

## Suburban flight

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### Abstract:

Over the next 2 years, the 4,000-store Rite Aid Corp. will invest \$230 million developing, relocating and remodeling 125 stores in depressed urban areas. The buying power in depressed urban areas is greater than one might think. A recent study estimates that consumers in poorer urban neighborhoods spend \$85 billion at retail annually. A shortage of shops sends them away for 25% of their shopping. Supermarkets in half a dozen major cities examined in the study showed inner city stores generated sales per square foot that were 40% higher than the regional average. Smart retailers adapt their merchandise to the locale.

### Full Text:

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### [Headnote]

What's bringing inner-city retailing back to life? A little attention to antitheft technology and a lot to merchandising.

AS A 24-YEAR-OLD working for his dad's drugstore chain in 1978, Martin Grass scouted out new locations in rural Kentucky and West Virginia. The chain has grown into the 4,000-store Rite Aid Corp., and Grass now runs it. Where is he going for expansion? Into decidedly less bucolic settings: the inner cities. Over the next two years the company will invest \$230 million developing, relocating and remodeling 125 stores in depressed urban areas.

Grass isn't trying to win honors from the Urban League. "We're not in the public service business," he insists. "We wouldn't be operating in these locations if they weren't profitable."

More profitable now, at any rate, than they were when the retail chains hightailed their way out in the 1960s and 1970s. What has changed? For one, the suburbs are now littered with stores, and competition there is keen for customers and for personnel. Both can be found in abundance in many urban areas, which have enjoyed a population rebound in recent years (see table, p. 150), in part because of an influx of industrious immigrants. Crime, or at least fear of crime, is still a factor in urban America, but careful hiring and better technology help retailers keep thefts to tolerable levels.

The buying power in depressed urban areas is greater than you might think. A study by the Boston Consulting Group and the Initiative for a Competitive Inner City, a not-for-profit do-gooder group headed by Harvard Business School Professor Michael Porter, estimates that consumers in poorer urban neighborhoods (defined, in part, as areas where median household income is less than 75% of the median for the metropolitan statistical area) spend \$85 billion at retail annually. A shortage of shops nearby sends them away for 25% of their shopping.

Drive through South Central Los Angeles and that becomes apparent. Only a few, scattered mercados selling sundries along with meat and vegetables compete with a newly remodeled Rite Aid on Washington Boulevard. Graffiti mars buildings across the street from the store, and a nearby auto-body shop is guarded by junkyard dogs. Inside, Rite Aid's floors are polished to a bright shine and the aisles are orderly. On a recent Friday morning, union picketers, protesting the nonunion labor hired to do the refurbishment, have little luck dissuading shoppers. A union rep shrugs: "They have to shop here. There isn't another drugstore for 2 miles."

Supermarkets in half a dozen major cities examined in the Boston Consulting study showed inner city stores generated sales per square foot that were 40% higher than the regional average. Even such a conspicuous consumption business as Starbucks is finding ways to stretch its locales. In a joint venture with Johnson Development Corp., a firm owned by former basketball star Earvin (Magic) Johnson (FORBES, Dec. 16, 1996), Starbucks opened an outlet in the middle-class, mostly African-American community of Ladera Heights in Los Angeles.

#### [Photograph]

**Caption:** Martin Grass: shiny floors, sales, big profits.

"Frankly, the inner cities represent the biggest upside of any investment opportunity in the country," enthuses Kenneth Lombard, Johnson Development's president. Magic Johnson Theatres are sprouting in urban neighborhoods long ago deserted by other chains.

Another urban myth: No one living in an inner city wants to work for a service wage. Fact: When Sears, Roebuck opened its downtown Oakland store two years ago, it had 6,000 applicants for 250 positions. By contrast, Sears has trouble finding employees for stores in Silicon Valley. For an employer, an overload of applicants is a real plus. It allows a store to cherry-pick the applicants least likely to pilfer goods.

Technology helps, too. Payless ShoeSource stores are highly automated, with an electronic sales register and back-office computers that allow managers to track sales and compare them with inventories daily. Thefts are more quickly detected and investigated. Other technologies that are getting better every day: security cameras that guard store aisles and parking lots, and anti-theft tags of the sort Sensormatic sells. Sears discreetly tags all its apparel merchandise, as do most other apparel merchants.

Smart retailers adapt their merchandising to the locale. In a suburban shopping mall, Sears may emphasize appliances and consumer electronics. In a city, it leans toward apparel. Inner city African-Americans spend 22% more of their income on women's apparel and 67% more on men's clothing than the average U.S. household, according to Management Horizons, a retail consulting division of PriceWaterhouse.

At Sears' downtown Oakland store, store manager Dennis Child greets customers at the door each morning when the store opens. His store features a line of clothing for larger teenagers called Pretty Plus. Brightly colored jade, lavender and leopard nightgowns contrast the pastel shades in a suburban Sears, and there's also a bigger assortment of special occasion dresses and accessories, including \$175

hats. At the Sears store in the low-income Hispanic neighborhood of Boyle Heights in Los Angeles, the petite racks are designated "Para Damas Menos 5' 4" and the book section features Isabelle Allende. That store's profits have increased 30% from 1992.

Says Allan Stewart, president of stores for Sears: "If you work really hard, you'll earn a loyalty in these markets that's often greater than in suburban stores."

**[Photograph]**

**Caption:** Sears manager Dennis Child markets one-on-one to his clientele by greeting customers at the door each morning when the Oakland store opens.

**[Table]**

**Caption:** Rebound: Some cities are growing again

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11 1111