Underserved Markets—An Untapped Bonanza?

ICSC survey explores reasons for retailers' reluctance to enter underserved markets

A critical issue for many communities across the nation, particularly in inner cities, is the lack of retailers and other business in those areas. ICSC, in conjunction with Business for Social Responsibility (BSR)[1], conducted a survey of retail executives during the fall of 2001 to determine the most important reasons that some major urban markets remain underserved by major retailers.

The ICSC/BSR survey was particularly timely because it followed shortly after the release of studies suggesting that retailers were not taking advantage of significant untapped potential in underserved markets. (See "Studies Claim Missed Opportunities" directly below.) According to these studies, retailers were underestimating consumer spending power in those markets.

Criticism of retailers by academics, municipal officials and others has tended to focus on the idea that retailers are using inadequate market data and are, therefore, reaching the wrong conclusions about market potential. Simply put, the argument goes: If only the retailer knew the market properly, he would not be nearly so averse to enter it.

The ICSC/BSR survey tests this argument by asking retailers to rank a whole series of factors on the degree to which they constitute an obstacle to entering underserved markets. For the purposes of this survey, "underserved markets" are defined as "low-income urban communities that have inadequate access to products and services."

STUDIES CLAIM MISSED OPPORTUNITIES

At least three studies in the last few years have concluded that retailers are missing significant opportunities by not entering underserved markets. The studies also seem to blame the retailers themselves for these missed opportunities.

"The Business Case for Pursuing Retail Opportunities in the Inner City" (The Boston Consulting Group in partnership with The Initiative for a Competitive Inner City, June 1998) is blunt: "Retailers, chains and independents alike, have overlooked the promise of the inner-city market. Some might consider it discrimination. We call it bad strategy."[2] The report continues: "The infrastructure required for doing business [in the inner city] is already in place, given the proximity to local suppliers and the city's core. And, there is no need to struggle with a new language, culture and currency."[3] The report's authors go on to say that $85 billion of retail spending power resides in U.S. inner cities.

Another study, "New Markets: The Untapped Retail Buying Power in America's Inner Cities" (U.S. Department of Housing and Urban Development (HUD), July 1999) estimated far greater spending power in underserved markets than The Boston Consulting Group report—$331 billion. The HUD report attributes the failure of retailers to enter these markets mainly to inadequate market data causing retailers to underestimate revenue potential.

A third study, "Exposing Urban Legends: The Real Purchasing Power of Central City Neighborhoods" (John Pawasarat and Lois M. Quinn, a discussion paper prepared for The Brookings Institution Center on Urban and Metropolitan Policy, June 2001), is just as scathing as The Boston Consulting Group in its conclusions: "Currently, retailers ignore some of the strongest markets in metropolitan areas because of misconceptions about central city income status, persistent 'urban legends' about the absence of workers in inner-city neighborhoods, racial and class-based stereotypes, and the emphasis on average household income promoted by commercial marketing firms."[4]

[1] See www.bsr.org

[2] p. 1

[3] pp. 1-2

[4] p. 22

It was against this backdrop that ICSC/BSR conducted its survey to find out why retailers don't enter underserved markets and what changes or incentives would induce them to change their minds.

THE ICSC/BSR SURVEY INSTRUMENT

The survey instrument itself consisted of three sections. The first solicited basic information about the retailer. The second listed more than 3 factors that are thought to represent obstacles for retailers entering underserved markets. (The respondent was asked to state whether each factor was "very significant," "somewhat significant" or "not important" as an obstacle to establishing a store in an underserved market.) The third section asked the respondent to describe what measures would either positively influence the decision to open a store in an underserved market, or would help with current efforts to open a store.

The survey was mailed to 1,247 companies, and there were a total of 97 respondents. Respondents represented a wide range of retail categories, including apparel, home furnishings, food service, department stores and one major discount chain.

RESULTS

The summary results are shown in Table 1. Eleven factors are regarded by more than 80% of the respondents as significant obstacles to entry into underserved markets (i.e., factors rated "very significant" or "somewhat significant"). These are, in descending order of importance:

1. Crime/perceived crime
2. Insufficient concentration of the retailer's target customer
3. Lack of consumer purchasing power for the retailer's product
4. Potential shrinkage
5. Rent
6. Buildout/rehabilitation costs
7. Site identification
8. Inadequate parking
9. Higher operating costs
10. Construction and development costs
11. Lack of amenities to attract out-of-neighborhood employees.

