

*The Inner-City Shopper:
A Strategic Perspective*

*A Special Report by PricewaterhouseCoopers
and The Initiative for a Competitive Inner City*

Summary of Inner-City Consumer Findings

The migration of retailers to emerging suburban markets over the past forty years casts the inner city as a difficult and unprofitable market. In some cases this is warranted. However, new research on inner-city consumers and markets points to a large, underserved, and potentially profitable retail market estimated at \$85 billion annually, or 7% of US retail sales¹.

Many retailers underestimate the potential of the inner-city market in part because of a lack of information on the inner-city consumer. PricewaterhouseCoopers and the Initiative for a Competitive Inner City have sought to fill this gap by undertaking the first national survey of 1,205 inner-city households. This survey provides concrete information on what inner-city consumers look for when shopping for apparel, food and home furnishings, and how the purchasing behavior of inner-city households compares to that of the average U.S. household.

The Inner-City Market

The consumer survey findings indicate that the inner city represents attractive opportunities for retailers. While these markets are less understood and have barriers and complexities that must be overcome, they represent potential sales opportunities that can rival those of suburban retail developments.

For the purposes of this survey, we have defined inner-city areas as economically distressed urban communities measured by a median household income of at least 25% less than the city average, a poverty rate at least 50% higher than the city, and/or unemployment of at least 30% higher than the city average.

Apparel

Inner-city shoppers are more interested in fashion and apparel shopping than U.S. shoppers as a whole. Inner-city African American households report spending (in absolute dollars) more annually on apparel than the average U.S. household. Compared to the average U.S. shopper, inner-city shoppers are potentially attractive customers because they are more fashion and style conscious, more oriented to brand and service, and more interested in credit.

Home Related Goods

Despite lower homeownership rates in the inner city, inner-city shoppers are more likely than the average U.S. household to have made purchases in categories such as furniture, electronics and tableware in the past year.

For furniture, inner-city shoppers consider a wide range of styles, availability of brands, and unique merchandise to be very important when choosing a store. This presents an opportunity for specialty fashion home furnishing retailers, who currently have a very limited presence in the inner city.

Groceries and Household Needs

For groceries and household needs, inner-city shoppers tend to have greater brand loyalty than the average consumer and rate high quality meat, fresh seafood, and other fresh foods as very important when choosing a store.

Drug stores capture a disproportionate share of purchases in many consumable categories largely because there are more drug stores in the inner city than discount department stores and supercenters.

Inner-city African American and Hispanic households demonstrate less loyalty to a particular grocery store, and are more likely to have several stores that they like to shop.

Specialty Stores

Inner-city shoppers are more likely to shop at specialty stores than the average U.S. household in many product categories such as men's and women's apparel.

Specialty stores, many owned by inner-city entrepreneurs, succeed when they provide unique merchandise tailored to the needs of the inner-city shopper and are customer-service oriented.

Customer Service, Selection and Credit

Across all product categories, inner-city shoppers are more selection and customer service-oriented than the average shopper. They are looking for more information and more help from the sales associate in the store.

Additionally, the availability of store credit, 0% financing, and extended payment plans are much more important to the inner-city consumer than to consumers in general.

Discount Department Stores

Discount department stores, which have transformed retailing everywhere else in America, are missing an opportunity in the inner city.

Inner-city primary household shoppers are less likely than shoppers in general to be regular shoppers at discount department stores. In part, this is due to the fact that inner-city shoppers have limited access to such stores. Despite this, in product category after product category, from small appliances to women's apparel, the purchase behavior of inner-city shoppers suggests that they seek out discount department stores.

There is a major opportunity for the discount department stores to embark on a Sell America! campaign by expanding in the inner city.

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

¹ *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. Part of the Initiative's national retail study entitled *Catalyzing Private Sector Inner-City Retail Investment & Services*.

A Strategic Perspective

The neglect of the inner city has created markets full of opportunities for retailers. These markets have unique needs and complexities that must be understood and met. Nevertheless, they represent potential growth markets that can rival those of both foreign expansion and suburban retail developments.

Inner-city retailing is the subject of an on-going consumer research effort by the Initiative for a Competitive Inner City (ICIC) and PricewaterhouseCoopers LLP. The ICIC is a national not-for-profit organization founded by Harvard Business School professor Michael E. Porter. This report details the findings of the first fielding of this annual inner-city consumer survey.

In addition to the PricewaterhouseCoopers/ICIC survey, ICIC is completing research on strategies for profitable retail execution for independent retailers, best practices for inner-city retailers, and with The Boston Consulting Group completed a study in June 1998 entitled *The Business Case for Pursuing Retail Opportunities in the Inner City*.

Inner-city retailing is an under served market

In general, inner-city residents have less access to shopping centers and food stores than do their suburban counterparts. Shoppers in the inner city typically pay higher prices for goods and services and have fewer products to choose from.

For retailers in the inner city there is less competition. As a result, many inner-city stores have a higher level of productivity than the rest of retailing in terms of sales per square foot, gross margin and inventory turn.

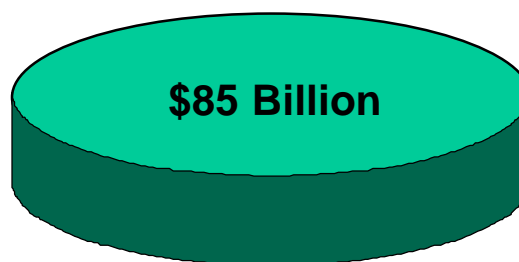
The inner-city retail gap negatively impacts urban neighborhoods and households

The inner-city economy would be better off with more retail choice. In many inner-city markets there is a void in supermarket retailing resulting in a lack of access to competitively priced products and services.

With fewer choices, inner-city shoppers generally have to travel farther, go to more stores and take more time to get all of their shopping done. More retail penetration would also mean more jobs in the inner city, adding to the tax base and making for more stable neighborhoods.

How Big is the Inner-City Opportunity?

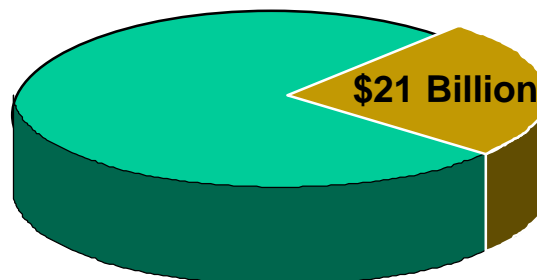
Total Inner-City Retail Sales



Source: The Boston Consulting Group And The Initiative for a Competitive Inner City

In a study conducted by The Boston Consulting Group and the Initiative for a Competitive Inner City, the annual inner-city retail market was calculated at approximately \$85 billion dollars. This is slightly larger than the entire retail market of Mexico. The inner-city market is also very concentrated, making sales per square mile substantially higher than the majority of suburban markets

The Last Frontier of U.S. Retailing: Unmet Total Inner-City Retail Sales



Source: The Boston Consulting Group And The Initiative for a Competitive Inner City

Due to the lack of retail interest in the inner city, an estimated one-quarter or \$21 billion in retail sales are not being provided by inner-city retailers. This shortfall makes the inner city the last frontier of U.S. retailing.

The 1997 Inner-City Shopper Survey

The PricewaterhouseCoopers/ICIC survey is the first national study of inner-city shoppers. The lack of information on the inner-city customer is perhaps due to the perception of the inner-city as an unattractive market. Although there have been consumer surveys of minority shoppers, they do not capture the depth and complexity of the behaviors and attitudes of inner-city shoppers.

This survey is based on a special fielding of PricewaterhouseCoopers' Consumer Database. The Consumer Database is a proprietary database based on shopper surveys conducted in the United States on a regular basis since 1986. The extensive survey is focused on consumer shopping behavior and attitudes, covering a wide range of shopping-related topics including shopping frequency and store type preference. The sample is weighted by household income and age and lifestyle of the primary household shopper, creating a nationally representative picture of shopping behavior, described in this research as "the average U.S. household" or "the U.S. shopper sample".

For the Inner-City Shopper Survey, 1,205 inner-city households were surveyed in October and November 1997. The surveys were mailed to a random sample of inner-city households in 417 zip codes identified by the Initiative for a Competitive Inner City as inner-city areas¹ across major U.S. metropolitan areas. The households were drawn from a consumer panel of over 500,000 households provided by National Family Opinion, a market research firm. Surveys were completed by the self-designated "primary shopper" in the household.

Responses to the inner-city survey were weighted to reflect the national mix of African American, Hispanic and White households in the inner city as well as the income and age distribution of each of these inner-city consumer segments. The inner-city respondents completed the same survey used for the 1997 Consumer Database, allowing comparisons of inner-city shopping behavior to the shopping behaviors of the nationally representative sample. This sample, like any sample, has certain biases. In particular, the sample is biased toward English speaking inner-city residents who participate in National Family Opinion's panel.

Shopper Survey Sample Profiles

Inner-City Primary Household Shoppers

	<u>Total U.S. Primary Household Shoppers</u>	<u>White</u> (n = 443)	<u>African American</u> (n = 499)	<u>Hispanic</u> (n = 263)
<u>Gender</u>				
Male	25%	35%	18%	29%
Female	75	65	82%	72%
<u>Marital Status</u>				
Married	57%	34%	20%	43%
Not Married	43	66	80	57
<u>Household Type</u>				
Single Person	25%	41%	37%	23%
Single Parent with Child(ren)	7	10	29	19
Married Couple with Child(ren)	34	15	9	30
Married Couple w/o Child(ren)	24	20	11	15
Group of Unrelated People	10	14	14	13
<u>Age Distribution</u>				
Under 25	3%	8%	6%	8%
25-34	23	23	22	29
35-44	27	19	21	24
45-54	19	13	16	16
55-64	13	12	15	11
65+	16	25	21	12
<u>Income</u>				
Under \$15,000	19%	38%	51%	45%
\$15,000 to \$24,999	18	20	18	22
\$25,000 to \$34,999	15	15	12	14
\$35,000 to \$49,000	17	13	10	11
\$50,000 +	32	14	9	8

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

¹Inner-city zip codes are defined as economically distressed urban communities with a median household income of at least 25% less than the city average, a poverty rate at least 50% higher than the city, and/or unemployment of at least 30% higher than the city average.

