

CORE VALUES

Retailers moving into inner-city areas find that it's just good business

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For years, W.L. "Junior" Heard had two unappetizing choices whenever he went grocery shopping: Pay the high prices at mom-and-pop stores in his inner-city neighborhood, or drive far beyond the community in search of a supermarket.

But all that changed earlier this year when a Food 4 Less opened its doors in the heart of San Diego's urban core on Euclid Avenue near Market Street -- the first chain supermarket to operate in the area in nearly three decades.

"It has been a godsend," Heard said about the store, echoing the positive reviews by many other nearby residents. "It's very convenient."

Food 4 Less, a subsidiary of Ralphs Grocery Co., isn't the only retail corporation finding profits these days in America's traditionally underserved inner cities.

You can see the incursion of major retail brands in such unlikely spots as Watts and Harlem, where the once-gritty landscape is now dotted with such familiar corporate logos as Starbucks, The Gap, Kmart, Target, Krispy Kreme, Pathmark and Mail Boxes Etc.

The push by companies into San Diego's urban region -- roughly defined as east from Golden Hill to College Avenue, and south from University Avenue to the border of National City -- has so far been less ambitious than in other big cities.

But just a week ago, the \$30.7 million City Heights Retail Village opened at University and Fairmount avenues, boasting an Albertson's, Starbucks, Blockbuster Video, Kragen Auto Parts store and several other branded enterprises.

The development is a collaboration among former San Diego City Councilman Williams Jones' CityLink Investment Corp., La Jolla-based Price Entities, the city of San Diego and other investors.

It all comes after last year's launch of the revitalized College Grove Center -- replete with a Sam's Club, Wal-Mart, Starbucks, Mervyn's, Pic 'n' Save and Longs Drug -- at state Route 94 and College Avenue, and this year's debut of the Food 4 Less store at Market Creek Plaza on Euclid Avenue.

Retail analysts and developers nevertheless say it is only a matter of time before even

upscale companies like Saks Fifth Avenue and Nordstrom look to San Diego's inner city and other seemingly risky areas across the United States to bolster profits in an increasingly cutthroat retail environment.

The attraction? Eight million households in America's inner cities control a whopping \$85 billion in annual retail spending, according to government studies.

In San Diego's urban sector -- a vibrant mix of black, Latino and immigrant families -- spending patterns are equally impressive, with annual household incomes ranging from \$19,000 to \$59,000, according to Claritas, a San Diego-based research firm that conducts demographic and consumer studies for Fortune 500 companies.

"What makes this all possible now is that retailing has become so competitive that companies need to get every bit of business that they can," said George Whalin, president of Retail Management Consultants in San Marcos.

Moreover, no longer are corporations fretting about establishing beachheads in urban outposts once dismissed by retail planning executives as hotbeds of crime and low-income workers.

Those preconceived notions "are not true now, and they were not entirely true then," said Whalin, adding that major retail development in the inner city will only intensify in the coming years.

Indeed, Market Creek Plaza said the Food 4 Less store is just the beginning of what will ultimately be a seven-block-long retail strip in Lincoln Park incorporating a mix of major national retail brands and small businesses.

The developer of the \$50 million, 20-acre project is the Jacobs Center for NonProfit a nonprofit foundation that focuses on underserved neighborhoods.

"We have funded an urban planning network with residents to identify what retail businesses they want and where they want them," said Jennifer Vanica, executive director of the San Diego-based foundation.

So far, many residents have expressed the need for branded retail outlets, said Vanica, adding that the foundation is talking to many national retail companies about setting up shop in the area.

Residents "want the same stores they see in other communities," she said. "They want to be able to go to a restaurant and have a nice meal in a sit-down format."

Key to the continuing retail growth in San Diego's urban core is the early success experienced there by companies like Wal-Mart and Food 4 Less, which made the initial plunge into the region within the last two years.

Food 4 Less , for instance, said sales at its Market Creek outlet have rivaled results at some of its stores in tonier locales.

The store is attracting a customer base with a disposable income of \$60 million within a half-mile radius of the store, according to the company's marketing data.

That's money that was previously being spent by consumers forced to travel to other areas to shop.

"The store's done very well for us," said Food 4 Less spokesman Terry O'Neill, adding that the company has made a conscious decision to move into inner cities where consumers have long been underserved and where competition is less furious.

About 80 percent of Food 4 Less ' 110 stores are in largely Latino and black neighborhoods, O'Neill estimated.

"These have been very viable business areas" for the company, he said.

Likewise, it seems that local inner-city residents have warmed up to paying \$3 for premium coffee drinks at Starbucks.

The Seattle-based coffee retailer said the stores it recently opened at City Heights Retail Village and Market Creek Plaza -- as well as an outlet on Sweetwater Road in National City -- are percolating with business.

"All the shops are performing real well, and they have been very well-received in the community," said Starbucks spokeswoman Kelly Hewitt, who declined to provide specific store sales figures.

Never mind that some community activists are less than thrilled about seeing the bright corporate signage of a Sam's Club or an Albertson's suddenly glowing along urban thoroughfares.

They worry about major retailers offering little more than minimum-wage positions to the inner-city work force, as well as the problem of companies extracting profits out of the community to enrich stockholders living elsewhere.

"We would like to see ownership of these businesses by residents, the people who have a vested interest in their neighborhoods," said Hal Brown, executive director of San Diego State University's Center for Community Economic Development. "By their very nature, chain stores come in to maximize profit, and from a community economic development point of view, that's not very good."

