



## MEMORANDUM

**DATE:** August 21, 2000  
**TO:** Michigan Economic Growth Authority  
**FROM:** James Donaldson, Vice President  
Michigan Business Development *James Donaldson*  
**SUBJECT:** Briefing Memo – Kmart Corporation

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### COMPANY NAME AND ADDRESS:

Kmart Corporation  
3100 West Big Beaver Road  
Troy, Michigan 48084

### HISTORY OF COMPANY:

Kmart Corporation is one of the world's largest mass merchandise retailers. The dominant portion of Kmart's business consists of its domestic merchandise group, which operates 2,171 discount stores with locations in each of the 50 states in the United States, as well as in Puerto Rico, the U. S. Virgin Islands and Guam. Kmart employs 4,081 people at its corporate headquarters operation in Troy, Michigan.

### DESCRIPTION OF PROJECT:

Kmart has identified a strong need to consolidate and upgrade its currently inefficient distribution system in order to remain competitive. This investment, estimated at \$1.2 billion throughout the country, will predominantly be made in the areas of custom software development and the replacement of systems within Kmart stores.

The project consists of siting a custom software and process information center for spearheading the overhaul of corporate-wide information systems. Kmart anticipates hiring up to 450 employees at an average weekly wage of \$1,154 and a benefit package equal to approximately 20% of wages.

Capital investment for the project would include \$4 million in building renovation costs and \$46 million in equipment purchases, for a total investment of \$50 million. Renovations to the facility would begin in September 2000 and be complete by February 2001. Start of operations is anticipated for March 2001.

**BENEFIT TO THE STATE:**

According to the economic analysis done by the University of Michigan, we estimate this facility will generate a total of 753 jobs in the state by the year 2013. Total state government revenues through the year 2013, net of MEGA costs and adjusted for inflation, would be increased by \$27,281,000 (2000 dollars) due to the presence of the Kmart Corporation facility.

**COST ANALYSIS:**

As part of the company's decision-making process, it has undertaken a comprehensive cost analysis between Troy, Michigan and Louisville, Kentucky. Based on figures obtained from the company, the cost disadvantage for Kmart Corporation to locate this expansion in Troy rather than Louisville totals \$62 million over the term of the incentive and \$86 million over a 20-year period. The most significant factors in this differential are a 15% annual wage disadvantage and a 30% tax disadvantage in Michigan. Michigan Economic Development Corporation staff has reviewed this information and found them to be accurate reflections of true cost disparities between Michigan and Kentucky.

**OTHER STATE AND LOCAL ASSISTANCE:**

The state will provide job training assistance to the company in the amount of \$1,000 for up to 450 new hires, for a total of \$450,000.

The City of Troy will provide the company with upgrades to Big Beaver Road between Adams and Coolidge Roads. These improvements will add a third lane to Kmart's entrance and will improve traffic flow to and from the project site. The estimated value of this local contribution is \$2.6 million.

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**BUT FOR:**

While the company recognizes the synergies that could be enjoyed by locating this facility near its corporate headquarters in Troy, the company was approached by Kentucky and was offered a significant incentive package to locate an operation there. Given the significant savings to the company that a Kentucky location would provide, coupled with the attractive incentive offer, the location of this facility in Michigan is very much contingent upon the company getting some relief in the form of a MEGA credit.

**RECOMMENDATION:**

The Michigan Economic Development Corporation recommends a MEGA employment credit of 100 percent for up to 450 net new jobs for a period of 14 years and a business activity credit of 100 percent for a period of 14 years.