Acknowledgments

The Brookings Institution Center on Urban and Metropolitan Policy would like to thank the Annie E. Casey Foundation for its support of the Center's research and policy work on the role of the city in the new economy. The Center is examining how public and private sector policies as well as demographic and market trends affect central cities' ability to attract and retain jobs, businesses, and families and be competitive in the regional and global marketplace. This paper argues that, to help rebuild inner city economies, the private sector, in conjunction with government and community leaders, must fill the information gap on the untapped market potential of central city neighborhoods**.**

About the Authors

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AUTHORS' NOTE

This paper is based on a Shorebank Corporation project to develop systematic new data and models for identifying emerging neighborhood market opportunities, and to work with companies that want to invest in them. Shorebank is the nation's premier community development bank holding company, operating banking, venture capital, real estate, consulting and other businesses which specialize in neighborhood market analysis, development and investment. Parts of the paper also draw upon earlier work Shorebank completed with Social Compact, a leading organization of major national corporate institutions committed to expanding private business investment in lower income neighborhoods. For the past two years, the two organizations have been focusing together on business markets in America's low-income urban neighborhoods. The work generated new evidence on the opportunities for, and obstacles to, business investment in distressed communities. The organizations are each now expanding the work in companion projects. This paper summarizes some of the issues that are primarily the subject of Shorebank's continuing work, with the hope of generating further discussion about what these issues mean for government, business, and community development institutions.

Many people deserve great appreciation and credit for the leadership and work that led to these projects: 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; Fran Grossman, Senior Vice President, Bank of America; and Shelly Herman, Managing Director of Shorebank Advisory Services. We are grateful also to the Ford Foundation, the John D. and Catherine T. MacArthur Foundation, State Farm and Bank of America for their continuing guidance and financial support of the current companion projects. Finally, special thanks to Bruce Katz, Jennifer Bradley, Amy Liu, and Dao Nguyen of the Brookings Institution Center on Urban and Metropolitan Policy for so capably rewriting and arranging the presentation of this paper.

ABSTRACT

America's inner cities have vast undervalued assets that are largely unseen by conventional businesses. The resulting underinvestment reflects a serious information gap affecting neighborhood markets. In today's information age, where market intelligence is the single most valuable commodity in business, little reliable, accessible data or knowledge is available about emerging urban markets. This paper examines how current information, primarily dependent on federal data sources, fails to accurately convey the opportunity in inner city economies. It then suggests how building business-based data and models can address these information imperfections, and help bring new investment to America's most distressed communities. The paper closes by suggesting ways that private sector leaders can work with the federal government and community organizations to improve data and market expertise and profitably invest in urban neighborhoods.

The Market Potential of Inner-City Neighborhoods: Filling the Information Gap

I. Introduction

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. For low- and moderate-income neighborhoods, this means 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 attracting businesses. They are, after all, 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 leaders and neighborhood development practitioners have converged.

However, applying a business, market-oriented approach to community development highlights a critical problem. A fundamental factor in the creation of economic value and the flow of economic activity is information. And inner-city neighborhoods suffer from a serious information gap. As a result, conventional businesses are currently in the position that conventional banks were in two decades ago. They are undervaluing inner-city markets, and therefore under-serving the inner-city. To achieve large scale community development, it is crucial to address these information barriers and thereby facilitate widespread business entry into neighborhood markets.

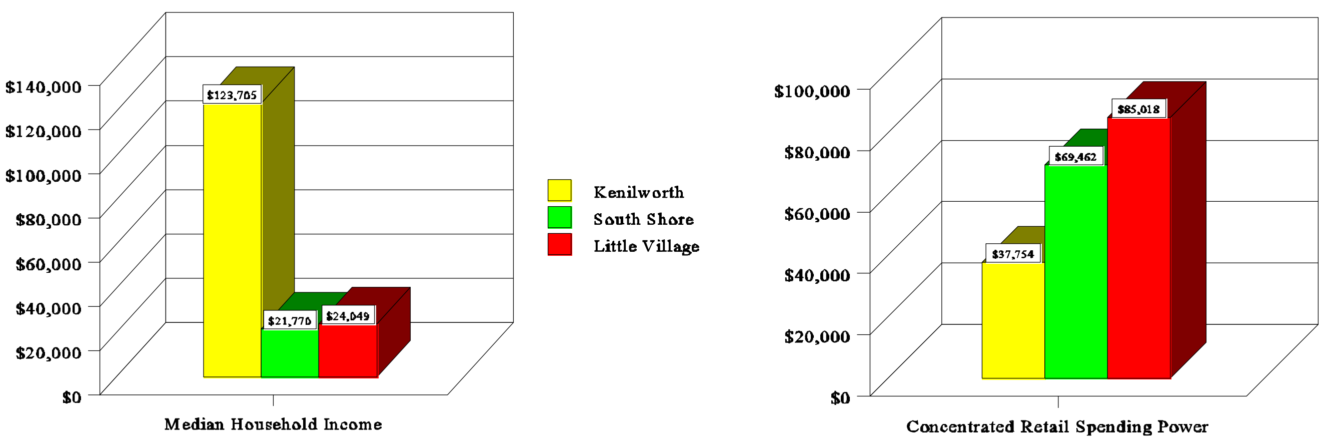
The purpose of this paper is to inform business leaders, policymakers, and local practitioners about where and why information gaps exist and about how they can begin to fill these gaps to better understand the untapped markets in inner-city communities. This engagement not only has an immediate, direct, local development impact, but also serves the critical longer term goal of reconnecting isolated neighborhood economies to regional and global economies.

