

Gander Mountain takes aim at big competitors' subsidies

The Patriot-News

08-27-2006

By Tom Dochat, The Patriot-News, Harrisburg, Pa. McClatchy-Tribune Business News

Aug. 27--In the battle of outdoor sports retailers, Gander Mountain is in the shadows of Cabela's and Bass Pro Shops.

But the Gander Mountain chain is taking the lead in fighting government subsidies for new stores being proposed by its two competitors.

Gander Mountain has 100 stores, including one in Lower Paxton Twp. It wants state and local governments to stop providing tax credits and other types of incentives to its competitors.

"Let us all fight it out in the free-market system," said Mike Ayres, chief operating officer for Oppidan Investment Co. of Minnetonka, Minn., the developer for Gander Mountain stores. "I don't understand why a government entity would want to subsidize one for-profit company over another for-profit company."

ST. PAUL, MINN.-BASED GANDER MOUNTAIN CITES VARIOUS REASONS FOR FIGHTING THE SUBSIDIES:

- Their competitors are doing well and don't need the financial assistance.
- The more stores they build, the less likely they will draw shoppers from long distances.
- The economic spin-offs are less than they tout.
- The subsidies provide the retailers an unfair competitive advantage and are used to create lower-paying retail jobs at high government cost.

Cabela's said Gander Mountain is trying to camouflage Gander's financial problems and is making a feeble attempt to liken its operations to Cabela's. Gander Mountain has reported losses for the first half of the year and its sales are down 6.7 percent at stores open for at least a year.

"Gander Mountain simply doesn't offer comparable stores in scale, product selection or attractions for customers," Dennis Highby, Cabela's president and CEO, said in a position paper that the Sidney, Neb., company provides as a response to Gander Mountain's efforts.

Cabela's and Bass Pro Shops both build large stores -- usually more than 100,000 square feet with aquariums, boating displays and other features -- that are viewed as destination centers for outdoor enthusiasts.

Gander Mountain stores are smaller, around 60,000 square feet. Gander Mountain began its campaign about two years ago when Cabela's expressed interest in locating a store in Rogers, Minn., less than 75 miles from another store. Cabela's sought state financial assistance to build the store, and Gander Mountain mounted a fight.

No assistance was granted by the state, but Cabela's built the store anyway with some local infrastructure improvements.

Other battles have since been waged in Kentucky, South Carolina and some New England states. Ayres said the uniqueness of the Cabela's and Bass Pro Shops stores is being sapped by the sheer number being built.

"As a destination retailer, Cabela's and Bass might not be quite as attractive as if there were just a few of them," he said. The Cabela's store in Rogers has hurt sales at its other Minnesota store, the company has acknowledged.

Cabela's has 15 stores and plans to open three more by the end of the year. It has announced plans for five stores in 2007 and four in '08, and said there might be more.

The privately owned Bass Pro Shops has 34 stores, will have 38 by the end of the year, and hopes to add eight or nine more next year. The retailer has a store at Harrisburg Mall, the only one in Pennsylvania, and is looking at another site in the Pittsburgh area.

Cabela's opened a 257,000-square-foot store -- its largest -- in September 2003 near Hamburg, about an hour's drive east of Harrisburg.

Gander Mountain's Lower Paxton Twp. store opened a month before Cabela's entered the Pennsylvania market and a year before the November 2004 opening of Bass Pro Shops at the Swatara Twp. mall.

Ayres said the Gander Mountain store has "fared just fine" against the competition. He said Gander Mountain offers more services and better prices. "A certain customer segment is attracted to that," he said.

The Pennsylvania Cabela's and Bass stores were offered millions of dollars in state and local assistance, but those packages were prepared before Gander Mountain began its anti-subsidy campaign.

The Hamburg Cabela's store received \$12 million in state assistance and local tax increment financing of about \$21 million. Tim McKeon, executive director of the Berks County Industrial Development Authority, said it was money well spent.

McKeon noted that the region was hurt by the loss of about 10,000 manufacturing jobs in the early 2000s when the Cabela's project first came to light. In addition, he said, the region's traditional tourism draw of retail outlets was "becoming passe because there are

outlets everywhere."

"For us, it made sense to make that investment," McKeon said. McKeon said Cabela's is "doing the numbers that they said they would."

