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Attracting Business Investment to Neighborhood Markets

The Convergence of Business and Community Development Interests in Urban America

DISCUSSION PAPER

by

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Background Note

This paper is based on joint proposals by Social Compact and Shorebank Corporation to expand the work of "The Emerging Neighborhood Markets Initiative." Social Compact is a leading organization of national financial and other major corporate institutions committed to expanding private business investment in lower income neighborhoods. Shorebank is the nation's premier community development bank holding company. For the past year, the two organizations have been focusing on business markets in America's low-income urban neighborhoods. The Initiative has generated new evidence on the opportunities for, and obstacles to, business investment in distressed communities. This paper summarizes some of the issues that are the subject of continuing work, with the hope of generating further discussion about what these issues mean for government, business and community development institutions.

Many people deserve more than great appreciation and credit for their leadership and work that led to this paper: Roger Joslin, Chairman, State Farm Fire & Casualty Company, and Chairman of Social Compact when this project was conceived; William Goodyear, Chairman and CEO, Bank of America, Illinois, who led the project from its outset and chairs Social Compact's Emerging Neighborhood Markets Committee; Lynn Whiteside, Social Compact's Executive Director; and Fran Grossman, Vice President, Bank of America, Illinois. Credit for much of the important thinking -- and the writing -- behind the proposal from which this paper is adapted goes to Chris Berry of Shorebank. Finally, special thanks to Bruce Katz, Director, and Jennifer Bradley, Senior Analyst, of the Brookings Institution Center on Urban and Metropolitan Policy for so capably rewriting and arranging the presentation of this paper.

SUMMARY

America's inner cities have vast undervalued assets and untapped markets, which are largely unseen and underserved by conventional businesses. In this context, the goals of business and neighborhood development are converging towards competitive communities with healthy neighborhood markets. Businesses are looking for emerging, niche markets, and placing a premium on specialized information and expertise about these markets; successful neighborhood development organizations are acquiring this specialized expertise as they learn that market-based, business-like approaches build neighborhoods. The appeal is to the corporate bottom line, the methods are those of business, but the objective is to rebuild healthy communities by creating wealth for those who need it most.

Bringing a new, business lens to low and moderate income neighborhoods reveals their enormous potential, and defines new, complementary roles for business, neighborhood organizations and government. As a result of the traditional -- deficiency based -- perception of these neighborhoods, the information and tools for identifying and investing in neighborhood assets are often still rudimentary. A better understanding of neighborhood markets and their entry barriers, and the formation of business partnerships for investment in them can ultimately bring new investment to America's most disinvested communities by reconnecting neighborhood assets with conventional businesses and capital markets.

THE PROBLEM

The failure of the neighborhood economy ranks high among the many causes of decline in urban communities. While there is clear evidence that reinvesting in the assets of low-income neighborhoods can be profitable for business and the community, inner-city market potential remains largely untapped.

America's corporations do not tap neighborhood market potential primarily because they do not perceive it, and they do not perceive it primarily because of the dearth of adequate market information. Low-income urban communities have mainly been defined by sociologists and governments, with a focus on *deficiencies*, rather than by business analysts examining investment opportunities. In our information age, where competitive intelligence is the single most valuable commodity in business, businesses depend on sophisticated information and models to identify target markets. Yet, while information on traditional market segments abounds, there is no reliable, accessible source of specialized data and knowledge about emerging urban niche markets. Existing models, developed in middle- and upper-income markets, consistently overlook and undervalue the assets of inner-city communities.

The problem is compounded because many inner-city markets are niche markets with their own unique characteristics, consumption patterns and entry barriers. Specialized information and expertise is necessary not only to see the market revenue opportunity, but also to address real and perceived entry and operating costs that determine whether the market presents a profit opportunity.

The consequences of the market misperceptions and underinvestment are very real for inner-city communities. As businesses are erroneously discouraged from targeting these markets, the local economy falters and the community becomes less competitive. As the supply of quality, competitively priced goods dwindles, residents leave their community to buy basic goods, creating "expenditure leakage." This reinforces a cycle of decline: fewer businesses mean fewer jobs, less investment, lower housing values, more vacant storefronts and less community stability.

THE RESPONSE

Since lack of adequate information is a major barrier to investment in neighborhood markets, the main response is to assemble and analyze information that can accurately reveal inner-city business opportunities. Businesses need better data on inner-city markets and better models for analyzing the data in order to understand market dynamics and identify emerging market opportunities. This paper suggests that government, business and community development institutions all have important roles to play in closing the inner-city information gap.