II. The Opportunity: Emerging Neighborhood Markets

Over the past two years, Shorebank has worked with Social Compact to focus on the business opportunities in America's low-income urban neighborhoods. This work examines: (1) the factors that define the attractiveness of market opportunities for businesses; (2) the indicators that demonstrate that those opportunities are present in the inner-city; (3) the barriers to analyzing these markets; and (4) the ways that businesses can better identify opportunities in urban neighborhoods. It is critical to this effort that these discussions are in the language and from the perspective of an array of leading businesses.

America's inner cities have vast untapped market potential. Primarily as a result of concentration, neighborhoods like South Shore in Chicago have more buying power than even the wealthiest suburbs. For example, Figure 1 shows that 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 that of Kenilworth ($38,000).

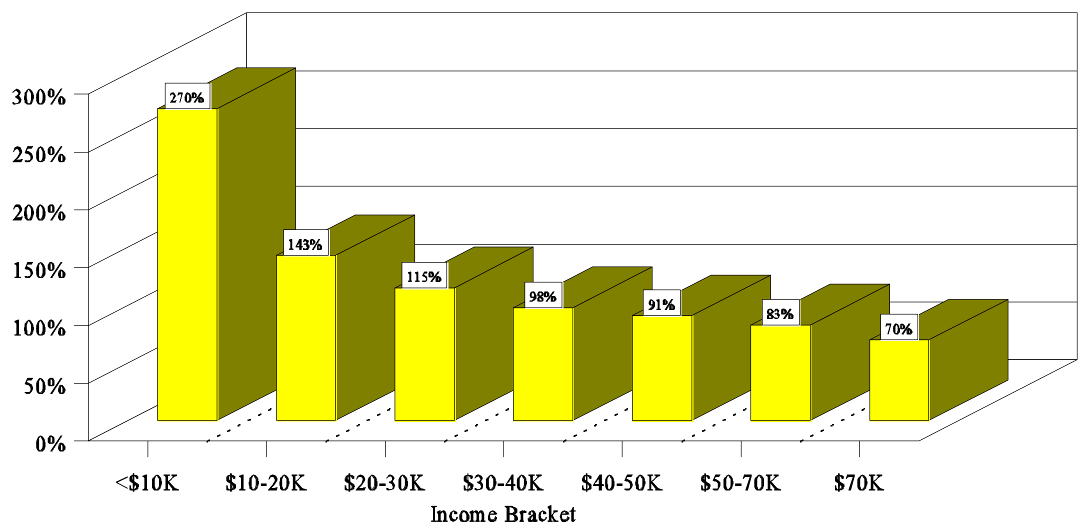
Figure 1: Income and Retail Spending Power



Source: 1990 Census and Claritas CLOUT data; authors' calculations

A major factor contributing to the poor perception of inner-city market opportunities is the poor quality or simple unavailability of reliable market information on which to base business decisions. In particular, traditional estimates of market potential based on reported income dramatically underestimate inner-city market potential. Drawing from Consumer Expenditure Data on income, Figure 2 illustrates that income is not a good indicator of spending power. For instance, individuals reporting income 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.

Figure 2: Spending as a Percent of Income

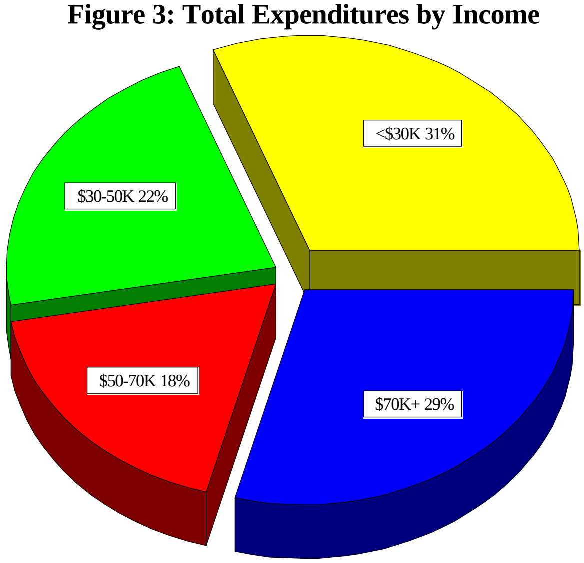


Source: 1996 Consumer Expenditure Survey Data, authors' calculations

Income	Consumer Spending
<$30K	**$920 Billion**
$30-50K	$640 Billion
$50-70K	$536 Billion
$70K+	$836 Billion

