

ECONOMIC DEVELOPMENT

Big enough?

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For more than a year, Bass Pro Shops had been preparing to grab a promising spot in the Sportsman's Paradise.

It lined up tax breaks. Its Denham Springs site was cleared. A trailer emblazoned with "Bass Pro Shops Coming Soon!" teased passing hunters and fishermen.

Then the state Supreme Court weighed in, nixing the way the taxpayer-supported financing was set up.

Days later, Bass Pro archrival Cabela's announced it would open in Gonzales, just 15 miles away.

Hopes are high for both projects. Denham Springs wants to jump-start commercial development near the East Baton Rouge Parish line. Gonzales wants to do the same along Interstate 10. Livingston and Ascension parishes need new sales tax revenue to help balance out residential growth, and both want local jobs.

But Baton Rouge is a small market, and Bass Pro is already building competing locations across the Gulf South. It is an open question whether both stores will really open. And if they do, it is even more uncertain both can survive.

Brent Rhodes of Thornton, Harvison & Rhodes is developing the Gonzales site. Cabela's hopes to open there next spring, where it will anchor additional retail and restaurants. The Bass Pro project is being developed by E. Joseph Fakouri Construction. It is a similar project, with a comparable-sized megastore serving as an anchor and working on the same timeline.

Both developments hope to use tax increment financing to build the infrastructure and anchor stores. Both hope to get voter approval for their TIFs on the April 23 ballot.

In Denham Springs, the state will commit only 2% of the 6% sales tax TIF Bass Pro wants, so the city will need partners. The city wants the sheriff, parish government and school board to ask voters to rededicate some sales taxes.

Down in Gonzales, Cabela's is asking for only a 3% TIF, so the locals need to come up with 1.5% to match the state's share. If need be, the City of Gonzales could cover that itself through its 2% sales tax.

Even if the votes succeed, future court decisions could further trim TIFs. But the developers are pushing ahead.

This is more than just a race for the TIF. Whichever store opens first will have the edge on defining its brand in the Baton Rouge market, key in a business where customers are fanatically loyal. But while nailing down market share is an essential means to both companies, their ends diverge.

Bricks, clicks, catalogues

Cabela's and Bass Pro are what retail analyst Jack Plunkett calls "showcase" stores. Unlike Wal-Mart or Target, which wring revenue from every square inch, half or more of the square footage in the typical Cabela's or Bass Pro is devoted to non-revenue generating entertainment.

Gun libraries, aquariums stocked with native sport fish, running waterfalls, elaborate dioramas with taxidermy trophy animals--enough of a show for travel guides to note that the companies' original flagship stores do not charge admission.

The connoisseur will be able to tell that the companies differ in spirit. Plunkett notes that Bass Pro is known for its emphasis on fishing, particularly on boating, and unlike its rival it has its own line of fishing boats. Cabela's has its heart in the Plains, where lakes are few and fishing is best done with one's feet on the ground.

There are deeper differences. Although both companies have their roots in mail order catalogues, they grew along different trajectories, and the result is two very different operations. Bass Pro wants its stores to make money. Cabela's wants them to feed its catalogue business.

Bass Pro's first showcase store opened in Springfield, Mo., in 1981. The company soon started expanding through the Southeast.

Cabela's did not open its first big store, in Sidney, Neb., until several years later. Its physical growth only began in earnest in the late 1990s.

The Cabela's catalogue remains the core business even amidst a rapid bricks-and-mortar expansion. SEC filings show that only 34% of the company's merchandising revenues came from store sales in 2004.

In 2003, of the 40 million visitors Cabela's says came through its stores, only 6 million bought anything. Those numbers would be unthinkable for Wal-Mart or Target, where every browser is a buyer.

Bass Pro does not release sales numbers, but Kevin Foll, who follows Cabela's for Next Generation Equity Research, says it is reasonable to assume Bass Pro's revenues are much more bricks-and-mortar driven than Cabela's.

Bass Pro spokesman Larry Whiteley will only say that both parts of its business are "real big."

