

## **CREATE BRIDGES Briefs 23-1**

### **Arkansas Retail Trade Analysis**

Dr. Sreedhar Upendram, University of Tennessee  
Dr. James Mingie, University of Tennessee

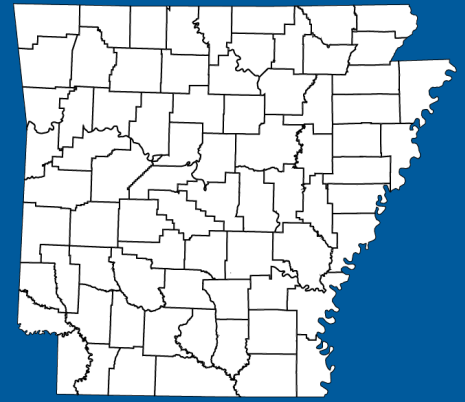
#### **Retail Pull Factors**

Retail trade is the sale and distribution of merchandise to consumers through either a store location or non-store location such as internet, phone, catalog, or advertising.

Retail trade is one of the key economic indicators of regional economies. The retail strength of a county is a function of the customer base served, the buying power of the customer base, and the quality of the retail environment. Retail pull factors measure retail sales captured by counties across Arkansas in the nine sectors.

In 2018, according to the National Retail Federation (2020), 274,350 employees worked in the retail sector at 39,300 establishments across Arkansas. Employees in the retail sector earned an average wage of \$36,192 accounting for \$7.3 billion in direct labor income.

In 2021, as illustrated in Figure 1, in terms of percentage of retail sales by industry, the greatest amount of retail sales was in the auto dealers and gasoline services sector (28%), followed by general merchandise (24%), and miscellaneous retail (10%). Eating and drinking places as well as health and personal care each accounted for 9% of retail sales. Building materials accounted for 8%, and food comprised 7% of retail sales. Lastly, apparel and accessories accounted for 3% of retail sales and home furniture accounted for remaining retail sales (2%) in Arkansas.



#### **Program Overview**

CREATE BRIDGES (Celebrating REtail, Accommodations, Tourism, and Entertainment by Building Rural Innovations and Developing Growth Economies) is a pilot project designed for multi-county regions to raise the awareness of the role retail, accommodations, tourism, and entertainment businesses play in the local economy; determine challenges, barriers, and opportunities related to those businesses; and develop and implement strategies to strengthen the retail, accommodations, tourism, and entertainment sectors within a region. CREATE BRIDGES is a collaborative partnership between the Southern Rural Development Center, the University of Arkansas, The University of Illinois, the University of Kentucky, New Mexico State University, North Carolina State University and Oklahoma State University. It is currently active in eight regions throughout the six partner states.