Source: 1996 Consumer Expenditure Survey data, authors' calculations

Figure 3: Total Expenditures by Income

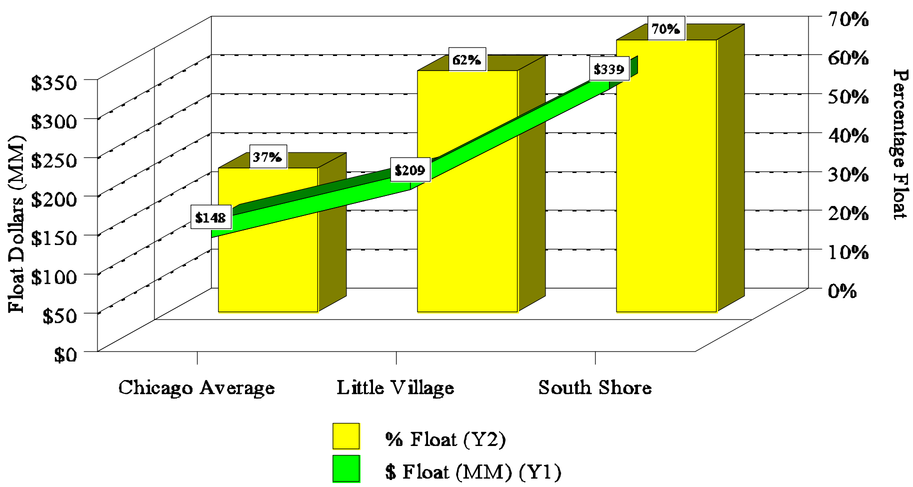


Thus, it is not surprising to learn that individuals with reported incomes under $30,000 make almost one-third of all consumer expenditures in this country (see Figure 3). This amounts to $920 billion annually, a huge business opportunity by anyone's account.

This inner-city market potential remains largely unrecognized and untapped, which represents both a crisis and an opportunity. Because a large proportion of economic activity escapes standard measurement, traditional indicators lead businesses to underestimate the market potential in inner cities. This underestimation fuels under-investment, contributing to a downward spiral in many of America's poorest neighborhoods.

The lack of business competition in inner-city markets drives residents to make a large proportion of their expenditures outside their own neighborhoods. As Figure 4 indicates, Chicago consumers living in Little Village and South Shore, two low- and moderate-income neighborhoods, make about 62 and 70 percent of their expenditures outside their own neighborhoods, respectively, compared to the 37 percent expenditures leakage for the average community area. Known as the "float,"[1] this expenditure leakage signifies a market opportunity for businesses to provide competitively-priced goods and services to inner-city consumers.

Figure 4: Comparative Retail Float



Source: Data from Claritas (1996); authors' calculations

[1] Float refers to the amount residents spend on goods and services outside their neighborhood, and is calculated by comparing the amount residents of a neighborhood spend on goods and services (wherever they spend it) with the volume of sales of those goods or services within the neighborhood.

Table 1 shows how this analysis applies to the Austin community in Chicago.[2] The analysis found, for example, that local residents are spending $98.2 million -- a stunning 72 percent float rate -- on groceries outside their community. 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 stem expenditure leakage, capturing jobs and economic momentum locally.

Table 1: Float by Sector, Austin (Chicago)

Type of Retail	Est. Total Austin Sales	Est. Total Spending by Residents	Float ($)	Float (%)
Apparel	$4,580,994	$43,090,000	$38,509,006	89%
Shoes	$1,134,282	$11,573,000	$10,438,718	90%
Furniture	$7,780,522	$15,045,000	$7,264,478	48%
Dining Out	$16,206,088	$76,316,000	$60,109,912	79%
Groceries	$37,939,208	$136,118,000	$98,178,792	72%
Home Improvement	$15,234,851	$17,006,000	$1,771,149	10%
Auto Related	$16,317,756	$8,155,000	($8,162,756)	-100%
Department Store	$2,610,144	$50,044,000	$47,433,856	95%
Total	$101,803,845	$357,347,000	$255,543,155	72%

Source: Austin United Strategic Plan (1991); based on data from Donnelley Marketing

Case studies of leading businesses succeeding in inner-city markets provide concrete evidence of the high market potential in these often neglected neighborhoods. Figures 5 through 7 show how large corporations, including State Farm Insurance, Bank of America, and Ameritech, report substantial demand for their goods and services in lower-income communities. Some of these companies have followed their business sense of local market opportunities despite being 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.

[2] Working with John McKnight and Jody Kretzman of Northwestern University's Asset Based Community Development Institute, and with Austin community leadership, Shorebank is designing a new kind of neighborhood-based business institution whose focus, in part, would be to develop specialized neighborhood market information and entry channels for use by corporations investing in neighborhood markets.

To take just two examples: State Farm (Figure 5) has increased its homeowner policies in South Shore by 37 percent since 1991, compared with an 18 percent increase for all Chicago; and Bank of America's (Figure 6) corporate lending in low- and moderate-income neighborhoods grew from $256 million in 1994 to $380 million as of 1996, a rate of increase 25 percent faster than in its other income-segment portfolios.

