian safety as well as increased traffic congestion and accidents.
- Big-boxes adjacent to other commercial uses often cause problems such as excessive noise, poor traffic access management, increased demand for road repair and traffic control, and demand for improved lighting. These problems also impose a fiscal impact on a local economy.

The above findings indicate ways that big-box retail development can affect the economic and environmental conditions of a local economy, particularly in an area where

20. See note 19 on Stone study.

21. Maryland report, referring to study by Ken Jones and Michael Doucet, The Impact of Big Box Development on Toronto's Retail Structure, Center For the Study of Commercial Activity, Ryerson Polytechnic University, 1999, which examined big box development in greater Toronto with a population of 2.4 million in 1996.

22. See note 21 on Jones and Doucet study.

23. Maryland report, p. 34, citing Christopher J. Duerksen and R. Matthew Goebel. Aesthetics, Community Character, and the Law, American Planning Association, Planning Advisory Service, 2000.

24. Maryland report, p. 34, citing Constance E. Beaumont. How Superstore Sprawl Can Harm Communities, National Trust for Historic Preservation, 1994.

policies and regulations have not been established to assure proper location and development of large-scale retail facilities."

Social and Cultural Impacts. Social and cultural impacts, according to the Maryland Report, revolve around "livability" issues perceived by a community in which a "big box" is located. Examples include open space, pedestrian-friendly main streets, and clean air and water (again based on social and cultural effects found in Duerksen and Goebel).²⁵

"Summary Findings

- Increased traffic due to big-box development can potentially increase pollution in the area or affect nearby, environmentally sensitive zones.
- Oil run-off from the surface parking lot of a big-box development, or chemicals that are not handled properly in a big-box development that sells garden supplies can potentially contaminate the water supply of a local community.
- Increased traffic and noise pollution due to big-box development may potentially lower the value of nearby homes purchased by people who reasonably assumed that the area would remain peaceful and attractive.
- Communities often experience a reduction in the number of small-scale, locally-owned retailers that are in direct competition with big-box retailers. A reduction in locally-owned businesses, in some instances, can increase unemployment rates and the number of vacant buildings, which can potentially affect the economy of an area.
- Big-boxes often require high visibility from major public streets. The strong, image-making design of a big-box development can be detrimental to a community's sense of place when it does not contribute to or integrate with the surrounding area in a positive way."

Other Impacts. Sometimes overlooked is the closing of a "big box." The Maryland Report recounts a survey conducted in 13 submarkets in the Kansas City, Missouri metropolitan area. That survey found that "big boxes" accounted for 56.8% of the total commercial vacancy in the area. In terms of total square feet, however, "big boxes" had a vacancy rate of only 4.8%.²⁶ Landlords lose rent from "big boxes" when they close or relocate. In addition,²⁷

"Bankruptcy laws often prevent landlords from controlling what happens to their own properties. Leased spaces often remain in the control of other entities or retailers that have purchased the rights to store space and continue to look for other users they can put into them on the terms of the existing lease(s)."

A closing or relocation may cause a loss of jobs. It might hurt dependent businesses such as banks, insurance companies, and nearby groceries and restaurants. If the opening and continued operation of a "big box" had displaced smaller local retailers, its closing or relocation could result in either of two scenarios. Smaller retailers may seize the opportunity to re-enter and reclaim their markets, or former "big box" retail buildings could be left vacant. "Big box"

25. See note 23 on Duerksen and Goebel.

26. Ibid., p. 37, citing R. H. Johnson Company. Metropolitan Kansas City: Year 2000 Shopping Center Report. Kansas City, Missouri, 2000.

27. Maryland report, p. 38.

closings occur most frequently because a chain has overestimated its gross sales for a particular area or it has misread general trends and expanded unwisely.

In Hawaii, several "big boxes" have closed so far. In the Iwilei section of Oahu, Home Improvement Warehouse closed, but the site was taken over by a K-Mart store. Similarly, Computer City stores were taken over by another category killer, CompUSA. On Oahu, a Costco warehouse closed in the Salt Lake area and moved to Iwilei. At present, the former Salt Lake store site stands vacant. Compared to business in the area when the Salt Lake warehouse was operating, economic activity has fallen drastically. However, this must be compared against the limited amount of economic activity that occurred there *before* the Costco operation. The relocation most likely had no overall negative economic impact on the State, or even on the City and County of Honolulu. The increased business at the Iwilei site is most likely offsetting the lost business at Salt Lake.

Regulatory Strategies. The Maryland Report reviewed methods that various jurisdictions may adopt to address potential problems when a "big box" enters a community. The following summarizes these strategies.²⁸

- Use of zoning ordinances. Mequon, Wisconsin restricts and places special conditions on "big box" development, including size limitations and design considerations to integrate "big boxes" into its environment aesthetically and harmoniously.
- Use of comprehensive/master plans. St. Petersburg, Florida amended its comprehensive plan to include new policies to help control the level of retail development. This resulted in an analysis that found an over-supply of retail space, which led to the rejection of a "big box" supercenter.

Gaithersburg, Maryland used language in its "vicinity master plan" referring to the development of a "mixed-used center" to place special restrictions on "big boxes" within a "main-street" environment. As a result, criteria for the site required buildings to front streets, parking to be located at the rear of buildings, and building size to be limited. Further recommendations included decked or underground parking, enhancing of existing ponds and landscaping, and mitigating highway noise through design and construction techniques.

