

**BJ'S AT BRUSH AVENUE: A POOR  
ECONOMIC CHOICE FOR THE  
BRONX**

*REPORT ON THE POTENTIAL IMPACT OF A BJ'S  
WAREHOUSE CLUB IN THE BRONX*

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## **Executive Summary**

The proposal for building a 140,000 sq. ft. BJ's Warehouse Club on Brush Avenue in the Bronx will have a profound impact on both retail and wholesale business in the borough. The store's projected food sales volume, about \$60 million a year, would represent 28% of all of the grocery sales in the company's targeted market area. This kind of business capture would inevitably lead to multiple store closings with significant job loss and, because of BJ's wage and benefit structure, continue to a downward spiral in the overall compensation for supermarket workers in the Bronx.

The Bronx is also the home of the Hunts Point Market. Local food stores throughout the borough are heavily dependent on this wholesale distribution center for the supply of meat and produce. There are close to 2,500 unionized workers at Hunts Point and any diminution in retail food sales will have a significant ripple effect throughout this wholesale sector since the BJ's business model is build on bypassing local distribution channels.

The loss of retail business will also impact the viability of neighborhood shopping areas. Local commercial strips depend on the roughly 3,000 to 4,000 customer trips generated by independent supermarkets. These trips stimulate other retail business activity and, as a result, have helped to create a successful renaissance of neighborhood business activity in the Bronx. This renewal is reflected in rising local property values and enhanced public safety from greater pedestrian activity on Bronx shopping strips.

The building of the box store will also have a negative ripple effect on non-food business in the borough. Studies have shown that stores like BJ's circulate many fewer dollars throughout the local economy than do indigenous stores. This disparity will mean

a significant monetary loss to the Bronx, one that will be reflected not only in initial job loss but also in lost potential economic development and employment growth from local entrepreneurs.

The proposal to build a store that is three times the size of the borough's largest supermarket deserves the most rigorous economic and land use impact analysis. Even higher automobile generated shopping and the concomitant reduction of walk-to-shop sales has a significant, although hidden, cost to Bronx taxpayers. Unfortunately, no one required BJ's or its developer to do the necessary due diligence.

Given its potential for serious and widespread harm, the current proposed BJ's development application needs to be turned down, at least until a thorough and independent review of the stores impact is conducted. The economic revitalization of the Bronx has been built largely on the energy and risk taking of local, often minority entrepreneurs. Their efforts have been good for the borough and officials should proceed with utmost caution before putting their efforts at risk.

BJ's is only one store. It is, however, way beyond the size and scope of any other existing food retailer in the Bronx. The real danger, though, resides in the real possibility that this BJ's is only the precursor to four or five similar box stores that will follow if the current proposal is approved. That is why this application should be turned down and a full and thorough analysis be conducted, as it was in Los Angeles, of the potential impacts of box store proliferation in the Bronx and the rest of New York City.

## **Introduction**

It wasn't so long ago that the Bronx was a symbol of urban decay in America. Those World Series images of burning buildings represented a community that had just

about hit rock bottom. What was happening to the Bronx, however, was being repeated all over New York City. Harlem and East Harlem, the Lower East Side, Bushwick and Jamaica all saw the depressing cycle of arson and abandonment affect their neighborhoods.

As the buildings burned down and crime skyrocketed another dangerous cycle of decay took hold in New York: commercial strips all over the city were unceremoniously stripped of their value as most of the fabled national chain stores took flight to a safer and more profitable suburban environment. This flight was especially true for the food industry. A&P and Waldbaums, fixtures in many neighborhoods, closed their stores as crime increased to epidemic proportions. Bohacks (for those old enough to remember), a fixture in many neighborhoods, also disappeared. Among the national chains, only Pathmark resisted the exodus and maintained its stake in the city.

As abandonment and flight reached catastrophic proportions, something very interesting and unexpected started to happen. This dangerous decay, one that threatened to deprive scores of city neighborhoods of any quality food shopping, began to be slowly and quietly reversed. The burned and abandoned stores were taken over by a wave of hardy and determined immigrant entrepreneurs. These Dominican, Arab and Korean store owners, fleeing poverty and the lack of opportunity in their homelands, took over the chain stores, refurbished their buildings and restocked depleted inventories with goods that mirrored the tastes of the neighborhoods.

This risk taking reinvestment, taking place over the better part of two decades, cost hundreds of millions of dollars. Where did all this money come from? Not from the banks that had redlined these decaying neighborhoods. The money came from food

wholesalers, like the Bronx's own Krasdale Foods, that saw an opportunity and took a chance on the skills and courage of risk taking entrepreneurs. Together, store by store, neighborhood by neighborhood, these hardy pioneers helped to stabilize communities and reverse the cycle of decay and abandonment.

In the process, however, these entrepreneurs have almost become victims of their own success. You see, what has been clearly demonstrated to the entire city is that these neighborhoods could be a rich opportunity for business. Other stores opened, attracted to the thousands of weekly customers shopping at the newly refurbished supermarkets. The success was startling and did not go unnoticed in the food industry. National chains that had fled this city saw that the neighborhoods they had abandoned, now revitalized and vibrant, could once again become profit centers for their corporate shareholders. They were itching to return.

