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Creating Value in Inner City Supermarkets The Community Pride Way

A Case Study

by

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Executive Summary

Employing a business model based on superior, customer-targeted service, community involvement, and workforce development and retention that are uniquely targeted to his environment and customer base, Johnny Johnson has become the largest minority grocer in the nation. Johnson established Community Pride with four supermarkets in the inner city of his native Richmond, Virginia, in 1992 and has expanded to a total of eight markets—five inner-city locations plus three suburban locations. During the course of his business, Johnson has operated profitably in a market eschewed by many retailers, including grocers. He attributes his success to identifying and meeting the unique needs of the communities in which he does business, thereby making sure that he offers value that will generate a brand loyalty even in the face of price competition from larger chains. Johnson’s case illustrates the key elements of his compelling business model:

- Entrepreneur seizes early opportunities of untapped inner-city retail markets
- Hands-on management style has been key to continued success
- Demand-driven approach to the development of goods and services has created a high value proposition in a price-driven, low-margin business model
- Community involvement strategy is integrated into all aspects of the business model: site selection, marketing, purchasing, human resources

Evolution of an Innovative Inner-City Retail Model

Origins of the Company

Unsure of what he wanted to do when he returned to Richmond from Boston College in 1983, Johnny Johnson took a job as a bagger for Farm Fresh. The Norfolk-based supermarket chain was then one of the state’s largest, and Johnson, who rapidly moved up through the ranks to management,¹ eventually opened and administered 42 Farm Fresh stores.²

While working for Farm Fresh, Johnson noticed a lack of alternatives in grocery shopping available to people in the working-class neighborhoods of Richmond. Some neighborhood stores, like the A&P where his father had worked and where Johnson himself first bagged groceries, were abandoned. Of those that remained, most were operating in decrepit buildings and offered little selection.³ Johnson’s opportunity to do something about that situation came in 1991, when he was approached by the chief executives of Ukrop’s, a leading supermarket chain, and RichFood, Inc., a large food distributor. Jim Ukrop, CEO of Ukrop’s Supermarkets, and Donald Bennett, his counterpart at RichFood, were looking for ways to strengthen Richmond’s African American communities economically and improve race relations. They had also heard about Johnson’s ascent at Farm Fresh and viewed him as something of a wunderkind of the

¹ Derek T. Dingle, The Freshman Class of ’96: The BE 100s; The Nation’s Largest Black Businesses,” *Black Enterprise*, June 1996, p. 154.

² Thomas Kellner, “He Keeps His Ear to the Ground.” *Forbes* November 15, 1999, pp. 204-206.

³ Otesa Middleton, “Community Pride Seeks to Profit and Provide,” *Richmond Times-Dispatch*, July 4, 1993, p. E1.

grocery business in Richmond. With financial backing from Ukrop and RichFood, Johnson was offered the opportunity to run his own company. Ukrop's contribution was a \$700,000 loan, and Johnson committed \$300,000 to the project by borrowing against his house and cashing in his 401(k) in order to make a down payment on a \$4 million loan, co-signed by RichFood, to purchase four underperforming stores near downtown Richmond.⁴

Instead of building stores from the ground up, Johnson's strategy was to find outlets near African American communities that could easily be renovated. He selected four underperforming grocery stores and opened them as the first Community Pride stores in March 1992.⁵ He opened a fifth outlet eight months later. In May 1999 Johnson acquired three Rack & Sack outlets in suburban Richmond when Farm Fresh pulled out of the Richmond market, bringing his total to eight—five Community Pride outlets and three Rack & Sack stores.

In his first year of operation Johnson achieved \$13.7 million in sales. Seven years later, sales were more than seven times that figure. The company's first profit came in the fiscal year ending March 1997.

Table 1: Community Pride Annual Sales

<u>Year</u>	<u>Sales (in \$ millions)</u>
1992	13.7
1993	19.2
1994	23.6
1995	23.3
1996	45.8
1997	49
1998	65
1999	97

Community Pride currently has 1,084 employees, including 610 full-time staff. The annual payroll totals \$7 million.