Portland, Oregon adopted a design review ordinance to implement its Portland Central City Plan. The ordinance provides for a design review process and basic guidelines that include such things as:

- Modifying exteriors to render them compatible with existing surroundings
- Using building materials and design features that promote permanence, quality, and delight
- Incorporating Portland-related themes into project design
- Incorporating small-scale features to add to identity and ambiance

28. Ibid., pp. 40-49.

- Defining public rights-of-way to create and maintain a sense of urban enclosure
- Building safe, attractive, weather-protected pedestrian routes
- Use of land use codes. Fort Collins, Colorado has a Land Development Guidance System and Land-Use Code. Within this framework, it adopted an ordinance to regulate large-scale retail establishments that included a manual of design standards and guidelines for "big-box" development. This dealt mostly with aesthetic issues of design, pedestrian safety, and traffic flow. It also imposed a building moratorium to study the impact of "big box" development in the region.
- Use of state statutes. At the state level, various statutes can be used to prescribe goals, conditional land uses, and other restrictions that local municipalities must employ. The Maryland Report cites the Vermont Statutes and the New Jersey State Plan. However, "big box" retail is not explicitly stated in either. Nonetheless, the Maryland Report contends that the Vermont statutes that confer certain powers to municipalities contain guiding policies that address many of the impacts of large-scale retail development. Similarly, the New Jersey State Plan, like the state plans of many other states, contain broad policy statements that deal with safety, land use, and economic development. To this extent, state statutes can be seen as a tool to enable local regulation. In other words, neither the Vermont Statutes nor the New Jersey Master Plan specifically targets "big boxes." What they do is provide the broad policy base upon which municipalities draw their authorization to regulate. The Maryland Report cites the following examples of regulatory action supported by the Vermont Statutes and the New Jersey Master Plan:²⁹
 - Target specific areas for economic revitalization including commercial development
 - Discourage strip mall development
 - Place conditions on development to respect existing retail capacities, preserve local flavor, maintain vehicular and pedestrian flow, provide adequate parking, and enhance landscaping and placement of signage
 - Provide adequate capital to meet economic development objectives
 - Locate key public facilities and services to support development activities
- Use of market analysis. Communities and governments can use market analysis to determine if there is sufficient demand for large-scale retail development or if it can be supported. According to the Maryland Report:³⁰

"The initial step to conducting a market analysis often begins with determining the trade area of a subject location. A trade area is generally described as the geographic boundary that surrounds a proposed or existing development from which 70 percent to 80 percent

29. Ibid., pp. 49-51, citing the Vermont Statutes, Title 24, Municipal and County Government; and New Jersey Master state Development and Redevelopment Plan at www.nj.gov/dca/osg/plan/stateplan.shtml.

30. Ibid., pp. 51-52.

of the customers are typically drawn. The geographic boundary can also be determined by driving times to the subject location. Typically, the primary trade area is often described as a two-mile radius or polygon of a subject location, and the secondary trade area is described as a three-mile radius or polygon of a subject location. Trade areas can also be affected by physical barriers such as a highway or a body of water.

After the trade area is defined, the next step is to collect essential socioeconomic data in order to assess the market. Socio-economic data can include current and future population and household projections, median and average household income, and expenditures per household. Retail data can also be collected on the following: retail sales trends by business category and service, the number of retail establishments and the estimated square feet of gross leasable area. Finally, an analysis can be performed to assess the performance of other competing retail stores in the trade area to determine if a community can support a proposed or existing retail facility. This information, coupled with the above, will help determine the overall square footage of a proposed retail development, or the feasibility of new retail uses."

- Other strategies. The Maryland Report also lists several other regulatory strategies, such as the use of:
 - Impact assessments and development fees
 - Inter-jurisdictional coordination and agreement
 - Performance-based approaches and standards
 - Assess relationship between proposed project to local comprehensive plan
 - Assess impacts of proposed project on character of the area
 - Require traffic access management and traffic congestion controls
 - Require screening and landscaping
 - Evaluate impact on noise in the area
 - Evaluate impact on pollution in the area

Impact of "Big Box" Grocers on Southern California: A study by Boarnet and Crane (1999) looked at the possible effects of "big boxes" entering the retail groceries market in southern California.³¹ The study looked specifically at the potential entry of Wal-Mart "supercenters" into southern California. (A supercenter is a combination of a discount department store and a grocery store.) As such, the Boarnet and Crane conclusions may not be universally applicable to other regions of California or other states. Southern California has its own unique characteristics. For example, other states have different physical and geographic factors, consumer habits and demands, job and wage structure, retail markets, and employment, insurance, and tax laws, which may lead to different conclusions. In sum, the study's conclusions probably apply only to the grocery retail sector in southern California.

Boarnet and Crane examine the possibility of the entry of Wal-mart supercenters starting to sell groceries in their discount retail stores in southern California. They reported the following four key findings:³²

31. Marlon Boarnet and Randall Crane. The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances, Orange County Business Council, September, 1999 (hereafter "Grocers").

32. Grocers, pp. 1-2.

- (1) The aggressive entry of supercenters such as those operated by Wal-Mart into the regional grocery business is expected to depress industry wages and benefits at an estimated impact ranging from a low of \$500 million to a high of almost \$1.4 billion per year, potentially affecting 250,000 grocery industry employees. The full economic impact of those lost wages and benefits throughout southern California could approach \$2.8 billion per year.³³
- (2) Discount retail chains that operate supercenters, including Wal-Mart, typically offer much less comprehensive health care coverage than major California grocery chains. One negative economic impact of supercenters could be a dramatic reduction in health coverage for most of the 250,000 grocery employees in California. This can lead to lower quality care for grocery employees whose health insurance benefits are reduced.
- (3) The fiscal benefits of supercenters, and of discount retail more generally, are often much more complex, and lower, than they first appear. This is particularly true when big box retailers close existing stores to move into larger quarters elsewhere, when they expand an existing store to sell food, and when retailers reconfigure an existing store to sell food without expansion. In each case the additional tax revenues generated will in part come from existing businesses elsewhere in the city in the form of lost market share.
- (4) Supercenters, especially Wal-Mart supercenters, are often conversions of existing discount retail stores. Thus, local officials should carefully consider the possibility of a future conversion to a supercenter, and any attendant negative economic, fiscal, or land use impacts, when approving big box discount retail projects, even when the proposed land use does not include immediate plans for grocery sales.

