



CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT

# LET'S TALK BUSINESS

IDEAS FOR COMMUNITY DEVELOPMENT PROFESSIONALS WORKING TO EXPAND LOCAL BUSINESS ACTIVITY

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## Retail in the Urban Neighborhood *Identifying Business Opportunities in Under-served Areas*

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For years, inner-city neighborhoods have been overlooked by retail chains. Store location criteria excluded these neighborhoods because of land and development costs, crime and lower resident incomes. However, in a recent article in American Demographics,<sup>1/</sup> more businesses are finding success in the inner city by catering to the needs of the under-served population. This article discusses inner-city retail opportunities and summarizes how a recent UWEX study quantified market demand for a new grocery store in the central part of Racine.

### A Diverse Market

American Demographics recently completed an analysis of the U.S. Census Bureau's Current population survey to profile the people who live in the central sections of the nation's largest cities. While the analysis focused on large cities, many of the characteristics also describe the demographics of sections of our smaller cities. According to this analysis, the current profile of the central city includes:

- a younger population
- a large number of single parents and people who live alone
- a large number of people who belong to a minority ethnic group
- lower than average household income
- some singles with high per-capita spending power
- college education attainment and labor force participation rates similar to non-city adults

Central city consumers are clearly diverse in terms of age, income, ethnic background and household makeup. They need access to groceries, drugstores, laundry services, and restaurants, just like non-city residents. Unfortunately, retailers have traditionally focused on average household income in their site location decisions. By doing so, they ignore many neighborhoods with a large concentration of buying power, but no competition.

### Selling to the Urban Consumer

A few national retailers are seizing the opportunity and opening stores in urban neighborhoods. They are expanding and changing their concepts, store size, merchandise mix, and employee hiring and training to better serve the urban consumer.

Sears, as one example, is in the midst of an aggressive urban expansion program. They have identified significant urban consumer demand for apparel, jewelry and cosmetics. Rite Aid drug stores are also doing well, having realized that inner city residents need prescriptions just like suburban residents. Rite Aid also carries food and health-and-beauty aids of interest to local ethnic groups and gives its employees access to a telephone translation service.

Given these and other success stores coupled with changing urban demographics, some believe that the central city will become America's next retail frontier. But a community interested in attracting retail must be able to quantify market demand and demonstrate how a new store can penetrate that demand.

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## Racine Grocery Example

In Racine, the notion of an urban grocery gap has been expressed by many, but until recently, has not been empirically determined. Recent research using secondary data sources identified a significant gap in central Racine with significant demand but no immediate competition.<sup>2/</sup> The full-service grocery store dollars which exist in the area are currently flowing to local convenience stores and other locations outside of the central city. To measure potential grocery store demand and likely capture by a new full-service store in the subject area, the following procedures were used:

**1. Consumer spending** for food at home was estimated for all neighborhoods in Racine. This was based on the 1995 Bureau of Labor Statistic's Consumer Expenditure Survey (BLS) and U.S. Census household and income data. The BLS consumer expenditure data provided the average annual expenditure on food for preparation in the home by specific income ranges. Applying this data to the unique demographics of each neighborhood allowed the estimation of income-adjusted consumer spending estimates. The targeted central city area accounted for over \$30 million in annual food expenditures that were spent at full-service stores in other neighborhoods, or at the smaller convenience type stores located nearby.

**2. Current out-shopping** patterns were then studied to estimate where current central city residents were shopping for grocery items. Huff's retail gravity model was used to understand which outlying grocery stores were drawing central city residents. The model used three variables to estimate where residents shop: the size of the grocery store, the customer's distance from the store, and physical barriers (i.e. rivers) that impact travel patterns.

**3. Projected capture** by a new, hypothetical central city supermarket was then estimated by introducing this new store into Huff's model. Based on the size and location of this store relative to current outlying competition, it was estimated that the new store would capture a substantial share of the inner-city full-service grocery market (51 percent of the full-service grocery market in the central city). Multiplying the \$30 million in demand by this capture rate and adjusting for non-supermarket food sales and customers drawn from other neighborhoods, \$12 million in food sales could potentially be captured by a new supermarket in the central city.

**4. Market feasibility** of the hypothetical new store was then analyzed by comparing the \$12 million in food sales with industry averages. Sales per square foot for the hypothetical store was estimated and compared to industry data. Two sources were used: Chain Store Guide to determine the average annual sales volumes for various grocery store chains, and the Urban Land Institute's Dollars and Cents of Shopping Centers, to determine average sales per square foot for various types of locations. Based on these sources, the hypothetical store's \$470 per square foot would be 50 percent more than industry averages. This pointed to the possibility that a new store in the central city could generate sufficient sales to satisfy the requirements of a major grocer.

## Conclusion

Without question, demand for a wide range of retail outlets exists within many inner-city neighborhoods. With few exceptions, inner-city neighborhoods have fewer retail outlets and less shopping space, higher prices, fewer products to choose from, and in general do not offer the shopping opportunities available in outlying suburban areas. According to the Urban Land Institute, "Inner-city retailing is one of the few areas where there is still unfulfilled demand, but a cookie-cutter approach will not work. Successful inner-city retail development requires partnership between forward thinking developers and creative public officials. Partnerships of this kind can help developers and retailers to tap into a significant and under-served market".<sup>3/</sup>

- 1/ Fisher, Christy, "City Lights Beckon to Business", American Demographics, October, 1997
- 2/ Allain, John, "Racine Grocery Store Market Demand," Racine County Research Report, UW-Extension, Spring 1997
- 3/ Berens, Gail, "Inner-City Retail Opportunities and Obstacles," Urban Land Institute, 1996

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