

LET'S TALK BUSINESS

Ideas for Expanding Retail and Services in Your Community

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Resurgence of Inner-City Retail

by
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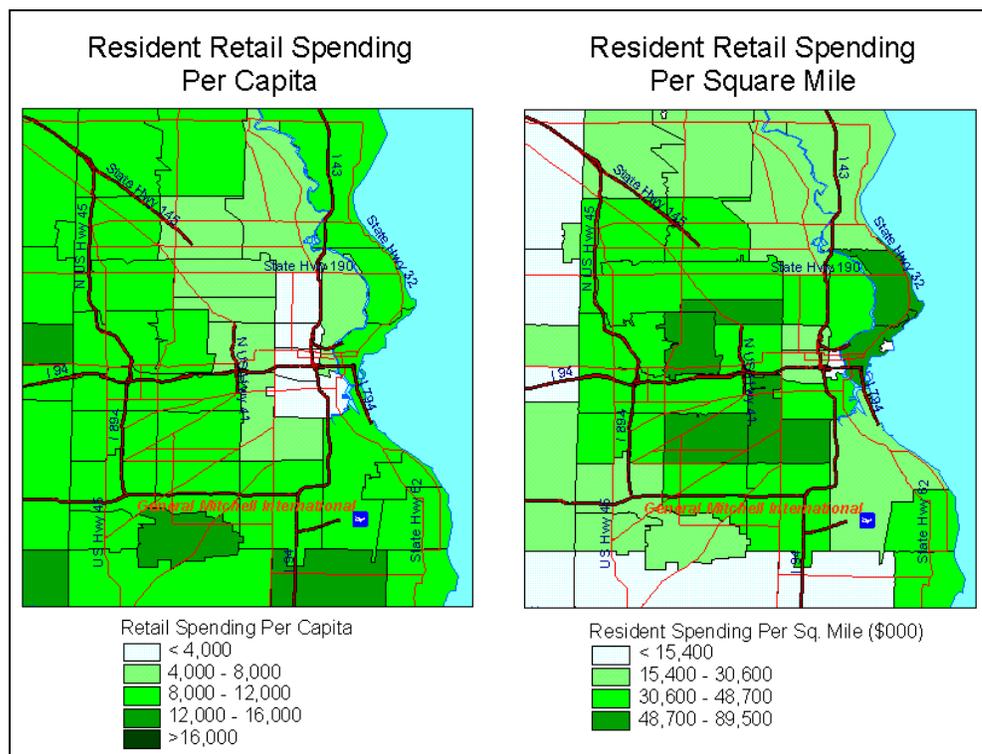
Sears, Kmart, Footlocker, Walgreens and other national retailers are moving back to the inner-city. They are building new stores, renovating old locations, and making money doing it. The untapped retail potential in U.S. inner-cities represents one of the biggest market opportunities in the world. According to the Boston Consulting Group¹, inner-cities in the U.S. have more retail spending potential than all of Mexico's residents. With that kind of potential its no wonder that Michael Moskow, President of the Chicago Federal Reserve Bank, said the following in reference to U.S. inner-cities: "You don't have to cross the International Date Line to find an emerging market. We have some right under our noses."

Over the past few years, organizations like the Social Compact² and the Initiative for a Competitive Inner City (ICIC)³ have emerged as champions of an innovative approach to business development in America's inner-cities. Their new market approach focuses on a neighborhood's assets rather than its liabilities. They target the significant unmet retail market potential existing in many inner-city neighborhoods. Lynn Reilly Whiteside, chief executive of the Social Compact, describes this practical approach to business development in the inner city as: "We are not encouraging

businesses to invest in low-income neighborhoods simply to help the neighborhoods. Rather, we help identify ways that businesses can invest in the neighborhood profitably."

They are not alone. In President Clinton's 1999 State of the Union Address he recognized the unmet opportunities and potential in the nation's inner-cities when he said: "Our greatest untapped markets are not overseas -- they are right here at home. And, we should go after them."

