Food Marketing in the Inner City: Trends and Options

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SUMMARY

Supermarkets in many of the Nation's largest metropolitan areas in the 1960s began a long-term migration from the inner cities to the suburbs. When inner city supermarkets close, neighborhood residents--many of them low-income and elderly--are left with fewer food shopping choices. More recently, a few supermarket companies, sometimes aided by community groups, have begun moving back to urban neighborhoods in search of "new" customers and profits.

THE SITUATION

A long-term decline in the number of supermarkets serving many inner cities has been widely reported, although not well-documented of late. Food marketing industry experts and U.S. Department of Agriculture (USDA) economists generally agree, however, that in some of the most populous metropolitan areas, there was a large-scale migration of large food retailers away from urban, especially low-income, neighborhoods, and toward the suburbs.

This exodus probably was underway by the late 1960s and likely continued into the 1980s. The situation may have slowed or stabilized by the early 1990s, although several leading experts could identify no empirical, nationwide studies in recent years to confirm that. However, reports from individual cities provide strong circumstantial evidence that inner city neighborhoods still have far fewer supermarkets than they did 20 to 25 years ago. For example:

- Among the findings of a 1991 study of shopping by the New York City Department of Consumer Affairs is that significantly fewer supermarkets serve poorer neighborhoods of New York City than middle and upper-income neighborhoods. One measure: supermarkets in lower-income areas of Manhattan averaged significantly more residents per store compared with higher income areas;¹

¹City of New York, Department of Consumer Affairs. The Poor Pay More...for Less. April 1991.
Newsweek (February 24, 1992) reported that since 1970, 34 of 50 large chain supermarkets closed in Boston, and 374 of 1,068 closed in Los Angeles County. Most of the 600 stores closed nationwide by the A&P chain in the 1980s were in inner cities;

Twenty supermarkets have closed in Pittsburgh in the past two decades, most of them in low-income inner city areas, according to Just Harvest, a local anti-hunger advocacy group;

Nearly a third of the 28 cities surveyed in a U.S. Conference of Mayors study of hunger and homelessness reported that the number of supermarkets in their low-income neighborhoods had decreased between November 1990 and November 1991 alone;

No major chains were operating in the Watts section of Los Angeles in 1988, according to Progressive Grocer magazine.

A more comprehensive examination of the current situation could emerge from a forthcoming study to be contracted by USDA's Food and Nutrition Service (FNS). The study, to help develop improved procedures for certifying outlets to accept food stamps, will sample 2,500 inner city, rural, and urban stores (100 from each of 25 different areas), cataloging differences in prices, location, distance from households, product selection, and other characteristics.

WHY SUPERMARKETS LEAVE

Analysts observe that the large-scale movement of supermarkets to the suburbs was driven by demographic and economic forces. In part, stores were following customers who moved away from central cities to suburbs in large numbers in the 1960s, 1970s, and 1980s. Roughly 40 percent of the Nation's central cities lost population between 1970 and 1988, according to the U.S. Census Bureau; the rate was even higher in the Northeast and Midwest. (Industry representatives deny the contention of some neighborhood groups that they are not interested in or fearful of serving minority customers in many of these areas.)

Economics is also a significant factor. The grocery business is highly competitive, with traditional-style supermarkets, defined by the Food Marketing Institute (FMI) as any full-line, self-service grocery store with annual sales of $2 million or more, vying for customers not only with each other but with other types of retailers.

FMI, a trade association representing a variety of retailers and wholesalers, reported that the net profit of its supermarket members, after taxes, is less than
1 percent annually.\(^2\) That makes high volume, and the ability to offer a larger variety of goods, particularly higher-profit nonfood items like beauty aids, more desirable. Because of their smaller size, many older stores in the inner cities were deemed obsolete. Also, a lack of space and high land costs may have left many unable to expand or relocate to larger sites nearby.

