



October 9, 2014

Ms. Donna Olson, Mayor
City of Stoughton
381 E. Main Street
Stoughton, WI 53589

RE: Economic Impact on Grocery Sales from the Kettle Park West Development

This letter is in response to a letter that was received from Yahara River Cooperative Grocery regarding the estimated economic impact to Yahara's gross revenue based on data collected and reviewed by Maxfield Research Inc.

Estimated gross revenues were collected using Dun and Bradstreet's InfoGroup Business database which collects information on more than 24 million businesses in the United States. The information presented in the database is 2013-2014 data. Information from this database was collected for a number of businesses in Stoughton including the Cooperative.

We understand that the revenues for Yahara River Cooperative were overstated according to the database and are currently less than \$1.0 million. The overstatement of revenues was due to a consolidation of revenues with another business entity.

The projected economic impact of a Walmart Supercenter opening in Stoughton on the revenues for Yahara River Cooperative depends, in part, on the types of products and merchandise lines that are similar to those carried by Walmart. Since opening, the Cooperative has expanded their merchandise lines and reallocated their product mix to have a broader appeal in the market.

In considering the potential impact that the grocery component at the Walmart Supercenter store would have on the Yahara River Cooperative, Maxfield Research Inc. reviewed the following articles and research reports:

Dr. Kenneth Stone, Professor Emeritus at Iowa State University in Ames, Iowa. Dr. Stone has completed several analyses regarding the impact of Walmart stores on smaller cities in Iowa and in counties in Mississippi.

"The Effect of Walmart Stores on Businesses in Host Towns and Surrounding Towns in Iowa"

"Impact of Walmart Phenomenon on Rural Communities"

"Competing with Discount Mass Merchandisers"

"The Economic Impact of Walmart Supercenters on Existing Businesses in Mississippi"

"How do you deal with the entry of a new Walmart supercenter into your town? ICMA Publications, PM Magazine, March 2005, Volume 87, No. 2

“Impact of Walmart Supercenter on a Traditional Supermarket: An Empirical Investigation,” by Vishal P. Singh, Karsten P. Hansen and Robert C. Blattberg, February 11, 2004 found in their analysis that “In terms of consumer characteristics, we find that distance to store, while useful, explains little of the variation in household heterogeneity. Households that respond to Walmart are likely to have an infant and pet in the family and are more likely to be weekend shoppers. Furthermore, we find that these households are large basket consumers, confirming the findings of Bell and Lattin (1998) that large basket buyers are more likely to choose an every-day-low-price (EDLP) operator. On the other hand, households that spend a large proportion of their grocery expenditures on fresh produce, seafood, and home meal replacement items are less likely to defect to Walmart. “

“Keys to Success for Food Coop Start-ups in Rural Areas: Case Studies,” United States Department of Agriculture, Rural Development Research Report 208, October 2005, prepared for Northcounty Cooperative Development Fund by the University of Wisconsin Center for Cooperatives.

The studies by Dr. Kenneth Stone identified the following with regards to impacts on smaller cities when a Walmart supercenter store opened in the community:

The grocery industry has been undergoing structural changes for many years. Many towns of 1,000 or less in population have lost their grocery stores, while towns of 5,000 or more population gained retail food sales. This is primarily because customers must then travel to other nearby larger communities to purchase their groceries.

According to the study, when a Walmart entered the town, grocery store sales decreased by -5.1% after one year. Sales regained about 1.0% in the second year, but then slipped back to the lower figure in the third year. The sales that were analyzed were food sales through sales revenues documented by the Iowa Department of Revenue and reflect food sales that occurred among all types of stores, but primarily among traditional supermarkets. This was generally contrary to what had occurred in other towns of the same size, but was identified as a loss of sales from pharmaceuticals, health and beauty products, cleaning supplies, pet supplies, cards and stationery and magazines. Many of these types of items are purchased in a grocery store or drugstore. Customers were viewed as switching their purchases of these standard types of items to the larger discount merchandiser and away from the traditional supermarket.

In the largest cities, grocery store sales decreased by only -0.4% in the first year, -2.7% after three years and -2.4% after five years. The decline in sales is based against the benchmark year prior to Walmart opening and reflects the decrease in sales against the benchmark years. These figures are not cumulative.

Yahara River Cooperative views its primary competition as Pick ‘n Save (Stoughton), Trader Joe’s (Madison), Basics (Janesville), Whole Foods (Madison) and Willy Street Coop (Madison), which has assisted Yahara with its organization.

Grocery Stores currently operating in Stoughton include Pick ‘n Save, a warehouse grocer and the Yahara River Cooperative (a local cooperative grocery). We understand that Yahara started business approximately 18 months after the Main Street Market closed in Downtown Stoughton. During this

time, Pick 'n Save was and continues to operate in Stoughton and is adjacent to the existing Walmart store.

If the Walmart supercenter opens in Stoughton, Pick 'n Save, because of its direct similarity in merchandise and pricing to Walmart, is estimated to experience the largest potential negative impact in sales. We identified that Yahara River Cooperative, which has a customer base that is somewhat different from that of the typical Walmart customer, could lose up to 5% of its gross revenues upon opening of the Walmart supercenter. Based on historical analysis of sales losses for communities similar in size to Stoughton, the range is considered to be between 2% and 5%. However, because of Yahara's current merchandise mix, primary competitors and its focus on natural and locally grown foods, that the loss in sales would be closer to the lower end of the range than the higher end. The proportional impact should not change with the change in revenues. The proportional impact reflects the size of the operation of the grocery based on its gross revenues. A lower gross revenue reduces the dollar amount of the impact, but the proportional impact to the operation is considered to be similar.

Estimated economic impacts can be affected by a variety of factors including store location, merchandise mix, marketing efforts, and organizational structure. We believe that the estimated percentage loss in sales reflects the range that could be anticipated to Yahara River Cooperative Grocery should the Walmart Supercenter be developed.

If you have additional questions or need more information, please let me know.

Sincerely,

A handwritten signature in black ink, reading "Mary C. Bujold". The signature is fluid and cursive, with the first name "Mary" being the most prominent.

Mary C. Bujold
President