Figure 5: State Farm Insurance
Homeowner Policy Increases, 1990-1997

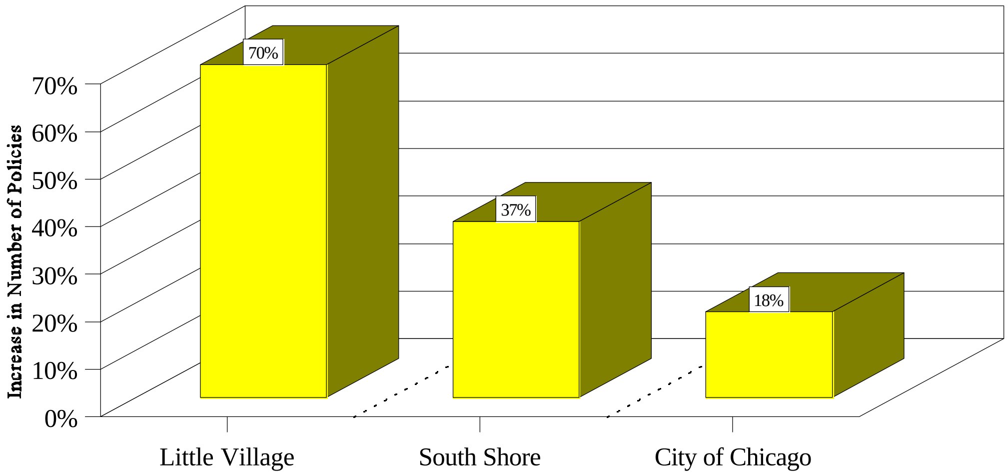
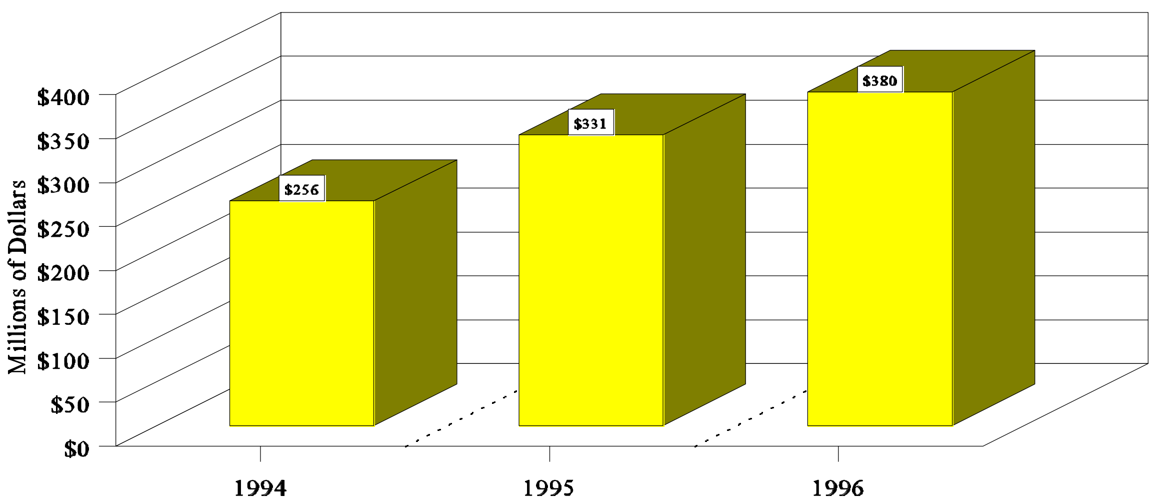
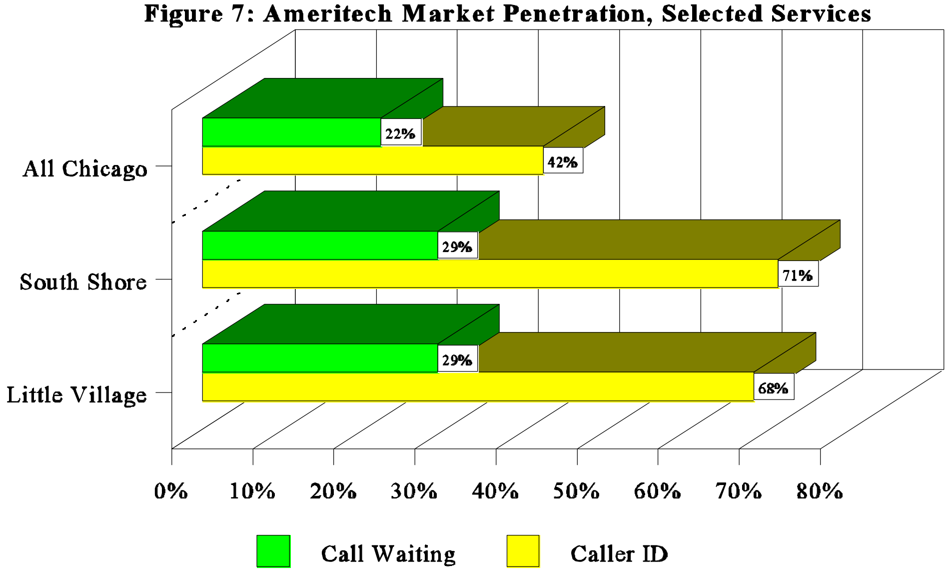


Figure 6: Bank of America
Lending and Investing in Chicago Low/Mod Communities



Lending and Investing Growth Rate: Low/Mod Communities 24%; All Others 19%

Figure 7: Ameritech Market Penetration, Selected Services



III. THE PROBLEM: LACK OF MARKET INFORMATION

As mentioned earlier, one of the major factors keeping businesses from tapping inner-cities' potential is the lack of reliable market intelligence. Although broad-brush expenditure data as well as anecdotal evidence reveal general inner-city market potential, these markets remain largely untapped in part because most businesses need more niche-specific or reliable data. 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. Even the leading businesses that are profitably investing in inner-city neighborhoods repeatedly report that their site selection and other market analysis models do not work as well, primarily because of the lack of reliable information.

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 market 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. Because this sort of intelligence is not generally available for disinvested communities, the danger is that these communities will be increasingly overlooked and under-served 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.[3] As poor people fall through the statistical cracks, they fall out of sight, out of mind, and, increasingly, out of opportunities.

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 is twofold. First, there simply is inadequate data on traditional indicators for inner-city markets, and therefore estimates using these indicators will fail to capture an accurate 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

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

expected the same sort of information as they do 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.