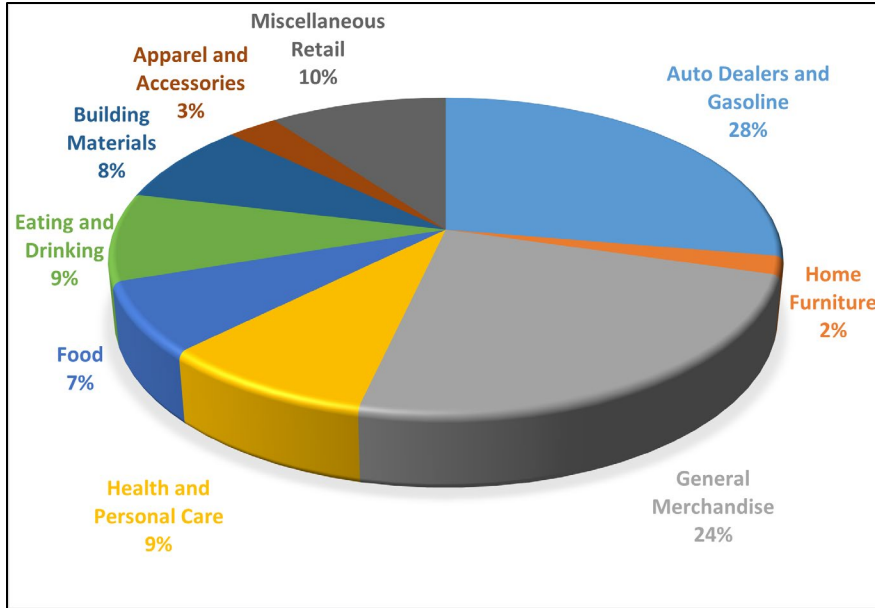


Figure 1. Retail Sales Breakdown in Arkansas by Detailed Industry, 2021

Source: Pakko, 2022

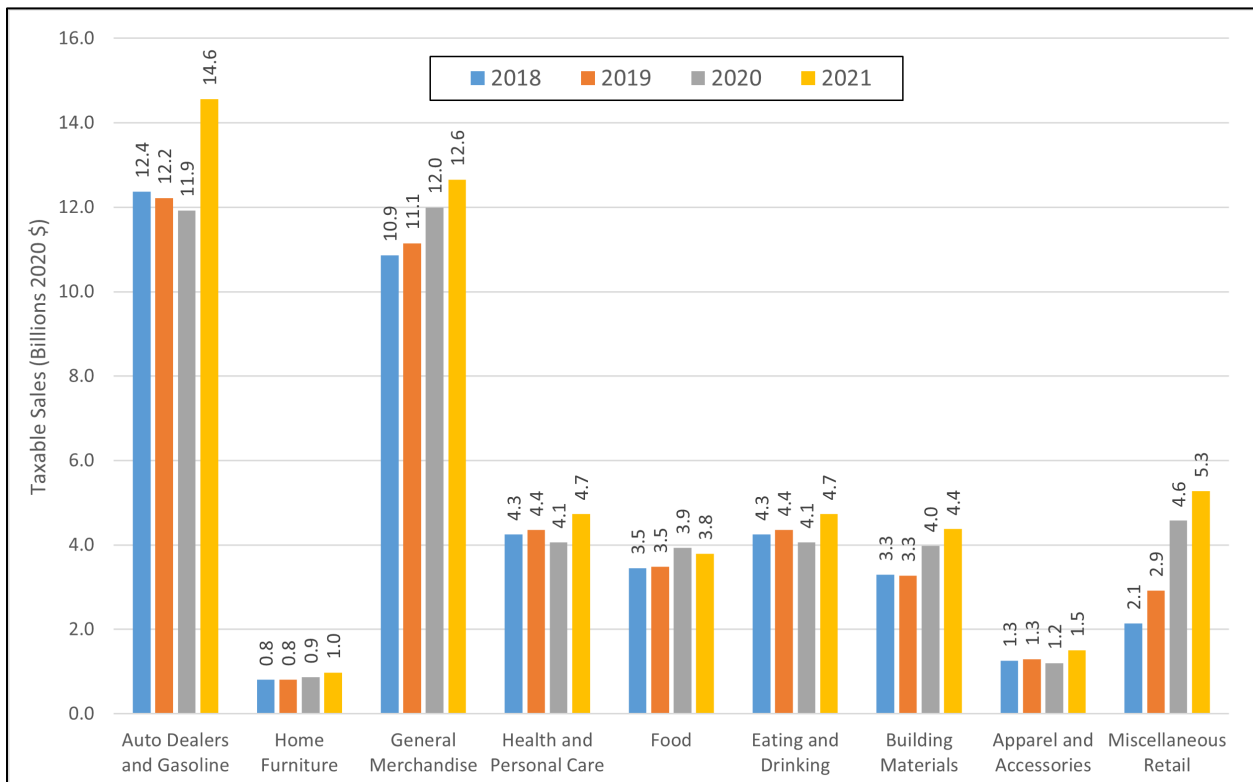


Figure 2. Comparison of Taxable Sales by Detailed Industry in Arkansas, 2018-2021