Who Is the Inner-City Shopper?

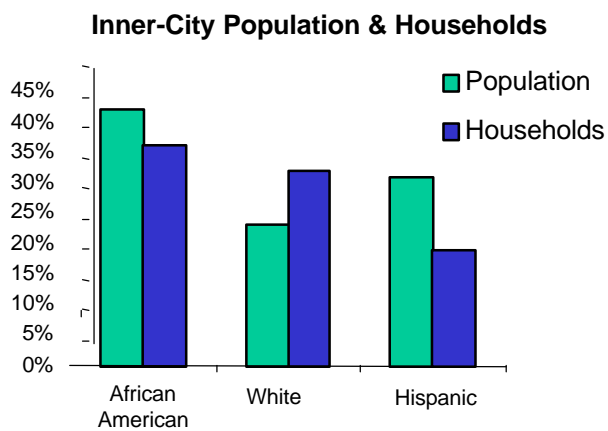
There is no single inner-city shopper. Significant differences exist in shopping frequency, attitudes and store choice factors among different inner-city shopper segments, as well as differences in merchandise selection, style, and brand preferences. Requirements of the shopping experience also vary greatly with respect to customer service, product information, convenience, pricing and credit.

Many Customer Segments

There is no single description of the inner-city shopper. According to ICIC's analysis of U.S. Census Bureau statistics, African Americans represent 42% of the inner-city population and 36% of all inner-city households, Whites 23% and 32%, Hispanics 31% and 19%, other segments 4% of the population and 13% of households.

This tremendous diversity provides retailers and suppliers with challenges as well as opportunities.

The population and household data in the chart below are based on the ICIC's analysis of U.S. Census data for inner-city zip codes in metropolitan areas.



Source: U.S. Census Bureau

In addition to the tremendous diversity of the inner-city population, the PwC/ICIC survey found significant differences in each of the major inner-city shopper segments, particularly in terms of life stage and income. These differences by ethnicity account for many of the differences in shopping behavior within the inner city. The following percentages may vary from Census data as they are representative of the PricewaterhouseCoopers/ICIC survey sample.

Inner-City African Americans

Inner-city African Americans households are older than the total shopper population. They are significantly older than inner-city Hispanic households, but somewhat more middle aged compared to inner-city White households.

A substantial number of inner-city African Americans live alone, with 37% of households consisting of single individuals. Another 29% are single parents with children, four times the national average. African American households have the lowest household incomes of the three inner city ethnic groups.

Inner-City Whites

Inner-city Whites tend to be older than the other inner-city residents, particularly Hispanics, and much older than the total shopper population.

Inner-city Whites also tend to have more income than their inner city counterparts. Although somewhat less well off than the general population, there is a segment of inner-city White residents with relatively high household incomes.

Inner-city Whites are generally beyond their child rearing years. Only 25% have children, compared to 41% of all households. A substantial 41% of the inner-city White households are made up of just a single person living alone.

Inner-City Hispanics

Hispanics are the smallest of the three major ethnic inner-city shopper segments, but the fastest growing on a national basis.

Hispanics in inner cities are younger and more likely to be in the family lifestage than either African American or White households. Nearly half or 49% of all Hispanic households have children at home, compared to 41% for the general shopper population. Hispanic households are middle class, as 36% have incomes between \$15-\$35,000 compared to 33% for the general shopper population.

Inner-City Shopper Education and Occupation

While inner-city shoppers tend to be somewhat less educated than the general shopper population, the vast majority are high school graduates and about half have at least some college.

In terms of employment, inner-city shoppers surveyed are more likely than the population as a whole to be found in pink collar (mid level) service or support jobs or in blue collar operator/laborer jobs. Among women, a high percentage work in managerial/professional, technical/sales and administrative support positions.

Inner-City Sample Profile by Ethnicity for Men

	<u>Total U.S. Primary Household Shoppers</u>	<u>Inner-City shoppers</u>		
		<u>White</u> (n = 443) ²	<u>African American</u> (n = 499) ²	<u>Hispanic</u> (n = 263) ²
Male Head Education				
Did Not Graduate High School	9%	9%	22%	25%
Graduated High School	25%	34%	28%	28%
Some College (includes Associates degree)	35%	31%	40%	36%
Graduated College	20%	19%	10%	3%
Post Graduate Degree	11%	12%	3%	4%
	66%	62%	53%	43%
Male Head Occupation				
Managerial/Professional	42%	47%	25%	25%
Technical/Sales, Admin. Support	14%	19%	14%	13%
Service	9%	10%	23%	29%
Farming/Forestry	2%	0%	0%	0%
Craftsman/Repairman	15%	13%	10%	9%
Operator/Laborer	18%	11%	27%	24%

Inner-City Sample Profile by Ethnicity for Women

	<u>Total U.S. Primary Household Shoppers</u>	<u>Inner-city shoppers</u>		
		<u>White</u> (n = 499) ²	<u>African American</u> (n = 263) ²	<u>Hispanic</u>
Female Head Education				
Did Not Graduate High School	7%	17%	19%	27%
Graduated High School	29%	34%	28%	28%
Some College (includes Associates degree)	40%	31%	40%	36%
Graduated College	17%	14%	8%	8%
Post Graduate Degree	7%	5%	5%	2%
	64%	50%	53%	46%
Female Head Occupation				
Managerial/Professional	45%	34%	37%	39%
Technical/Sales, Admin. Support	33%	32%	34%	36%
Service	16%	25%	27%	18%
Farming/Forestry	1%	1%	0%	0%
Craftsman/Repairman	1%	4%	0%	1%
Operator/Laborer	5%	6%	2%	6%

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

² The sample size (n) reflects the number of responses, not the actual number of respondents within each category. The primary shopper was asked to report this information for his or her spouse.

The Inner-City Softgoods Opportunity: The Appeal of Apparel

In many ways, inner-city shoppers are more attractive apparel customers than the general population. They are more likely to enjoy shopping for apparel and, for African American inner-city shoppers, spend more on apparel in absolute terms.

Apparel Shopping Enjoyment

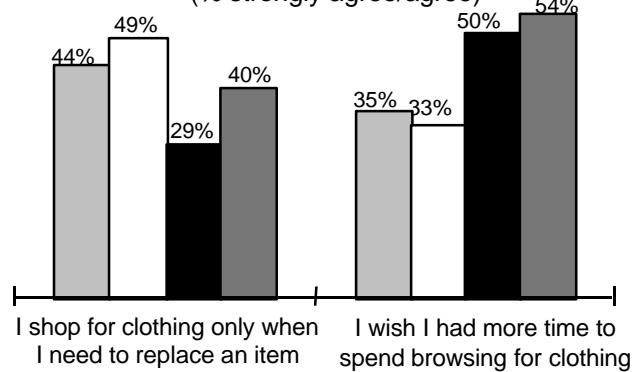
Inner-city shoppers in many ways are more desirable shoppers than the total U.S. shopper population. In short, they like to shop. They enjoy shopping for apparel, more so than the average American primary household shopper.

Hispanic and African American households are enthusiastic apparel shoppers. A significant share, 72% of Hispanic and 70% of African American primary shoppers enjoy shopping for apparel, compared to 50% of the general shopper population. White inner-city households enjoy shopping for apparel about as much as the total U.S. population.

African American and Hispanic shoppers were almost twice as likely to wish they had more time to spend browsing for clothing, an attitude consistent with their enjoyment of shopping. Additionally, when they are shopping, they are less likely to be shopping to replace an existing item in their wardrobe.

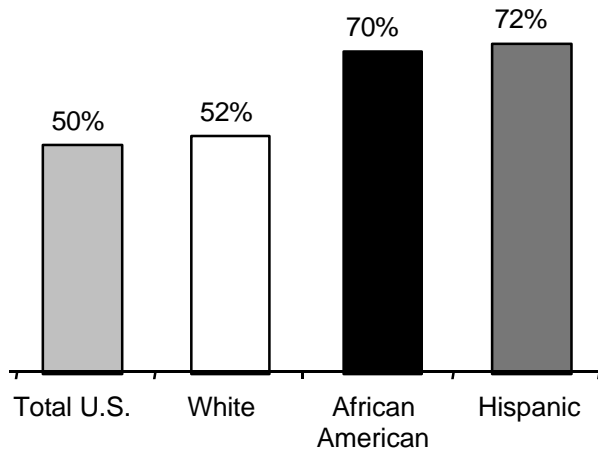
Apparel Shopping Attitudes

(% strongly agree/agree)



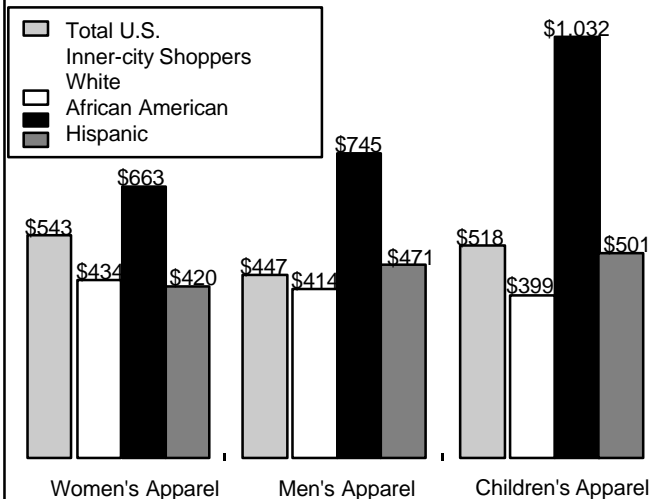
I Enjoy Shopping for Clothing

(% strongly agree/agree)



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Average Annual Household Expenditures on Apparel



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Apparel Spending

For African Americans, this enjoyment of apparel shopping translates directly into spending more on apparel. Inner-city African American households spend, in absolute dollars, roughly 20% more annually on women's apparel than does the average U.S. household, nearly 75% more on men's apparel and twice as much on children's apparel.