Federal Data Is Insufficient

While it is easy to say that standard market indicators do not work in the inner-city, it is much more difficult to determine *why* they do not work and what can be done about it. The problem begins with the way traditional market information is produced. Market information is a function of which indicators (e.g. median income) are used to describe or predict market potential, and of what data (e.g. Census data) are used to measure the indicators. 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.

Although a plethora of private sector data providers have sprung up to meet the growing business need for local market intelligence, most private sector market estimates are still built on a bedrock of government data. Private market analysts, however, face a serious challenge in translating raw government data into market use. 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.

U.S. CENSUS: In Focus, Off Target

Many, if not most, businesses rely heavily on their market analysis of income data, generally derived from the U.S. Census. While appropriate for middle- and upper-income neighborhoods, using reported incomes as a measure of estimated market potential is 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. As illustrated above, less affluent consumers spend more than their reported incomes. 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.[4] 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.

Relying on income data from the Census can also be misleading because of under-counting and under-reporting issues that the Census commonly encounters in obtaining information on inner-city neighborhoods. Another source of this discrepancy that is generally acknowledged is the unrecorded 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.[5] 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.[6] By anyone's measure, the amount is staggering, and entirely unrecorded by traditional income measures.[7] 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.[8] 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 under-report expenditures than income.[9]

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[4] Daniel 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.

[5] See, for instance, Wells Fargo Bank, "The Underground Economy: A California Growth Industry?" 1996.

[6] 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.

[7] It bears emphasis that this unrecorded revenue-generating activity is overwhelmingly legal, and the failure to record it may generally be legal as well. Transactions ranging from relatively small cash gifts to various transfer payments to certain kinds of bartering may reasonably not be captured by systems focused on other objectives (such as income taxation), but may nevertheless contribute to market buying power.

[8] The magnitude of the issue is dramatized in Feige's implication that the adjustments required of Keynesian economics may have merely reflected bad data and that stagflation may have been a mismeasurement. Also, according to Slesnick, if we looked at expenditures rather than income from 1970 onward we would find that the trends in the standard of living would be reversed. While neither of these arguments are conclusive, they highlight the possible scope of the measurement problem.

[9] See Feige, "The Meaning and Measurement of the Underground Economy."

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.[10]

The 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. A typical approach is to use Census figures to determine demographics in a given area, and then cross-reference these figures with the CES, which provides estimates of spending tabulated by demographics.[11] 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.[12] 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. 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.

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.

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[10] One recent major study concluded that, while there are strong reasons for preferring 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 CES 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.

[11] A simple, but common, methodology is to use the CES microdata in a regression (or similar) model of demographic variables against spending. The coefficients from these equations are then used with local area Census demographic data to estimate spending at the tract or block-group level. The specific models used by various companies are highly proprietary.

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

Lack of Private Sector Expertise on Inner-City Markets

The importance of market intelligence 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 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, remains largely unknown to marketers.

Even among the relatively small number of marketers who have begun to embrace multicultural or diversity marketing, the focus remains on the more affluent members of selected minority groups. In these cases, the standard appeal becomes, 'You probably didn't know that households earning more than $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 markets out of the spotlight. Indeed, the general trend towards increased use of household-level databases aggravates these problems, as these databases tend to have lower coverage in inner-city neighborhoods.

Beyond Data: Other Information Barriers to Neighborhood Investment

Finally, even with good data, indicators, and market analysis suggesting 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 locating a site, finding a qualified work force, effectively reaching local consumers or addressing security concerns also have aspects that are fundamentally information problems. A neighborhood business partner with specialized knowledge of the neighborhood market can often help fill these information gaps. Pioneering businesses, often partnering with neighborhood market specialists, have shown that: (1) the perception of inner-city market barriers is often much greater than the reality; and (2) costs can be managed to maintain profitability.

Nevertheless, the obstacles to inner-city business development remain much more widely known than the opportunities and successes, especially due to prevalent negative (mis)perceptions of inner-city neighborhoods and their residents. This means that doing business in the inner-city requires a leap of faith too risky for many companies. For these reasons, many businesses either do not enter inner-city markets or do not engage these markets with an understanding of consumer behavior and market niches.

The result is that low-income neighborhoods are under-served. They become less attractive, and housing markets become more stagnant. Those who do live in the inner-city routinely spend a greater share of their income outside their own neighborhoods, purchasing goods and services that are unavailable locally. This expenditure leakage undermines inner-city quality of life. For business, this translates into 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 and lost opportunities in our communities.

IV. The Response: Close the Information Gap

A business-based approach to emerging neighborhood markets highlights both the opportunity in inner-city markets and the extent to which that opportunity is untapped. If, as suggested here, a primary aspect of the failure is imperfections in market information, then the response is to close the inner-city information gap. Improved business data and models to identify neighborhood market opportunities could attract enormous investment, translating into jobs, local business and wealth creation, and healthy, competitive neighborhoods. Accomplishing this requires the private, the public, and the community development sectors to fill complementary roles.

The Role of the Private Sector

Profit and economic self-interest, not artificial inducements, are the only incentives that will bring businesses -- full-scale, operating competitively, and over the long haul -- into the city. Once businesses realize that the inner-city presents a market opportunity, and develop tools, expertise, and business partnerships, then successful investments will follow. Yet many companies rely heavily on income data and are still using conventional approaches which overlook the inner-city. For example, companies often simply examine the markets where their existing stores do well and then look for new markets that are similar (without considering how their indicators or data sets might not translate to inner-city neighborhoods). Given the broad evidence of opportunity in the inner-city, the private sector first needs to take a fresh look at these neighborhoods. What they learn may help drive the demand for new types of data.