Social Compact is taking the lead on a project that seeks to discover neighborhood market potential through a case study approach to best practices, key findings and business indicators drawn from leading inner-city business partnerships. Shorebank is taking the lead on an initiative that develops systematic data and empirical analysis for understanding particular sample neighborhood markets, and then uses the database and models to identify market potential and work with appropriate businesses to address entry barriers and invest in the target neighborhoods.

On a larger scale, businesses and governments should explore joint efforts to leverage the information that federal, state and municipal government agencies already collect. At the federal level, such an effort could take the form of an Executive Order under which the relevant federal agencies would work with businesses to improve the collection, assembly, presentation and dissemination of data that inform the potential of neighborhood markets.

This market-oriented approach holds the promise of changing the way inner city neighborhoods are perceived, thereby creating a new business capacity to invest in inner city markets, and translating that capacity into specific investments. It offers new opportunities for businesses and development organizations to join forces in the business of development. Ultimately, the new understanding of inner city markets and the capacity to invest in them lay the foundation for an important shift toward rebuilding healthy communities by reconnecting them to conventional markets and restoring their competitiveness.

A Business-Driven Approach to Community Development

The simple premise of a business-driven approach to community development is that addressing poverty requires creating wealth. Wealth is created in impoverished communities the same way it is created in traditional markets: through a twofold process of identifying and investing in assets. This entails shifting from a focus on community deficiencies to market opportunities, and changing the language of corporate engagement from one of subsidies to one of investment.

Just as far-flung developing nations are tempting corporate CEOs, inner cities have an enormous potential for businesses: they are new emerging markets. At the same time, community development practitioners have realized that neighborhood development hinges on economic development to create jobs and wealth, strengthen housing markets and attract and retain a stable resident base. Thus, the goals of business and neighborhood development have converged.

But conventional businesses are currently in the position that conventional banks were in two decades ago: they are undervaluing inner-city markets and therefore underserving the inner city. To achieve large scale, permanent community development, it is crucial to address these information and entry barriers, and thereby engage widespread business entry into neighborhood markets. This engagement not only has immediate, direct, local development impact, but also serves the critical longer term goal of reconnecting isolated neighborhood economies to regional and global economies.

THE PROBLEM: Lack of Market Information

One of the major factors keeping businesses from tapping inner-city potential is the lack of competitive intelligence on these markets. While business intelligence on middle- and upper-income consumers abounds, identifying the assets and special market dynamics of low-income communities has not been a focus of traditional business market analysis. As a result, standard corporate methods for assessing market strength are inadequate for low-income neighborhoods and tend to underestimate business potential in two ways: first, consumer purchasing power is undervalued; and second, unique market characteristics (niche markets, entry barriers and so forth) are not well understood.

The lack of reliable market information on low-income communities is a particularly dangerous trend in our so-called information age. The move from centralized production and mass marketing to customization and personalization has made "competitive intelligence" the single most valuable commodity in business today. The growing shift from "product-led" to "customer-led" business strategies (from "push" to "pull," in marketing terms) makes knowledge of the consumer the building block for understanding markets and market opportunities. Yet, because this sort of competitive intelligence is not available for disinvested communities, the danger is that these communities will be increasingly overlooked and underserved in the future. The significance of this trend goes far beyond the rarefied worlds of information technology and market analysis: the psychological implication of the information age is that what we measure is what we pay attention to, and what we pay attention to becomes what we value.[1] As poor people fall through the statistical cracks, they fall out of sight, out of mind, and, increasingly, out of opportunities.

While it is easy to say that standard market indicators don't work in the inner-city,[2] it is much more difficult to see why they do not work and what can be done about it. The problem begins with the way traditional market information is produced. First, market information is a function of which indicators (e.g. median income) are used to describe or predict market potential, and of what data are used to measure the indicators (e.g. census data). For inner-city markets both data and indicators are often insufficient. Reliable data are often unavailable on traditional indicators of market potential. Even where data are available, traditional indicators are often unreliable for emerging neighborhood markets. Standard estimates of local market potential from leading companies are typically based on two primary data sources: the U.S. Census and the Consumer Expenditure Survey. Each of these sources has serious limitations with respect to low-income households and, taken together, they provide an inaccurate picture of the market potential of inner cities.