Although average spending by Hispanic households on children's apparel is not that much more than the general population, they are important children's apparel customers because nearly 50% of Hispanic households include children. For both Hispanics and African Americans, children's apparel is the product category that accounts for the most annual apparel expenditures.

The data for both inner-city and total household apparel spending is self-reported based on the respondents' recall over the past twelve months. Typically, this form of data collection often results in an underreporting of absolute spending as compared to consumer research that asks respondents to complete a spending diary.

Inner-city households may be able to spend more on apparel because of their lower home ownership rates. National trends indicate that renters spend less on home improvement and furnishings than home owners, freeing up more disposable income to spend on other categories, including apparel.

Apparel Purchase Mix

African Americans were more likely than their White or Hispanic neighbors (or shoppers in general) to have made purchases in a number of apparel categories in the past year. Women's dress clothing and accessories, fine jewelry, as well as infant, children and teen's clothing, were more likely to have been on African Americans' shopping list in the past year. Among other items, Hispanics were most likely to have purchased children's clothing in the last year.

Purchase Incidence in the Last 12 Months

Product Categories	Total U.S. Penetration(%) ⁴	Inner-City Shoppers Relative to Total U.S. (index values) ³		
		White	African American	Hispanic
Women's Casual Clothing	68	75	93	94
Women's Athletic Clothing	25	64	124	68
Women's Dress Clothing	56	73	114	88
Women's Dress Shoes	40	80	135	120
Women's Athletic Shoes	40	65	95	80
Men's Athletic Clothing	24	83	113	100
Men's Casual Clothing	60	78	62	72
Men's Dress Clothing	38	92	71	84
Men's Athletic Shoes	37	76	59	108
Costume Jewelry	27	74	137	81
Fine Jewelry	25	68	164	104
Accessories	37	84	116	81
Infants'/Toddlers' Clothing	37	89	105	119
Boy's Clothing	31	74	110	119
Girl's Clothing	29	76	117	110
Children's Athletic Shoes	25	64	116	140
Teen Boy's Clothing	13	62	154	92
Teen Girl's Clothing	13	69	146	77

³ An index value of more than 100 indicates a higher than average propensity to have purchased category in past year. An index value of less than 100 indicates a lower than average propensity to have purchased category in the past year. Index values calculated relative to total U.S. category penetration.

⁴ Indicates percentage of total U.S. primary household shoppers who purchased category in past year.

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Size Requirements

Clothing size needs for the inner-city shopper are much wider than for the population as a whole. African American women are over-represented in the Large/Plus and the Tall sizes. Hispanic women also have a large representation in the Large/Plus sizes but are also over represented in Misses Petite.

Size Worn by Female Head of Household

	Inner-City Shoppers			
	Total U.S.	White	African American	Hispanic
Misses Reg (2 - 14)	35	31	30	25
Misses Reg (16 - 20)	17	25	13	22
Women's Large/Plus	21	23	38	29
Misses Petite (2 - 14)	18	14	9	20
Misses Tall	5	6	7	2
Juniors (1 - 15)	4	3	2	2

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Apparel Selection: Emphasis on Unique, Fashion Forward Merchandise

Merchandising a store to serve inner-city customers will challenge even the most fashion forward retailer. Unique merchandise and the availability of trend setting fashions are highly rated store selection criteria for inner-city Hispanic and African American households. Inner-city customers, especially African Americans, are looking for something unique and different.

The Right Stuff

Not only are inner-city shoppers spending more on apparel, but from a retail perspective, they are potentially a more desirable customer because they are more brand driven and more fashion conscious than the average apparel shopper. For apparel retailers who want to attract the inner-city shopper, getting the fashion right is the first priority.

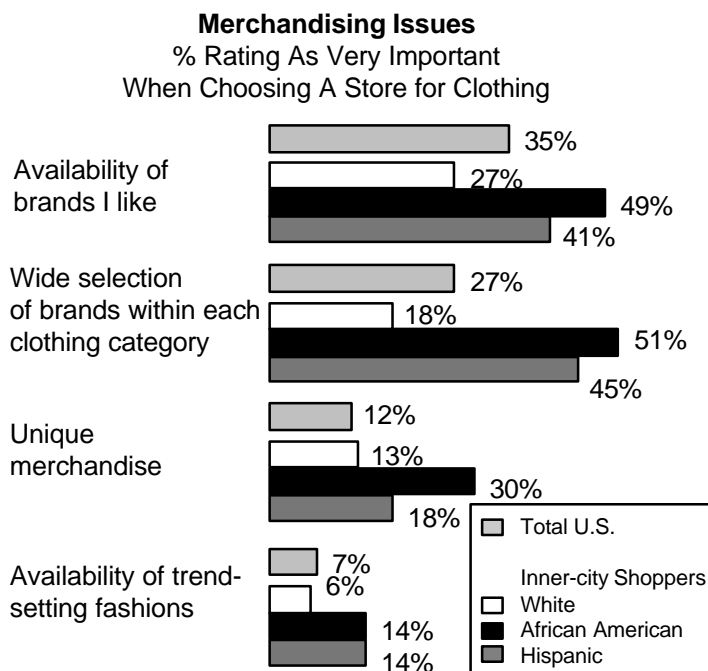
The Role of Brands and Fashion

When choosing a store for their clothing needs, inner-city shoppers — primarily African Americans and Hispanics — place significantly more importance on brands than the typical U.S. shopper. These customers are looking for a wide selection of brands when they go shopping for apparel, but are not very loyal to a specific brand. Inner-city shoppers are no more likely than shoppers in general to purchase the same clothing brands repeatedly.

Further, 14% of African Americans and Hispanics rate the availability of trend-setting fashions as very important when choosing a store for clothing, compared to 7% of the total U.S.

Styles Worn

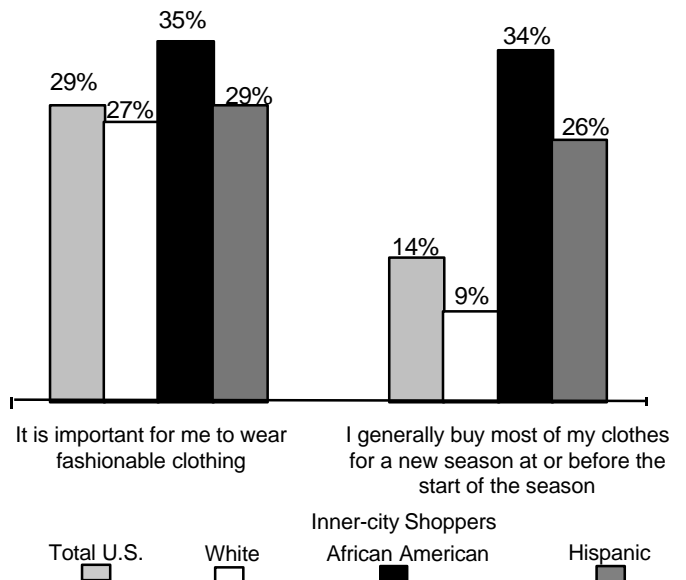
Inner-city apparel shoppers give more importance to wearing fashionable clothing than the rest of the



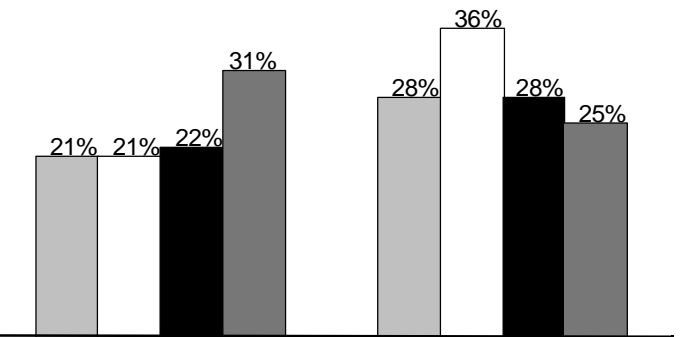
Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Fashion Attitudes

(% strongly agree/agree)



Style of Clothing Worn Most Often



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

population. Buying new clothes at or before the start of the season, when prices and margins are generally higher, is much more important to this customer than the general public.

31% of Hispanic primary shoppers indicated that they wear trend setting fashions most often, compared to 21% for the general population.

Older White households overwhelmingly favor basic styles when compared to the general population, while African American and Hispanic households show less interest in basic fashions.

Apparel Store Choice

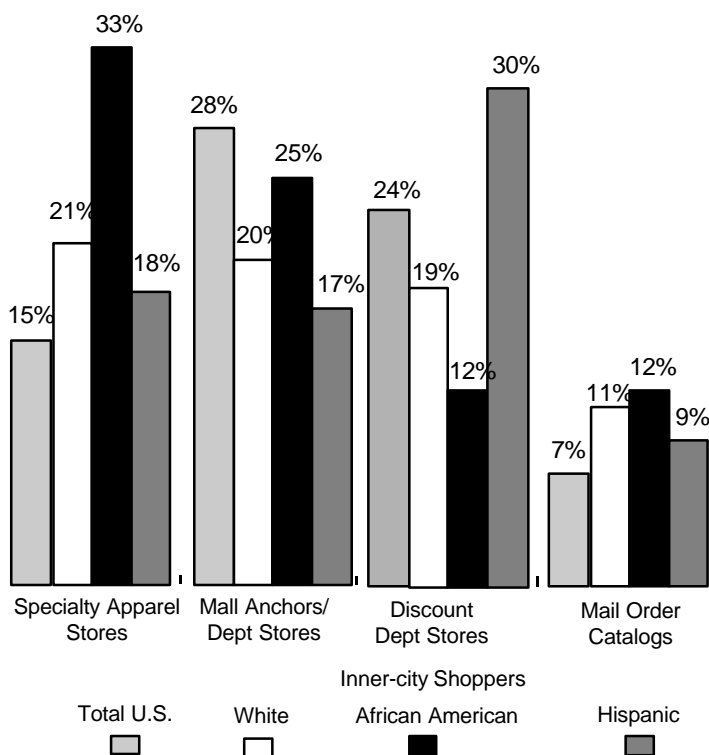
Specialty apparel stores are by far the store type inner-city consumers frequent the most for men's and women's apparel. Key appeals in attracting the inner-city shopper are not that different from the general shopping population. Price and selection are important to both sets of shoppers. Once they have made a purchase decision, however, the inner-city shopper is much more time sensitive.

