
Economic Comment on Incumbent Firms for DEIS Rapp Road Residential/Western Avenue Mixed Use Redevelopment Projects

1 message

Jed Brewer <jbrewer@studygroups.com>
To: Kovalchikk@togny.org

Wed, May 13, 2020 at 5:32 PM

Dear Mr. Kovalchik,

Below and attached is my comment for your review of the Rapp Road DEIS. Please confirm receipt. Thank you.

Economic Comment on Incumbent Firms for DEIS Rapp Road Residential/Western Avenue Mixed Use Redevelopment Projects

Directed to: Kenneth Kovalchik, Town Planner, Kovalchikk@togny.org

My name is Dr. Jedidiah Brewer and my Ph.D. is in Economics. I am a private-sector consultant in the convenience retail and petroleum marketing industries among other industries. In the past, I have taught economics at The University of Arizona and Western Washington University. I live in Bellingham, WA.

Much interest surrounds the economic impact of new market entrants on incumbent firms. In 2007, I wrote a paper titled "Big-Box Stores and Pricing by Traditional Retailers: 'Hypermarkets' and the Retail Gasoline Industry" published as part of my full dissertation titled "Competition in the Retail Gasoline Industry" and funded in part by the National Science Foundation. Costco, Kroger, Sam's Club and other non-traditional, multi-product retailers were entering the gasoline retailing industry and the question was what, if any, impact there would be on nearby incumbent firms. I created two datasets analyzing the market characteristics of gasoline retailers in Tucson, AZ and Nashville, TN. In the latter, I was able to take advantage of a corporate experiment The Home Depot was conducting as it considered whether to enter the retail gasoline industry across the nation.

My findings in brief:

- Big-box stores (e.g. Costco) priced their fuel statistically significantly lower than traditional gasoline retailers.
- Big-box stores' lower prices forced nearby gasoline retailers to respond and reduce their fuel prices, holding other factors constant.
- Being co-located near a big-box store reduced a gasoline retailer's fuel prices significantly more than had, instead, the same gasoline retailer been co-located near another traditional gasoline retailer.
- Furthermore, big-box stores were able to reduce their nearby competitor's prices over a larger geographic area. The average traditional gas station only had a competitive impact on another traditional gas station if they were co-located within a mile of each other. The big-box store tended to have a competitive impact on a competing traditional gas station up to three miles away.
- Ultimately, in the samples studied, being located near a big-box store reduced an incumbent gasoline retailer's profit significantly. In the near term (within one year), a traditional gasoline retailer's profit was reduced between 50% and 100% owing to the new big-box competitor. Taken as a whole, impacts of this magnitude place substantial pressure on incumbent, traditional retailers and may force some to exit the market.

I encourage you to review my full study, which can be found online or through James Bacon, and include these found economic impacts with other economic and environmental projections you are gathering in your determination of the net benefits of the project. I have provided my contact information and invite you to contact me with any questions. Thank you for your time.

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