CENSUS: In Focus, Off Target

While appropriate for middle- and upper-income households, estimates of market potential that rely on reported income are out of place in the inner city, where real economic activity substantially outpaces officially recorded activity. A number of recent studies have documented this discrepancy. For example, a recent presentation on "The Business of Neighborhood Markets" (see sidebar) showed that less affluent consumers spend more than their reported income: average consumer expenditures amount to 250% of income for those making under $10,000. Likewise, Daniel Slesnick has documented with much greater precision and sophistication, but not at a local level, a growing discrepancy between income-based and expenditure-based estimates of the standard of living.[3] In other words, while buying power may be a reasonable indicator of market potential, census-reported income is a poor data source for this indicator.

In addition to undercounting and under-reporting issues associated with the Census in inner-city neighborhoods, another source of this discrepancy is generally acknowledged: the unrecorded cash economy. While this economy comprises some illegal activities, the far greater part (about 80 percent) comes from legal but unrecorded activities, from nannies and tutors to home contractors and small businesses.[4] Although the size of this unrecorded economy cannot be empirically confirmed, the most reliable estimates place it at about $1 trillion annually, or approximately 20 percent of GNP.[5] By anyone's measure, the amount at stake is staggering, and entirely unrecorded by traditional income measures. Because so much of this activity transpires in the inner city, official income figures are simply bad indicators (underestimates) of market potential in these neighborhoods.[6] Thus, there is vast untapped buying power in lower income neighborhoods, and the most common source of data shaping our view of these neighborhoods is quite inadequate.

CONSUMER EXPENDITURE SURVEY: On Target, Out of Focus

While the unrecorded economy has received renewed attention recently, it is only one factor obscuring our understanding of inner-city markets. Using consumer expenditure data to estimate market potential obviates some of the problems of unreported income, because people are much less likely to underreport expenditures than income.[7] Unfortunately, the leading source of consumer spending data, the Consumer Expenditure Survey (CES) conducted by the Bureau of Labor Statistics, presents problems of its own. Specifically, the CES is only a national sample, and provides no local area data. In its raw form, the CES is of little use to businesses in evaluating the market potential of specific urban neighborhoods, especially inner cities where local markets tend to be more distinctive. In essence, while the Census is rich in local area data, it is a bad market indicator; the CES is a superior market indicator, but does not provide the necessary data at a city or neighborhood level.[8]

Companies that provide market intelligence have attempted to compensate for the deficiencies in existing data sources by combining Census and CES data to produce market estimates. The typical approach is to use Census figures to determine incomes in a given area, and then cross-reference these figures with the CES, which provides estimates of spending tabulated for various income classes. This approach has been reasonably successful in middle- and upper-income communities for two reasons. First, the unrecorded economy probably accounts for a lower proportion of total economic activity in these areas.[9] Second, and perhaps more important, these neighborhoods are more reflective of the national sample (because there are more of them), meaning that estimates created from only a broad national sample, like the CES, are more likely to be accurate for these neighborhoods. For these same reasons, traditional estimates tend to be off the mark in inner cities. Because the portion of the sample representing the populations of inner-city communities is smaller, a national sample is insufficient for capturing the local specificity of each market -- specificity that is crucial in business analysis.

Without local data, standard market estimates are inappropriate for the inner city. For example, a pioneering inner-city grocery chain finds that it must typically add 20 percent to a leading national market analysis company's estimates of food expenditures in evaluating inner-city markets. This business has the sort of local market expertise that makes it possible to analyze inner-city markets without relying exclusively on third-party data. Unfortunately, the vast majority of businesses do not.

The importance of market intelligence, of course, goes far beyond estimating aggregate buying power. Equally important are the specialized market dynamics that characterize low-income communities. While marketers have long understood the need to be aware of the unique behavior of niche market segments, they have not developed as much of this expertise for inner-city economies. For example, while most of the leading marketing information companies, including Claritas, Equifax, Donnelly and others, have created models specifically tailored to society's most affluent classes, few similarly focused models exist for low-income consumers. Donnelly offers a database on The Truly Affluent, while the truly disadvantaged, to borrow William Julius Wilson's term, remain largely unknown to marketers.[10] Even among the relatively small number of marketers who have begun to embrace "multicultural" or "diversity" marketing, the focus remains on the most affluent members of selected minority groups. In these cases, the standard appeal becomes, "you probably didn't know that households earning more then $60,000 are the fastest growing segment among African Americans." While this realization is important and the appeal to diverse markets is a positive development, the continuing focus on the most affluent leaves disinvested communities, and their huge untapped market, out of the spotlight.