Store of Choice

Where do inner-city consumers shop for apparel? Store type choices for inner-city shoppers seem to be largely driven by accessibility. The inner-city apparel shopper, particularly for men's and women's apparel, is more attracted to specialty stores than is the general population and less likely to buy from department stores.

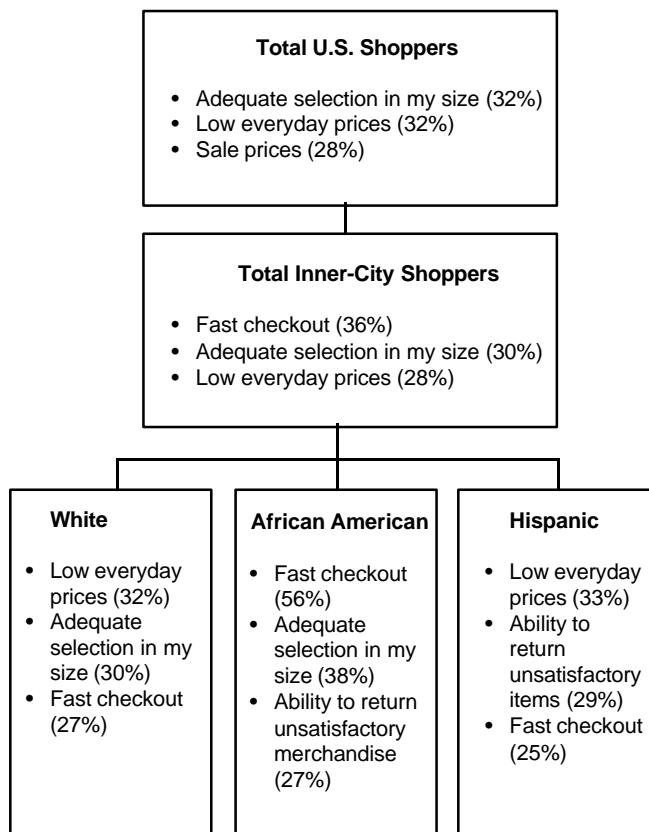
Specialty stores are more likely to be found in inner-city neighborhoods, and department stores in adjacent downtown city centers. In contrast, discount department stores — a popular format among suburban shoppers — are often not present in inner cities or downtown city centers.

Store Type Bought from Most Often
Women's Apparel



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Three Most Important Reasons for Choosing Where to Shop for Clothing For Myself



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Mail order also does well with the inner-city shopper, perhaps reflecting the limited number of other conventional store outlets.

Like the general population, the inner-city consumer values adequate selection in their size and low everyday prices. However, fast check-out and the ability to return unsatisfactory merchandise rate high in the minds of inner-city shoppers.

The Value of Customer Service, Price and Credit

Inner-city shoppers expect more from their shopping experiences than the rest of the population. While sales help has become an oxymoron in many apparel stores, effective sales help is critical to meeting the expectations of the inner-city shopper. The inner-city shopper prefers to buy new clothes at or before the start of the season at an everyday low price, and is very interested in the credit programs that an apparel store has to offer.

Service

While price is important to inner-city shoppers, they are more selection and customer service-oriented than the average apparel shopper. They are looking for more information and help from the sales associate in the store. This is particularly true for inner-city Hispanic and African American shoppers, and much less so for White shoppers.

Inner-city shoppers also want sales associates who are friendly and who can help them find what they are looking for and put together an outfit. Once the decision to buy has been made, the inner-city shopper looks to the sale associate to provide fast checkout.

Specialty retailers, who often compete on customer service and unique merchandise, have a significant opportunity to satisfy the selection and service needs of the inner-city consumer.

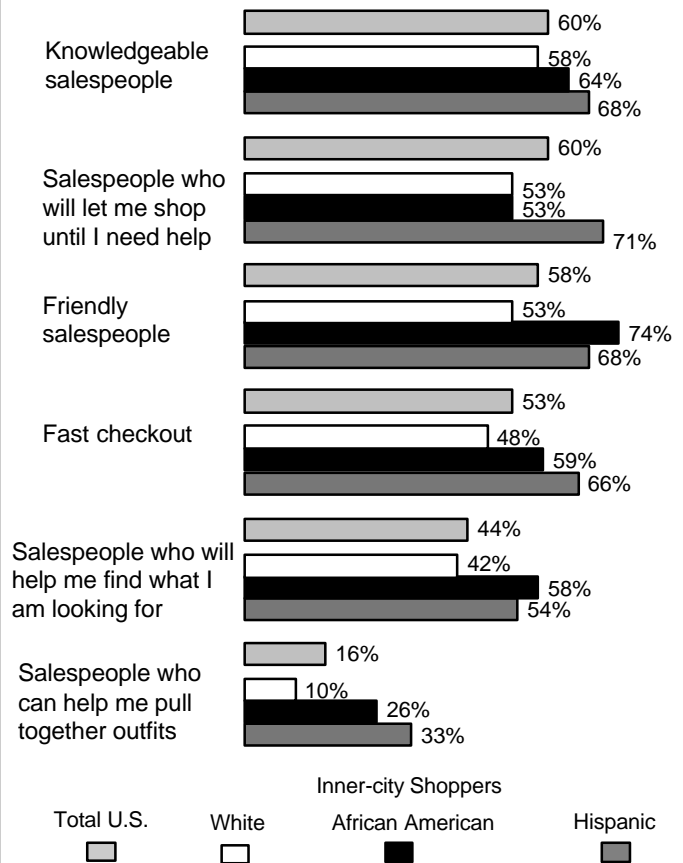
Price and Credit

When it comes to price, an everyday low price (EDLP) seems to have slightly more appeal than a low sales price. Given the limited number of shopping alternatives and the more time required to get to a desired shopping destination, it is no surprising that EDLP would be favored by inner-city consumers.

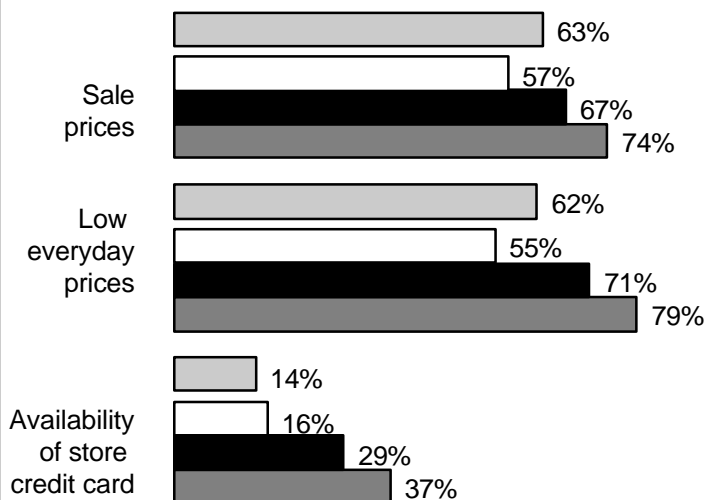
At the same time, the inner-city apparel shopper is very interested in the credit programs that an apparel store has to offer. Inner-city shoppers cite the availability of store credit as a very important factor in store selection much more frequently than the general population.

It is this interest in fashion, combined with a desire to buy early in the season, on store credit, that makes the inner-city apparel shopper potentially a more profitable shopper than the average U.S. shopper household.

Customer Service Issues % Rating As Very Important When Choosing a Store for Clothing



Price and Credit Issues % Rating As Very Important When Choosing a Store for Clothing



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Home Related Shopping

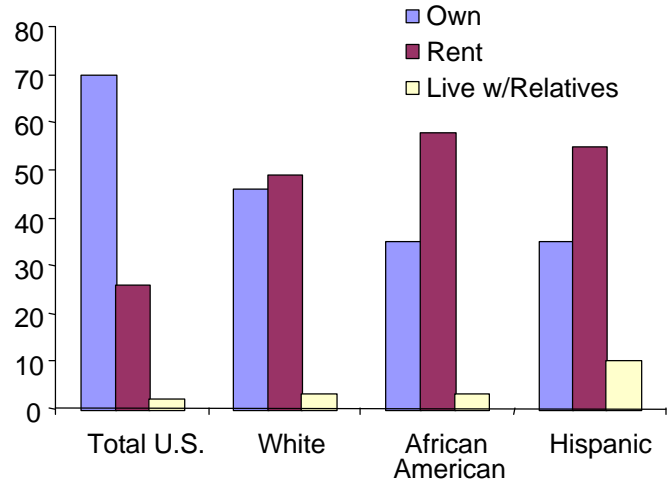
Although inner-city households have a somewhat lower purchase incidence for many home and auto related products, there are a few home-related product categories where inner-city shoppers have a higher propensity to buy than the average U.S. household.

Purchase Frequency

Inner-city households have a somewhat lower purchase incidence than the average U.S. household for many home and auto related products. The low rate of inner-city home ownership accounts for much of this lack of purchase activity. Hispanic and African American inner-city households own their own homes at roughly half the rate of the total U.S. population.

Inner-city shoppers, particularly African Americans, were more likely to have made a purchase last year in several home goods categories, including furniture, consumer electronics, and tableware.