Comments on Key Findings. Assuming that the Boarnet and Crane findings validly apply to southern California, it is unclear in some cases whether the same findings would apply in other jurisdictions. For example, the study asserts that:³⁴

"The grocery industry, nationally and in southern California especially, has traditionally paid good wages with attractive benefit packages. Average wage and salary pay for full-time hourly workers in major southern California chains is \$32,386. The major southern California chains offer a complete benefit package, including health care coverage for employees and dependents, and a retirement plan. Discount retail traditionally pays substantially less, uses more part-time workers, and offers limited or no health insurance or retirement plans. Everything that is known about the discount retail chains now entering the grocery business suggests that supercenter [*discount department store plus grocery*] employees earn wages and benefits comparable to discount retail employees,

33. The larger estimate of \$2.8 billion per year of total economic loss in southern California includes a multiplier effect on lost purchasing power if grocery workers' wages and benefits are cut.

34. Ibid., pp. 9-10.

substantially less than [sic] what southern California grocery workers earn." [*Emphasis added.*]

The *first key finding* asserts that wages and benefits will be depressed upon the entry of "big boxes" into the retail grocery sector. Specifically, displaced workers in major unionized grocery chains will earn lower wages and benefits. Furthermore, competition from "big box" grocers will force unionized employers to reduce wages and benefits.³⁵ Boarnet and Crane report that workers in *major* grocery chains in southern California earned \$32,386 yearly in 1996. However, the average yearly wage for *all* grocery workers in southern California was only \$21,508 the same year.³⁶ If workers will be displaced by "big box" grocers, smaller grocery stores would appear as likely to lose market share as major grocery chains. Those displaced workers would not be losing as much income as workers in major chains would.

In any case, although the projection may hold for southern California, it is unclear whether the same will occur in many other states. It is unclear whether other states can match the relatively high wages and benefits enjoyed by grocery workers in major unionized chains in southern California. In other words, the lower wages and benefits offered by supercenters may not necessarily depress local wages and benefits in all other regions of the country.

The deeper issue, however, is that the lower wages a supercenter can afford to pay because of its overall higher efficiencies are seen to be unfair. Specifically, employees in southern California's major grocery chains are unionized.³⁷ They receive higher wages than non-unionized Wal-Mart employees do. Wal-Mart has achieved a labor cost efficiency that enables it to aggressively compete with the unionized major grocery chains. In other words, they can get the same grocery jobs work done for less. The complaint – and the fear – against Wal-Mart and other supercenters is that the supercenter may upset the economically inefficient labor structure of existing grocery retailers. This is especially significant when examining the grocery industry. According to Boarnet and Crane, "Labor represents approximately 60% of the controllable costs (excluding the cost of product) in the grocery industry, so competition often takes the form of meeting a rival's labor costs."³⁸

The *second key finding* predicts that there will be "a dramatic reduction in health care coverage" for grocery employees. The same reasoning regarding differential wages in the section above also applies to the second finding. This second conclusion depends on the regional health insurance structure and may be true for southern California. Boarnet and Crane report that:³⁹

"The current major grocery chain labor contract offers full health insurance coverage for all southern California grocery employees (full and part-time) and their dependents, with no co-payments or deductibles. Health plan costs are paid by the employer. Wal-Mart, in comparison, requires that employees share the cost of health insurance premiums.

35. Ibid., p. 57.

36. Ibid., p. 23, tables 1-12 and 1-13.

37. Ibid., p. 37.

38. Ibid., p. 47.

39. Ibid., p. 40.

Insurance coverage is only available to full time employees. Wal-Mart health plans have deductibles that range from \$250 to \$1000, and employees must pay the full premium for dependents." [*Emphasis added.*]

However, Boarnet and Crane also note that such full employer-paid coverage has been fast disappearing:⁴⁰

"Employer-sponsored health care coverage has been declining slowly but steadily since it peaked in the late 1970s, and recent trends indicate that the uninsured population is likely to increase as employment-sponsored health insurance continues to erode.... In 1980, 74 percent of U.S. employers paid the entire cost of health insurance for their employees. By 1993, this figure had dropped to 37 per cent.... In 1998, for example, employees of small businesses (fewer than 200 workers) paid an average of 44 percent of the premium for family coverage, up from 34 percent just a decade earlier. Employees of larger businesses (more than 200 workers) ... paid an average of 28 percent of premiums costs for family coverage in 1988...."

The comparison between the unionized contract for health coverage and non-unionized health benefits offered by Wal-Mart is dramatic. The unionized health benefits are certainly very generous and definitely run against the national trend. For example, public employees in Hawaii generally share the cost of premiums, are subject to co-payments, and pay deductibles. Furthermore, part-time, temporary, and seasonal or casual public workers are not considered "employees" for the purpose of receiving public employee health benefits.⁴¹ The point is, the comparison in southern California may not necessarily hold for other regions in the country. In Hawaii, the Prepaid Health Care Act applies just as much to Wal-Mart and its employees as it does to Star Market and its employees.