It is important to be clear that the lack of good data on inner-city markets is not due to any deliberate misrepresentation or lack of sophistication on the part of companies that provide marketing tools -- they do the best they can with the data available. The problem, rather, is twofold. First, there simply is inadequate data on traditional indicators for inner-city markets, and therefore estimates using these indicators based on the existing inadequate data sources will fail to capture an adequate picture of inner-city market potential. Second, available data reflect business demand: because businesses have not traditionally viewed inner cities as business opportunities, they have not demanded the same sort of information that they demand for more affluent consumers. The two factors reinforce each other to produce a vicious circle: Because there has been little demand for inner-city market data, existing data sources are inadequate and tend consistently to underestimate market potential. And because existing data underestimate inner-city market potential, business interest in these areas is diminished.

Finally, even with good data, indicators and market analysis suggesting a revenue opportunity for new businesses, there are entry barriers and other operating cost obstacles that companies must confront before deciding a new market will be profitable. Potential barriers such as developing a site, finding a qualified work force, effectively reaching local consumers or addressing security concerns can often be addressed by a neighborhood business partner with specialized knowledge of the neighborhood market. These kinds of barriers and their implications for new roles for business-like community development organizations are further discussed below.

Without reliable market information that reveals true assets and business potential, as well as expertise at overcoming entry barriers, doing business in the inner city requires a leap of faith too risky for most companies, especially in the face of prevalent negative perceptions of inner-city neighborhoods and their residents. For these reasons, many businesses either do not enter inner-city markets or do not engage these markets appropriately, with an understanding of consumer behavior and market niches.

The result is that low-income neighborhoods are underserved. They become less attractive, and housing markets become stagnant. Those who do live in the inner city routinely make a large portion of their expenditures outside their own neighborhoods, purchasing goods and services that are unavailable locally (see sidebar, Emerging Neighborhood Markets). This expenditure leakage undermines inner-city quality of life. For business, this means lost sales, or what marketers call "float dollars." For inner-city residents, these are "float jobs," as crucial dollars that could employ local residents and fuel the neighborhood economy are spent elsewhere. In the language of our business-based approach to development, underestimating assets leads to under-investment in communities. And under-investment translates into lost development opportunity in low-income neighborhoods.

THE OPPORTUNITY:

Emerging Neighborhood Markets

Over the past year, Shorebank has worked with The Social Compact, a national organization of leading corporations, on a pioneering initiative focusing on the business opportunities in America's low-income urban neighborhoods. The first product of this concept development phase of the Emerging Neighborhood Markets Initiative, a presentation on "The Business of Neighborhood Markets, generated fresh evidence on the opportunities for, and obstacles to, business investment in distressed communities. It deepens the discussion -- in the language and from the perspective of a diverse array of leading businesses -- of the factors which define the attractiveness of market opportunities for these businesses, and of how they can better identify potential business opportunities in urban neighborhoods. The major findings of this first Emerging Neighborhood Markets study motivate and lay the groundwork for the continuing, in depth, projects:

There is vast market potential in the inner city. Because of concentration, neighborhoods like South Shore have more buying power than even the wealthiest suburbs. For example, while South Shore's median family income is only $22,000, compared with $124,000 in the affluent suburb of Kenilworth, South Shore packs $69,000 of retail spending power per acre, nearly twice Kenilworth's $38,000. With this realization, it is not surprising to learn that individuals earning under $30,000 make fully one-third of all consumer expenditures in this country. This amounts to $869 billion annually, a huge business opportunity by anyone's account.

This inner-city market potential remains largely unrecognized and untapped, which represents both a crisis and an opportunity. The lack of business competition in inner-city markets drives residents to make a large proportion of their expenditures outside their own neighborhoods. In Chicago, consumers living in low- and moderate-income neighborhoods make about 43 percent of their expenditures outside their own neighborhoods, compared with only 33 percent for individuals in non-low/mod areas. For businesses, this "expenditure leakage" signifies a market opportunity for providing competitively-priced goods and services to inner-city consumers. For residents, expenditure leakage means job leakage; crucial dollars that could support local employment and fuel the neighborhood economy are lost to outside communities. The return of businesses to the inner-city promises to stave expenditure leakage, capturing jobs and economic momentum locally.

