



THE IMPACT ON THE LOCAL BUTTE ECONOMY OF OUTSHOPPING FROM BUTTE, MONTANA TO REGIONAL RETAIL POWER CENTERS

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Abstract

Outshopping, consumers buying outside of their local trade area is a phenomenon that concerns the merchants of Butte/Silver Bow. This paper examines the activity and looks to see if it is happening in the local economy. A telephone survey questionnaire was used to query Butte consumers to see if they, in fact, do outshop and to establish the extent of the outshopping. The research established that three-fourths of the Butte citizenry do travel outside the local trade area and outshop. Using a conservative multiplier of two the economic impact on Butte/Silver Bow was determined to be over 47 million dollars per year. Suggestions are also given on how to reduce outshopping.

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Introduction

Butte is a city located in Silver Bow County, [Montana](#), and is the [county seat](#). Butte was founded in the 1860's as a gold mining camp. As the gold was petering out and new methods of mining and extraction were being pursued, Butte miners struck the richest deposit of copper ever found. Simultaneously, advanced smelting technology made it profitable to extract

the copper and other metals; and railroads reached Butte to cut the cost of transportation to eastern manufacturers.

At the same time, the electricity and telecommunications industries were getting under way. For instruments and equipment, as well as millions of miles of delivery wire and cable, copper was the material of choice. Butte quickly boomed into a mini New York with lavish theatres, posh hotels, and fine restaurants.

The one-time mining camp became a metropolitan center of industry, culture and mass transportation in the West. By 1920, the population, a melting pot of Irish, Finns, Italians, Cornish, Welsh, Serbs, Chinese and others, grew to more than 100,000 people (Butte Silver-Bow Chamber of Commerce 2004).

As of the [2000](#) census, Butte had a total population of 33,892, due to the decline of the mining industry and other resource extraction industries.

Considering how far and how fast Butte fell following the decline of the mining industry; it is quite amazing how far Butte has come in rebuilding its downtown, restoring its environment, and in general transforming itself from a resource extraction town to a town built on other industries. Butte is one of only two cities to be recognized as a National Historic Landmark (the other is Lowell, MA) – with more than 4,000 historic buildings of one kind or another. Butte is literally teeming with historic buildings – and... if all the historical buildings and “ghost signs” aren’t enough, there is always the ever present old mining rigs (over 40 of them dot the sky in Butte) to help remind visitors what built Butte into the town that it is today (Butte Travel Guide 2005).

Butte is located in south-central Montana at the intersection of two interstate highways, I-15 and I-90. With one exception, all of the major cities in Montana are located within a few hours drive down the interstate. Great Falls is 155 miles north on I-15, while Helena is about 65 miles north along the same route. Billing is east on I-90 about 225 miles away and Bozeman is 90 miles down the same interstate. Going west on I-90 takes you to Missoula about 120 miles away (Mapquest 2005). To someone not familiar with the wide and open spaces of the state known as “Big Sky Country” these distances may very well seem overwhelming, but to a local, all cities mentioned are considered close enough for “an afternoon’s drive.”

The purpose of this paper is to examine the economic impact of Butte consumers going on one of those “afternoon drives” and spending the day shopping in one of the larger cities

surrounding Butte. This pattern of consumers purchasing goods outside of their local trade area is known as outshopping (Wayland et al. 2003).

How often and why do Butte consumers choose to spend their hard earned money in another city rather than spending it locally? All cities would like the retail spending of their citizens to be kept in town and spent in local businesses. How many retail dollars are fleeing Butte to the regional shopping centers of the neighboring cities because of store based outshopping? Is it because of the big box and category killer stores that are found just down the road? How could this be true when Butte has a couple of box stores of its own?

Power Centers

Big box stores have become an accepted reality across the United States. The term “big box” is generally used to describe stores that occupy large industrial-style buildings with very large “footprints”, generally ranging from 60,000 square feet to as much as 130,000 square feet; or, as in the case of the Wal-Mart Supercenter, 200,000 square feet (Rodino 2003; Big Box Retail 2005). Wal-Mart, Target, and K-Mart are all examples of big box stores.

There has also been a rapid expansion of "category killer" stores such as Home Depot, Circuit City, Best Buy, Toys "R" Us and others. These stores are called category killer stores because they have a very large selection within a narrow category of merchandise, along with low prices, and they "kill" smaller local stores within the same "category" (Stone 1995).