Growing the Business

In order to remain competitive, Johnson expanded the business from the initial four stores bearing the Community Pride name to five and then added the three Rack & Sack stores. This purchase made Johnson the largest minority grocer in the country. It also gave Johnson stores in suburban locations and doubled the company's revenues. To represent his ventures more accurately, Johnson created a new company, Marketplace Holdings, Inc., with two operating subsidiaries, Community Pride and Rack & Sack.⁶ In order to finance this expansion, Johnson sold 49% ownership of the company to RichFood for \$8 million.⁷

⁴ Kellner, 1999.

⁵ Dingle, 1996.

⁶ Gregory J. Gilligan, "Richmond, VA area deal makes minority grocer largest in U.S." *Richmond Times-Dispatch*, May 13, 1999.

In addition to the acquisitions, Johnson undertook a two-year renovation and expansion project of the Community Pride stores in early 1998.⁸ Under the \$6.84 million plan, the chain is replacing or renovating older, smaller stores with larger units offering amenities typical of suburban supermarkets, such as seafood sections, expanded bakeries and delis, hot food bars, ready-to-serve food sections, and bank branches and pharmacies (see Sidebar 1). The company has already opened two of these revamped stores, called Community Pride Plus, and the expanded format has resulted in a 25% increase in daily sales according to Cynthia Johnson-Thompson, Community Pride's Vice President of Research and Development.⁹

Meeting the Challenge

A few months after getting the original four stores up and running, Johnson began to notice that Richmond's urban neighborhoods had declined lamentably since the time when he was growing up there. Houses were deteriorating and storefronts were vacant as a result of a residential and commercial exodus to the suburbs. Poverty, drugs, and crime had replaced the sense of community he remembered. Thus in developing his business, Johnson has had a dual mission: to operate as a viable business enterprise while revitalizing and restoring a sense of pride to the neighborhoods, or put more succinctly, "to profit and provide."¹⁰ This vision is reflected in the name Community Pride.

Johnson's business goal of establishing a profitable inner-city grocery chain presented a challenge. The supermarket industry is notably a low-margin business; most grocers are doing fairly well if they generate a 1% profit, or a penny on every dollar they take in. Thus in order to be profitable grocers must generate a high volume of sales (see Sidebar 2). Johnson points out that it is even more of a challenge for an inner-city business to create that volume, because the average per capita sale among urban customers is \$10 to \$12 less than the average suburban customer sale. Johnson and other inner-city grocers must maximize their customer base, generating additional sales to make up the difference. In spite of making smaller average purchases, inner-city shoppers report monthly grocery spending levels that are slightly higher than those of the average American household.¹¹ They just make a larger number of smaller purchases. This finding speaks to Johnson's desire to secure customer loyalty; he wants to make sure all of these purchases occur in his stores.

Johnson merged his goal of establishing a loyal customer base and generating the necessary sales volume with his vision of regenerating community spirit and improving neighborhoods, integrating the two into his fundamental business model. Rather than pursuing the dual objectives of profiting and providing in isolation, he decided to try to profit *by* providing. This is

⁷ Kellner, 1999.

⁸ Gregory J. Gilligan, "Richmond, VA grocery chain to expand in inner city," *Richmond Times-Dispatch*, January 15, 1998.

⁹ Michael Harrison, "Community Pride to add Plus format units," *Supermarket News* 49 (1): p. 6.

¹⁰ Middleton, 1993.

¹¹ Initiative for a Competitive Inner City. 2000.

how his unique model of integrating community service into all aspects of his business, detailed in the succeeding sections, came about.

The Competition

According to Johnson, when he started Community Pride there were at least eleven supermarkets in inner-city Richmond, including Safeways operating in two of the buildings he bought. All of those stores were typical, he says, of stores in other inner cities. They were not kept clean, and the quality and selection of their produce, meat, and items were poor. All eleven stores have since closed, in Johnson's estimation because they failed to offer value to the community by targeting the urban shopper, providing service, and being involved in the community, all characteristic of the Community Pride model.