A major factor contributing to the lack of competitive inner-city markets is the poor quality or unavailability of reliable market information for business decisions. In particular, traditional estimates of market potential based on reported income dramatically underestimate inner-city market potential. For example, we found that individuals earning under $10,000 make expenditures equaling about 250 percent of their income. One reason for this discrepancy is a large and growing "unreported economy," predominantly legal and disproportionately based in the inner city. Because a large proportion of economic activity escapes standard measurement, traditional indicators lead businesses to underestimate the market potential inherent in inner cities. This underestimation fuels under-investment, contributing to a downward spiral in many of America's poorest neighborhoods.

However, case studies reveal that leading businesses are succeeding in inner-city markets. Some of these companies have followed their business sense of local market opportunities when confronted with conventional statistical models showing little or no potential in disinvested communities. Others have taken the next step of developing innovative new indicators tailored to inner-city neighborhoods, improving their ability to assess the opportunities in these markets. In both cases, aggressive companies with the vision to see beyond standard indicators and negative stereotypes are finding exciting untapped markets. To take just two examples: Allstate has increased its policies in South Shore by 106 percent since 1991, compared with only a 0.5 percent increase for all Chicago; and Bank of America's corporate lending in lower-income neighborhoods has grown from $256MM in 1994 to $380MM as of 1996, a rate of increase 25 percent faster than in its other income-segment portfolios. Ameritech, Delray Farms and Harris Bank are among the other participating companies finding new markets in low-income neighborhoods.

Finally, the leading businesses are recognizing the importance of community development partners as resources -- as neighborhood specialists. Neighborhood development organizations can bring specialized knowledge of assets and market opportunities, as well as expertise in addressing issues ranging from consumer preferences to employment, commercial space and security. Neighborhood development groups are also discovering these new roles -- as builders of local markets, and as entrepreneurs and resources to businesses.

THE RESPONSE

A business-based approach to emerging neighborhood markets calls for three things:

1. closing the information gap to change misperceptions of these markets;
2. developing specialized market expertise to identify emerging niche markets;
3. addressing unique inner-city entry and operating barriers.

These hese tasks suggest new opportunities and roles for the public, the private and the community development sectors. First, we should consider the role of government.[11]

THE ROLE OF GOVERNMENT

Federal, state and local governments are the primary collectors of data on the people and businesses in inner-city communities. Much of this data, collected for tax, fund allocation, regulatory and other purposes, is not made available for market analysis or, even worse, is used to amplify the deficiency-based perception of inner cities. Nevertheless, a great deal of public data already exists that can help provide a positive picture of investment opportunities in inner-city markets, if less traditional data sets are examined from a business perspective, and if traditional data sets are adjusted and analyzed using specialized knowledge of inner-city dynamics. The governments' information resources are enormous and, particularly in the information age, their value should be recognized through their use in inner-city market analysis.[12]

Previous research confirmed that a wide range of public agencies collect data that are not analyzed or disseminated for business purposes, but are of potentially great value in understanding urban markets. Shorebank's current database work with the Cook County Clerk provides a simple example. Research for a prior project indicated that assumed name registrations may be a better indicator of small business and entrepreneurial activity (perhaps also more generally of unrecorded income) in the inner city than standard census respondent reports of self-employment. Mainstream business databases have not been interested in this data, so, although the County Clerk has compiled assumed name registration data for decades, the registrations are not tabulated for public distribution because there has been little, if any, demand for the information. Upon request, with modest effort, the County Clerk was able to provide aggregate data in an annually updateable database, broken down by neighborhood in Chicago. With this new data source, it may be possible to develop an innovative indicator of inner-city business activity, demonstrating greater market potential than standard census reports.[13]

This example illustrates more broadly how a public data collection effort might proceed. As the earlier discussion of Census and BLS data suggests, the federal government is already deeply involved in the collection and dissemination of data that informs the business perception of neighborhood markets. The Departments of Treasury, Labor, Health and Human Services, Housing and Urban Development and Commerce -- as well as other federal entities like the Small Business Administration -- all collect information (e.g., income tax returns, government transfer payments, mortgage lending, specific business performance) that, properly aggregated, assembled in a database and analyzed, could describe the potential of neighborhood markets.

