Back to the cities

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Abstract:
There have been notable strides made by a number of grocery chains that have targeted the inner city for growth. With the suburbs approaching saturation, the relative absence of stores in the inner city makes it a place of opportunity. But it is also a place with its own very special requirements, which operators ignore at their peril. Among the hurdles posed by the inner city are the high price of land and the small size of available parcels, complex zoning and environmental requirements, elaborate government approval processes, higher overhead costs, and roller-coaster sales, peaking at the beginning of the month when government assistance is disbursed and dropping during the end of the month. One of the pioneers of inner-city store development is Pathmark Stores in Woodbridge, New Jersey.

Full Text:
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If there is one common refrain about inner-city neighborhoods, it is this: "These communities need more supermarkets," says Mark Ridley-Thomas, referring to the eighth district in Los Angeles, an inner-city enclave he represents on the L.A. City Council.

Because of the shortage of supermarkets, residents of the eighth district "are forced to shop outside their neighborhoods or at smaller convenience stores, liquor stores or mom and pop stores," says Ridley-Thomas. They are limited to lower-quality, yet higher-priced products, he says. "Supermarkets are critically important to the lives of inner-city residents and to the economic health and vitality of their neighborhoods."

The scarcity of supermarkets is hardly unique to Los Angeles. In many urban areas nationwide, chains have been absent from the inner city for the past 25 to 30 years, having left for more lucrative opportunities and a more secure business climate in the suburbs. This situation has been recently...
documented in a study released this year by the Food Marketing Policy Center, University of Connecticut, Storrs, Conn. Another report "No Place To Shop," based on the Food Marketing Policy Center study, was recently released by Public Voice for Food and Health Policy, an advocacy group based in Washington, D.C.

Responding to these reports, FMI argues that they are based on 1990 census data and do not reflect gains made since then. Indeed, there have been notable strides made in the 1990s by a number of chains that have targeted the inner city for growth. And no wonder: With the suburbs approaching saturation, the relative absence of stores in the inner city makes it a place of opportunity. But it is also a place with its own very special requirements, which operators ignore at their peril.

One of the pioneers of inner-city store development is Pathmark Stores, Woodbridge, N.J., which has opened inner-city stores in Brooklyn, N.Y., Newark, N.J., and Mount Vernon, N.Y., and recently received approval to build a 612 million, 53,000-square-foot store in the East Harlem section of New York City. Pathmark plans to open five additional inner-city supermarkets during the next few years.

"Why does Pathmark operate and look to expand in the inner cities and not just focus on the suburbs?" asks Harvey Gutman, senior vice president, retail development for Pathmark. "We certainly don't do it because it's easy. We do it because it's good business. And, as is often the case, good business policy produces good social results."

Adds Gutman: "For the supermarket operator, the right kind of inner-city development can mean a profitable return on investment. There are no overriding operational or economic reasons why residents in inner cities shouldn't be as well served by modern supermarkets as residents in the suburbs."

In an effort to address the needs of the inner cities, FMI has formed the Urban Initiatives Task Force, made up of supermarket companies that operate in urban areas. The task force meets twice a year to discuss the challenges and opportunities presented by inner-city supermarkets. FMI has also collaborated with the Washington, D.C.-based National League of Cities to establish the Neighborhood Partnership Award, which recognizes and encourages public-private partnership initiatives undertaken by supermarkets and local governments. In the category of urban store development, 1995 awards were given to Smart & Final, Pathmark, Tidyman's and Finast.

Meanwhile, in Los Angeles, four chains--Vons (two stores), Ralphs (one), Smart & Final (10) and Food 4 Less (three)--had by April opened 16 stores in the inner city, representing an investment of $80.3 million and creating 875 new jobs, according to Rebuild LA, an organization formed after the 1992 riots to address inner-city needs.

A new source of funding for inner-city supermarkets is The Retail Initiative (TRI), based in New York City. Established in 1993, TRI controls a $24 million fund designed to help non-profit community development groups form partnerships with supermarket companies. "TRI works closely with all the partners in the development process--neighborhood community groups, supermarkets and local governments," says Peter Borges, TRI's president, who adds that the organization is hoping to create 12 to 14 retail developments. By bringing equity to the table, "we hope to tease out financing from local institutions," he says.

TRI's first effort has been aimed at Pathmark, East Harlem store. The organization committed $1.5 million in funding in the form of a limited-partnership interest in the project, and worked to assemble a development team. TRI, which is currently exploring opportunities in 75 cities, has had discussions with H.E. Butt, Vons, Lucky, Supervalu and Certified Grocery of California, among others.
Another major chain making a concerted effort to enter the inner city is Vons, based in Arcadia, Calif. A short time after Von kicked off its inner-city plan, many of Los Angeles's urban neighborhoods went up in flames during the riots of April 1992. Nonetheless, the chain decided to make an even stronger commitment, and in July 1992 announced it was devoting $100 million to building 10 to 12 stores in neglected urban areas.