About a year ago a new Winn-Dixie opened across the street from one of Johnson's stores, the parking lot of which is a hub/transfer point for the city bus system. Even in this high-traffic area, the new supermarket is not operating successfully, based on observations of its parking lot and traffic flow compared to the Community Pride store across the street. Johnson surmises this is because the company has failed to recognize that successful retailing in the inner city requires a different model; the "cookie-cutter" approach of suburban stores that compete solely on price will not work. Rather, inner-city retailers must target their approach to the niche urban market as he has done, thereby developing a customer base with brand (i.e., store) loyalty.

The Business Model: Adding Value to the Inner City

Johnson's operating philosophy centers on identifying and responding to the needs and demands of the community. Johnson has targeted his clientele as precisely as he can, making a concerted effort to build a customer base that will remain loyal even when competitors like Wal-Mart Supercenters begin to realize the potential of the inner-city grocery market. Once these high-volume chains move near the neighborhoods he now serves, Johnson acknowledges he will have trouble competing on price. He contends that what he offers instead is *value*, as distinct from price, through what he does for the community.¹²

It is this focus on value-added, and the price-value distinction, that is the key to Johnson's business model. Johnson believes he adds value to the community by finding ways to serve the unique needs of his customer base. The Community Pride business model recognizes and embraces the fact that the inner-city market is different from the suburbs and requires a different approach to all aspects of grocery retailing, including service, merchandising and marketing. The two primary examples he cites, which have had significant impact on his sales and which will be discussed in detail later, are van service home for customers without transportation and support of the Richmond Public Schools.

Retrofitting the Suburban Supermarket Model to Meet Inner-City Demand

¹² Kellner, 1999.

The current conventional wisdom says that all inner-city supermarkets need to offer to be successful are clean stores, quantity and quality of selection, and lower prices. Johnson says this is a great start, and it was where he began, since he “cut his teeth” on the typical suburban supermarket model before launching Community Pride. But Johnson says he realized almost immediately that because of his business’s small size, combined with his desire to offer quality meat and produce, he could not compete with other city stores based on price. He had to offer something more than price. The business strategy he developed was to add value to the community.

Johnson did not think of himself as a social activist in the beginning. Rather, he saw himself as a businessman investing in an untapped market (see Sidebar 3). After several months, however, he was reminded of the problems he had escaped by living and working in the suburbs, and he decided to make Community Pride live up to its name while also becoming profitable. To achieve his goal he pursued a three-pronged operating plan. Consistent with the concept of applying the suburban supermarket model to the inner city, Johnson first told his store managers to order only “grade A” merchandise. Second, he demanded that all employees provide first-class customer service. However, it is Johnson’s third prong—an innovative fusion of marketing with community service targeted at inner-city needs—that is designed to meet the unique grocery shopping habits of his customer base. As will be examined in detail later, Johnson altered what he sells in his stores, how the merchandise is presented and marketed, and what kinds of services he offers customers. The community service orientation that Johnson initiated within the first year of operation has continued to evolve and grow since that time.

While Johnson’s approach differs from the notion that suburban-style supermarkets can thrive in the inner city merely by tapping that emerging market, Johnson does feel that applying the suburban model to the inner city is a good start—but emphasizes it is just that, a start. He says retailers need to recognize that inner-city consumers want the same things suburban shoppers do, for the most part, but as is demonstrated later, they want them packaged and merchandised differently. He contends that inner city retailers must look beyond price in order to compete and remain sustainable in the long term—this is why he advocates the community-sensitive, community linkage model that he has developed.

The community service model requires keen attention and sensitivity to the different needs and wants of inner-city customers. Johnson and his management team continually, deliberately interacting with customers to learn their wants. They know how to turn their customers’ desires into goods or services offered in the stores, and the company is small enough and flexible enough to respond quickly.