And return they did. Over the past fifteen years many of the larger supermarkets came back. The Pathmark chain, showing an unusual confidence in the city's poorest communities, expanded aggressively and helped to generate a healthy competition that gave almost all New York's neighborhoods the benefit of high quality food shopping. Along with this resurgence came an employment bonanza. There are now over 50,000 well-paid unionized supermarket workers in New York City, making the combined UFCW and RWDSU the largest private sector labor union in this city. Even the independent supermarkets, as their immigrant owners continue to grow and prosper, have begun to jump aboard the union bandwagon.

Which leaves the Bronx today in an enviable situation. The chains have come back and our independent neighborhood supermarkets have managed to coexist and even

thrive. The resulting competition has strengthened the competitors, yielded maximum benefits for New York's consumers, and created a healthy competitive balance. The neighborhoods they serve have also continued to grow and prosper.

On the heels of the well-publicized success of national supermarkets, however, we have begun to hear the elephant stomping hoofs of the Wal-Marts, Costcos and BJ's. Where the national chain store is 60,000 square feet, the club store is often 150,000 square feet or more. Coexistence is not in their slash-and-burn game plan.

In the Bronx alone there are over 90 neighborhood supermarkets and a dozen or so national chains. The food demand is, however, limited. The influx of club stores, even just 5 or 6 of them, could absorb three to four hundred million of dollars from neighborhood economies. Remember Ross Perot's "giant sucking sound" about the loss of American business to Mexico? The same sucking sound will be heard as the food dollars that support the commercial strips of this borough, are extracted by club stores. If this happens, a lot will be lost in the process.

The economic loss to the Bronx, and the city as a whole, isn't confined to the neighborhood shopping areas. What many people don't realize is that the local store owners rely on indigenous suppliers to stock their stores. Bronx wholesaler, Krasdale Foods, supplies over 6,000 neighborhood retailers. Jetro Cash-and-Carry, with five local warehouses, provides groceries for over 20,000 city bodegas and restaurants.

In addition, the Hunts Point Market, employing thousands of Bronx residents, is the major wholesale supplier of meat and produce for the entire gamut of local food stores. This market accounts for hundreds of millions of dollars of business, much of

which is generated by independent supermarkets, greengrocers, and bodegas, and is a major economic engine for the Bronx.

All of this wholesale business is threatened by a permissive proliferation of big-box stores who are all supplied by a network of out-of-state distribution centers. Almost every dollar lost by a local retailer is a dollar lost by a local distributor.

New York City is a city of immigrants. The success of these immigrants is what has made and continues to make this city unique. This is especially true in the Bronx. Our predominately Hispanic supermarket owners, who reflect the population of the Bronx, came here when this borough was being counted out. Their success fueled a concomitant success in distribution and manufacturing. In combination, these businesses helped us get off the canvas and go on to remarkable success. People tell you all the time that you can't stop progress. Progress for the Bronx is the success of immigrants and the revitalization of its neighborhoods. It is not watching Wal-Mart, Costco and BJ's destroy this success by trying to recreate the Bronx into some suburban image that destroys all those who worked so hard to bring the borough back.

Which brings us to the proposed BJ's at Brush Avenue. The reason this is an issue is that the company is looking to build on land that is not zoned for such a large retail use. When the current zoning text was first voted into law city planners were concerned about the need to preserve both manufacturing space as well as neighborhood food shopping. They made the entry of large retail operations subject to obtaining a "special permit". The permit process was made discretionary for good cost-benefit reasons.

The economic impact analysis that follows underscores the kind of devastating impact that a 140,000 BJ's will have on the entire infrastructure of Bronx business. We

know that the store is looking to generate close to \$2.5 million in weekly sales. At least \$1,350,000 of these sales will be supermarket related. This amounts to \$60million a year of grocery sales. Put in perspective, this figure is the equivalent of four large supermarkets or 12 neighborhood stores. We should also keep in mind that BJ's will also operate a large pharmacy that will contribute to the loss of business on the nearby commercial shopping strips.

The full BJ's critique that follows will demonstrate that the proposed store is not the kind of economic development that is good for Bronx business and the borough's vital neighborhood shopping areas. By itself, it will lead to the closing (as large retail food outlets have done in other parts of the city), of at least five local supermarkets with significant loss of sales throughout a two and one half mile trade area radius.

Employment losses will naturally follow in both the retail and wholesale sectors. What we also need to keep in mind is that, as a result of the economies of scale, the jobs that BJ's will generate will result in the disproportionate loss of jobs elsewhere. The level of business that a warehouse club can do with only one meat manager or one produce manager would normally be accomplished with ten such managers at the local markets. Another factor to keep in mind is the considerable gap between the wages and benefits paid to the workers at BJ's and the compensation packages for unionized workers at area supermarkets.

In addition, and inevitably, some of this economic exchange will result in the replacement of entrepreneurs by entry level personnel. This kind of trade-off has a special significance since so many of the Bronx's store owners reflect, as well as hopefully inspire, the residents of the borough.

After examining the data in this report we have only one request of Bronx elected officials. Say No to BJ's. Stand up for the pioneers, but do so not only for the sentimental reason that these immigrant entrepreneurs were instrumental in bringing the Bronx back from its cycle of decay. Do so out of the recognition that the decision to say no is the right one for the economic well-being of the Bronx.