Source: Pakko, 2022

In terms of retail sales trends over the last four years (Figure 2), Arkansans spent the most (over \$14 billion) at auto dealers/gasoline service stations followed by general merchandise goods (over \$12 billion). The average retail expenditure ranged from \$3-4 billion in each of the sectors - health, food, eating and drinking places sectors along with the building materials sector experienced modest increases. The miscellaneous retail sector more than doubled in the last four years from \$2.1 billion (2018) to \$5.3 billion in 2021. Apparel and accessories expenditures ranged from \$1.2 to \$1.5 billion with slight changes. Retail expenditures on home furnishings were the least among all sectors in the range of \$0.8 (2018 and 2019) to \$1 billion (2021). All of these retail sales were adjusted for inflation and presented in 2020 dollars. Appendix B provides a detail of the retail trade classifications and the sectors or industries included in each category.

The retail sales data was obtained from the Arkansas Economic Development Institute (Pakko, 2022).

**CREATE BRIDGES in Arkansas**

In Arkansas, Celebrating REtail, Accommodations, Tourism, and Entertainment by Building Rural Innovations and Developing Growth Economies (CREATE BRIDGES) counties are found in the Ozark Foothills (Fulton, Izard, and Sharp counties) and the Cossatot Community Connection (i.e., 3C’s) region (Howard, Little River, and Sevier Counties) as presented in Figure 3.