The prevalence of online and catalogue sales at Cabela's puts its stores in a curious position. During the 1990s, well into Bass Pro's retail expansion across the South, Cabela's lone Nebraska spot was essentially a grandiose ad for the Cabela's catalogue, like a Niketown or an Apple Store. Selling stuff was fine, but the real goal was to create buzz for the brand.

It was not until 1998, when the company opened its second showcase store, in Owatonna, Minn., that Cabela's really began to grasp the potential of its stores.

"Catalogue sales increase where our stores open," says Cabela's spokesman David Draper. He says that after Cabela's opened a store outside Detroit, catalogue sales rose in Michigan, Ohio and Indiana.

By 2003, the companies were fairly evenly matched despite their differing core businesses. Cabela's grossed \$1.4 billion in 2003, and Plunkett says Bass Pro did \$1.6 billion. (According to SEC filings, Cabela's 2004 revenue rose to \$1.6 billion, but privately-held Bass Pro does not publicize numbers, and Plunkett has yet to release 2004 estimates.)

If Cabela's is to continue increasing catalogue sales, it needs to grow the brand nationally. "We've always been in the Midwest," Draper says. "But people in the South don't know Cabela's like people in the Midwest do."

Draper says increasing market share was the impetus behind taking the company public. Cabela's raised a quick \$114 million with its IPO in 2004.

So now the two are grappling to secure market share. Bass Pro has 22 stores open and 15 in development. Cabela's has 10 stores with another seven in the pipeline.

And that is where Baton Rouge fits in. Of the seven proposed new Cabela's locations, only one-- Minneapolis--is in a region that Cabela's already dominates. Stores for Salt Lake City, Denver and New Jersey would be untouched markets, while proposed locations for Dallas-Ft. Worth, Austin and Baton Rouge are firmly on Bass Pro's turf.

Big enough for the two of them?

Metro Baton Rouge, with 600,000-some people, seems an unlikely place to have both stores.

Only metro Detroit has both, but soon Dallas-Ft. Worth, Kansas City and Denver will join that list. Dallas and Atlanta, meanwhile, will soon each have two Bass Pros. Of the cities that will have multiple stores, Kansas City is the smallest at 1.8 million people. The others average 4.5 million--the entire population of Louisiana.

Even adding in New Orleans' 1.3 million people, southeast Louisiana remains a modest market.

And the region will soon be saturated. If Bass Pro completes all of its planned Gulf South locations, there will soon be six outdoor megastores inside a six-hour drive of Baton Rouge--not including the new Bass Pro and Cabela's here.

Foll says the increasing abundance of destination stores cuts into each store's own appeal. Particularly in Bass Pro's case, he says, "the biggest risk they face is increased competition from their own stores."

Whiteley says Bass Pros typically pull customers from about a six-hour drive.

But Plunkett thinks Bass Pro is limiting its capture area by putting its stores so close together. "People will drive two-and-a-half hours to get to a Baton Rouge store, but not six," he says.

Whiteley contends more Bass Pro stores create more Bass Pro customers. He offers the example of Bass Pro's original Springfield store. Since it opened, Bass Pro has added several locations within a few hours' drive, but visits to Springfield have risen. Whiteley says the new stores have also done well.

Cabela's is not worried about the market being oversaturated, Draper says. It is counting on its distinctive brand.

"Our customers will drive by 10 Bass Pros to get to a Cabela's," he boasts. "This is the Cabela's for the entire Southeast. Can Bass Pro support all those stores? I don't know. But we can certainly support one Cabela's."

So, might one of the competitors be bluffing about Baton Rouge, hoping the other will back off?

"That's not a stupid question," Plunkett says. But he doubts it. "Companies will battle to the death for market share. The only way to win is to grow, even if sometimes locations fail."

Foll believes this kind of thinking leads to overbuilding. "Nobody is looking down the road two years to what the overlap will look like," he says.

But both stores insist they have enough market here to make it, even with the other's competition. Plunkett says each obviously thinks there are enough desirable customers in the Baton Rouge area.

"But I'd be a little nervous if I were one or the other of them," he says. "You'll have two players in Baton Rouge. But there may only be one winner."