### **Economic Impact Analysis of BJ'S Targeted Trade Area**

An analysis of the impact of a box store such as BJ's on the shopping patterns of a trade area needs to first analyze the characteristics of that area. For instance, if an area is seriously "understored," which means for the purposes of food shopping the relative paucity of supermarkets, than the introduction of a warehouse club that does a substantial grocery business might not have a significantly negative impact. The jobs created would likely be, at worst, comparable to those of existing stores in the community, and the prices and quality of foods would likely be an improvement over a substandard retail environment.

In addition, given the dearth of modern grocery shopping, the introduction of such a store would not have a negative impact on local business since the area was lacking in the kinds of stores that would suffer from the new competitor's presence. It would also be true that the quality of existing stores in such an environment and the generally high price structure of such retailers would warrant the introduction of a competitor that would raise the retail playing field. In such a scenario one would not be surprised to find a box store actually attracting new business into the trade area.

A look at the specific Bronx trade area that BJ's Warehouse Club is seeking to locate in presents a contrasting picture to the one that has just been outlined. Within its

two mile radius we have a population that will grow to an estimated 185,479 by 2006 (Roughly 69,031 households). When we look at the Bureau of Labor Statistics analysis of in home food expenditures for the year 2002, we find that the average household is spending around \$3,093 a year. This translates into a total food expenditure of \$212,822,570 for this particular market (Report 974).

When the sales figures of existing food stores are examined we find the following:

- 1) **Independent Neighborhood Supermarkets** (22 stores) - \$82,000,000
- 2) **Chain Stores** (5 stores) - \$195,000,000

In essence, the total food sales in the trade area actually exceeds the population's yearly food expenditures. This likely indicates that the chain stores, as well as some of the independents, especially those on the periphery of the trade area, are drawing sales from outside of the two mile trade radius.

What these figures suggest is that the introduction of a BJ's store, one that will do as much as \$60 million a year in grocery business, will likely cannibalize a great deal of its business from existing stores. What is striking here is that BJ's projected sales would account for roughly 28% of all food sales within this existing trade area.

### **Further Potential Economic Impacts and Implications for the Bronx**

If a market area can be described as saturated, or even "overstored," it is likely that a large new competitor will have a dramatic impact on the current buying patterns. What kind of impact can we expect from BJ's on Brush Avenue? In this context we need to reiterate an important point. This key question should be a requirement for BJ's and its developers to answer.

It is also fair to point out that the fact that they weren't asked to analyze this important question is a serious shortcoming in this particular land use planning process. The impact of box stores is general and this BJ's store in particular are so profound that any land use review process should require a full Environmental Impact Statement, one that would legally mandate the developer to analyze the economic impact on existing businesses and surrounding neighborhoods.

In the absence of a developer analysis we are left with relying on data and experience from comparable site battles within New York City and from around the country. The New York City data is, at least in regards to box stores, sparser than some of the more rigorous analyses from other parts of the country, particularly California. We will, however, start with some examples from New York City that are both suggestive as well as alarming.

In 1995, a large political battle took place over the siting of a Pathmark supermarket in East Harlem. In trying to gauge the impact of the stores (see my own "Retail Impact of a Proposed Pathmark Supermarket on East 125<sup>th</sup> Street") we demonstrated that the opening of a similar unit of the chain on the Lower East Side had led to the closing of four neighborhood supermarkets. It is also true that the Harlem Pathmark led to the closing of three such local markets.

It should be kept in mind that the typical urban Pathmark unit is usually somewhere between 45,000 and 55,000 sq. ft., roughly 1/3 the size of the proposed BJ's. It is also important to recognize that chains like Pathmark have looked to site their stores within neighborhood shopping areas where the customer traffic generated will be a

balanced mix of pedestrians and automobiles, and thereby contribute to, rather than reduce, business at surrounding neighborhood retailers.

Pathmark is singled out here because of the manner in which the chain aggressively sought to increase its penetration in low-income neighborhoods. Interestingly, while the Neighborhood Retail Alliance has historically mounted the opposition to some of the chain's new store development efforts, it is fair to point out that Pathmark's expansion, unlike the potential impact of a BJ's invasion, has had a number of positive impacts.

In the 1980s and early 90s, the independent supermarkets had yet to reach a level of economic maturity. Predominately non-union, these immigrant retailers tended to pay lower wages and benefits than the chain stores and frequently were wary of hiring local residents, preferring family members and other Spanish-speaking workers who they were more comfortable with.

Pathmark's aggressive expansion had the positive impact of speeding up the maturation process of the independent store owners. Successful efforts were made to open the banking sector and lending, which had often occurred at usurious rates, was made more reasonable and predictable. Gradually, with the help of wholesalers like Krasdale Foods and White Rose Foods, management was professionalized and store operations made more efficient. Many of the independent store owners also become unionized and higher wages and greater local hiring followed.

A number of conclusions can be drawn from this analysis. In the first place, the entry of a large competitor can have an initially negative impact on existing retailers. The long term impact of the entity will, however, depend on the size and character of the

competitor. In the case of Pathmark, the entry of larger chain stores has had the positive impact of honing the skills of existing retailers, raising wages in the sector, and enhancing the overall quality of goods and services for local residents. In a word, a positive ecological balance was created that more than offset the loss of a number of retailers.