Home Ownership



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Home/Auto Related Goods

Purchase Incidence in the Last 12 Months

	Percent of Households Purchased		Inner-City Shoppers Index Values ⁵		
	Total U.S. Penetration ⁶	White	African American	Hispanic	
<u>Lower Propensity</u>					
Automotive:					
large products/service purchases	38%	63	71	68	
Building materials	31	65	52	55	
Tools/hardware	29	66	59	52	
Other lawn & garden	29	55	52	38	
Power tools	16	75	44	50	
Power lawn & garden tools	15	60	60	47	
Computer software	23	84	44	59	
Computer hardware	17	85	44	69	
<u>Greater Propensity</u>					
Window coverings	27	76	133	100	
Assemble-it-yourself furniture	19	74	151	85	
Assembled furniture	17	77	166	104	
Video tapes	44	83	106	87	
Electronics and home entertainment	27	99	130	118	
Everyday tableware	20	67	146	100	
Fine tableware	8	89	142	108	

⁵An index value of more than 100 indicates a higher than average propensity to have purchased category in past year. An index value of less than 100 indicates a lower than average propensity to have purchased category in the past year. Index values calculated relative to total U.S. category penetration.

⁶ Indicates percentage of total U.S. primary household shoppers who purchased category in past year.

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Furniture: Service and Selection

African Americans have a higher propensity to purchase furniture than the U.S. household sample. Like apparel, the inner-city furniture shopper is looking for wide selection and unique merchandise. This is particularly true for Hispanic and African American shoppers.

Inner-city African American households have a significantly higher than average propensity to purchase both assemble-it-yourself and assembled furniture than the general population. A surprising 50% of African American and 46% of Hispanic households report enjoying shopping for furniture versus 33% of white inner-city households, and 30% of all U.S. primary shoppers.

Customer Service

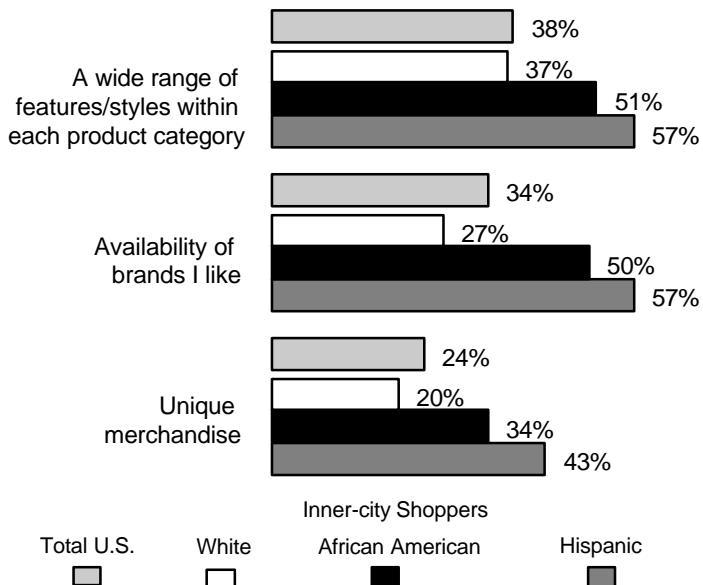
When making a furniture purchase, inner-city shoppers want the peace of mind that comes from being able to return unsatisfactory products and are looking for convenient delivery times.

As in other product categories, stores that compete on service will have an advantage in the inner-city furniture market. Inner-city shoppers also want sales associates who are friendly and who can help them find what they are looking for, while at the same time allowing them to shop until they need help.

Store layout is also important to the inner-city shopper, as they favor stores that make it easy for the shopper to find what they are looking for.

Choosing a Store for Furniture

% Rating Factor as Very Important



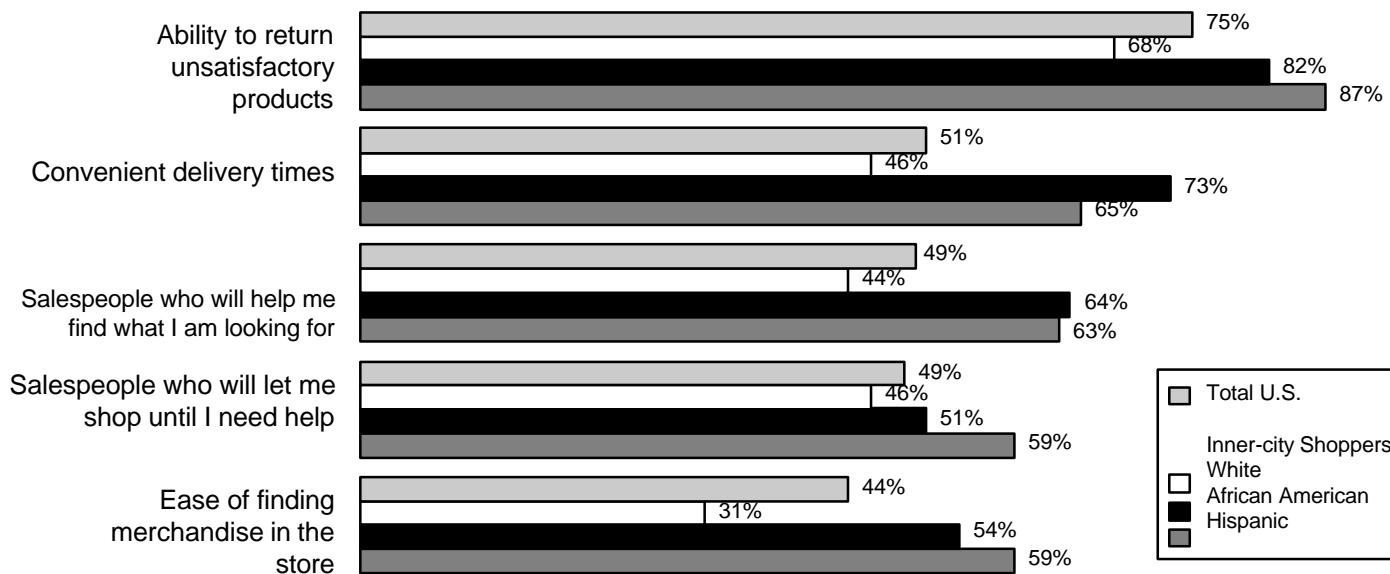
Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Style and Brands

Inner-city shoppers consider a wide range of styles, availability of brands, and unique merchandise to be very important when choosing a store for furniture. This presents an opportunity for specialty home furnishing retailers, who currently have a very limited presence in the inner city.

Choosing a Store for Furniture

% Rating Factor as Very Important



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Furniture: Price & Credit

Given the generally lower income of the inner-city household, it is not surprising that price and credit are very important in furniture purchases. Everyday low price seems to win out over sales with this customer, but not by much.

Pricing it Right

African American and Hispanic households are much more price sensitive than their inner-city White counterparts. Given the lack of shopping alternatives, these shoppers may not be able to take advantage of high-low sales promotions as much as the general population. Also, given the higher proportion of single parent households in this population, time may also play a role.

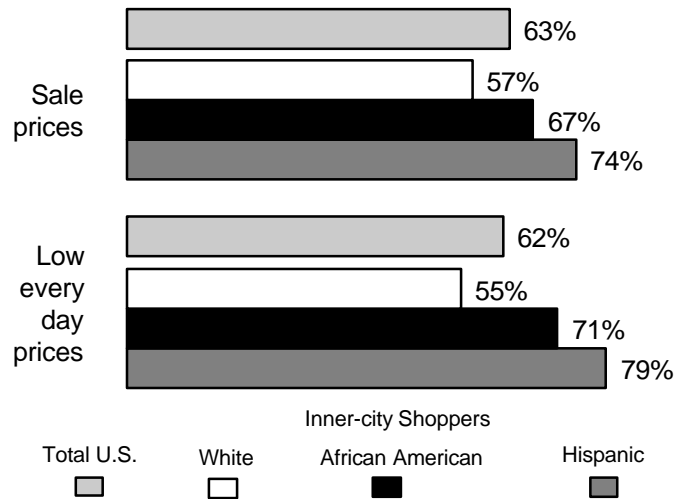
Credit is Critical

Credit is much more important to the inner-city shopper than the average U.S. shopper when it comes to selecting a store for furniture. This is particularly true for African American and Hispanic households. Given lower household incomes, inner-city shoppers probably have fewer credit alternatives than the average shopper. Stores that offer credit and extended payment plans will gain this shopper's loyalty.

Today, store credit card operations represent an important profit component of many retailers' businesses.

Choosing a Store for Furniture

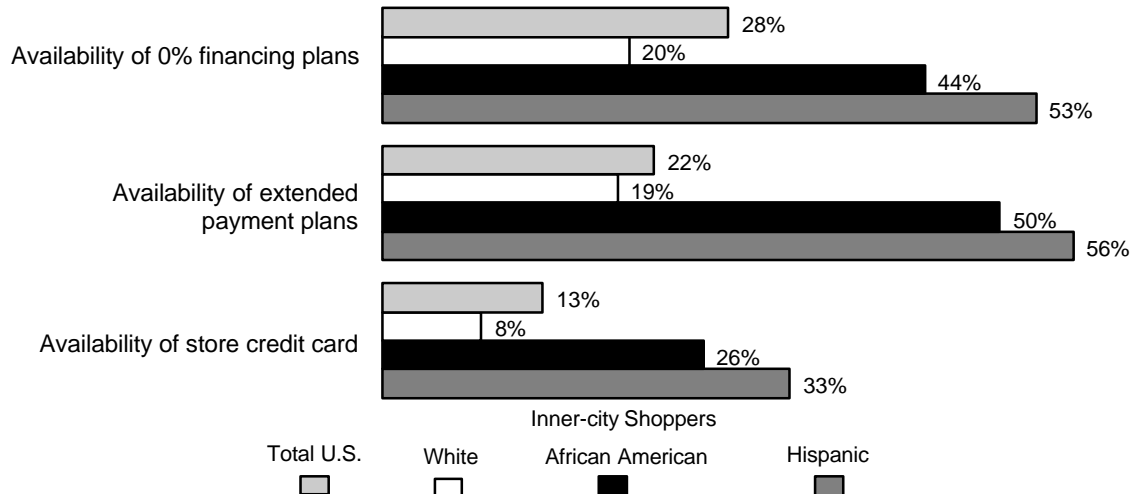
% Rating Factor as Very Important



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Choosing a Store for Furniture

% Rating Factor as Very Important



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Consumer Electronics and Home Entertainment

Once again, pricing and credit show up as critical marketing levers for the inner-city shopper. Zero percent financing is a winner.