With respect to the three studies cited earlier in this article, which point to retailers' misconceptions about consumer spending power as the principal culprit behind retailers' failure to enter underserved markets, two of the top 11 factors reported by respondents to the ICSC/BSR survey are of particular interest: insufficient concentration of retailer's target customer (reported significant by 88% of respondents) and lack of consumer purchasing power for retailer's product (86%). If, in fact, the tools available to retailers are insufficient to evaluate spending power in underserved markets properly, then retailers may not be correct in concluding that there are insufficient numbers of their target customers or that there is insufficient spending power in underserved neighborhoods.

However, the existence of many other factors deemed as significant obstacles by survey respondents indicates that the root causes of retailers' reluctance to set up stores in underserved markets are far more complex than just inadequate market intelligence. Factors such as crime (mentioned by 93%), site identification and development costs have nothing to do with market data, yet still need to be part of the equation in retailers' decision-making—even in a world with perfect market information.

WHAT MIGHT HELP

The third section of the survey, which invited open-ended answers, asked respondents to state measures that would positively influence their deliberations about opening stores in underserved markets. The most frequent responses were as follows:

- Sufficient parcel sizes to allow for retail concentration and synergistic co-tenancies
- Tax incentives
- Less bureaucratic interference

Table 1

IMPORTANCE OF FACTORS INFLUENCING RETAILERS' DECISION TO ESTABLISH STORES IN UNDERSERVED MARKETS

Factor	Very Significant	Somewhat Significant	Total Columns 2 and 3	Not Important	No. of Responses
1. Insufficient concentration of your target customer	72%	16%	**88%**	13%	96
2. Length of time to complete a project	9%	40%	**49%**	51%	95
3. Lack of consumer purchasing power for your product(s)	60%	26%	**86%**	14%	97
4. Inadequate neighborhood infrastructure (e.g., transportation, utilities)	29%	46%	**74%**	26%	94
5. Burdensome taxes relative to other store locations	27%	38%	**65%**	35%	94
6. Real estate costs:			**0%**		
a. Direct purchase price	43%	22%	**64%**	36%	87
b. Construction and development costs	50%	31%	**81%**	19%	88
c. Demolition costs	31%	40%	**72%**	28%	89
d. Environmental remediation	52%	22%	**74%**	26%	90
e. Buildout/Rehabilitation costs	53%	30%	**84%**	16%	92
f. Rent (if not owning property directly)	55%	29%	**85%**	15%	92
7. Site identification	62%	22%	**84%**	16%	94
8. Parcel sizes	41%	33%	**74%**	26%	93
9. Inadequate parking	57%	26%	**83%**	17%	95
10. Lack of amenities to attract out-of-neighborhood employees	46%	35%	**81%**	19%	95
11. Lack of experienced underserved-market developers	28%	34%	**62%**	38%	92
12. Inadequate local labor supply			**0%**		
a. Quantity of labor	38%	32%	**70%**	30%	94
b. Skill level of labor	38%	37%	**74%**	26%	93
13. Crime/Perceived crime	69%	24%	**93%**	7%	96
14. Potential shrinkage	62%	24%	**86%**	14%	95
15. Identifying and forming relationships with key political/ community players	13%	47%	**60%**	40%	94
16. Local government resistance to use of eminent domain	14%	26%	**40%**	60%	92
17. Zoning issues	30%	30%	**59%**	41%	91
18. Permitting process	34%	41%	**75%**	25%	93
19. Historic preservation issues	21%	38%	**59%**	41%	92
20. Serving unfamiliar customer base	33%	30%	**63%**	37%	93
21. Community resistance	33%	24%	**58%**	42%	90
22. Market data/Analysis			**0%**		
a. Inaccuracy of available market data	26%	36%	**62%**	38%	92
b. Lack of specialized metrics/models for these markets	20%	40%	**60%**	40%	92
23. Reluctant to be first entrant in the market	24%	29%	**53%**	47%	94
24. Internal company resistance	25%	38%	**63%**	37%	92
25. Higher operating costs	49%	32%	**82%**	18%	93

- Easier permitting process
- Lower occupancy costs
- Pro-business municipal governments
- Community support
- Greater comfort level regarding crime

CONCLUSION

The ICSC/BSR study indicates that retailers are looking at a far broader suite of factors—and a more complex set of obstacles—than consumer spending power when deciding whether to open stores in underserved markets. Better market intelligence, though highly desirable, is still only one important factor among many. Other critical factors relate to available parcel sizes, the cost of doing business, municipal and community support for projects and the severity of crime.

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