### **Social Costs of Added Traffic From BJ's Wholesale Club**

Sometime after 2006, when the construction of the proposed BJ's Wholesale Club is scheduled to be completed in the South Bronx, everyone using the Unionport Bridge corridor will bear some portion of the costs of added local and regional traffic. These social costs total approximately \$15 million a year.

The hidden costs to motorists, their passengers, and visitors, residents and workers of the area due to increased vehicular use by BJ's shoppers include the costs of lost travel time, physical injury, health effects, noise impacts, damage to our roads and utilities. Other costs are paid through taxes such as the control of water pollution, oil spills, greenhouse emissions, the lost value of highway land removed from tax rolls, and, most apparent today, the foreign policy and defense costs of protecting the supply of imported oil. These harms to society and to households and to the general economy are not well recognized by the public because they increase by a small margin with each added mile of travel and because they are spread among the entire public, both vehicle users and non users, buried in items such as lower productivity, higher consumer prices and higher insurance costs. But taking them together, even using a low range of vehicle related costs due to BJ's car and truck use greatly reduce the realistic local economic benefits of the project. The costs are based on the well-documented costs per vehicle of

mile travel published by the Victoria Transport Policy Institute (VTPI)<sup>1</sup> as well as independent cost accounting that I have undertaken over the last three decades. For this report, the most conservative (i.e., lowest) results have been reported for the social costs of the BJ's Wholesale Club.

### **Estimating the Annual Travel Associated with BJ's**

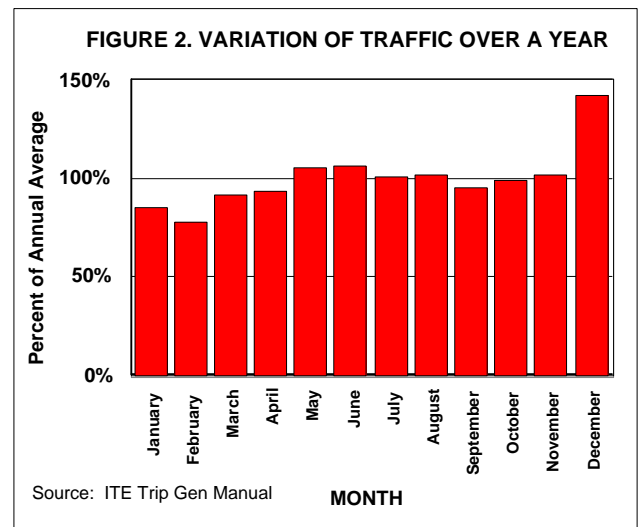
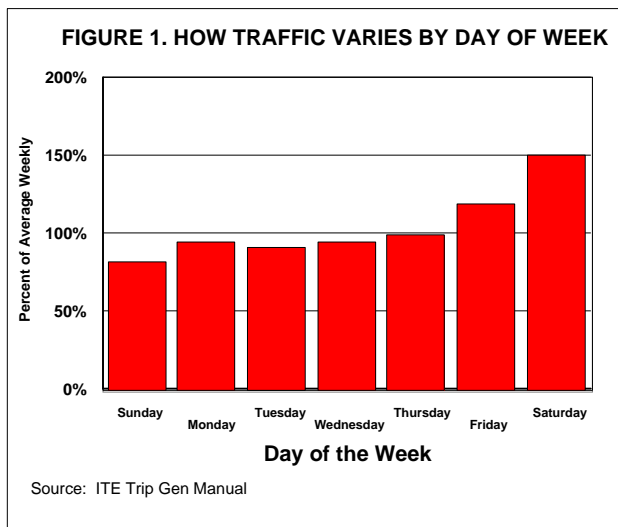
The BJ's traffic analysis reports average weekday volumes of 6,223 and average Saturday volumes of 7,608 vehicles per day (parked vehicles only, no trucks, no-drop offs). However, these volumes are based on counts taken at the Long Island BJ's in July, 2003 when, according to the Institute of Transportation Engineers *Trip Generation Manual* shopper volume is approx. 86% of annual average volume. Moreover, the Long Island BJ's is smaller than the one proposed for the Bronx. Adjusting the reported volumes for these two oversights increases volumes by 39%.

In addition, the ITE *Trip Generation Manual* (page 1336) provides insight about the weekly and seasonal operating characteristics of shopping centers (including discount centers) that effect the totality of BJ's annual trip generation. Figures 1 and 2 illustrate these characteristics. Figure 1 shows the weekly variation of traffic with Friday traffic 20% greater than the weekly average and Saturday 50% greater. On an annual basis, Figure 2 shows that May and June are about 6% greater than annual averages while December is about 40% greater. In comparison, the Land Use Institute reports December volumes more than double average monthly volumes. December Saturday traffic volumes should be used to establish parking requirements. None of these factors were considered for the BJ's traffic analysis.

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<sup>1</sup> Litman, T., "Transportation Cost and Benefit Analysis, Techniques, Estimates and Implications," Tables 6, 7 and 8, Victoria Transport Policy Institute, June 2003, [www.vtpi.org/htm](http://www.vtpi.org/htm) .

To estimate annual BJ's traffic volumes, average weekly volumes were estimated using the factors shown in Figure 1. The resulting weekly volumes were then further adjusted by the factors shown in Figure 2 and added. The result is that BJ's will produce approximately 3.3 million vehicle trips a year. At an average of 3 miles per trip, half on expressways, BJ's shoppers can be expected to drive nearly 10 million miles a year, much of it concentrated within a couple miles of the intersection of Brush Avenue and Bruckner Blvd.