The *third key finding* – that the net tax benefits deriving from the entry of supercenters are lower than they first appear to be – assumes several factors. First, it assumes that sales of grocery (food) items sold in supercenters or ordinary grocery stores are not taxed. Second, it further assumes that municipalities receive sales tax revenues. Third, it assumes that consumers can easily change their shopping patterns by traveling out of their "home" tax jurisdictions and thus contribute to the tax base of other jurisdictions. Furthermore, the effects of these assumptions are magnified in cases where "big boxes" close existing stores or relocate, or when they add groceries to an existing store or expand the store to sell groceries.

A crucial element in the finding that supercenter retailing will result in lower-than-apparent fiscal benefits is that no sales tax is imposed on the sale of food items in California – *the first assumption*. Although this is true in California, this may not always apply in every jurisdiction. For example, in Hawaii all items sold are taxed, including food. Many other states also do not exempt food items from sales or excise taxes. Thus, the argument that an increase in the sale of food items at the expense of non-food items will diminish tax revenues does not always hold. In all other jurisdictions where food items are not exempt from sales or excise taxes, or are not favored with reduced taxes, this finding would not apply.

40. Ibid., pp. 74 & 76.

41. Section 87A-1, Hawaii Revised Statutes, under the definition of "employee," paragraph (2)(C).

The second assumption is that municipalities in southern California receive sales tax revenues and thus compete with each other for "market share" of consumer taxes. Thus, they stand to lose tax revenue if their residents go elsewhere to shop. In effect, taxing municipalities compete over a fairly mobile tax base. For example, a "big box" that starts selling groceries in its discount department store may very well lure shoppers from other tax jurisdictions and generate additional taxes for the "host" municipality. The other jurisdiction(s) may very well lose tax revenues as a result.

However, in Hawaii this "cannibalizing" of residents' taxes among jurisdictions does not occur. It is the State, and not the counties, that benefits from the collection of the general excise tax (which is frequently described erroneously as a "sales" tax). Thus, the counties are not in competition with each other for excise tax revenues. In other words, with regard to the *first* assumption, it does not matter *what* is sold – because everything including food is taxed. With regard to the *second* assumption, it does not matter *who* does the selling – because in Hawaii, only the State gets tax revenues from sales of virtually all items (other than gasoline).

The third assumption is that consumers can readily substitute shopping destinations in different taxing jurisdictions. This may be true in southern California where driving is a way of life. The development of southern California cities was in part influenced by the region's geographic characteristics and historical development. As a result, its regional transportation infrastructure evolved in a way that is heavily dependent on the automobile as the primary mode of transportation. In this setting, it is certainly possible that supercenters may expand a jurisdiction's tax base to the extent that they take customers away from other jurisdictions that do not offer "big box" convenience and pricing. In Hawaii, customers cannot drive inter-island. At times, residents do travel by air to bargain-shop at Oahu "big boxes." However, it is not likely that this constitutes a significant consumer activity. In any case, the counties hosting "big boxes" do not reap tax benefits from attracting customers from other islands. Only the State gets general excise tax revenues.

The third key finding argues that any additional increase in tax revenues will come at the expense of existing grocers as the latter lose market share. Nonetheless, retailing, especially grocery retailing, is dynamic and fiercely competitive, resulting in razor-thin margins. Shifts in market share are normal. On the surface, this finding is about reaping less tax revenue than at first thought. However, it appears the real thrust is about protecting existing grocery retailers' market shares.

Those losing market share have several options. They can improve their marketing, advertising, product mix, and customer service, upgrade their facilities including parking, ambiance, etc. They may also try lowering prices. Unfortunately, they also have the easy option of cutting wages, benefits, and even jobs.

The fourth key finding cautions officials to be wary of conversions of existing "big boxes" into supercenters. Boarnet and Crane claim that negative economic, fiscal, or land use effects may attend such conversions. Relocations may leave land and buildings vacant. Cross-city competition for a supercenter to boost tax revenues would be unwise if municipalities give

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concessions that are worth more than the extra revenues the supercenter can generate. These concessions can take many forms, such as cuts or cancellation of various sales and property taxes for a certain time or until the "big box" recoups construction or other costs. If concessions are given, the third key finding gains additional cogency. However, giving tax concessions or other incentives to "big boxes" has not been the case in Hawaii. Otherwise, the cautions listed under the fourth key finding echo those made under the three other key findings.

Chapter 5

SUMMARY

The Resolution: Senate Concurrent Resolution No. 6, S.D. 1, H.D. 1, 2003, asked for an examination of the effects of "big box" retailers on local small and medium retail businesses in Hawaii, including any positive effects. The study was to be based on information, data, and analysis obtained or developed by certain executive agencies. The DBEDT was asked to generate the core of the data and analysis. The DoTAX and the DLIR were to provide specific tax and employment statistics. The Bureau was asked to coordinate the study.

The resolution requested data and analysis in five areas:

- (1) Comparison of "big box" retailers and competing "small and medium locally owned retail businesses" in the State in terms of number of employees and taxes generated;
- (2) Determination of the number of small and medium local competitors that have closed due to "big box" competition;
- (3) Determination of whether "big boxes" can negotiate preferential shipping rates to Hawaii;
- (4) Determination and analysis regarding "comparative economic impact" of "big boxes" on Hawaii's economy; and
- (5) Determination of positive impacts of "big boxes" including "benefits to consumers and economic revitalization."

Issues to be Resolved: A working definition of the term "big-box" was needed. Four major types of "big boxes" were acknowledged and examined: category killers, discount department stores, outlet stores, and warehouse clubs. For the purposes of this study, only those "big box" retailers mentioned in the resolution itself were the subject of data collection.