These government information-collection efforts could improve business perception of and access to emerging neighborhood markets. To maximize their utility, efficiency and impact, government agencies should work closely with representatives of the private sector, particularly businesses with experience in urban markets and business market analysis. These businesses have the best sense of what data are useful, of which statistics translate into market potential, and of how data can best be made available. A systematic focus on the opportunities and public value in attracting business investment to neighborhood markets would lead to a further step: more extensively engaging the business community to identify new data needs and expanding data collection accordingly. For example, an expanded Consumer Expenditure Survey sample targeted to inner-city markets might prove particularly valuable. Efforts to adapt, expand and analyze and disseminate information specific to inner-city markets collected in the Census of Retail Trade might prove similarly fruitful.[14]

All of this is easier said than done, and entails issues well beyond the scope and expertise of this paper. That is precisely the point: government has the expertise, resources and infrastructure and routinely undertakes complex and sophisticated data collection on closely related issues, populations and institutions. (In addition to those mentioned above, the Current Population Survey and the Survey of Income and Program Participation are noteworthy, as is the current discussion about the next census.) Government has the capacity, especially if it engages private sector expertise as well, to add a market analysis focus to these data collection efforts, producing inestimable value in recasting perceptions of inner-city neighborhoods and renewing market activity and investment.

While these efforts could be undertaken at all levels of government, the federal government is the natural leader by virtue of its national scope and current role as the primary collector of data. Federal agencies should find ways to act together (perhaps under a formal Executive Order) to: (1) remedy any deficiencies in the way information is collected to ensure that it has maximum potential for the business sector; and (2) assemble, present and disseminate the collected information in a way that best responds to the goal of market investment.

A coordinated information collection and dissemination effort focused on neighborhood markets would build on several initiatives already underway at the federal level. First, many of the agencies listed above are already working together to implement the principal urban intiatives of the Clinton Administration: empowerment zones, brownfield investments and community lending. A 1994 Executive Order created the Community Empowerment Board, under the direction of the Vice President, to coordinate the targetted urban activities of the federal government.

Second, the federal government has taken numerous steps to encourage commercial and residential lending and small business development in urban neighborhoods. Federal bank regulators have streamlined and upgraded the regulations governing the Community Reinvestment Act. The Department of Housing and Urban Development has made lending data collected under the Home Mortgage Disclosure Act widely accessible on the internet. From specialized SBA programs to the Vice President's Community Marketplace Development Institute, these capital access and market development initiatives would be perfectly complemented by the information initiatives suggested above.

Finally, the federal government has launched other inter-agency efforts to coordinate the collection, preparation and dissemination of information, including that on closely related subjects. These range from the Interagency Council on Statistical Policy and the Federal Geographic Data Committee's National Spatial Data Infrastructure to recent focus on the federal information roles in supporting regionalism and sustainable development initiatives.[14]

Government, of course, has many other roles to play beyond addressing the information gap. State and local governments, in particular, can focus on creating competitive advantages in the market environment, addressing many of the unique market barriers, from physical infrastructure to regulatory issues. In addtion, programs that leverage--rather than supplant--private business and capital market activity should be strengthened.

THE ROLE OF THE PRIVATE SECTOR

Profit and economic self-interest, not artificial inducements, are the only incentives that will bring businesses to the inner city -- operating competitively -- over the long haul, fueling economic development and market restoration that won't collapse with the next budget cut. Businesses have to realize that the inner city presents a market opportunity, and develop the tools, expertise and business partnerships that allow successful investment. Leading companies are doing this, and they can play a critical role (as they are in The Social Compact) in sharing and disseminating their findings and best practices concerning identifying and investing in emerging neighborhood markets. Within the bounds of protecting proprietary information and information that would particularly aid their direct competitors, leading businesses have many interests in encouraging others to invest: additional investment expands wealth and stability, thereby strengthening the local and broader markets and reducing costs.

In addition, businesses with customers in the inner city have invaluable information on actual and potential market activity. First, data on actual company sales, employment and profitability give an indication of the existing level of activity and trends in different market segments, as well as insights into local consumer behavior. Second, some types of data uniquely available to particular private companies are good indicators of the overall health or market potential of a neighborhood. For example, utilities have detailed information on a neighborhood's phone and electricity usage, good indicators of overall economic activity, while credit reporting agencies may have data that provide important indicators of trends in the neighborhood's credit capacity. Research for the first phase of the Emerging Neighborhood Markets project suggested a more unusual indicator dependent on a private data source: local paint sales may be a good indicator of residents' confidence in the neighborhood and neighborhood stability because they correlate with residents' investment in improving their properties.