1. Leading inner-city investors can share their own success stories and findings about inner-city opportunities.

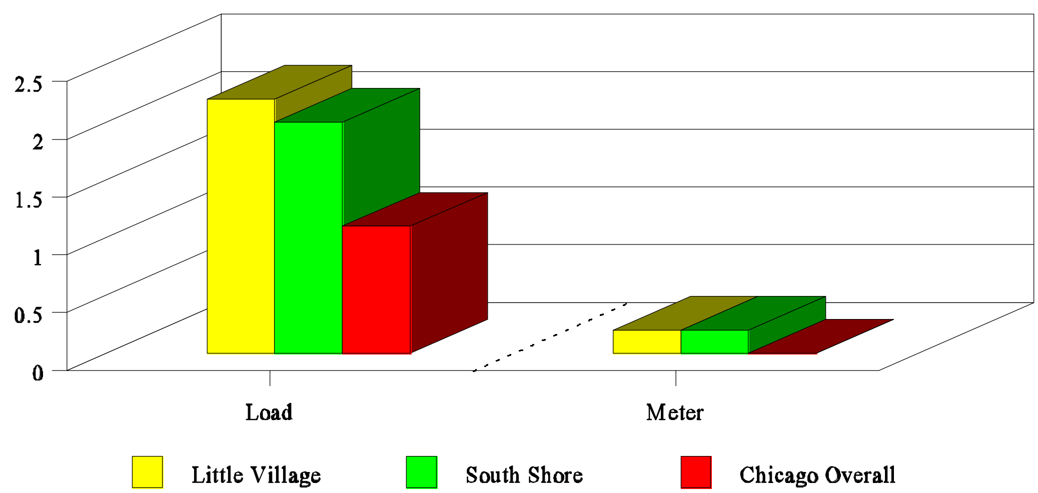
Leading companies are taking a look at inner cities, developing new tools, and making successfully investments. These companies can play a critical role (as they are in Social Compact) in sharing and disseminating their findings and best practices concerning identifying and investing in emerging neighborhood markets. Within the bounds of protecting proprietary information and information that would aid competitors, leading businesses have many interests in encouraging others to invest: additional investment expands wealth and stability, thereby strengthening local and broader markets and reducing costs.

2. ***Private sector leaders can also identify data needs and help guide the data collection and analysis efforts.***

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, utility companies have detailed information on a neighborhood's electricity (see Figure 8) and phone usage, which are both good indicators of overall economic activity. Another example of private sector data that may provide important indicators of economic trends is credit reporting agencies' records reflecting a neighborhood's credit capacity. Research for the first phase of the project suggested that local paint sales, a more unusual indicator that depends on a private data source, may be a good predictor of residents' confidence in their neighborhood and neighborhood stability because such sales correlate with residents' investments in improving their properties.

Figure 8: Commonwealth Edison
Percent Increase in Market Demand 1986-1997



Note: Load is a measure of the peak usage (relates to volume); meter refers to the number of active meters (relates to number of customers).

Some of the work Shorebank is now undertaking builds on these findings and further illustrates potential private sector activities (as well as potential role for community economic development organizations). The Shorebank project will assemble an extensive database on all neighborhoods in the Chicago area. Private companies are contributing data (under careful confidentiality and proprietary arrangements) both on performance and on predictors (potential indicators of neighborhood market strength). Similarly, Shorebank is expanding its own customer database, from which appropriate data will be contributed. Through its 25 years of doing business in target markets, the company has unusual access to specialized information on 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. As discussed below, the database will also include a great deal of government data, including conventional data but particularly focused on new data sets not commonly used for this purpose. Finally, the project ultimately envisions adding data from a tailored inner-city consumer expenditure survey.

Raw data is a vital information resource, but it should not be confused with genuine knowledge or intelligence. It is critical to shape the data collection and particularly to convert the database to market intelligence. It is also important to develop and test indicators and models for market analysis that can identify emerging and niche inner-city markets, both broadly and for particular industries. The private sector has the necessary, extensive expertise in identifying data needs, potential indicators and models, and insuring their business efficiency and effectiveness.

The process of creating new indicators involves using 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[13] are the best predictors of sales for a particular industry. For another business, paint sales and changes in daytime population may be better indicators. Better data for existing models and evidence from new marketing models like these would provide the practical market intelligence that facilitates new more systematic, larger scale business investment in the inner-city than any number of government subsidies or charitable appeals. In addition, these models would help to advance the overall understanding of the economies of the inner-city and their stages of development.

[13] An "assumed name" is any name used for business purposes (e.g. Dave's Hot Dogs) other than an individual's own name (e.g. Dave Smith). In Cook County, when an individual does business under such an assumed name, it must be registered with the County Clerk. This does not apply to incorporated businesses. It is thought that assumed name registrations are a good indicator of small-scale entrepreneurial activity (see further discussion in text below).

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

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. With over $150 billion[14] in annual federal spending allocated based on the poverty rate, the incentive to paint an accurate picture of *deficiencies* is considerable. This one-sided picture, in addition to contributing to the isolation and demoralization of inner-city neighborhoods and their residents, heavily contributes to the business sector's failure to look at inner-city neighborhoods as market opportunities.