The suburban boom

The abandonment of the inner cities by major retailers commenced about 30 years ago

with the boom in suburbia, say retail analysts.

With growing pressures to maximize profits, chains quickly moved to the new frontier.

The retail exodus often exacerbated eroding conditions in many urban districts, which also were beginning to suffer from poor land use and the growing lack of public and private investment, among other maladies.

Schools, banks and stores typically closed, and roads decayed.

Thus, when national retailers looked for new markets in subsequent years, they usually avoided the inner cities and instead made the comfortable choice to keep expanding in suburbia.

"It created a concentration of poverty," said Anne Habiby, co-executive director of the Initiative for a Competitive Inner City, a Boston-based nonprofit organization founded in 1994 by Harvard Business School professor Michael Porter as a think tank, of sorts, to spark new thinking about the economic potential of inner cities.

However, the suburbs are now saturated with stores run by retail chains, which have been forced to turn inward again to keep growing their profits.

"The drugstore chains were the first to seize these opportunities" in America's urban core, Habiby said. "Their tremendous success has led retailers across the board to reconsider."

A recent ICIC survey of 1,159 inner-city households in the United States indicates the massive buying power that has largely been untapped over the years by the corporate world.

Depending on the retail sector, demand among urban-based Americans often surpasses the demand of average U.S. households, the survey showed.

For instance, total average spending on men's, women's and children's apparel by inner-city households is \$1,157 annually, compared with \$1,124 by their counterparts, the ICIC survey indicates.

"So even Saks Fifth Avenue could, in certain situations, do very well" in the urban marketplace, Habiby said. "Not everybody in the inner city wants to buy \$2 tube socks."

Creating a retail mecca

Such sentiments are music to the ears of William Jones, the driving force behind the inception of City Heights Retail Village.

Jones left a high-paying job with Prudential Realty Co. in Oakland in 1994 to partner will

multimillionaire philanthropist Sol Price to create a retail mecca in San Diego's inner city.

The impetus was Jones' recollections of his childhood days in the 1970s growing up in San Diego's Skyline Drive area, where he had watched established businesses bail out as crime worsened and more and more families relied on welfare.

"I'm very satisfied, very pleased and encouraged" by the opening of Retail Village, Jones said recently. "Retailers have recognized that there is significant buying power in the urban core."

Jones stressed that the center -- which is 95 percent occupied -- has provided 300 new jobs to people living in the surrounding neighborhood.

In many cases, these are people who otherwise would be unemployed, Jones said.

"Society has many different types of jobs, and many different types of compensation," he added.

Jones said luring chains into Retail Village did not involve financial inducements, but took years of arm-twisting to convince businesspeople that the fit would be right.

CityLink and its partners emphasized crime prevention and the close maintenance of the mall's infrastructure, among other points of concern.

"We had to convince the companies that the center was designed and developed as a first-class facility," Jones said.

One company that did not need the hard sell to see the viability of Retail Village was Starbucks, which has lately been busily setting up shop in America's urban marketplaces.

Starbucks has opened 29 stores in U.S. inner cities in the last three years in a novel partnership with former Los Angeles Lakers basketball star Earvin "Magic" Johnson's Johnson Development Corp.

Known as Urban Coffee Opportunities, the limited-liability company evenly splits ownership duties, with Starbucks managing and operating the stores and Johnson providing strategic counseling about conducting business in urban America.

Starbucks spokeswoman Hewitt said the collaboration is committed to employing local minority contractors in order to strengthen the economy in communities in which it operates. It also tries to hire area residents to staff the stores.

To further bond with its urban customers, each store features special music, such as rhythm and blues, and framed photographs of Johnson on the walls.

Among the co-branded products available at the stores are murals and plaques signed by Johnson and Starbucks chairman Howard Schultz.

Hewitt said the partnership plans to open more stores in San Diego's inner city, although no new agreements are pending.

"We're constantly looking for sites," she said, adding that the grand openings of the Retail Village and College Grove stores each drew turnouts of about 500 people.

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An untapped market

Many major retailers are looking to inner cities across the nation to establish new stores and bolster profits in an increasingly tough retail environment. The market, which traditionally has been underserved by businesses, would seem ripe for tapping:

- [] There are about 8 million households in America's urban core.

- [] Fifty-four percent of work-force growth over the next 10 years is expected to come from minority communities, which are heavily concentrated in inner cities.

- [] America's inner cities represent \$85 billion in retail spending annually, or 7 percent of the U.S. retail market.

- [] About 25 percent of inner-city retail demand is not met by retailers operating in those neighborhoods.

- [] Retail demand per inner-city square mile is often two to six times greater than each metro-area square mile.

Start of a trend

These major retailers have recently opened in San Diego's inner-city area.

City Heights Retail Village

- [] Albertson's

- [] Starbucks

- [] Blockbuster Video

- [] Kragen Auto Parts

[] Papa John's Pizza

[] Subway restaurant

[] McDonald's

College Grove Center

Martin Luther King Jr. Freeway at College Avenue

[] Sam's Club

[] Wal-Mart

[] Mervyn's

[] Starbucks

[] Coco's Family Restaurant

[] Pic 'n' Save

[] Longs Drugs

Market Creek Plaza

Euclid Avenue at Market Street

[] Food 4 Less

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