The study discussed the difficulties inherent in identifying "small and medium" retailers. There were also obstacles to determining which of these were "locally owned" and which were in competition with "big boxes," especially "in any type of merchandise."

Similarly, the study examined problems related to establishing a causal relationship between competition from "big boxes" and the closing of small and medium locally owned competitors.

It is likely that "big boxes" may be able to negotiate cheaper shipping rates compared to smaller retailers. However, the Bureau discussed the underlying assumption that this is somehow unfair. In this connection, the study examined the appropriate role of government. That is, it is not the government's role to always protect local business from competition – a view

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shared by the DBEDT. Rather, it is to ensure a level playing field on which all competitors have an equal chance to gain a competitive advantage, including preferential shipping rates. The importance of consumer demand as a driving dynamic in retail industries was highlighted.

Finally, the inappropriateness of using the DBEDT's input-output model to analyze the "comparative economic impact" of "big boxes" in Hawaii was discussed.

Executive Agency Response: The DBEDT submitted a feasibility analysis detailing its lack of resources to perform the requested analysis at this time. Consequently, the Bureau collected whatever supplementary data it could from the DLIR and the DoTAX. The City and County of Honolulu and the County of Hawaii also provided tax data. The DBEDT further provided a very rough estimate of \$125,000 as the potential cost of carrying out the data collection and analysis requested by the resolution.

Tax and Employment Data Requested: The "big boxes" in Hawaii had average annual employment of 6,364 in 2000 and 6,881 in 2001. State tax data requested are as follows:

**Table 5-1
Tax Data for "Big Boxes" in Hawaii for 2000 & 2001**

	2000	2001
General Excise Taxable Income	<i>Not available</i>	\$2,362,538,586
General Excise Tax	<i>Not available</i>	\$ 60,769,824
Hawaii gross business receipts	\$1,341,349,302	\$1,705,258,158
Hawaii wages paid	\$ 107,322,496	\$ 139,256,700
Hawaii corporate income tax	\$ 2,844,006	\$ 3,359,639

Property tax data (for City and County of Honolulu and Hawaii County only) are as follows:

**Table 5-2
Property Taxes for "Big Boxes" in Hawaii for 2000-2002**

	2000	2001	2002
City & County of Honolulu	\$1,197,322.11	\$1,381,001.73	\$1,386,105.89
Hawaii County	\$ 569,375.98	\$ 574,236.23	\$ 673,160.37

Experience in Other Jurisdictions: The Bureau reviewed several publications dealing with "big boxes" in other jurisdictions. First, a 1998 DBEDT report entitled "retailing and Hawaii's Economy" made the following points:

- Mainland retailing competition in Hawaii is not new.
- Competition is integral to the revolution in retailing.
- Changing demographics underlie the move from "main street" retailing to "big box" retailing.
- "Big boxes" succeed because they satisfy consumer demand.

"BIG BOX" RETAILING

- Vigorous price discounting is a national trend that has arrived in Hawaii.
- Retailers cannot compete with "big boxes" on pricing and volume but need to cater to consumer demand by offering products and services that "big boxes" do not provide.
- The role of government is to ensure the anti-trust, unfair competition, and labor and consumer protection laws are enforced in order to provide all competitors an equal chance to be profitable; it is not to protect smaller competitors against larger ones, at the expense of consumers.

Second, a 2001 study done by the State of Maryland that reviewed strategies in various jurisdictions on the mainland was examined. The Maryland Report made the following points:

- Several new trends in "big box" retailing include drive-through pharmacies, value mall, and "de-malls."
- Four types of positive and negative aspects of "big box" retailing include:
 - Economic and fiscal impact.
 - Environmental impact.
 - Social and cultural impact.
 - Other related impacts.

**Table 5-3
Positive and Negative Economic Aspects of "Big Box" Retail Development**

Positive	Negative
Serve under-served ("under-retailed") inner-city communities whose purchasing power far exceeds existing inadequate retail facilities	Over-expansion: too many stores for all to share in sales growth. Discounters over-estimate likely sales growth, build store too big, and buy too much merchandise to be profitable
Help local economies of depressed communities	Retail sector becoming homogenous
Enhance local tax base and revenues with strong initial growth in sales and continued overall retail sales (up 53.6% in 1 st year and up 43.6% in 3 rd and 5 th years)	Reduce sales in towns without a "big box" when near a town with one (down 5.2% in 1 st year and down 12.9% after 5 years)
Increase jobs in the following big-box formats: toys/sporting goods, supermarkets, electronics, hardware, books and office products by 60.9% between 1993-7)	Reduce jobs in non-big-box formats in the same 5 categories by 2.1% during same period
Increase sales in eating and drinking establishments near big-box stores	Reduce non-big-box stores, particularly those in close proximity to or in direct competition with big-boxes
Lower prices for consumers	
Increase variety of products for consumers	

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- Environmental impacts include increased traffic, demand for water and sewer services, threat to pedestrian safety, inaccessibility to pedestrians, noise, and need for road repair.
- Social and cultural impacts include open space livability and esthetic issues, pedestrian-friendly "main streets," and clean air and water.
- Other related impacts include increased commercial vacancies and loss of jobs.
- Regulatory strategies include:
 - Use of zoning ordinances.
 - Use of comprehensive or master plans.
 - Use of land codes.
 - Use of market analysis.