Purchase Behavior

Thirty-one percent of African Americans and 37% of Hispanics purchased a TV, VCR, or stereo in the past year versus 25% of the total U.S. shopper sample.

Consumers in the inner city shop at consumer electronics store/superstores most often for electronics and home entertainment. Sears is the dominant appliance store for Hispanics, while Whites and African Americans most often buy appliances from a consumer electronics store/superstore.

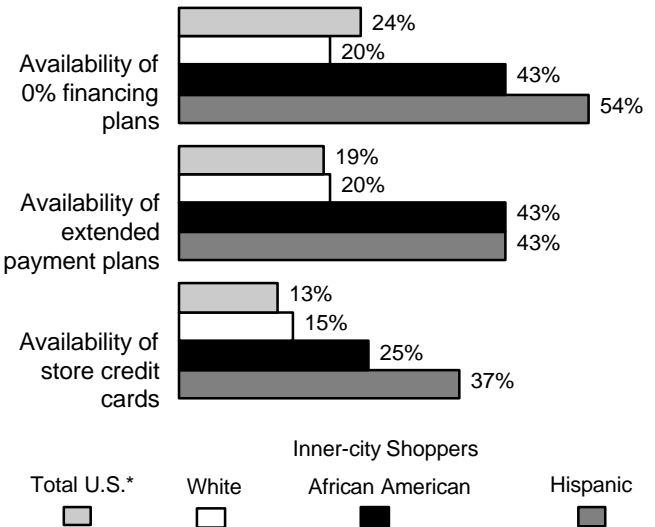
Inner-city consumers are somewhat less likely than the general U.S. shopper to have purchased computer hardware or software in the past year. Twenty percent of white, 10% of African American and 14% of Hispanic inner-city households purchased computer software in the past year, compared to 23% of the U.S. shopper sample. Fourteen percent of white, 8% of African American and 12% of Hispanic inner-city households purchased computer hardware, versus 17% of the U.S. shopper sample.

Service Before and After the Sale

Inner-city consumers look for a higher level of service when buying consumer electronics. They depend on the store for more of their information about the products they buy than the U.S. shopper sample. Providing convenient delivery times, product repair, and home set up and installation are all highly rated factors by inner-city consumers when selecting a consumer electronics store.

Choosing a Store for Consumer Electronics

% Rating Factor as Very Important



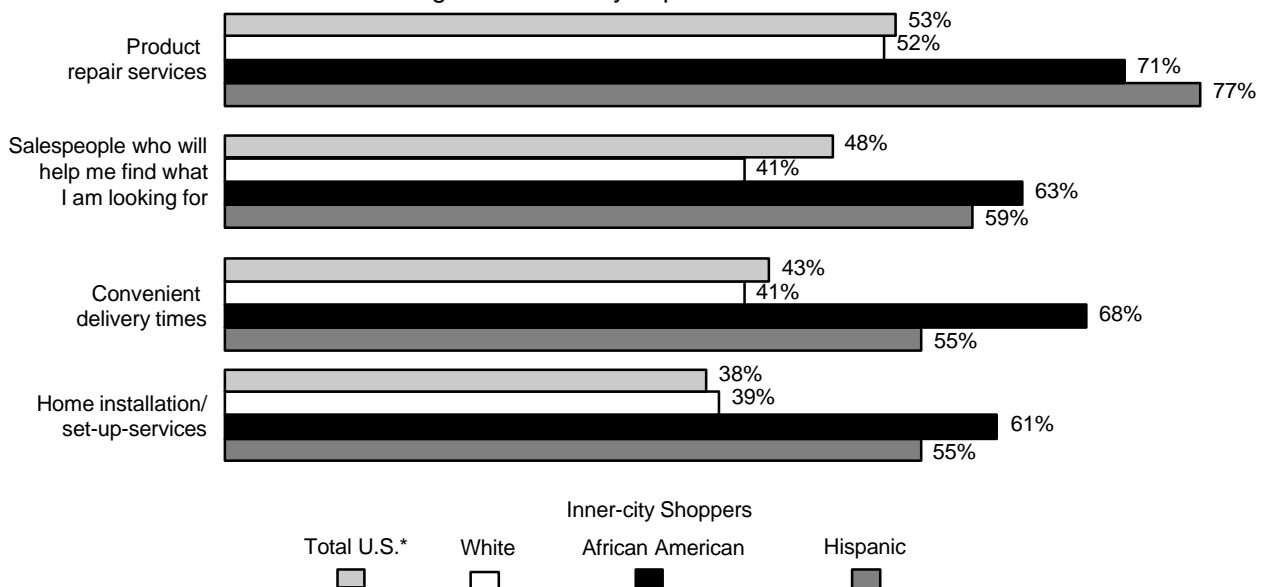
Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Credit

The inner-city shopper is very interested in the credit programs that a consumer electronics store has to offer. When choosing a store, 43% of African Americans and Hispanics cite the availability of extended payment plans versus 19% for the U.S. shopper sample. African Americans rate the availability of store credit cards twice as important as the U.S. shopper sample, while Hispanics rate it three times as important.

Choosing a Store for Consumer Electronics

% Rating Factor as Very Important



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Shopping For Groceries

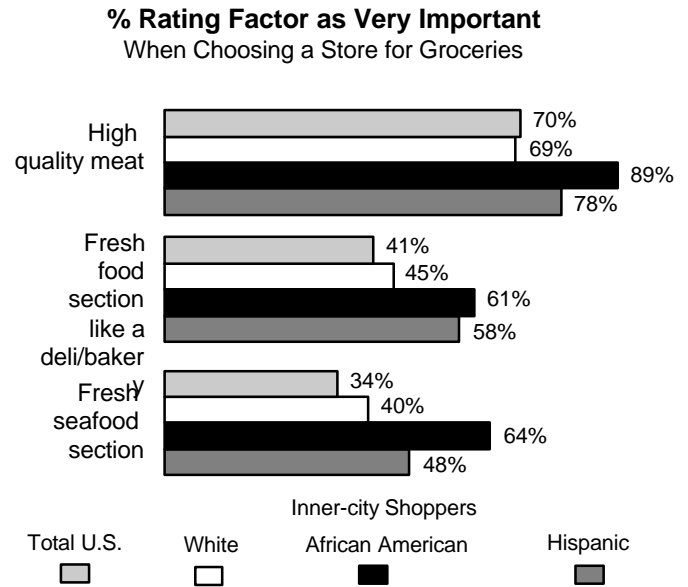
Inner-city food retailers must meet their customer's expectations for both freshness and cleanliness. Customer service is also an important factor for inner-city shoppers when choosing a store for groceries. Friendly, helpful salespeople are much more important to the inner-city shopper than to the rest of the country.

Freshness, Cleanliness and Quality Matter

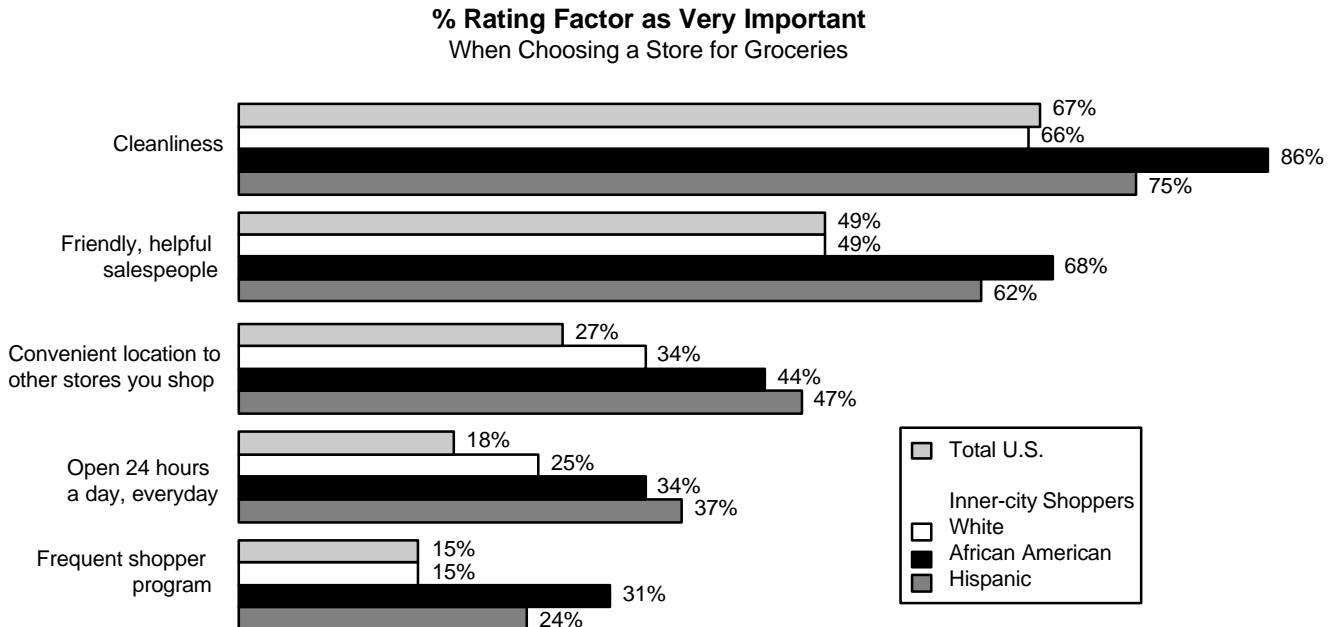
High quality meat is the most important factor for inner-city shoppers when choosing a store for groceries. African Americans also rank fresh seafood highly as a key factor in choosing a store. While supermarkets are the primary source for seafood, African Americans are more likely relative to other inner-city consumer segments to purchase seafood at specialty food stores and supercenters.