Supermarket industry spokesmen also say labor (accounting for more than half of all operating expenses, excluding merchandise), insurance, and utility costs are higher in urban centers, and shoplifting and employee theft are greater problems than elsewhere. Customer parking and freight unloading facilities are at a premium. Moreover, zoning and other regulatory procedures tend to be slower in the cities, where starting a new store—from selecting a site to opening for business—can take anywhere from 4 to 5 years or even longer, roughly double the suburban time, according to FMI.

By contrast, suburban developers have the luxury of locating much bigger stores with ample parking on large tracts of open land, often in new communities with more growth-oriented governments. Adding to competitive pressures, conventional supermarkets' share of all supermarket sales fell from 73 percent in 1980 to 35 percent in 1990, according to USDA. These sales were captured by the so-called superstores ($8 million or more in annual sales), combination stores (where nonfood items account for 25 percent of more of floor space), and warehouse types (huge, no-frills markets that sell food and nonfood items in larger sizes and often at lower prices than the more traditional stores).

**IMPACTS ON RESIDENTS**

When inner city supermarkets close, neighborhood residents—often poor, elderly, or both—are left with fewer shopping alternatives for obtaining reasonably priced, quality foods. Low-income families already spend a much higher proportion of their incomes on food than others: according to the U.S. Department of Labor, households earning between $5,000 and $9,999 before taxes in 1990 devoted 33 percent of their after-tax income to food, compared with households earning between $30,000 and $39,999, who devoted 15 percent.

For many inner city consumers, finding groceries may involve a choice between shopping at smaller corner stores (known variously as convenience stores, "bodegas," and "mom-and-pops") or paying for transportation to reach more desirable markets in the suburbs. The corner stores usually have far fewer fresh meat and produce items, limited variety overall, and higher prices, food marketing experts and community activists agree.

\(^2\)Other measures are *return on total assets* (the ability of a firm's combined equity capital and debt securities to generate profits), which has averaged more than 3 percent over the past 5 years, and *return on equity* (relating the earnings of the company specifically to the resources provided by owners), which has averaged nearly 17 percent during the same period, according to FMI.
Others choose to travel to less expensive, but more distant supermarkets in outlying neighborhoods, which can be difficult for those with limited resources. For example, USDA reported in 1980 that a survey of food stamp households found only 23 percent drove their own automobiles to the store; 33 percent said they had to walk or take a taxi to purchase food. Transportation costs can negate some of the food savings these low-income consumers were seeking. 

The 1991 New York City study found that grocery shoppers in poor neighborhoods pay 8.8 percent more for the same groceries as shoppers in middle-class areas. This finding was based upon prices for a limited sample, 12 items, taken from 16 supermarkets and nine convenience stores in low-income areas of the city versus those taken from 17 supermarkets and three convenience stores in more affluent areas. Limiting the comparison to the supermarkets alone, prices in the low-income areas were 5.2 percent higher. The report attributed the differences to less competition, store inefficiencies, higher operating costs, and lack of interest in serving minority neighborhoods.

Another recent study, conducted by USDA using 1982 data from 10 metropolitan areas, found that prices of sample items purchased from central city supermarkets were roughly 4 percent higher than those found in other supermarkets in the metropolitan area. The higher cost of conducting business in a central city may contribute heavily to these differences, the study concluded. However, it also noted, low-income area supermarkets in these same cities did not appear to have higher prices than those located outside of such areas.

**RECENT INDUSTRY DEVELOPMENTS**

There are promising signs that supermarkets can prosper in the inner city, and that more want to return. The main reason is the search for new business; outlying areas have been saturated, making underserved urban markets—where there is often little or no competition—more appealing to retailers seeking growth opportunities.

A number of major chains assert that they have never abandoned low-income neighborhoods. But some recent efforts have attracted wide attention. Supermarkets General has opened several stores in inner city areas recently, including a Pathmark store in 1990 in a riot-scarred neighborhood in Newark,

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³USDA. "Where Do Food Stamp Recipients Shop for Food?" *National Food Review.* Spring 1980.

⁴USDA economists countered that such a small sampling of items is too statistically unreliable to project overall food costs, however.