Impact of "Big Box" Grocers in Southern California: The Bureau finally reviewed a 1999 study that estimated the negative impact of the potential entry of Wal-Mart supercenters into southern California. A supercenter is a "big box" that also sells groceries. That southern California study made the following key findings:

- The entry of Wal-Mart supercenters into the southern California grocery business is estimated to depress industry wages and benefits from \$500 million to almost \$1.4 billion per year, potentially affecting 250,000 grocery industry employees. The full economic impact of those lost wages and benefits throughout southern California could approach \$2.8 billion per year.
- Wal-Mart typically offers much less comprehensive health care coverage for its employees than unionized major California grocery chains. Thus, there may be a dramatic reduction in health coverage for most of the 250,000 grocery employees affected, possibly leading to lower quality care for grocery employees in Southern California.
- The fiscal benefits of supercenters may be lower than expected. This is particularly true when big box retailers close existing stores to move into larger quarters elsewhere, when they expand an existing store into food, and when retailers reconfigure an existing store to sell food without expansion. In each case, the additional tax revenues generated will come, in part, from existing businesses elsewhere in the city in the form of lost market share.
- When approving a "big box" project, local officials should beware that the "big box" may convert into a supercenter in the future.

Finally, the Bureau offered comments on the findings of the southern California study that mitigate the estimated effects, particularly as they may apply to Hawaii.

SENATE CONCURRENT RESOLUTION

REQUESTING A STUDY ON THE EFFECTS OF BIG BOX RETAILERS ON LOCAL
SMALL AND MEDIUM RETAIL BUSINESSES.

1 WHEREAS, Oahu has experienced the establishment of several
2 "big box" retailers in the past several years; and
3

4 WHEREAS, big box retailers such as Home Depot, Wal-Mart,
5 Kmart, Costco, Sam's Club, Ross, and Old Navy, typically sell in
6 volume at discounted prices from warehouse type operations; and
7

8 WHEREAS, big box retailers do business in groceries, office
9 supplies, sporting goods, home furnishings, toys, books and
10 music, computers, electronics, and hardware, on Oahu and on some
11 Neighbor Islands; and
12

13 WHEREAS, the economy of the State and the cost of living
14 for Hawaii residents are impacted considerably by big box
15 retailers; and
16

17 WHEREAS, according to anecdotal reports, big box retailers
18 have had an adverse economic impact on small and medium sized
19 businesses that are locally owned, causing many of them to lose
20 revenue and eventually close; and
21

22 WHEREAS, anecdotal reports also indicate that big box
23 retailers have numerous positive impacts on the economy and
24 benefits for the consumer that are worth studying and
25 considering; and
26

27 WHEREAS, while these reports on the adverse economic impact
28 big box retailers have on local businesses may be anecdotal,
29 recent statistics on business closures and bankruptcy filings in
30 Hawaii have grown significantly in the years since the influx of
31 big box retailers; and
32

33 WHEREAS, the Legislature needs solid and reliable
34 information regarding the full economic impact on the State from



1 big box retailers, particularly the effects on small and medium
2 sized businesses that are locally owned; now, therefore,

3
4 BE IT RESOLVED by the Senate of the Twenty-Second
5 Legislature of the State of Hawaii, Regular Session of 2003, the
6 House of Representatives concurring, that the Legislative
7 Reference Bureau is requested to conduct a study on the effects
8 of big box retailers on local small and medium retail businesses
9 in Hawaii, and the positive impacts of big box retailers upon
10 the local community, including benefits to consumers and
11 economic revitalization, based on information, data, and
12 analysis obtained or developed by appropriate executive
13 agencies; and

14
15 BE IT FURTHER RESOLVED that the following agencies are
16 requested to provide necessary information and data to the
17 Legislative Reference Bureau by August 31, 2003, as follows:

- 18
19 (1) The Department of Labor and Industrial Relations is
20 requested to determine the number of employees
21 employed by each of the various big box retailers in
22 each location;
23
24 (2) The Department of Taxation is requested to determine
25 the aggregate amounts of excise, income withholding,
26 and property tax revenues generated by big box
27 retailers in Hawaii;
28
29 (3) The Department of Business, Economic Development, and
30 Tourism; the Department of Taxation; and the
31 Department of Labor and Industrial Relations are
32 requested to determine the aggregate number and types
33 of small and medium locally owned retail businesses
34 that are in competition with the big box retailers in
35 any type of merchandise, and the estimated number of
36 employees, and amounts of excise, income withholding,
37 and property tax revenues generated by these retail
38 businesses;
39
40 (4) The Department of Business, Economic Development, and
41 Tourism is requested to:
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43 (A) Determine the number, types, and locations of big
44 box retailers in Hawaii;

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- (B) Determine the estimated number and types of small and medium locally owned retail businesses that have closed due to adverse competition from big box retailers;
- (C) Determine whether, and if so the extent to which, big box retailers are able to negotiate preferential shipping rates compared to their smaller competitors for goods shipped to Hawaii; and
- (D) Determine the comparative economic impact of big box retailers on Hawaii's economy by:
 - (i) Obtaining requisite data from big box retailers in Hawaii;
 - (ii) Developing such economic models as may be necessary; and
 - (iii) Analyzing and organizing the results produced from applying the economic models to the data obtained; and
- (E) Obtain and develop data concerning any positive impacts of big box retailers upon the local community, including benefits to consumers and economic revitalization;

31 and

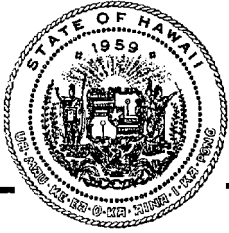
32
33 BE IT FURTHER RESOLVED that the Senate Standing Committee
34 on Economic Development and the House of Representatives
35 Standing Committee on Economic Development and Business Concerns
36 hold public hearings, beginning in June 2003, to obtain
37 additional information to assist the completion of this study,
38 and to monitor the progress of the designated agencies specified
39 in the previous resolved paragraphs in obtaining and developing
40 relevant information and data to be provided to the Legislative
41 Reference Bureau; and
42