He added that revenue from the sales tax is "just huge" compared with the amount of state incentives.

Pennsylvania issued \$7 million in assistance for the Bass store at Harrisburg Mall, and local taxing authorities (the township, school district and county) authorized tax increment financing to the mall's developer that was contingent on Bass signing a lease.

"The mall was in severe decline," said Daniel S. Robinson, director of economic development for Dauphin County. Had nothing been done, he said, the property "might be a nice used-car parking lot."

Instead, the mall has been revived with new anchor stores and plans for a movie theater. The surrounding area has dramatically picked up with the TecPort Business Center, and access to the area has improved with Paxton Street becoming a two-way thoroughfare, Robinson noted.

In its campaign, Gander Mountain focuses most of its attention on Cabela's because it seeks subsidies directly. Ayres and Dave Ewald of Ewald Consulting, a public relations firm hired by Gander Mountain, are frustrated that Cabela's constantly looks for government assistance for its projects.

"Why should a state or local government provide millions of dollars to a company that's already doing a billion and a half of sales and is already profitable and bragging about it in its quarterly results?" asked Ewald, whose Minneapolis, Minn., firm became involved in the battle last fall.

In response, Cabela's said its stores "often involve major public infrastructure improvements that require financial partnerships to appropriately distribute the financial burden among those who will benefit."

Mike Callahan, senior vice president of retail for Cabela's, said, "Our financial partnerships, when needed, are partnerships that allow a large project to happen where it couldn't otherwise."

Larry Whiteley, a spokesman for Springfield, Mo.-based Bass, said, "Our stores are so big and so unique and there's so much involved, it takes a lot of money to come in."

He added that state and local governments are "coming to us" with their packages, not the other way around. And he said developers, not Bass, receive the benefits of the packages.

That doesn't hold much sway with Ewald or Ayres. "I'm just looking for a leveling of the

playing field," Ayres said. "It's just not the American way -- the subsidizing of one American company over another American company. I just don't think it's right."

Ayres added that the economic benefits from the likes of Cabela's and Bass have been "oversold and under-delivered." He said he hasn't noticed many manufacturing plants, huge developments or distribution centers in areas where the retailers have located.

Cabela's admits that its Hamburg store has probably not spurred the development expected by local officials. The company said infrastructure issues have stymied the spin-off benefits.

McKeon said a sewage-treatment plant is being expanded in the area, and a proposal for a shopping center is pending.

"We're moving forward now that the sewer authority has lifted the moratorium," Cabela's said, noting that its Hamburg store brings in nearly 8 million visitors a year.

Ewald's company sets its sights on a local community once it hears about plans for a Cabela's. He'll hand out information packages to local and state government officials detailing concerns over the subsidy requests.

"We're happy that some of the states and legislators are starting to stand up," Ewald said.

Cabela's said the report produced by Ewald is "biased" and "has been viewed with skepticism by many who have read it."

"I disagree," Ewald said. "What I would ask of them is where's the bias. We have a strong point of view that taxpayers shouldn't have to shell out millions of dollars to one retailer to the detriment of everyone else. Let them build these stores on their own. They're hugely profitable."

Ewald cited a recent success in Kentucky where a subsidy package was rejected by the state Legislature. Cabela's said no decision has been made on a store in that state.

"That was very preliminary and continues to be," said Cabela's retail spokesman James Powell. "Anything going on in the state was just discussion and very preliminary."

Cabela's added that Gander Mountain has sought and accepted financial packages in the past. Gander Mountain got aid packages for stores in Texas, Kansas and Illinois, for example, Cabela's said.

Ewald and Ayres said Gander Mountain accepted government subsidies in the past, but nothing to the extent received by Cabela's or Bass developers. Ayres said management decided a few years back that "this is not a sustainable model" and stopped seeking assistance.

"We think it's apples to oranges," Ewald said. Ayres said he estimates that Cabela's and Bass have received up to \$500 million in government assistance. "We're talking peanuts (compared) to that," he said.

----- To see more of The Patriot-News, or to subscribe to the newspaper, go to <http://www.patriot-news.com>.

Copyright (c) 2006, The Patriot-News, Harrisburg, Pa. Distributed by McClatchy-Tribune Business News.