Nevertheless, a great deal of public data already exists that can help provide a positive picture of investment opportunities in inner-city markets. It would be especially useful 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. Governments' information resources are enormous and, particularly in the information age, their value should be recognized through their use in inner-city market analysis.[15]

1. Conduct an Inventory of Existing Federal Data that Could be Used for Inner-City Market Analyses.

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[14] More than 25 federal and federal-state programs that provided cash or in-kind benefits to low-income families in 1994 -- such as food stamps, Head Start, legal services, and Medicaid -- linked their need standard for eligibility to the U.S. Department of Health and Human Services poverty guidelines which are derived from the official poverty thresholds. See National Research Council, Measuring Poverty, pp. 320-32. For a complete breakdown of expenditures by program and links to poverty guidelines, see Appendix D of *Measuring Poverty*.

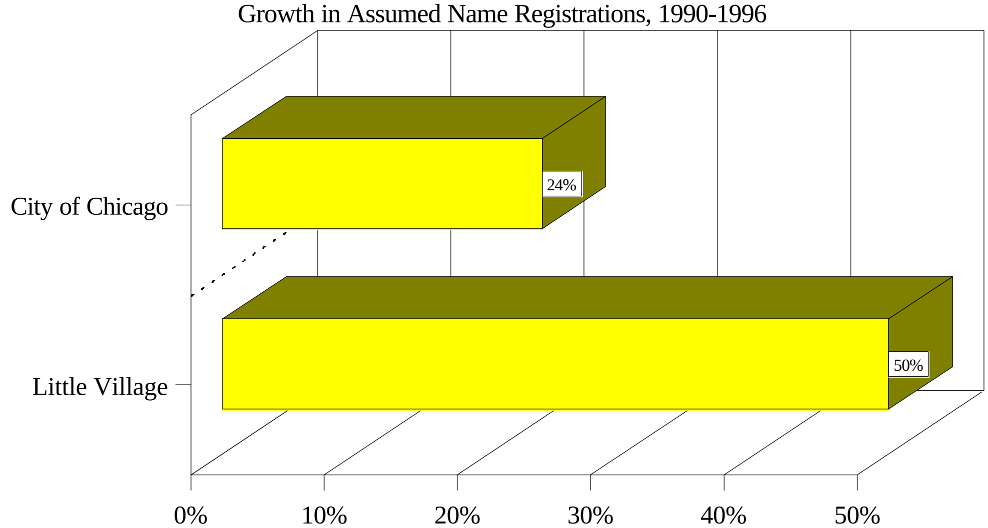
[15] An initial, simple goal would be to help businesses and others perceive inner-city residents as consumers and homeowners, rather than welfare mothers, unskilled workers, or other stereotypes that may inaccurately bias businesses' assessments of these markets. It is hard to overestimate the importance 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 Rutgers University. 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, Edin uses these numbers to create an entirely new understanding of the lives of these women (and of their participation in the local economy). Kathryn Edin and Laura Lein, Making Ends Meet, Russell Sage: 1997.

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 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. Upon request, with modest effort, the County Clerk was able to provide aggregate data in a database, broken down by neighborhood in Chicago, which can be updated annually.

The data initially appears to correlate with at least certain stages of emerging markets. As Figure 9 shows, between 1990 and 1996, assumed name registrations in Little Village, a vibrant lower-income community, increased at twice the rate as the rest of the City of Chicago. Combined with and tested against other new private and public data,[16] data on assumed name registrations may become part of an innovative set of indicators and models of inner-city business activity, more accurately demonstrating market potential than standard Census reports.

Figure 9: Below the Radar Screen

Growth in Assumed Name Registrations, 1990-1996



Source: Cook County Clerk data, authors' calculations.

[16] Similarly, work is currently underway with various 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.

2. *Collect and Disseminate New Data*

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. Some of their data -- e.g., income tax returns, government transfer payments, mortgage lending, specific business performance data -- when properly aggregated, assembled in a database and analyzed, could describe the potential of inner-city neighborhood markets. Considering the enormous impact that making this data available could have on inner-city communities and their residents, this wealth of data is itself an underutilized resource. The agencies primarily responsible for various forms of poverty alleviation are often overlooking this major resource within their sibling agencies.

The first step might be for each agency to undertake a data inventory by simply looking -- with a business lens -- at the types of data it obtains to determine which might be useful for inner-city market analysis. The public benefit of such a review would be to promote poverty alleviation, particularly by improving business perception of, and activity in emerging neighborhood markets. For example, simply making existing CES data available for defined inner-city areas would be useful. Data on government transfer payments by geographic areas that translate into neighborhood buying power could readily be integrated into business databases. Other examples such as data by geographic units on checking account activity, or the sales volume of particular types of businesses, or the trends in property tax delinquencies may seem less obvious, but would be just as valuable.

3. *Work with Business Sector to Identify New Data Needs*

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 direct knowledge of what data are useful, of which statistics translate into market potential, and of how data can best be made available. A private sector advisory council representing market analysis expertise from leading companies might be created to fill this role.

A systematic focus on the opportunities for and public value of attracting business investment to neighborhood markets may lead the business community into more extensive identification of new data needs and an expansion of data collection by the public sector. For example, an expanded Consumer Expenditure Survey sample targeted to inner-city markets might prove particularly valuable (and, in part, may begin next year). Efforts to adapt, expand, analyze and disseminate information specific to inner-city markets collected in the Census of Retail Trade might prove similarly fruitful. Several efforts already proposed or underway, including particularly the American Community Survey,[17] should also result in useful new data, and might be further improved through this effort.