### Estimating the Social Costs of BJ's Traffic

The externality costs of vehicle access to the BJ's Wholesale Club are summarized in Tables 1 and 2. They were derived by estimating travel associated with BJ's shoppers described above and multiplying the miles per year by VTPI's cost factors. Since VTPI's figures are based on nationwide averages and do not take into account New York's much greater cost of living; they have been adjusted slightly to correct for this difference. They do not differentiate by vehicle type and only provide for two types of travel: urban peak period and off-peak travel. A second set of calculations was also completed using another analytic approach to estimating social costs based on my own

independent research. In general, the lower of the two results by cost category (see Table 1) has been assumed for this report (the results from the two approaches were very close in magnitude).

### **Added Travel Time Costs**

New York State's urbanized areas already suffer heavily from too many cars and trucks trying to move on its limited roadway system. Congestion losses, in terms of reduced productivity for businesses -- wasted time for all motorists -- are huge. For the BJ's Wholesale Club the cost of slower travel as a result of adding nearly 10 million miles of travel annually totals nearly \$8 million a year for local roads and for the surrounding expressways.

### **Air Pollution**

The New York City metro area continues to be in severe non-attainment for safe levels of ozone and fine particulate emissions for the foreseeable future. Cars and trucks cause more than half the state's ozone problem. Motor vehicles also cause half of New York's toxic air pollutants, including fine particulate emissions at street level from diesel trucks and buses. Auto pollution attacks the human respiratory system, causing serious health problems, especially among the young and old for people suffering from chronic respiratory disorders such as asthma. Asthma is the biggest cause of school absenteeism in the nation and is several times more prevalent in New York's low-income areas. Diesel particulates are known to cause cancer and is of particular concern for the South Bronx. Acid rain eats away at New York's buildings along with harming the State's wildlife and food crops.

While new car technology is helping to reduce tailpipe emissions, these gains are overwhelmed by the increase in car and truck use and the growth in SUVs. In order to meet federal clean air health standards, New York should reduce vehicular activity by about 1% per year from 1990 levels. Instead, car and truck use state wide is actually growing by more than 2% per year on the region's expressways. Any action that will increase auto use will undermine this goal. The health and property damage from automotive air pollution resulting from the BJ's Wholesale Club will total about \$0.9 million annually of which about half will occur along nearby expressways.

### **Accident Costs**

The most costly harms produced by cars and trucks are the physical damage to human bodies and property. Traffic accidents, death, injury and property damage will total more than \$1.7 million in losses each year as a consequence of adding 10 million more miles of travel because of BJ's shopper traffic. About half of these costs are not borne by accident insurance. They constitute losses to businesses which suffer lost productivity, including the need to hire and train additional staff, and the pain and suffering of accident victims themselves, a large proportion of whom are non-motorists in the South Bronx. Using state wide average accident rates, this traffic will result in one more death every ten years and 12 injuries and 31 property damage only accidents every year from BJ's traffic.

### **Roadway Damage**

Heavy trucks barreling along on the Bronx's crumbling roads (97% of State controlled roads are in a state of disrepair) cause damage both to the roadway surface and

utilities under the road and vibration damage to nearby buildings. Heavy trucks servicing the BJ's Wholesale Club will be responsible for most of the approximately \$150,000 in pavement wear and tear damages on roads to and from the project. Moreover, the Bronx's deteriorated surfaces in turn will cause motorists to suffer another \$90,000 in vehicle damage each year (much of this cost is payments to auto repair shops).

### **Other Major Societal Costs**

And there are other costs that have not been individually quantified in dollar terms: storm water runoff of road salts and toxic organics that are a major source of water pollution, the damage and clean up costs of oil spills, greenhouse effects of vehicular emissions, the value of land devoted to highways and removed from our tax roles, the value of unpaid parking of cars and trucks which amount to untaxed subsidies to motorists, the cost nationwide of disposing of ten million car and truck chassis and a quarter billion tires each year, the social costs to those deprived of auto access, the foreign policy and defense costs of protecting our supplies of imported oil (the current Iraq war), and a similar array of hidden costs due to the manufacture of vehicles and the storage and refinement of petroleum products. Taken together, these additional costs total approximately \$3.7 million a year in damages to the Bronx's economy and to its citizens as a consequence of the additional traffic generated by the BJ's Wholesale Club.

## TABLE 1

### SUMMARY OF ANNUAL TRAFFIC DAMAGES FROM 130,000 SQ. FT. BRONX BJ'S (ESTIMATED FOR 2006)

	PRIMARY IMPACT	SECONDARY IMPACT
CONGESTION	\$2,793,532	\$5,220,903
TRAFFIC ACCIDENTS	\$1,752,837	\$0
AIR POLLUTION	\$912,921	\$0
TRAFFIC NOISE	\$95,125	\$0
VIBRATION DAMAGE	\$30,263	\$0
PAVEMENT DAMAGE	\$149,604	\$0
DAMAGE TO PRIVATE VEHICLES	\$89,028	\$0
OTHER EXTERNALITY COSTS	<u>\$3,699,188</u>	<u>\$0</u>
TOTAL COST TO COMMUNITY	\$9,522,498	\$5,220,903