A growing phenomenon within big box retail is the power center, or mega-center, where two or more big box retailers will co-locate on the same or contiguous property. In some cases the buildings may be freestanding while in others they may connect directly or by intervening smaller stores. These power centers can range from 250,000 square feet to over a million square feet in size and are always accompanied by enormous parking areas (Big Box Retail 2005). The massing together of these different types of stores in a single area enables customers to multipurpose shop. Multipurpose shopping theory posits that the agglomeration of dissimilar types of retailers results in more than double the profits of stores in independent locations. These profits arise from consumer savings resulting from reduced transaction costs (e.g. time and transportation), which in turn enable consumers to increase purchases (Miller et al. 1999).

Both Missoula and Bozeman, Montana, identified as the most common destination for Butte shoppers, have developed a number of these power centers

Rural Spending Patterns

As noted, the effect of these power centers multiplies that of the single superstore. These massed stores and centers draw customers from a radius of 10 to 15 miles in major metropolitan areas and an even larger radius in rural ones (Shils 1997). These retail developments in one community affect the ability of adjacent communities to draw customers (Henderson and Wallace 1992). Residents in small towns in rural areas depend on larger centers for services that the small centers are not able to provide. In addition, because of improved transportation methods... the small towns have [now] been faced with greater competition [from larger cities] for services traditionally purchased in those small towns (Walzer and Stablein 2001)

Typically rural customers buy lower ordered goods, such as groceries and gas, from local retailers; and travel to larger trade areas to purchase the remainder of their goods - the higher ordered items (Wayland et al. 2003). However, rural spending patterns have a dynamic impact when small town consumers travel to a larger community to purchase higher ordered goods; and while there, purchase lower ordered goods (again, groceries and gas) which are offered in the smaller community (Henderson and Wallace 1992).

The Research Methodology

As previously stated, the purpose of this paper and the research conducted in concert with it was to examine the impact of Butte consumers outshopping to the power centers in larger, neighboring communities. A review of the literature concerning this topic found that this phenomenon has been identified and studied in such states as Kansas, Nebraska, and Minnesota; all states with large rural areas. The intent here was to determine if a similar situation is occurring in Butte and to determine the extent of the outshopping.

The research methodology was developed as a project for the marketing research class at the Montana Tech of the University of Montana. Student researchers completed data collection and analysis. The data was collected through the use of a telephone survey. The local Butte-Silver Bow telephone book provided the sample population. Each student researcher received a random page from the telephone book and a random sample was selected by calling every third name in the white pages listing.

Approximately, 240 phone calls were made during a time period covering late afternoon and early evening. Two thirds of the calls ended with no usable data due to no answer, telephone

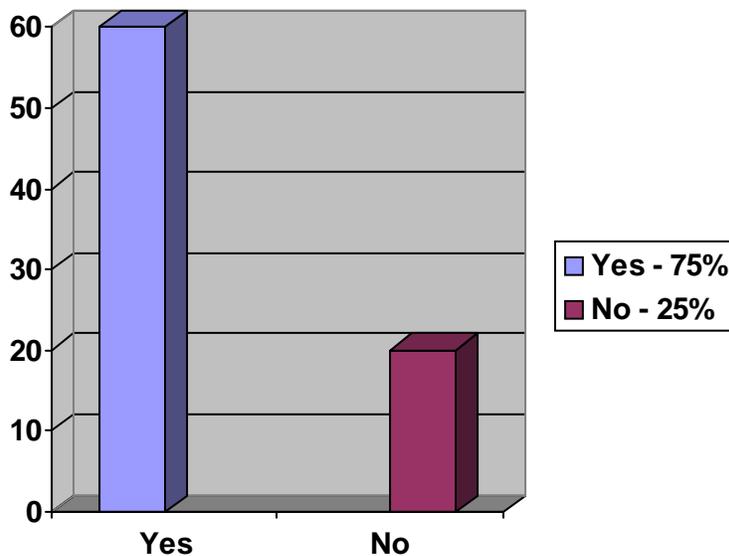
answering machine intercepts, and respondent refusal to participate. Eighty usable questionnaires were obtained.

The telephone survey questionnaire (Appendix) consisted of seven research specific questions, as well as five questions designed to capture demographic data.

Research Results

#1 - The first question of the telephone survey was, “Do you leave the Butte/Silver Bow area to go shopping? Of the eighty respondents to the survey 75% (60) said yes and 25% (20) said no.

Figure 1



#2 - The second question asked how often do you leave Butte to shop. The respondents were allowed to answer times per week, times per month, or times per year. The weekly and monthly responses were annualized and an average number of times per year was calculated for the sixty respondents who outshop. The average number of times per year that outshoppers leave the Butte/Silver Bow area and go shopping was 7.6.