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.[18] Government has the capacity, especially if it engages private sector expertise, to add a market analysis focus to these data collection efforts, which would be of inestimable value in recasting perceptions of inner-city neighborhoods and renewing market activity and investment.

4. Build on Existing Efforts

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) identify information that is currently collected and that could be used to analyze neighborhood markets; (2) remedy any deficiencies in the way information is collected to ensure that it has maximum potential for business analysis; and (3) 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 initiatives of the Clinton Administration, including empowerment zones, brownfield investments and community development finance. A 1994 Executive Order created the Community Empowerment Board under the direction of the Vice President to coordinate targeted urban activities of the federal government.

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[17] The American Community Survey is a new Census Bureau monthly household survey currently being tested in selected sites. It is designed ultimately to replace the Census long form and to provide more timely on-going community level information.

[18] 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.

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. These range from the Interagency Council on Statistical Policy to the Federal Geographic Data Committee's National Spatial Data Infrastructure[19] and the Community 2020 project[20] to the recent focus on the federal information roles in supporting regionalism and sustainable development initiatives.[21] The suggestions mentioned in this paper naturally complement other efforts and could very substantially increase their impact.

Government, of course, has many other roles to play in neighborhood reinvestment beyond addressing the information gap.[22] State and local governments, in particular, can focus on creating competitive advantages in the market environment, addressing many market barriers, from physical infrastructure to regulatory issues. In addition, programs that leverage rather than supplant private business and capital market activity should be strengthened. But the enormous potential of the information function should not be underestimated. A government shift from painting inner-city neighborhoods as places of deficiency needing traditional government welfare programs to places of opportunity for

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[19] The purpose of the National Spatial Data Infrastructure project is to collect data from multiple Federal departments, state agencies, and local municipalities, and make the data readily available to the public. This information may prove particularly useful at the local level. For example, it may be mapped to show where crime hot spots, housing, sanitation services and public health facilities are all located.

[20] Community 2020 is a software program that has Federal level data that allows communities to map various local economic and population characteristics.

[21] 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.

[22] 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 Shorebank and Social Compact projects are generally complementary, applying similar perspectives to inner-city economies, with distinct research, expertise and practical focus.

business investment could by itself go a long way towards restoring healthy inner-city economies.

The Role of Community Development Organizations

Addressing the inner-city information gap to attract new business investment offers particular opportunities for community organizations as well. Leading businesses are recognizing the importance of community development partners as neighborhood specialists.

1. Contribute to Market Understanding of Neighborhoods

Neighborhood development organizations can bring specialized knowledge to market intelligence, such as: neighborhood assets and market opportunities, resident spending power, consumer preferences and behavior, satisfaction and dissatisfaction with existing businesses, and unmet consumer needs and demand. In today's consumer-driven marketplace, neighborhood organizations, through their membership and local activities, have access to a remarkable pool of market intelligence and business assets.

2. Beyond Data: Improve Market Access

Neighborhood organizations have another kind of market knowledge that 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 because it allows them to better identify niche markets, facilitate consumer access, and particularly, 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.

Neighborhood development groups are discovering these new roles as builders of local markets and as entrepreneurs and resources to businesses. The roles can lead to customized business relationships between interested companies and business-like community development institutions. Community business institutions address issues from land assembly to employee screening to safety, as well as serving as a resource for more efficient market access. These business relationships not only help otherwise unprofitable activities become feasible, but also create opportunities to leverage other development.

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, their organization and their 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.

V. 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, and they must connect to regional economies. Information, widely distributed and appropriately analyzed, is one of the means by which communities get connected.

- The private sector, government and development organizations all have to facilitate this linkage.
  - The private sector must be willing to take a new look at inner-city neighborhoods as potential business opportunities.
  - Leading inner-city investors can share their own success stories and findings about inner-city opportunities.
  - Leaders can also identify data needs and help guide the data collection and analysis efforts.
  - The private sector must drive the investment process, bringing a business discipline and focus that creates new market demand for good inner-city information.
  - Ultimately, it is the private sector which must put the information to good use, undertaking new investment in inner-city markets.
- Government has a pivotal role to play, particularly when the broad potential opportunity is clear, but the refined information is often not available.
  - Governments at all levels could focus on the ways they contribute to an imbalanced, deficiency-based perception of the inner-city, and could examine the nature of the inner-city market information barrier.
  - Government agencies could undertake data inventories to identify the useful data they already maintain, particularly the unconventional data that is often not examined from a market perspective, made available to businesses, nor extracted for the inner-city.

- Government and business advisors could identify new inner-city business data sets that would be particularly useful, and organize their collection and dissemination.

- The federal government is clearly positioned to lead this effort and could begin with an Executive Order that mandated agencies to inventory their data in conjunction with an inter-agency committee and business sector advisory council.

■ Community economic development organizations should be active participants in addressing the inner-city information gap, becoming neighborhood market specialists and partners to major businesses that will now be able to see the opportunities of previously under-considered, under-serviced inner-city markets.

Under this model, private companies operate according to their economic self-interest, not out of a tenuous sense of obligation. The government provides information and market and community strengthening, not long-term expensive services that are vulnerable to budget cuts. Inner-city residents are customers, consumers, and 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. This approach holds the promise of changing the way inner-city neighborhoods are perceived, creating a new business capacity to invest in inner-city markets, and translating that capacity into new community investments. Once the inner-city information gap is closed, an enormous opportunity emerges for businesses and communities, which can together build neighborhood markets.