COSTS ESTIMATED FOR THE BRONX FOR YEAR 2006  
Brian Ketcham Engineering, P.C., October 26, 2004

## TABLE 2

### SUMMARY OF TRAFFIC AND AIR POLLUTION IMPACTS FROM A 130,000 SQ. FT. BJ'S

(ESTIMATED FOR 2006)

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TOTAL ANNUAL VMT W/ 3-MILE RADIUS	1,801,275,000
NEW VMT EACH YEAR FROM PROP. DEVELOPMENT	9,958,113
<b>ANNUAL INCREASE IN TRAFFIC ACCIDENTS</b>	
INCREASED FATALITIES	0.1
INCREASED PERSONAL INJURIES	12
INCREASED PROPERTY DAMAGE ACCIDENTS	31
<b>AIR POLLUTION IMPACTS (tons per year)</b>	
CARBON MONOXIDE EMISSIONS (TPY)	140
HYDROCARBON (VOC) EMISSIONS (TPY)	11
NITROGEN OXIDE (NO <sub>x</sub> ) EMISSIONS (TPY)	15
PARTICULATE (PM <sub>10</sub> ) EMISSIONS (TPY)	0.5

Brian Ketcham Engineering, P.C., October 26, 2004

#### Why BJ's is Different Than Other Retail Food Competitors

When we examine the proposed BJ's we need to take into consideration the sharp differences between this box store (and all those that will look to follow into the Bronx), and chain stores like Pathmark. Fortunately, a great deal of this analysis has already been done elsewhere. In their "The Impact of Big Box Grocers on South California: Jobs

Wages and Municipal Finances,” professors Boarnet and Crane have done the seminal research. Their study was “designed mainly as an aid to public decision making” (1) in order to help policy makers understand both the positive and negative impact of these big boxes.

The report’s key finding, based on research done all over the country as well as in Canada, is that a proliferation of box stores in Southern California will “depress industry wages and benefits” and the full impact of those lost wages “could approach \$2.8 billion per year” (ibid). In addition, these box stores (BJ’s is build very much on the Wal-Mart model), “typically offer much less comprehensive health care coverage than major California grocery chains” (2). Inevitably, such a reduction in health benefits leads to a transfer of responsibility, along with a concomitant economic exchange, from a well-heeled private employer to the tax payer-funded public health system.

For the purposes of an economic impact analysis it is important to recognize that labor represents 60% of the controllable costs in a supermarket. The entry of a box store into a market area leads to a “substantial downward wage pressure” (47) as local grocery chains respond to the competitive threat. Boarnet and Crane analyze this process in Canada where box stores and grocery chains competed fiercely:

The lesson is that major grocery chains will compete, and compete rigorously, for market share and profits when faced with low cost competition. That competition takes the form of both short term and long term labor disputes... The short run concession often took the form of buyouts of more experienced, higher paid workers combined with a two-tiered wage structure that included substantially less valuable pay and benefits packages for new hires. In some instances, those buyouts were combined with wage and benefits reductions for existing employees. In most of the labor disputes the chains involved sought immediate reductions (46).

The box store not only depresses wages, it also passes along considerable costs to communities and taxpayers. As the House Committee on Education and Workforce has pointed out in regards to Wal-Mart, every store with 200 employees costs tax payers approximately \$420,750 annually in public social services for its employees, including Section 8 federal housing assistance, low income federal tax credits and energy assistance subsidies (“Everyday Low Wages: The Hidden Price We All Pay for Wal-Mart”). In California alone, the Institute for Labor and Employment at the University of California-Berkley found that tax payers in 2002 paid \$20.5 million to provide public healthcare for Wal-Mart and other box store workers (see also “Final Report on Research for Big Box Retail/Superstore Ordinance” by Rodino Associates, 13).

What we have seen elsewhere is that box store competition puts workers’ wages in a downward spiral. The recently concluded grocery strike in California demonstrates how chains will respond when pressured by low-wage paying competitors. The prophetic nature of the Broanet and Crane study is dramatized by the settlement packages that emerged out of that long and costly labor battle. Just like in Canada, severe concessions were the order of the day.

Given these negative impacts, the City of Los Angeles entertained legislation to limit the siting of box stores larger than 100,000 sq. ft because of their potential impact on low-income communities. As a City Council report pointed out, “Superstores may cause substantial disruption to revitalization and planning efforts in Economic Assistance Areas by driving out existing grocery stores that often anchor the neighborhood shopping centers that are the focus of commercial activity in these communities (“Options for Regulating the Development of Superstores,” 4).

Unlike the Boarne and Crane report, but drawing heavily on its assumptions, the Los Angeles City Council commissioned Rodino Report focused more specifically on the urban context. The Council, citing Rodino's findings, highlighted the ominous trends here; "The Rodino Report discusses evidence from locales as diverse as Dallas, Texas, the State of Mississippi and Toronto, Canada, demonstrating the impact of superstores on existing grocery stores. In many communities, supermarkets anchor local shopping districts and shopping centers by allowing local residents to buy day-to-day essentials and encouraging patronage of other nearby local businesses. Superstores draw customers away from traditional supermarkets, thus threatening the viability of entire local shopping areas" (Ibid, 5).