Whether it is seafood, meat or bakery items, freshness matters to the inner-city shopper. Cleanliness, while always important in grocery retailing, is of even greater importance to the inner-city consumer.

Frequent shopper programs are of high interest to the inner-city shopper. Store hours and convenient location also matter more. The time challenges experienced by many single adult households may account for the need for greater accessibility.



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Grocery Shopping: Pricing and Credit

Inner-city shoppers enjoy shopping for groceries more than the general population. Pricing, coupons and acceptance of credit cards are important store selection criteria.

Pricing

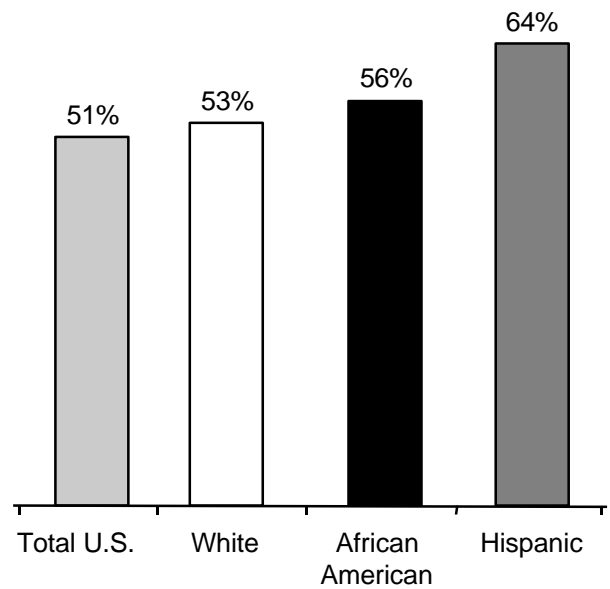
Reflecting lower incomes, inner-city shoppers place more importance on competitive pricing than the general population. Everyday low prices are particularly appealing to the inner-city shopper. With fewer shopping alternatives and more single adult households in the inner city, economizing on time is just as important as economizing on budget for this shopper.

Coupons and Credit Cards

For inner-city Hispanic and African American households, double and triple coupons are dramatically more important in choosing a store for groceries than it is for the general population.

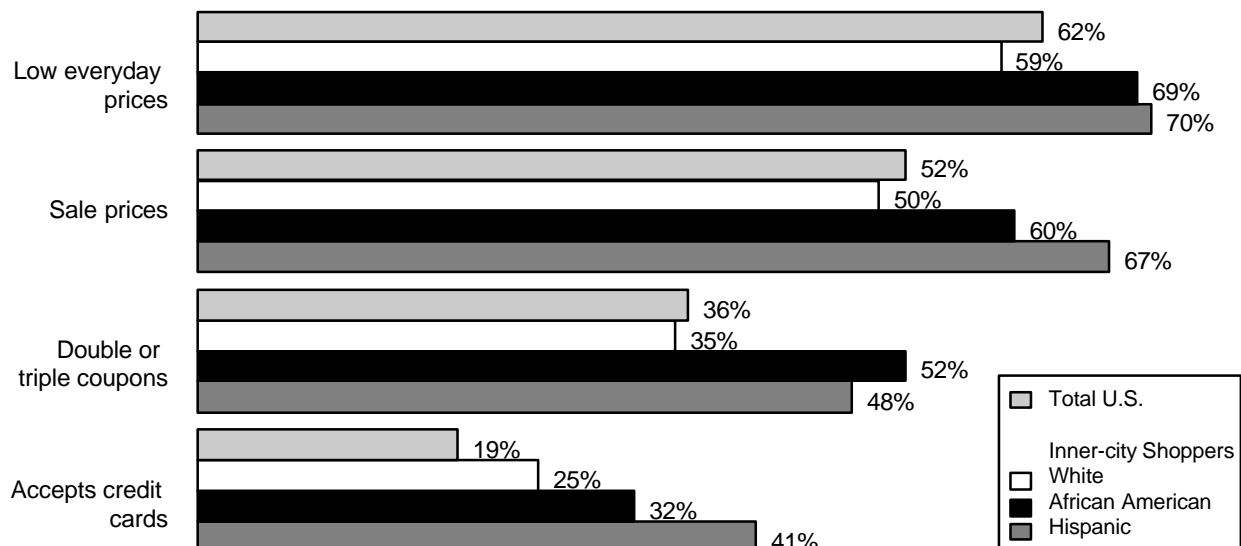
Acceptance of credit cards is also important to the inner-city shopper regardless of the product being purchased. That is particularly true for groceries. Inner-city shoppers favor grocery stores that accept credit cards by large margins.

I Enjoy Shopping for Groceries
(% strongly agree/agree)



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Choosing a Store for Groceries
% Rating Factor as Very Important



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Grocery Stores and Customer Loyalty

When shopping for groceries or household essentials, inner-city shoppers exhibit less store loyalty but more brand loyalty than shoppers in general. The lack of store loyalty is in part due to the fact that inner-city shoppers place greater importance on price-related factors when deciding where to shop for groceries. In the area of brand loyalty, African Americans are the most brand loyal, with a strong affinity for national brands.

Brand Loyalty

African Americans demonstrate stronger loyalty to specific brands (either private label or national brands) than the rest of the population. Sixty percent have one brand that they prefer to buy all the time and 69% know what brand they will buy before they enter the store. Inner-city residents believe that national brands are worth the extra cost, and exhibit less confidence in the value of private label or generic brands.

African Americans purchase private label products more often in categories including canned fruit/vegetable, cereal, frozen dinner/entrees, household cleaning products, personal care products, soft drinks, and soups. Inner-city Hispanics are typically less likely to be frequent users of private label food products compared to the total U.S. shopper population.

Store Loyalty

Inner-city African American and Hispanic households demonstrate less loyalty to grocery stores. Inner-city shoppers are more likely to have several stores that they like to shop and shop more stores than they did two years ago.

Response to Sales

These households are more inclined to shop at stores with advertised specials (African Americans-59%, Hispanic-57% versus 45% of typical U.S. shoppers) or lowest prices (African Americans-64%, Hispanic-70% versus 54% of typical U.S. shoppers). African Americans are more likely to visit a grocery store only to buy items that are on sale.

In Search of Customer Loyalty

Inner-city Shoppers

	Total U.S. Shoppers	White	African American	Hispanic
More stores in the set...				
Have several stores I like to shop	53%	49%	70%	69%
Shop at more grocery store today than two years ago	31	32	48	42
Store decision more likely to involve price...				
Decide where to shop first based on advertised specials	45%	37%	59%	57%
Decide where to shop first based on lowest prices	54	44	64	70
Often go to store to buy only items on sale	37	29	45	34
Tend to be brand loyal...				
Have one brand I prefer to buy all the time	49%	49%	60%	47%
Tend to buy whichever brand is on sale	51	50	39	43
I know what brand I want before I enter the store	52	59	69	59
National brand preference...				
National brands are worth the extra cost	23%	27%	34%	33%
Purchase store and generic brands over national brands	36	35	25	26
Buying more store and generic brands now than before	53	44	39	35
Store and generic brands are a good value	76	72	60	75

Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

The Inner City Drug Store Success Story

Where do inner-city shoppers shop for consumable items? Not surprisingly, shopping patterns seem to be determined largely by the accessibility of formats. Compared to the U.S. shopper sample, inner-city households are more likely to be frequent shoppers of smaller conventional grocery stores, drug stores and specialty stores. These stores are more likely to be found in inner-city neighborhoods and downtown city shopping areas than “big box” superstores that are largely a suburban, power center phenomenon.

Due to a relative lack of supermarkets in the inner city, inner-city shoppers have a higher frequency of buying consumable items from formats with a strong presence in the community, such as drug stores and specialty food stores.

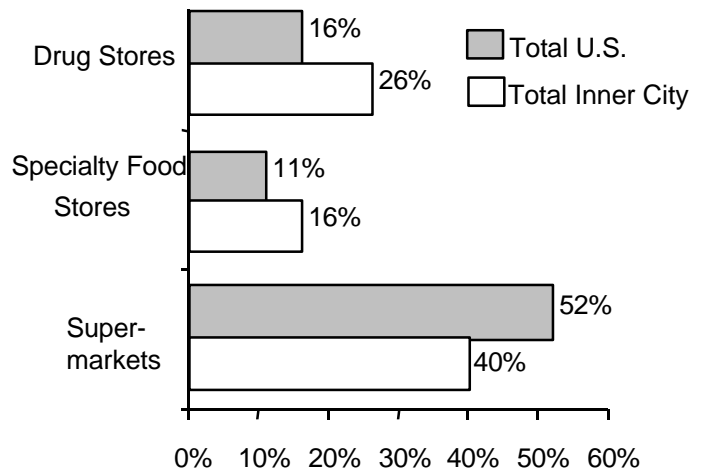
Drug Store Success

Inner-city drug stores maintain a disproportionate share of shopper preference in several product categories while discount department stores have captured a significant share of preference in suburban areas. Inner-city shoppers have limited access to discount formats and significantly more access to drug stores. Competitive drug store chains have a significant presence in the inner city.

Drugstores have set the standard for success in attracting the inner-city customer. In so doing, they have become the dominant retailer in a wide range of different products.