#3 - “While shopping outside of the Butte/Silver Bow area, what items do you most often look for” was the third question asked by the student researchers. Of the sixty respondents who outshopped, 68% said they shopped for clothing; 42% said they shopped for groceries; 28% shopped for hardware; 15% shopped for furnishings; and 23% shopped for other items. Multiple answers were allowed.

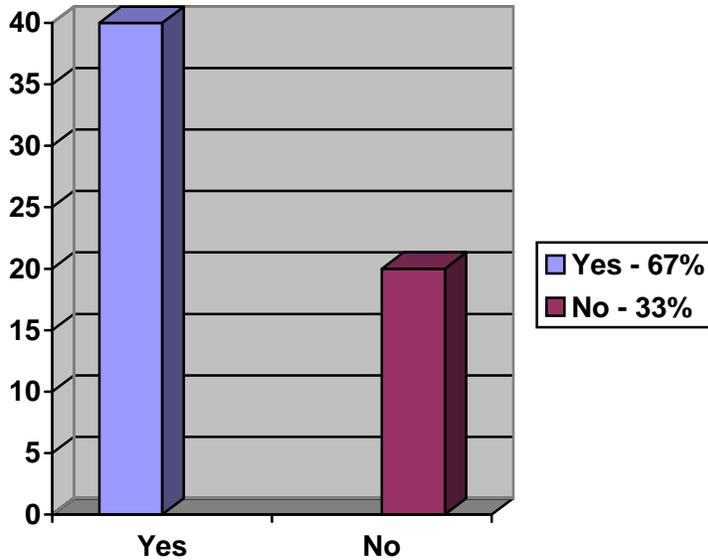
Table 1

Question #3 – Of the 60 outshoppers what percent shop for:				
Clothing	Groceries	Hardware	Furnishings	Other Items
68%	42%	28%	15%	23%

#4 - The fourth question was a multi-part question. The first part asked, “Can you find these items in Butte?” Forty of the sixty outshoppers answered that they could while twenty said they could not find the items they were looking for in Butte.

The second part of the question asked, “By shopping elsewhere, are you saving money, realizing a convenience or is there an other reason?” This question was asked of the forty respondents who said they could find the items they were looking for in Butte but chose to outshop. Multiple answers were allowed. Forty of the sixty said they were saving money. Nineteen responded that they were realizing a convenience. Ten offered other reasons such as larger variety, different shops, delivery service, and simply the pleasure of a shopping trip.

Figure 2



#5 - The fifth questions asked, “Where do you usually go when you leave the Butte/Silver Bow area to shop?” Again, multiple responses were allowed. The following table shows that Missoula and Bozeman, Montana, were the overwhelming outshopping choices.

Table 2

Question #5 – Where do you go to when you leave the Butte/Silver Bow area to shop?				
Missoula	Bozeman	Helena	Billings	Great Falls
38 of 60	29 of 60	17 of 60	6 of 60	3 of 60
63%	48	28	10%	5%

#6 - The sixth question asked, “How much money do you spend on an average trip?” The question asked for the respondent to estimate the total they spent on shopping, restaurants, entertainment, motel, and so forth. The average response totaled \$291.00 per outshopping trip.

#7 – The final research specific question asked, “Within the past 12 months have you purchased an automobile outside of the Butte/Silver Bow area?” If so, what was the price of the automobile? Nine (15% of the total) of the sixty respondents said that they had while 51 or 85% said they had not. The average price of the automobile purchased was \$21,222.00.

Discussion of the Results

The unit of interest in the survey was the household. The survey instrument was the telephone survey and calling a residential telephone listing and speaking with a respondent was the equivalent of receiving information for the household. As of the 2000 Census there are 14,135 households in Butte/Silver Bow. The research survey found that 75% of the households in Butte/silver acknowledged they, indeed, did travel outside the Butte/Silver Bow area to shop. These outshoppers represent 10,601 households who travel, on average 7.6 times per year, for a total of 80,568 outshopping trips per year from Butte to the neighboring communities. The 80,568 trips, with an average spending of \$291.00 per trip results in a total of \$23,445,288 Butte/Silver Bow dollars being outshopped to the regional power centers.

To put this number into perspective, the Butte/Silver Bow area had retail sales of \$333,086,000 in 1997, the most recent year with available data (Montana Quickfacts 2005).