Personal Commitment and Hands-on Management

Another feature that helps make Johnson’s model responsive to his inner-city customer is his level of involvement in all aspects of the business and his identification with the community. In addition to investing his own money in the business, including twice borrowing against his home, Johnson is a visible, accessible figure to both employees and customers. He walks at least three stores on any given business day, varying the days and times of these visits to keep

employees on their toes. The stores he misses one day, he visits the next. When he opens a new store, he maintains his office there and remains completely involved in managing it until he feels absolutely comfortable with the store's management and customer service. Johnson says there is no aspect of the business he is not involved in, no job he won't do, from receiving deliveries to picking up scrap paper in the stores.¹³ At all stores, he is in control of daily operations, including customer complaints, vendor negotiations, and employee counseling, and is highly visible even when he is not present. His face is on all signs advertising the stores' van service, and he is seen so often in neighborhood churches and schools and on television that he has become something of a community icon.¹⁴ Customers recognize him, stop to talk to him, and tell him what they think about the stores and their shopping experience.

The Model in Practice

The model of providing value is manifested through three overlapping and inextricably linked components all targeted to Community Pride's inner-city, largely African American customer base. Johnson's unique approach to each of these components will be discussed in turn below:

- Targeted, customer-driven customer service, merchandising, and marketing
- Direct community service and involvement
- Human resources and purchasing strategies targeted to the inner-city workforce

Targeted Service, Merchandising, and Marketing

Offering a Ride Home

Given his margins, Johnson realized he could not beat competitors on price, so he made it his practice to provide superior service particularly targeted to the needs of his inner-city shoppers. The primary example of this approach is Community Pride's van service, which came about somewhat serendipitously. One evening Johnson offered a ride home to a shopper who had two heavy bags of groceries. When she heard his offer, she decided to buy \$50 more in groceries, giving Johnson his idea. Borrowing against his home a second time, he purchased five vans and offered a ride home to anyone who bought more than \$40 worth of groceries. The strategy worked; according to Johnson, annualized sales went from \$13 million to \$19 million the year the van service began operations.¹⁵

Today, the company operates a total of 24 vans from its five Community Pride stores. Each store is assigned two to five vans, plus there are "floater" vans used on an as-needed basis. The ride service is available between 11 a.m. and 7 p.m. to any customer who has spent \$40 or more and lives within a five-mile radius. With the stores open from 7 a.m. to 9 p.m., the van drivers, who are store employees, have other responsibilities when there is no immediate demand for

¹³ Middleton, 1993.

¹⁴ Tara Mack, "The Super Market Man: Johnny Johnson is seeling pride as well as groceries in Richmond," *The Washington Post*, July 27, 1996, p. D01.

¹⁵ Kellner, 1999.

transportation. Community Pride estimates it save its customers over \$40,000 per week in transportation expenses.

Johnson and Jim Lackovitch, executive vice president and chief operating officer, both drive vans as their primary vehicles each day as they travel among the stores. Being able to offer waiting customers rides when a store's regular vans are busy allows them not only to enhance the level of service but also to interact with customers. Johnson and Lackovitch are at the stores expressly to supplement the van service on Fridays and during the first of the month, an especially busy time for Community Pride because a high proportion of its customers receive federal benefit disbursements then.

Johnson believes a significant portion of his sales growth is directly attributable to the availability of the van service; according to him, 30% of sales at the beginning of each month comes from customers who use the service. The heavy use of the vans the first of every month underscores the fact that many Community Pride shoppers receive government benefit checks. Johnson believes the van service not only meets a fundamental need for safe, reliable transportation of customers with no personal transportation but also saves them transportation costs so they can buy more groceries.

Johnson has found various other ways to meet the needs of his customers. He has offered monthly cholesterol and blood pressure screenings, as well as customer education about the causes of these medical problems and about healthier ways of cooking in order to avoid such problems.¹⁶ He offers a 5% discount to all senior citizen customers one day each week, as well as a continuous discount to community nonprofit organizations.