43 BE IT FURTHER RESOLVED that the Department of Business,
44 Economic Development, and Tourism; Department of Labor and

1 Industrial Relations; Department of Taxation; University of
2 Hawaii Department of Urban and Regional Planning; and the
3 directors of finance of the various counties are requested to
4 assist and cooperate with the Legislative Reference Bureau in
5 any other aspects of this study, subject to confidentiality
6 requirements; and
7

8 BE IT FURTHER RESOLVED that the Legislative Reference
9 Bureau is requested to report its findings and recommendations
10 to the Legislature not later than twenty days prior to the
11 convening of the Regular Session of 2004; and
12

13 BE IT FURTHER RESOLVED that certified copies of this
14 Concurrent Resolution be transmitted to the Director of
15 Business, Economic Development, and Tourism; Director of Labor
16 and Industrial Relations; Director of Taxation; Director of
17 Budget and Fiscal Services of the City and County of Honolulu;
18 Director of Finance of the County of Hawaii; Director of Finance
19 of the County of Kauai; the Director of Finance of the County of
20 Maui; the Chairperson of the Board of Regents of the University
21 of Hawaii; the Chair of the University of Hawaii at Manoa
22 Department of Urban and Regional Planning; and the Director of
23 the Legislative Reference Bureau.



Appendix B

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
RAYMOND M. JEFFERSON
DEPUTY DIRECTOR

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
Web site: www.hawaii.gov/dbedt

Telephone: (808) 586-2355
Fax: (808) 586-2377
2003:0513006

May 28, 2003

Ken H. Takayama, Acting Director
Legislative Reference Bureau
415 South Beretania Street, Room 446
Honolulu, Hawaii 96813

Dear Mr. Takayama:

Thank you for your letter regarding Senate Concurrent Resolution 6, Senate Draft 1, House Draft 2, under which the Legislative Reference Bureau (LRB) is requested to conduct a study on the effects of big box retailers on local small and medium retail businesses in Hawaii. Your contact for DBEDT's participation in this study will be Mr. Robert Shore (586-2475), of our Research and Economic Analysis Division.

As we stated in our testimony on this resolution, we will certainly cooperate with the LRB by providing any information we have collected or know exists bearing on this study. However, as we also testified, we do not have the resources to pursue original research into this subject. Our limited resources for the remainder of the year will be devoted to the development of economic development/diversification strategies and related projects, some of which were requested or mandated by the legislature.

There is some information DBEDT will be able to provide. I am attaching an analysis of the information requested in SCR 6, which explains the information we will be able to provide and why other information is beyond our resources at this time. It also suggests alternatives the Bureau may wish to consider in order to generate information on this issue in lieu of a comprehensive study.

Within these limitations, we look forward to providing helpful input into the Bureau's study.

Sincerely,

Theodore E. Liu
Director

Attachments

Analysis of Information Requested of DBEDT Under SCR 6 SD 1 HD 1
Department of Business, Economic Development & Tourism
Research and Economic Analysis Division
May 20, 2003

In order to assist the Legislative Reference Bureau determine the feasible scope of its study given the current constraints on state resources, we have conducted a feasibility analysis regarding DBEDT's ability to provide information. That analysis follows:

Information Request:

The Department of Business, Economic Development, and Tourism; the Department of Taxation; and the Department of Labor and Industrial Relations are requested to determine the aggregate number and types of small and medium locally owned retail businesses that are in competition with the big box retailers in any type of merchandise, and the estimated number of employees, and amounts of excise, income withholding, and property tax revenues generated by these retail businesses;

Feasibility:

While we cannot respond for the other two agencies, DBEDT knows of no published data by any agency that identifies retail businesses either by the residence of their owner or by their competitors. If the other two agencies also do not have this information on hand, we believe the only alternative means of gathering the information would be a survey of retail businesses in various parts of the state within the market range of big-box retailers (which in some cases would be island-wide markets). Such a survey would be beyond the scope of DBEDT's budgetary and staffing resources and would likely take longer than the three month period allotted in the resolution. Moreover, research would be needed to develop operational definitions for "small and medium" retail business, "local ownership," and how competing versus non-competing businesses would be determined. Thus, we regret that the development of this information would be beyond the resources of the department at this time.

Information Request:

Determine the number, types, and locations of big box retailers in Hawaii;

Feasibility

DBEDT will assist by developing a list of "big box" retailers to the extent published information permits. It should be noted, however, that the retail industry definition of a big-box store is that of a major, general merchandise chain store of 100,000 sq. ft. or more. Unless, given its understanding of SCR 6, the LRB can provide an alternative operational definition, DBEDT will pursue the generally accepted retail industry definition.

Information Request:

Determine the estimated number and types of small and medium locally owned retail businesses that have closed due to adverse competition from big box retailers;

Feasibility:

This information would be extremely difficult to reliably estimate. It is not clear what relevant timeframe would serve the purposes of SCR 6. However, even within the very recent past, it would be difficult to identify and locate former owners of retail businesses in all areas of the state that have closed in the proximity of big box retailers. It would also be very difficult to determine whether the reason for the business closure was direct competition from “big box” stores, general competition in the market, or simply poor management. Again, we regret that we do not have the resources to address the challenge of obtaining this particular information.

Information Request:

Determine whether, and if so the extent to which, big box retailers are able to negotiate preferential shipping rates compared to their smaller competitors for goods shipped to Hawaii.

Feasibility:

This would involve contacting shipping companies, big box retailers and small local retailers for voluntary information. A set of questions would need to be developed about the types of shipments, methods of shipments and times of shipments to ensure that information on the costs to large and small retailers is comparable. We regret that DBEDT does not currently have the available resources to pursue such a survey.