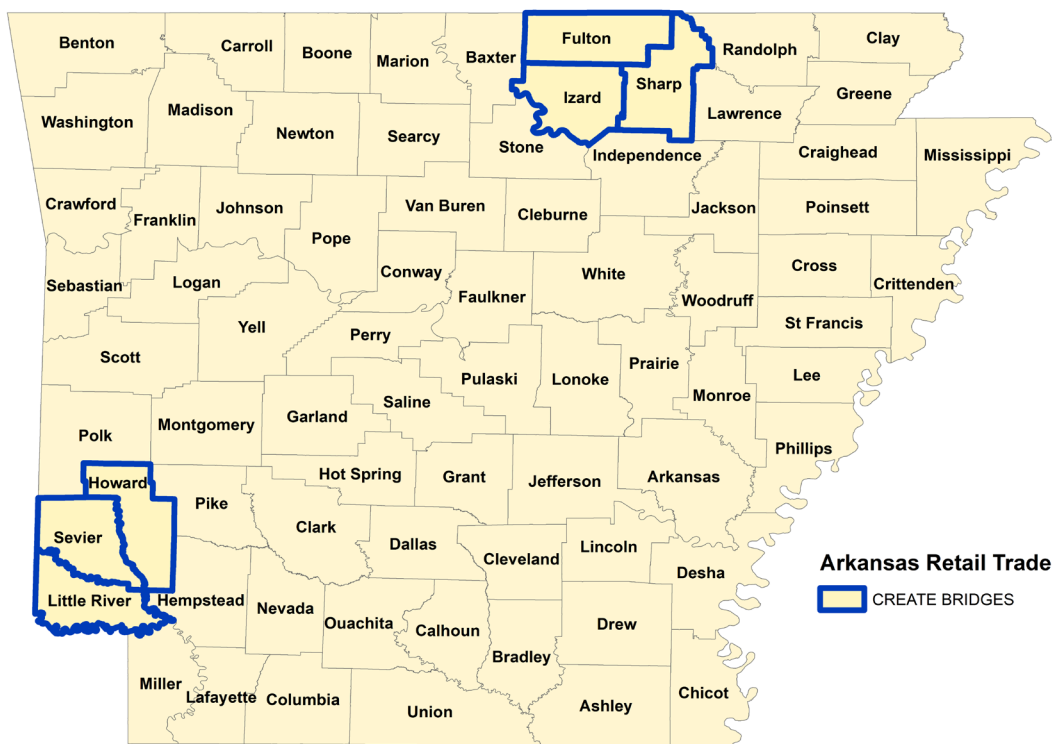


Figure 3. CREATE BRIDGES counties in Arkansas



the state average while Fulton, Lafayette, Lee, and Calhoun residents spent less than the state average on retail goods and services. In the Ozark Foothills region, while Fulton and IZard counties had moderate retail activity, Sharp county has strong retail environment. In the 3C's region: Howard, Sevier, and Little River counties indicated relatively strong retail activity. The equation to compute retail trade pull factor is as follows:

$$Pull\ Factor_{sector} = \frac{Retail\ sales_{county}}{Adjusted\ population_{county}} \div \frac{Retail\ sales_{state}}{Adjusted\ population_{state}}$$

Market share is the percentage of retail trade area captured by a county with respect to the state. In other words, market share is the percent of the total customer base in Arkansas captured by the county's retail trade. Trade area capture is computed by multiplying the adjusted population with the pull factor for a region. Adjusted population is the county population less the number of people in institutions (hospitals, prisons, nursing homes, etc.). Trade area capture is a measure of the size of customer base. The equation to compute market share is as follows:

$$Market\ share_{sector} = \frac{Trade\ area\ capture_{county}}{Trade\ area\ capture_{state}} = \frac{Adjusted\ population_{county} * PF_{sector}}{Adjusted\ population_{state} * PF_{sector}}$$