The Rodino Report speaks more specifically to the Bronx situation by outlining six sets of potential community impacts. We have already discussed the wages and benefits issues. What the report also highlights is potential for box stores to actually reduce the number of retail jobs in a particular trade area. As it points out, "It is axiomatic in retailing that larger store formats can provide greater efficiencies to the retailer. In other words, the same volume of goods can be sold with a smaller labor force than if the same sale volume were to be spread over several smaller format operations" (Rodino, 26).

So the box stores not only reduce overall wages they also reduce the aggregate number of jobs in a trade area. The situation is, however, even worse when we look at the uniqueness of the Bronx. As the Rodino Report highlights, box stores can and do lead to "the closing of competing retailers within the same trade area which may impact the economic wellbeing of a community" (29).

Unlike California, the Bronx is heavily saturated with supermarkets owned and operated by immigrant entrepreneurs. Each of the 22 independent stores in the proposed BJ's trade area represents an approximately \$3,000,000 investment by the owner. Thus, over \$60 million of risk capital has been invested by predominately minority store owners in the area of the Bronx where BJ's is looking to build. Whereas most of the extant research highlights how heavily capitalized chains fight tenaciously with the box stores for market share, little has been done to analyze how independents will fare when faced with this kind of competitive pressure.

We do know, however, that research studies have shown (and our own New York City experience has demonstrated), that store closings are not uncommon (Rodino, 30). If major grocery chains will close units, one can visualize an even greater impact on less well-capitalized independents. The loss to the Bronx would be considerable since so many of the independent stores are owned and operated by Hispanics who represent the language and culture of the communities they serve. The store owners are literally role models and the closing of three or four independent stores, a reasonable possibility, will hit the Bronx even harder than the regretful loss of chain store employment.

We also need to point out that the closing of Louis Corona's Soundview Met Food store or Tony Diaz's Fine Fare on Castle Hill Avenue or Ruben Luna's Fine Fare on East Tremont Ave. will eliminate the three to four thousand pedestrian shoppers that help support the viability of the scores of other small businesses on those strips. This walk-to-shop local business is a major factor in enhancing public safety and the unique quality of neighborhood life in the borough.

## **Bronx Multiplayer Effect: Negative Economic Impact of BJ's Ripples Throughout the Bronx**

What we have just touched upon, the ancillary business generation stimulated by neighborhood supermarkets, cannot be overstated. It is estimated that the local stores account for over 80,000 customer trips every week. It goes without saying that these customers are vital to the stability of scores of commercial strips within this market area. Even when a supermarket closing is replaced by a different retail use, there is a significant diminution of retail activity since food shopping generates the most frequent amount of customer trips.

This emphasis on neighborhood business does, however, have another crucial dimension. Locally-owned stores tend to spend a greater percentage of their revenue within a local jurisdiction. As the Institute for Local Self-Reliance found in its analysis of big box store impact in a region in Maine, locally owned businesses spent 44.6 percent of their revenues within the two surrounding counties with 8.7 spent elsewhere in the state: “Based on our estimate, a typical big box store spends 14.1 percent of its revenue with the local and state economy. The rest leaves the state, flowing to out-of-state suppliers or back to corporate headquarters” (The Economic Impact of Locally Owned Business vs. Chains: A Case-Study in Midcoast Maine, 2).

The conclusion of the Institute’s study is that the encouraged growth of locally-owned business has a multilayer effect on Maine’s economy. As it points out, with strong implications for the Bronx and the rest of New York City, “From an economic development perspective, the ramifications of this are substantial. Based on current growth rates, annual retail sales in Rockland, Camden and Belfast will expand by \$74 million over the next four years. If all of this additional spending were captured by new

and expanding locally owned businesses, it would add \$23 million more to the local economy each year than if all the new spending were captured by chains. That's the equivalent of more than 500 jobs" (Ibid, 4).

While the Bronx is certainly worlds apart from the bucolic Maine atmosphere, the economic variables are not as disparate as the environments of the two areas. What we can't be certain of, without a more rigorous analysis, is just how much other local business opportunity is sacrificed when a box store comes into the Bronx. It is, however, the kind of analysis that should be required – of the developer – before any special permit is approved.

### **BJ's Threatens Profitability of Wholesale Food Business in the Bronx**

In the Institute of Local Self-Reliance Study of in-state spending by local businesses a large percentage of this spending was determined to be inventory supplied by local distributors. In the case of the food industry this factor is of the utmost significance for the Bronx precisely because the borough is the hub of New York City's wholesale food business. According to the New York Industrial Retention Network (NYIRN), 40% of all the city's meat and 80% of its produce originates in the Hunts Point Wholesale Market ("Food From New York City: An Analysis of New York City's Food Manufacturing Industry"). The wholesale market accounts for 2,415 union jobs, complete with family wages and benefits.

The wholesale food industry in the Bronx is in a symbiosis with the borough's food retailers. Independent supermarkets, green grocers and bodegas all rely on the proximity of the Hunts Point Market for the purchase of their meat and produce. Our initial estimate for supermarkets in the impacted BJ's market area is that wholesale food

purchases are greater than \$600,000 per week and exceed \$33 million in annual sales. Inevitably, then, the potential loss of retail business to BJ's entry into the Bronx must be multiplied considerably when considering the concomitant loss of wholesale business.