While drug stores’ share of preference for prescription and non-prescription drugs has eroded elsewhere, drug stores still dominate this traffic generating category with inner-city shoppers. Dominance in prescription drugs has given

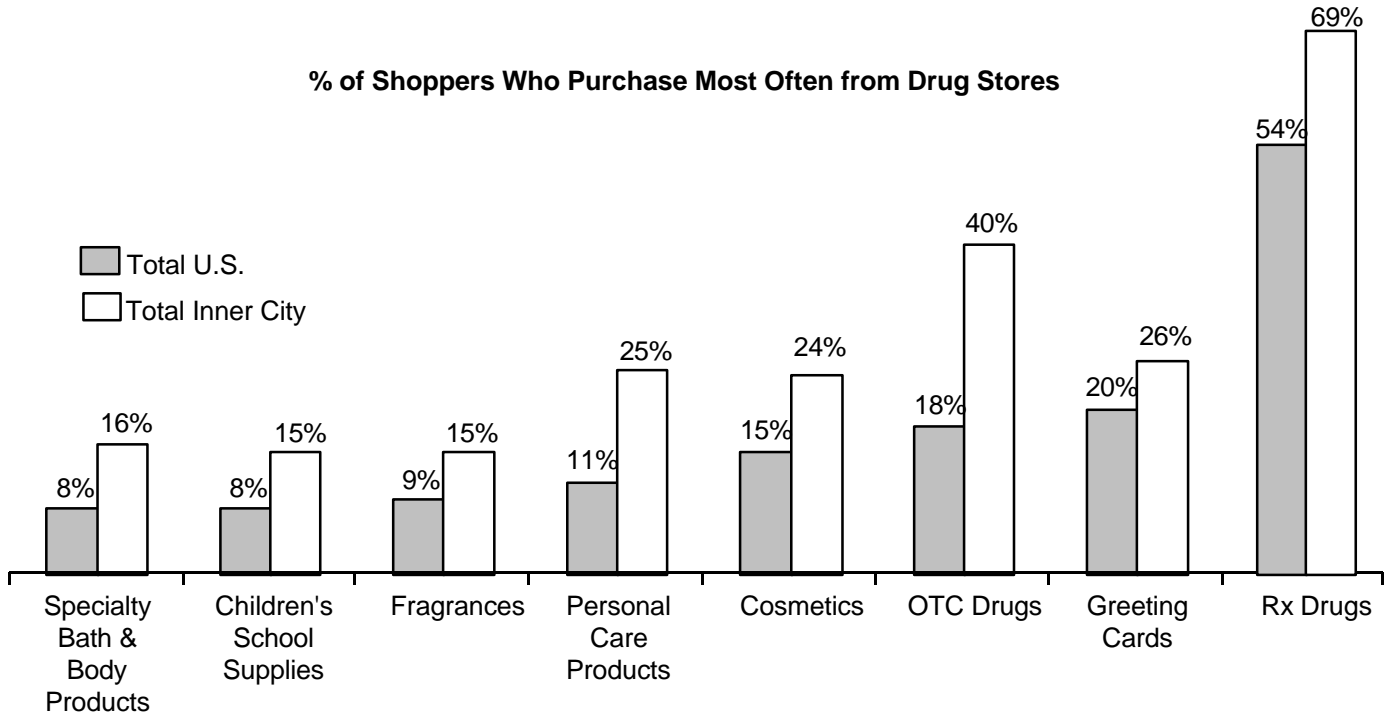
Consumables Retailers
(% Who Are Frequent Shoppers at Store Type)



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

them a big advantage in product categories like OTC drugs where the percentage of shoppers who purchase most often from drug stores is 40% among inner-city shoppers versus 18% among all shoppers.

% of Shoppers Who Purchase Most Often from Drug Stores



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Discount Department Stores Are Missing a Key Market Opportunity

Discount department stores, which have transformed retailing everywhere else in America, are largely missing from inner-cities. The absence of discounters contributes to higher prices for inner-city shoppers, less selection and fewer job opportunities.

Discounters

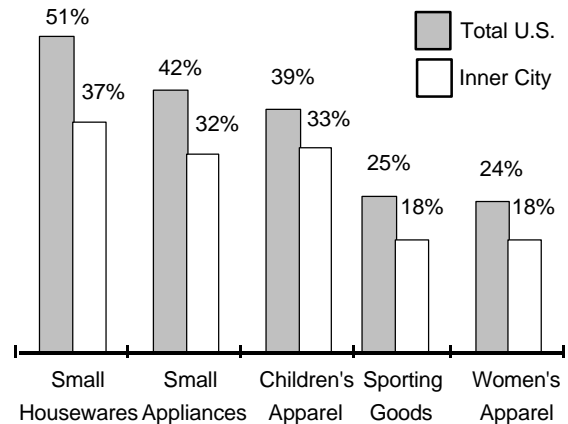
Not long ago, a marketing slogan of the discount department store sector was: Buy American. Today, a new slogan could just as easily be: Sell America.

Inner-city shoppers are less likely to have made a purchase at a discount department store in the past year as compared to all primary shoppers, reflecting the discounters' limited presence in the inner city. However, in many product categories from small appliances to women's apparel, discount department stores garner a significant share of preference, although not as high as the discount format's share of preference among all shoppers. Nonetheless, this suggests that a substantial number of inner-city shoppers seek out discount department stores, even if it means leaving the neighborhood.

Discount department stores are missing a major market opportunity in inner cities. This absence creates a void in the inner-city shopping landscape, and hurts the inner-city community. Furthermore, discount department stores are big employers - Wal*Mart is the largest private employer in the United States. Growth of discount department stores in the inner city would provide much needed employment to entry level inner-city workers.

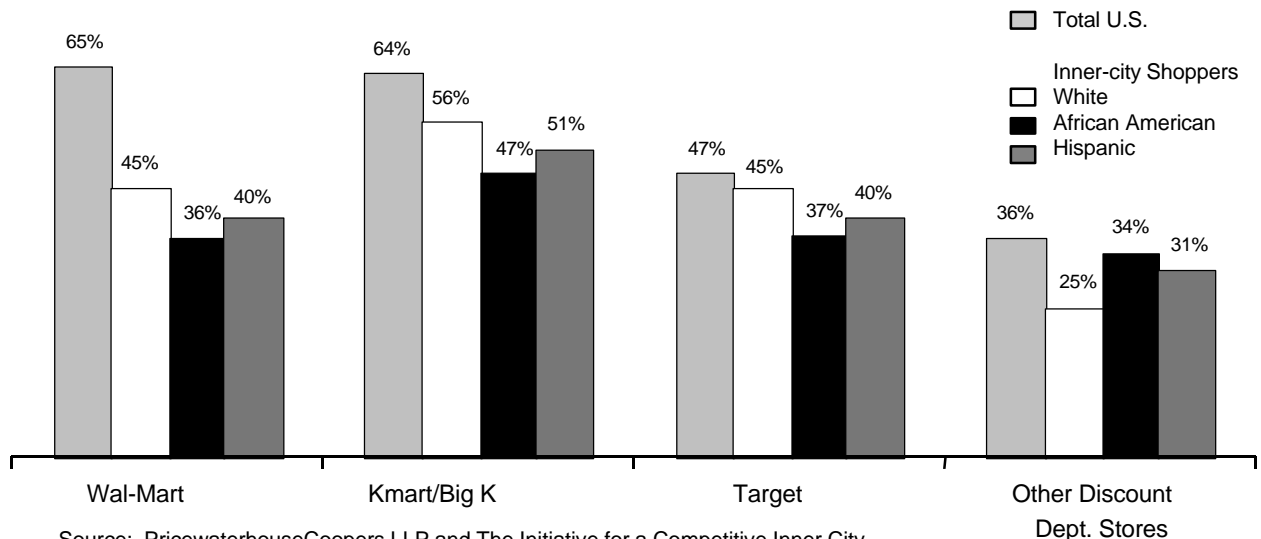
Discount department stores have transformed the whole concept of value for the suburban consumer. There is a big opportunity for them to transform the inner-city market as well. Discount stores, such as Kmart, who are beginning to enter the inner-city market with tailored offerings are finding the inner city a very profitable place to do business.

% of Shoppers Who Purchase Most Often From Discount Department Stores



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Discount Department Store Purchases in the Past 12 Months



Source: PricewaterhouseCoopers LLP and The Initiative for a Competitive Inner City

Acknowledgements

Underwriting for ICIC's work was generously provided by the Alfred P. Sloan Foundation.

This report was made possible primarily through the efforts of PricewaterhouseCoopers, The Initiative for a Competitive Inner City, and ICIC's retail advisory board.

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The PricewaterhouseCoopers team was led by Carl E. Steidtmann, Director and Chief Economist and included Mary Brett Whitfield, Principal Consultant.

The Initiative for a Competitive Inner City team was led by Michael E. Porter, Chairman and Chief Executive Officer of the ICIC, and included Anne Habiby, Director of Research; Lorn Davis, former Vice President of Research; Amelia Alberghini, Senior Research Analyst; and Deirdre Coyle, Director of Communications.

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The Initiative for a Competitive Inner City (www.icic.org) is a national, not-for-profit organization founded in June 1994 by Harvard Business School Professor Michael E. Porter, following several years of pioneering research on inner-city business and economic development. ICIC's mission is to transform thinking, reinvigorate market forces and engage the private sector in fostering healthy economies in America's inner cities that create jobs, income, wealth and economic opportunities for local residents. ICIC seeks to accelerate the development and growth of inner city based businesses and provides cities with a new vision for economic development.

This report is part of ICIC's national retail study entitled *Catalyzing Private Sector Inner-City Retail Investment & Services*. ICIC is completing research on strategies for profitable retail execution for independent retailers, best practices for inner-city retailers, and with The Boston Consulting Group completed a study in June 1998 entitled *The Business Case for Pursuing Retail Opportunities in the Inner City*.

For additional information on this research contact Amelia Alberghini, Senior Research Analyst, the Initiative for a Competitive Inner City, 617-292-2363 x101 (phone); 617-292-2380 (fax); ameliama@icic.org (e-mail).

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