A 1999 Department of Housing and Urban Development (HUD)⁴ study reports that there is an \$8.7 billion retail gap (the difference between potential and actual retail sales) waiting to be filled in the nation's underserved inner-city neighborhoods. "Considering only the "inner-city neighborhoods" -- those with higher poverty and lower incomes than the cities that sur-



Population density in the inner city more than makes up for lower income levels as illustrated by the higher spending per square mile.

round them -- the retail market remains huge. Despite the huge retail purchasing power of their residents, many of the Nation's inner-city neighborhoods have too little retail to meet the demand, and tap the buying power of their own residents."

PricewaterhouseCoopers recognizes the potential of the inner-city retail market. A 1998 survey of inner-city consumers by PricewaterhouseCoopers', *The Inner-City Shopper Perspective*, provides new perspectives and useful information about inner-city shoppers⁵. "The consumer survey findings indicate that the inner-city represents attractive opportunities for retailers. While these markets are less understood and have barriers and complexities that must be overcome, they represent sales opportunities that can rival those of suburban retail developments."

Best of all, the new market approach seems to be working. In fact, many national retailers are achieving results that not only rival, but surpass the results they achieve in their more traditional locations. The Boston Consulting Group provides the following examples:

- More prescriptions are filled at Rite Aid's Harlem store than in any of the 110 other Rite Aid stores in New York City.
- Sales at Sears' inner-city stores average triple the Sears national per store average.
- Kmart's inner-city SuperK store in Oakland, California generates 50% higher sales than comparable stores throughout the chain.
- Kmart's South Bay Center store is the highest grossing Kmart in Massachusetts.
- Foot Locker's store in Harlem is among the company's top stores with sales in excess of \$1000 per square foot.

How and why are these stores succeeding so well in areas of the city characterized by chronic low incomes? Income per household is significantly lower in the inner-cities. However, population density is much higher. The result is a much higher income density and retail potential per acre in the inner-city than in other areas of the city. This concentrated consumer base is the primary competitive advantage in the inner city. The HUD reports explains that: "The higher population density in most inner-cities more than balances out the higher incomes in the spread-out suburban areas.....The "Little Village" area of inner-city Chicago offers retailers \$85,018 in spending power per acre compared with the \$37,754 per acre in Kenilworth on the city's North Shore, despite the fact that the average household income in Kenilworth, -- the "wealthiest" Chicago neighborhood -- is \$166,536 per year, compared with

just \$48,656 in West Chicago."

Nationally, the retail potential in our inner-cities is being recognized. Retail development in the inner-city is happening, and the successes are not limited only to large national retailers. The INC Inner City 100, a partnership between INC. Magazine and Michael Porter, Harvard Business School Professor and founder of the ICIC acknowledges rapidly growing smaller businesses that have already begun to realize the potential in the inner-city⁶.

There are still plenty of questions to answer: 1) How does this research and experience of other inner-cities relate to your neighborhood? 2) What is the retail potential in your neighborhood? 3) Is the retail potential sufficient to support additional retail stores or expansion of existing businesses? and 4) Which retail categories offer the greatest potential? The work of the Social Compact, ICIC and the successes of others provides an excellent foundation to begin answering these questions.

¹ **Boston Consulting Group**, <http://www.bcg.com/home.asp>

² **Emerging Markets Neighborhood Initiative, Social Compact**, <http://www.neighborhoodmarkets.org/>

³ **Strategies for Business Growth in Chicago's Low-Income Neighborhoods**, The BCG and ICIC <http://www.icic.org/publications.htm>

⁴ **New Markets: The Untapped Retail Power of America's Inner Cities**, U.S. Department of HUD, 1999 <http://www.huduser.org/publications/newsmarkets/contents.html>

⁵ **The Inner-City Shopper: A Strategic Perspective**, A Special Report by PricewaterhouseCoopers LLP and the Initiative for a Competitive Inner City, 1999, <http://www.icic.org/publications.htm>

⁶ **The Rise of the Urban Entrepreneur**, Michael E. Porter, May 15, 1995, INC. Magazine http://www.inc.com/articles/details/0,6378,ART2695_CNT53,00.html

For an example of how a business opportunity was identified in an urban neighborhood, see the November, 1997 issue of *Let's Talk Business*. www.uwex.edu/ces/cced/lets/lets1197.html

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