**Commuting Patterns of Retail Customers**

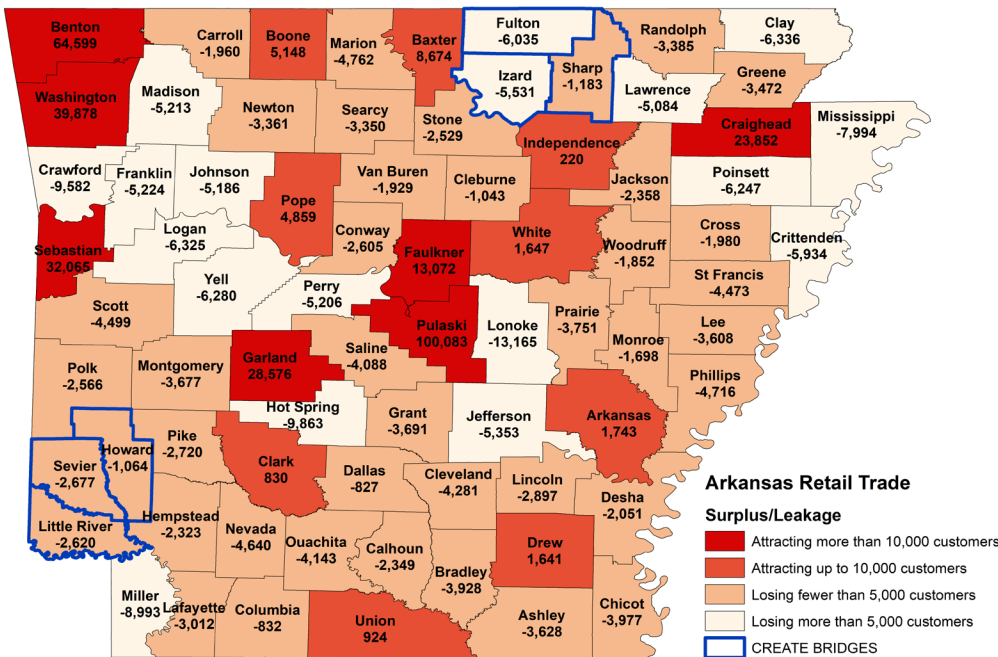


Figure 5. Estimated Retail Trade Customer Surplus/Leakage in Arkansas

Source: Pakko, 2022; U.S. Census Bureau, 2022a; U.S. Census Bureau, 2022b

While trade area capture estimates number of retail customers within a county, it does not factor in cross-county traffic of retail customers. Retail customers travel across county borders to purchase goods and services. The net retail customers in a county are calculated by deducting the adjusted population (non-institutionalized population i.e. people that are not in hospitals, nursing homes, prisons) from the trade area capture. The map above (Figure 5) illustrates the estimated number of retail customers either coming into a county or leaving a county for retail purchases. While 15 counties in Northwest Arkansas and Central Arkansas displayed a net in-commuting pattern whereas all the other counties (60 counties) displayed a net out-commuting pattern. Pulaski, Benton, and Washington counties gained the most retail customers while Hot Spring, Crawford and Miller counties lost the most retail customers. The Ozark foothills region is estimated to have a net leakage of retail customers in the order of Fulton, Izard and Sharp. Similarly, it is estimated that the 3C's region experienced a net loss of retail customers in the order of Sevier, Little River, and Howard counties. It is evident that metropolitan areas of Little Rock-Conway, Fayetteville-Springdale-Rogers, Jonesboro, and Hot Springs attracted retail customers. The counties adjacent to the metropolitan areas are losing the most retail customers. Another trend is the loss of retail customers in counties that are neighboring states of Texas, Tennessee, Oklahoma, Louisiana, Mississippi, and Missouri.

The estimated retail customer surplus or leakage are calculated as follows:

$$\text{Customers Surplus/Leakage}_{\text{county}} = \text{Trade Area Capture}_{\text{county}} - \text{Adjusted Population}_{\text{county}}$$

### **Summary and Conclusions**

Retail trade is an important sector for Arkansas' economy supporting 274,350 employees working in 39,300 establishments across the State. The retail sector has exhibited robust growth over the years, particularly in 2021 demonstrating a strong economic recovery from the COVID-19 pandemic. Retail expenditures on automobiles and parts, general merchandise, and miscellaneous retail sectors have been particularly noteworthy over the last five years.

Retail customers spent more than the state average in metropolitan areas in the central region around Little Rock and the northwest region around the Fayetteville-Springdale-Rogers areas. Counties surrounding metropolitan areas have lost retail customers across the state. While Central and Northwest Arkansas are gaining retail customers, retail goods and services for residents along the delta region, northern and southern regions could be better served.

One of the limitations of this study in calculating the retail measures is that the economy of the state is considered closed to any out-of-state customers buying retail goods and



services. It is also assumed that none of the retail customers within the state shop for retail goods and services outside the state. Of course, there is free movement of retail customers across state borders estimating which is beyond the scope of this study.

Serving rural retail customers and retaining their business is a particular challenge for the retail sector as illustrated through various retail measures. Addressing the needs of low-income consumers and hard to reach areas in specific regions of Arkansas can provide growth opportunities for the retail industry in Arkansas.

Retail trade activity in the CREATE BRIDGES region can be improved. The Ozark Foothills region borders Missouri and the 3 C's region borders Oklahoma indicating a potential to attract retail customers across the State. The retail pull factors for the counties in the CREATE BRIDGES region are relatively high but below 1 indicating the lack of anchor retail establishments that cater to the needs of retail customers in this area which also helps in stemming the loss of retail customers outside this region. The buying power of retail customers is relatively high, indicating a willingness to pay for retail goods and services in the local area. Proximity to state highways is a strength of these communities which can be leveraged in terms of storage and distribution of retail goods in this region. An in-depth analysis of the willingness to pay for retail goods and understanding the preferences of local retail customers will help in recruiting the appropriate retail outlets to these regions.

Both retail pull factors and market share were calculated based on taxable sales report data obtained from Arkansas Economic Development Institute. Taxable sales data consist of all sales reported by retail establishments. Taxable sales data does not include out-of-state, catalog, internet sales or sales data in counties with fewer than six retail establishments. Despite these limitations, taxable sales data captures a majority of retail sales and is a good measure of retail activity.

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