The over \$2 billion a year in wholesale food purchases, a major economic engine for the Bronx, is built on a foundation of local retailers. A more comprehensive economic impact analysis would further calculate the retail-wholesale interconnection. What should be added here is that many of the wholesale businesses have also begun to change hands, with minority entrepreneurs moving in to take over wholesale firms that supply retail businesses that are also minority-owned.

This is a key point. The success of local stores has been built on their adaptability to the changing needs of a diverse customer base. Independent supermarkets are able to compete because of their keen awareness of the needs of the various ethnic groups that are part of the Bronx's rich cultural diversity. What this means is that the symbiosis referred to earlier involves distributors, manufacturers, retailers and consumers. As the NYIRN points out, "New York City's diverse ethnic and immigrant populations are very important to both the demand and the supply side of the food industry. Networks throughout the different ethnic and immigrant communities recruit the workforce for the industry, form the market for new ethnic food products and create opportunities for new entrepreneurs" (Ibid, 2).

The importance of this wholesale market has been recognized by the public sector. Just recently the Bronx Borough President, Adolfo Carrion, was instrumental in providing a \$2 million loan to Nebraskaland, a meat wholesaler in Hunts Point. In

addition, the Bronx Assembly delegation recently came up with \$7 million to aid in the continued expansion and improvement of the market.

The level of public investment is a recognition of the important of the wholesale food business to the borough and to the city as a whole. A fuller analysis of this importance, along with an evaluation of the relationship between local retailers and the wholesale markets, should be done before box stores are permitted to site themselves in the borough.

It does seem clear, however, that a BJ's store, supplied from an out-of-state warehouse, can only diminish the level of Bronx wholesale food business. This point is emphasized, with unintentional irony, by the BJ's Wholesale Club Inc. in its most recently filed 10-K form with the Securities and Exchange Commission: "Our ability to achieve profitable operations depends upon high sales volumes and the efficient operation of our warehouse clubs. We buy most of our merchandise from manufacturers for shipment either to a BJ's cross-dock facility or directly to our clubs. This eliminates most of the costs associated with traditional multi-step distribution channels" (4, January, 31, 2004).

## **Conclusion**

The opening of a BJ's warehouse club in the Bronx has serious economic implications for the entire borough. The analysis in this report is from a perspective that is both skeptical and critical of the entire box store phenomenon. The existing research, however, indicates that a box store proliferation will have a profound impact on retailing in any region. There will be both costs and benefits from the entry of these stores.

Up until this time, the entry of box stores into New York City has not been subject to rigorous review. A number of Costco developments have been defeated in Manhattan and Brooklyn on an ad hoc basis while other box stores have successfully navigated the land use review process.

It is time to stop this site-by-site review, step back, and demand an independent review of the potential of big box stores for the future economic development of New York City. In this review we need to recognize that this city has unique characteristics and qualities that are worth preserving. This is not Boston, Arkansas or even Los Angeles. Until this kind of review is conducted, however, caution dictates that the current proposal to put a BJ's on Brush Avenue in the Bronx be emphatically turned down.

# APPENDIX

## Stores Within Proposed BJ's Trading Area

Independent Supermarkets		
Fine Fare	Fteley Avenue	Rudy Fuerte
Fine Fare	East Tremont Ave	Ruben Luna
Fine Fare	CastleHill Ave	Tony Diaz
Pioneer	Soundview Ave	Luis Corona
Met Food	Randall Ave	Johnny Diaz
Price Choice	East Tremont Ave	Ino Diaz
Ctown	Beach Ave	Elido Torres
Ctown/Bravo (5 stores)	Driesser Loop	Raymond Vargas
Pioneer	East 174th Street	Miguel Garcia
Fine Fare	Boston Road	Rudy Fuerte
Bravo	Metropolitan Oval	Freddy Guzman
Ctown	Unionport Road	Kevin Diaz
Foodtown	West Avenue	Placido Rodriguez
CTown	Hugh Grant Circle	Luis Diaz
Food Bazaar	Bruckner Blvd.	Francis An
Key Food	Bruckner Blvd.	Jules Levine
Key Food	Westchester Ave	Sal Bonovita
Key Food	Buhr Ave	Sal Bonovita
Chain Stores		
Stop - N - Shop		Co-Op City
Pathmark		Co-Op City
Pathmark		Walters Place
Pathmark		Bruckner Blvd
Pathmark		Vyse Avenue

## Preliminary Profile of Data

### Independents

\$3,500,000 a week in sales – **\$82,000,000** in yearly sales

81,000 customers a week (predominately walk-to-shop on neighborhood strips)

### Chains

\$ -*\$195,000,000 in yearly sales*

*Total Retail Sales Combined-\$277,000,000*

Wholesale meat purchases – **\$300,000/wk** (*Hunts Points*)  
Wholesale produce purchases – **\$150,000/wk** (*Hunts Points*)

Wholesale grocery purchases (Krasdale, 95 stores) – **\$185,000/wk**  
Wholesale grocery purchases (Jetro) – **\$50,000/wk**  
**\$2,600,000/yr**

Total Whole Purchases – **\$635,000/wk**  
**\$33,020,000/yr**

### **Retail**

*Employment* – 2,015 workers (predominately union with wage and benefits that average from \$10 - \$14 higher than BJ's workers)

*Payroll* – **\$975,000/wk**  
**\$50,700,000/yr**