To date, Vons has opened two inner-city stores, one in Compton (January 1994) and one in Inglewood (May 1994). Vons is currently developing three more inner-city stores in Las Vegas, South Central Los Angeles and Pasadena.

Vons' 87,000-square-foot Inglewood "super combination" store, a converted Sears store, is a monument to one-stop shopping, encompassing a bank, bakery, dry cleaners, florist, pharmacy, travel agency, pizza shop, Tex-Mex barbecue and Chinese restaurant. Julie Reynolds, a Vons spokeswoman, says the store is meeting sales projection.

The Inglewood store recognized Black History month in February, holding a coloring and essay contest for school children, and exhibiting the winning entries. It offers ethnic items like abundant amounts of collard and mustard greens in produce, as well as bulk chili, black beans, split peas and cherimoya (Hispanic fruit). Also appealing to ethnic tastes is The "Blazin' BBQ," which offers such things as barbecued ribs, hot links and tri-tip, and a pizza shop serving Mexican pizza.

Smart & Final, 150-store chain based in Los Angeles, has run stores in the inner city for many years. The chain, which carries institutional-size products for small business, has a ready audience of small businesses in inner-city neighborhoods. Following the 1992 riots in Los Angeles, Smart & Final pledged to build 12 more stores in the inner city and has already opened 10 of them, with two more to open by year's end. Leanne Reynolds, director of corporate communications, says the higher volume more than makes up for higher costs due to security and shrink. "You get a good, loyal, steady customer flow," she says.

Another old hand at inner-city stores is Darioush Khaledi, CEO of KV Mart, Long Beach, Calif., which runs 13 inner-city stores in Southern California. Khaledi has found good reasons to operate in the inner city: favorable deals on buildings—older structures abandoned by the chains; lower break-evens on the smaller properties; larger sales of high-margin meat and produce—the percentage of his sales generated by meat and produce is around 35% while the industry average (including seafood) is 26%; and hefty volume. Khaledi's stores run about 18,000 square feet yet they handle some 20,000 transactions per week. Inner-city residents "have small refrigerators so they come every day," he says.

While opportunity does exist in the inner city, the risks of trying to make it there are real. The inner-city landscape is littered with old stores abandoned by large chains during the past 30 years. More recently, Vons closed or sold its Tianguis stores geared to Hispanic areas. Among the hurdles posed by in the inner city:

* The high price of land and the small size of available parcels. A site may require assembling small parcels of land with different owners.

* Complex zoning and environmental requirements.

* Elaborate government approval processes, which are "a major impediment to supermarket development," says Gutman. It took Pathmark six years to gain approval for its East Harlem supermarket. At press time, the chain had gotten the go-ahead from the Manhattan Borough Board, and

had just received final approval from New York City Mayor Rudolph Giuliani.

* Higher overhead costs such as insurance, upkeep and workers' comp.

* Roller-coaster sales, peaking at the beginning of the month when government assistance is disbursed and dropping 25% during the end of the month. Stocking at peak times is a challenge, says Khaledi.

Security is often raised as a major hurdle to running inner-city stores. Smart & Final, like other urban operators, has addressed the issue squarely. For example, the chain has constructed enclosed loading docks in five of its 10 new Los Angeles stores. It has also installed wrought-iron fences with points at the top, security cameras and guards in stores where there have been "incidents," says Reynolds. Smart Final has also cultivated good relationships with local city council members and with the police.

Vons' Inglewood store also employs a uniformed security guard and another guard not in uniform, as well as security cameras. Shoppers enter the main shopping area through metal turnstiles; to exit they must go through the checkout lanes, which are equipped with electronic article surveillance portals.

Related to security concerns is the issue of shrink. When asked about whether shrink is a worse problem in inner-city stores, TRI's Borges responded "They make up for shrink with volume." But he follows up that remark by saying that there are not enough supermarkets operating in the inner city to get a good read on shrink.

Because many inner-city residents don't own cars; transportation is another issue affecting urban stores. A few inner-city operators have dealt with this by providing free van service. (See In The Trade, page 13.)

To make it in the inner city, Pathmark's Gutman recommends working with non-profit community development corporations (CDCs). Khaledi, however, is not a fan of partnering with local governments and community developers. He gets much faster results working through private sources. But Khaledi still believes in close ties with the communities he serves. "You can't operate an inner-city store without being involved in the community," he says. "Major chains will fail if they run an inner-city store from headquarters."

Vons has taken Khaledi's words to heart, recruiting employees from the local communities to enter a 14-week training program run by the chain with state assistance. The training program includes not just work-related skills like reading, math and communications, but also life-management skills such as self-presentation, teamwork and conflict resolution. For those who participate in this program, as well as for many other inner-city residents, supermarkets are not just a source of employment and of affordable, quality food products—they are an entity that affects the very quality of life.

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