Money, spent and re-spent, multiplies within the local economy. Therefore, consideration needs to be given to applying a multiplier to these 23 million dollars. When money is spent with a local merchant, they will in turn spend a portion of that money locally which supports other merchants. The multiplier factor varies somewhat in different studies but is generally considered to be between 2.3 and 2.7. Thus, \$100 that is spent actually generates between \$230 and \$270 of local economic activity (Big Box Retail 2005). Mulkey (1978)

posited that the probable range of a multiplier could be related to the county employment size. In addition, he stated that all things being equal, multipliers tend to be higher where: 1) the community is larger with a more diverse economy, 2) the community is a substantial distance from competitive retail/service centers, and 3) the per capita income is low (Mulkey 1978). He suggested that the multiplier range for a county with an employment size of 10,000 to 19,999 would be 1.8 to 2.2, with an average of 2.0. Butte/Silver Bow has an employment size of about 15,600 (Census 2000).

Multipliers are used most often to summarize the total impact that can be expected from change in a given economic activity. For example, a new business comes to a community and creates new jobs and expands the payroll base of the community. The new dollars flowing into the community are turned over, fractionally, a number of times until the impact of the new money reaches zero. Summing the fractional impacts of each turned dollar results in a multiplier. In the case of outshopping and the absence of over \$23 million from the Butte/Silver Bow economy (the money is being spent elsewhere), applying a multiplier to this money demonstrates the impact of those lost dollars.

A case could be made that Butte meets the three criteria for the use of a higher multiplier; however, to err on the conservative side, this researcher will accept the average and use 2.0 as the multiplier. The math is straightforward; \$23,455,288 times the multiplier of 2.0 results in an estimated \$46,910,576 impact dollars lost in the Butte/Silver Bow economy due to outshopping by Butte citizens.

It is interesting to note that one-third of the outshoppers stated that they could not find the items they wanted in Butte. Further study is needed on this issue to determine if this perception is reality. Are the goods and services sought truly not available or has the availability not been effectively communicated to the consumer?

Saving money, the convenience, and availability of goods and services are certainly concerns on the mind of the outshopper. Knowing this information may help the Butte/Silver Bow merchant develop marketing strategies to counteract these impressions.

Question number seven provides a tantalizing bit of information. The nine outshoppers who purchased automobiles outside of the Butte/Silver Bow area spent approximately \$191,000.00. The purchase of an automobile is a higher ordered purchase that is unlike many purchases we routinely make. Consumer Expenditure Survey data for 1999 and 2000 indicate

that, nationwide, just under 4 percent of household units acquired a vehicle (Paszkievicz 2003). The telephone survey found 15% of the respondents had purchased a vehicle outside of the Butte/Silver Bow area within the past twelve months. Clearly, the issue needs further research and analysis before any conclusions can be drawn from this data.

Summary and Conclusions

The questions asked in this study were, “Is outshopping present?” and “If so, what is its impact on Butte/Silver Bow.” The answers to these questions must be, “Yes, there is outshopping,” and the impact is significant; significant in the amount of over \$23,455,288 in actual dollars. When the multiplier is considered, this amount doubles to almost 47 million dollars lost to the Butte/Silver Bow economy.

The question may be asked, “Why if Butte has several box stores does this not keep outshoppers home?” This researcher suggests that it is the presence of the power centers, the massing of big box and category killer stores with a satellite grouping of specialty stores, that entices the traveler to their environs.

There are many reasons why Montanans travel around their state and Butte citizens are typical Montanans. Butte is in the same high school sports leagues with Missoula, Bozeman, Helena, Great Falls, and Billings. Traveling to away sporting contests is an honored tradition in Montana. Helena, the state capitol, is just north on the freeway, as is Missoula, west, and Bozeman, east. The two major state universities are in Missoula and Bozeman. Relatives of Butte citizens are scattered among the surrounding citizens. Major medical facilities are located in these cities.

Whether it is travel for business, pleasure, visiting relatives, keeping medical appointments, attending sporting events, or just for shopping it is not realistic to try and craft a marketing plan that will keep the denizens of Butte/Silver Bow in the county and away from the lure of the super centers.

Rather, it may be possible to determine what the consumer is seeking, ensure that it is available, and communicate that availability along with information on pricing, quality, and service to them. Stone (1997) writes that the local retailer needs to look for voids in the mass merchandiser’s inventory, to find what they are lacking, and to provide it. Merchants need to develop a strategy that discourages outshopping for products that are available in the Butte/Silver Bow area. Emphasizing customer service and product variety and availability are possible

strategies. Creating a “super center” environment with store clusters may also help.

Understanding the price sensitivity of customers will remain very important (Wayland et al. 2003). However, competing directly on price is a no-win situation for the small town merchant. Super centers and their satellite stores clustered into a power center can survive on smaller margins than can the small town merchant. For them, differentiation and appropriate product offerings may be their key to survival.

As statewide travel is inevitable in Montana, providing the product and selling it to the Butte/Silver Bow consumer before they travel may be the way to reduce the impact of the super centers.

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