Some of the work Shorebank is now undertaking illustrates potential private sector activities (as well as community economic development organization roles). Shorebank has proposed creating its own new -- dramatically expanded -- customer database. Through its 25 years of doing business in target markets, Shorebank has specialized information and knowledge, particularly from its historical and continuing relationships with South Shore Bank's many customers. The bank has unusual access to information on the business, real estate and individual financial assets in its target neighborhoods. Aggregated, analyzed and delivered properly, this information could be of great value to other companies seeking to identify and invest in local markets.

The full project would assemble a much broader inner city database, adding public and other private company data, and ultimately adding data from a tailored inner-city customer expenditure survey. The critical next step, in which the private sector has extensive expertise, would be developing and testing indicators and models for market analysis that can identify emerging and niche inner-city markets. As discussed above, the conventional indicators used in middle- and upper-income communities tend to underestimate market potential in the inner city, so new models are clearly needed.

The process of creating new indicators involves standard econometric techniques to show which variables determine market potential in the inner city. For example, it might turn out that housing renovations and assumed name registrations are the best predictors of sales for a particular industry. For another business, paint sales and changes in population may be better indicators. Evidence from new marketing models like these -- in the language and from the perspective of business (particularly businesses that are succeeding in the inner city) -- would provide the practical competitive intelligence that allows new business investment in the inner city more systematically and at a larger scale than any number of government subsidies or charitable appeals. In addition, these models would help to advance the overall understanding of the economy of the inner city.

Ultimately, it is primarily businesses that create wealth and jobs. If the private sector is willing to work with government and development organizations (in their new roles), to see, strengthen and access inner-city market opportunities, it offers the promise of a new, large scale wave both of business profitability and of sustained economic development in emerging neighborhood markets.

THE ROLE OF COMMUNITY DEVELOPMENT ORGANIZATIONS

Another kind of market knowledge goes beyond data sets and models. It is the special on-the-ground knowledge that community organizations possess by virtue of their steady presence in inner-city neighborhoods. This kind of knowledge is also important to businesses: to better identify niche markets, to facilitate consumer access and particularly to address entry and operating barriers. No matter how much information businesses have indicating market potential, the costs of entering a new market can easily outweigh the revenue opportunities if market barriers are not identified and minimized at the outset.

Customized business relationships between interested companies and business-like community development institutions would help companies identify neighborhood assets, overcome entry barriers and invest in ways that create profits while maximizing development impact in target communities. The important task would be to identify company-specific opportunities, barriers and operating costs up front, and to develop strategies for overcoming them. Community business institutions could address issues from land assembly to employee screening to safety and be a resource for more efficient market access and connection. These business relationships would not only help otherwise unprofitable activities become feasible, but also create opportunities to leverage other development impact.

It is not suggested that these are the only or most important roles for community organizations to play, nor that all community organizations have or should develop the capacity to play them. Many other community development activities directly and indirectly stabilize and help strengthen the environment for investment. At the same time, many leading community organizations focused on economic development have already demonstrated these capacities, developing productive market investments for businesses, the organization and the community. Experience does suggest that an asset, investment and business-based approach -- rather than one of confrontation and obligation -- offers enormous opportunities. This is because, ultimately, seeing neighborhoods in terms of assets and investment opportunities allows the creation of wealth -- the goal of both neighborhood economic development and business.

CONCLUSION

America's urban neighborhoods have the untapped potential to become healthy, vital local economies. The lack of solid, dependable information and analysis on inner-city spending patterns, purchasing power and other market characteristics remains one of the most significant impediments to the revitalization of urban marketplaces. Healthy community economies must attract outside investment and services: they must connect to regional economies. Information, widely distributed and appropriately analyzed, is one of the means by which communities get connected.

Government, the private sector and development organizations all have to facilitate this linkage: (1) The federal government must gather and disseminate useful data on underserved markets; (2) The private sector must recognize the market opportunity of inner cities, help guide the data collection and analysis efforts, and share their own findings (to the extent consistent with business imperatives) about inner city opportunities; and (3) Economic development organizations should take the next step towards building healthy communities, becoming neighborhood specialist business partners to major businesses, which will now be able to see the opportunities of previously under-considered, under-serviced inner city markets.