Information Request:

Determine the comparative economic impact of big box retailers on Hawaii's economy by:

- (i) Obtaining requisite data from big box retailers in Hawaii;
- (ii) Developing such economic models as may be necessary; and
- (iii) Analyzing and organizing the results produced from applying the economic models to the data obtained.

Feasibility:

Normally, economic impact analyses are conducted on industries and activities that generate new income for the state such as more construction, tourism or more exports. With the possible exception of some visitor segments, retailing does not by itself bring significant new business to the state. Big box and other retailers share, but do not significantly affect the size of the market. The differential impact on the economy as a whole between big box and other retailing is not likely very large. The issues between big box and other retailing are more likely to be the

relative efficiency of the different types of retailing and their impact on competitors rather than their economic impact on the state as a whole.

Moreover, the major tool for analyzing any economic impacts would be DBEDT's Input-Output model. However, this model is not structured to differentiate between large businesses and small businesses or big box vs. non-big box stores. To incorporate this capability into the model would take considerable time and research, which is beyond our resources at this time.

Information Request:

Obtain and develop data concerning any positive impacts of big box retailers upon the local community, including benefits to consumers and economic revitalization;

Feasibility:

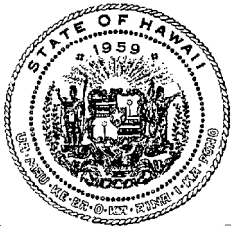
The impact of larger retailers varies from community to community. Case studies would need to be performed for selected communities to fully address the question of community and consumer benefit. Such research would be beyond our current resources.

Summary & Alternatives:

To summarize, what is requested under SCR 6 SD1 HD1 is a comprehensive, statewide study and survey of the retail industry aimed at isolating and quantifying the effects of big box retailers. With the exception of developing a list of probable big-box stores, this task is beyond DBEDT's staff and financial resources at this time.

DBEDT has previously studied the issues surrounding Hawaii's changing retail make up. In the attached report entitled *Retailing and Hawaii's Economy* (August 1998), DBEDT discussed the extent and impact of national retail chains in Hawaii. It was found that mainland retail chains have been entering (and occasionally leaving) the Hawaii market since Kress Department Store entered the Hilo market in 1932. Whether they are called *big boxes*, *department stores*, *category killers* or *membership stores*, this trend has been going on for more than 70 years. In addition the study found that it is not just big retailers that have entered the Hawaii market. Small convenience stores like Seven-Eleven and fast food chains like McDonalds have thrived because they filled a niche that was not being filled well by existing merchants. In the process they undoubtedly caused businesses to leave the market.

As an alternative approach to this issue the Bureau may wish to report the findings of the previous DBEDT study and national studies that have been done. Another alternative that could prove very useful would be for the Bureau to conduct focus group interviews with various chambers of commerce, business organizations and consumers in the state. The purpose would be to determine what significant problems and benefits have arisen from the entry of big box retailers into Hawaii's local markets. This could help develop solutions and also narrow the focus for future efforts to gather data on this issue.



Appendix C

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

LINDA LINGLE
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August 11, 2003

Ken H. Takayama
Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, Hawaii 96813
Attn: Mr. Peter Pan

Dear Mr. Takayama:

Your office has asked for an approximation of the cost that might be incurred to develop the information asked of DBEDT in Senate Concurrent Resolution 6, SD 1, HD 1. As discussed with Mr. Pan of your office, this is very problematic because there are few previous efforts like this that would serve as a guide. It is certain the task is beyond DBEDT's internal staff resources. Therefore, any such effort would require the services of qualified consultants.

A reasonable expectation of average consultant services for such a project might be around \$5,000 per month, per fulltime researcher. This rough estimate includes compensation for the researchers' time, as well as travel, per diem and compensation to the firm for their overhead and profit. Adding assumptions about the length of time it might reasonably take to gather the information and how many researches might be needed, yield the following results:

- **Identify businesses in competition with big box retailers and their employment & taxes paid, &**
- **Identify businesses closed due to big box competition:**

(These two components would best be conducted simultaneously during the same fieldwork).

Cost Estimate: 2.5 month study, 8 researchers (4 Oahu, 2 Hawaii County, 1 each Maui & Kauai Counties) = \$100,000.

- **Determine the number, types, and locations of big box retailers in Hawaii**

No outside cost. DBEDT offered to determine this for the LRB.

- **Determine preferential shipping rates**

Cost Estimate: 1 month, 1 researcher @ \$5,000/mo. = \$5,000

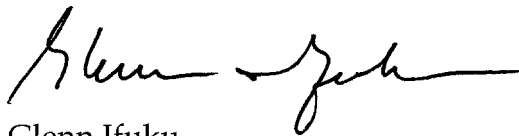
- **Economic Impact of big box retailers**

Cost Estimate: 2 months, 2 researchers (including one qualified economist) = \$20,000.

Under these assumptions the total outside cost would be about \$125,000. However, there would be unavoidable internal costs associated with the development and administration of the contract or contracts involved. We estimate these responsibilities would require the time of a qualified DBEDT staff member for the equivalent of at least one full-time month over the period of the pre-project development and project execution and analysis. The services of DBEDT's contract/fiscal staff and the Attorney General's Office would also be required in the processing and administration of the contracts.

We hope this information proves helpful.

Sincerely,



Glenn Ifuku
Head
Research and Economic Analysis Division

cc: Theodore E. Liu
:Robert L. Shore
:Tu Duc Phan (DOTx)
:Naomi Harada (DLIR)