New Jersey. In Cleveland, First National Supermarkets (Finast) has spent millions of dollars to build or remodel nine supermarkets in downtown areas. The Dominick’s chain in Chicago has an active inner-city program, 2 years ago opening the first modern store in a South Shore revitalization area.

The Vons company in Los Angeles has committed $12 million to build up to a dozen stores in south-central Los Angeles, the area recently hit by riots, according to FMI. Elsewhere, the Cincinnati-based Kroger Co., which is involved with inner city schools throughout the country, recently opened three new inner city stores in Atlanta, FMI added.

Seeking to assist member companies who want to do more business in underserved urban areas, FMI earlier this year convened an Urban Initiatives Task Force. Its objectives include developing a data base on urban store formats, and promoting and documenting model community support programs in the areas of education, job training and store development.

Achieving profitability in the inner city requires adherence to the same basics that any store must observe: cleanliness, good service, and competitive prices, according to industry experts. But they add that prospects for success will be enhanced by addressing the unique needs and characteristics of the local community. Stores must recognize the buying habits of their clientele and tailor product lines accordingly—for example, offering a fuller line of Hispanic or Asian foods if large numbers of such ethnic groups live nearby.

Also, they must get involved in and support local community groups and activities. Ties to local schools, youth programs, and churches can build loyalty and trust, keep retailers in touch with residents, and make stores a legitimate neighborhood institution. A number of the ventures cited above required a further step to become feasible: the formation of a joint venture with a local community organization (see below).

Another important element is the hiring of employees from within the community. However, providing more extensive training and support services for inner city workers may be necessary, as many are likely to lack the basic work skills many retailers take for granted in other areas. Vons, for example, is breaking ground for a special employee training center and has committed to hiring from a local base that includes one-third with retail experience, one-third unemployed but who worked before, and one-third hard-core unemployed.

PUBLIC POLICY OPTIONS

Community leaders have often found it necessary to undertake their own initiatives to bring more food choices to the inner city. Among the options that have been used or considered are:

• Joint ventures. The Newark Pathmark store was made possible through a joint venture with the New Community Corporation, a
neighborhood group that assembled land and construction financing with the help of government and foundation money;

- **Financing assistance.** Revolving funds could target low-interest loans and other financing aid to entrepreneurs who locate in distressed neighborhoods or to existing retailers to upgrade their stores;

- **Help with site acquisition.** Communities could help identify available sites, and sell or lease community-owned property at reduced rates. A longer-term lease could impart added stability to a project;

- **Removal of regulatory roadblocks.** Cities could work more closely with supermarket developers and expedite the process for reviewing zoning change and related requests from them. Special exceptions to parking rules, land use ordinances, and other laws might be considered if they will not undermine health, safety, or other objectives;

- **Other technical assistance.** Local offices could conduct market studies, gather demographic data from prospective neighborhoods, provide technical business help to existing independents, and so forth;

- **Transportation services for residents.** Some residents lack the means to get to food stores. Knoxville, Tennessee, has responded by rerouting bus lines through inner-city areas and working with stores to provide special shuttles. Another option might be support for mobile mini-markets or grocery delivery services to underserved areas;

- **Wholesale buying clubs.** Small independents have higher prices in part because they lack the volume buying power of supermarket chains. Establishment of wholesale buying associations or clubs might enable such stores to obtain groceries at more reasonable prices, an approach launched in Hartford, Connecticut, in 1988;

- **Enterprise zones.** Governments have designated certain depressed neighborhoods as urban enterprise zones, which are geographically defined areas where businesses are eligible to receive preferential treatment. Such incentives might include lower property taxes or tax credits for hiring local workers, for example;

- **Farmers' markets.** Communities could provide sites for and coordinate farmers' markets in underserved areas of a city;

- **Self-help projects.** Community-based groups in the past have initiated consumer buying cooperatives and community gardens as ways to reduce urban residents' food bills, but whether they are viable long-term alternatives for many residents is problematic.