Under this model, inner-city residents are customers, consumers, actors -- not the passive recipients of federal aid. The focus is on bringing people and local economies back into the economic mainstream, rather than on creating alternative programs and dependent, alternative economies. The government provides information and market and community strengthening, not long-term expensive services that are vulnerable to budget cuts. Private companies operate according to their self-interest, not out of a tenuous sense of obligation. These are important ingredients for creating healthy communities.

ENDNOTES

1. This point is emphasized by Maureen Hart in *Urban Quality Indicators*, Summer 1997.

2. Leading businesses which profitably serve inner city markets repeatedly describe how their otherwise remarkably accurate models fail to accurately predict performance in these markets.

3. Slesnick, "Consumption, Needs and Inequality, "*International Economic Review*, August 1994; and "The Standard of Living in the United States, "*Review of Income and Wealth*, December, 1991.

4. See, e.g., Wells Fargo Bank, "The Underground Economy: A California Growth Industry?

5. M.Leanne Lachman, for example, pegs the unrecorded economy at 17 percent of GNP, while Edgar Feige's review of various measurements comes out slightly higher, with a range of 16 to 24 percent. See M. Leanne Lachman, "Hidden Income=Hidden Potential," International Council of Shopping Centers, Inc., Research Quarterly (Volume 2, No. 2); and Edgar L. Feige, "The Meaning and Measurement of the Underground Economy," in Edgar L. Feige, Ed., The Underground Economies, Cambridge University Press, 1989.

6. The magnitude of the issue is dramatized in Feige's argument that the demise of Keynesian economics may be due merely to bad data, that stagflation may have been a mismeasurement. Also, note Slesnick's argument that trends in the standard of living are from 1970 onward would be reversed if we looked at expenditures rather than income. While neither of these arguments is conclusive, the y highlight the possible scope of the measurement problem.

7. See Feige, "Meaning and Measure of the Underground Economy.

8. One recent major study concluded that, while there are strong reasons for perferring an expenditure-based to an income-based estimate of well-being, the lack of available data on expenditures means that "there is virtually no practical alternative" to using income data. The study criticizes the United States for lagging behind other developed nations in the quality of expenditure data being collected, and one of its recommendations is an expansion of the CEX sample size by tenfold, from the current 5,000 households to 50,000-60,000. National Research Council, Measuring Poverty: A New Approach, Washington, D.C., National Academy Press, 1995, esp. pp.290-292.

9.See Lachman, p.18; and Gene Esptein, "Casting a Long Shadow, ***Barron's*** August 4, 1997, p.19.

10. Nor is this problem restricted to the private sector. The Federal Reserve Board's "Survey of Consumer Finances" intentionally oversamples wealthy families to get more detailed data on this market segment. It should be noted, however, that the federal government conducts other surveys which intentionally oversample low income populations, often for other purposes.

11. For particularly thoughtful work on the role of government in addressing market barriers, as well as on many of the other issues raised in this paper, see "The Competitive Advantage of the Inner City," Michael Porter, Harvard Business Review 1995, and the important subsequent research of his Initiative for a Competitive Inner City. That work and the Social Compact/Shorebank projects are generally complementary, applying similar perspectives to inner-city economies, with distinct research, expertise and practical focus.

12. An initial, simple goal would be to help businesses and others understand inner-city residents better as consumers and homeowners, rather than welfare mothers, unskilled workers or any of the other unfortunate stereotypes that too often color businesses' assessments of these markets. It is hard to overestimate the importance of numbers -- seemingly, cold, hard, and abstract -- in changing the way people look at their world, especially in a business context. A perfect example of this can be found in the work of sociologist Kathryn Edin. At one level, her groundbreaking book, Making Ends Meet, is not much more than a survey of the budgets of low-income mothers: simply income and expenditures. Yet, in Edin's talented hands these numbers create an entirely new understanding of the lives of these women (including of their participation in the local economy). Kathryn Edin and Laura Lein, Making Ends Meet, Russell Sage: 1997.

13. Similarly, work is currently underway with varied City of Chicago and State of Illinois business license and tax databases: the types of businesses present in a neighborhood, and their profitability and employment, are often useful indicators of emerging or niche markets.

14. See, "Building Stronger Communities and Regions: Can the Federal Government Help?", National Academy of Public Administration, Washington, D.C., March 1998; "Innovations in Metropolitan Cooperation," Julia Parzen, and "The Federal Role in Metropolitan Cooperation," Clement Dinsmore, background papers prepared for The Metropolitan Initiative, coordinated by The Center for Neighborhood Technology, Chicago.