Johnson has found that providing value-added service to his inner-city customer base is an effective method of building brand loyalty among his clientele. This is the way he hopes to remain competitive as outlets like Wal-Mart Supercenters open on the edge of the city. As Johnson puts it, "I'm banking on the assumption that people will see my money and stay loyal to my store."¹⁷

The way Community Pride tailors services goes hand in glove with the way the company chooses and presents merchandise. One example of combining suburban supermarket services with promotions tailored to the urban customer is Community Pride's holiday dinner service. Instead of offering a fully-prepared holiday meal, as suburban supermarkets often do, Community Pride sells a "Turkey Box" packed with all of the *ingredients* for a traditional holiday meal: a turkey, a bag of potatoes, canned yams, corn muffin mix, gravy mix, cranberry sauce. Johnson recognized that most inner-city customers do still like to prepare their own meals but that he could save them time. Now instead of shopping and standing in line to purchase the individual items common to family holiday dinners, they can preorder the box and pick it up when they want it.

¹⁶ Mack, 1996.

¹⁷ Kellner, 1999.

Merchandise Variations Among Community Pride Stores

Consistent with being flexible and responsive to customers' wants, there are differences not just between Community Pride and typical suburban supermarkets but also among the stores themselves. Based on the neighborhood and clientele specific to each store, what is offered in one may not be offered in another.

For instance, one store that has a largely African American clientele has a 12-foot shelf section devoted to canned soul food specialties produced by Glory Foods; in another store, where customers are more ethnically and socially mixed, Glory Foods products are limited to four feet of shelf space. The first store also has a produce case devoted solely to fresh greens, popular with many African American shoppers.

Because this same store has a high proportion of Hispanic shoppers, many of the store's signs are in both English and Spanish and an entire aisle is devoted to Hispanic food specialties. These are not Old El Paso and Taco Bell brands, but authentic Hispanic brands specifically recommended and/or requested by shoppers. The store also carries seasonal produce popular among Latinos; after talking with shoppers to make sure they are keeping up with changing the produce according to season, managers instruct the company's distributor, RichFood, to locate the items and get them into the stores. Johnson and his staff consult regularly with Hispanic customers; Johnson has also hired Spanish-speaking employees to be able to communicate better with his Hispanic customers and has taught himself Spanish as well.

In Community Pride stores shopped predominantly by African Americans, there tends to be more shortening than cooking oil, more pork, chicken, and ground beef than other cuts of beef, and little or no skim milk. On the other hand, in the store near Virginia Commonwealth University, where the surrounding neighborhood has a significant student population, there is not only skim milk but also more yogurt, frozen prepared food, an expanded beer and wine section, as well as four ATM machines.

Hot, prepared food items are among the most popular sellers sold in the Plus-format stores. These, too, are geared toward customer tastes. Ethnically, the chefs mirror the community they serve, and they have their choice of what to prepare, using their own recipes. For instance, often among the items prepared fresh daily, from scratch, are such Southern-style specialties as fried chicken, stuffed pork chops, macaroni and cheese, and fried apples.

Community Service and Involvement

In addition to a demand-driven approach to goods and services, Johnson has directly engaged in a variety of activities to benefit the community as a whole. However, it is artificial to make a distinction between targeted marketing and community involvement or discuss them as separate components of Johnson's business model. There is a fair amount of overlap between the two, and it is evident that community involvement is an integral and critical component of the business model itself, not an ancillary charitable, public relations endeavor. Johnson makes it clear, for example that his company's most significant community involvement, a partnership with the Richmond Public Schools which is detailed below, is every bit as much a part of his

overall marketing strategy as is the van service, and like the van service is intended to generate brand loyalty to his stores. In addition, the school program advances Community Pride's employee recruitment efforts in a tight labor market.

Community involvement and marketing have been fused from the beginning, from Johnson's earliest efforts at marketing the stores based on his understanding of the need to build a loyal customer base. When he first started Community Pride, Johnson visited a different inner-city church every Sunday and asked for five minutes in the pulpit to explain what he was trying to do: develop a supermarket in the community that would meet the needs of the people and be superior, in terms of service and quality of selection, to any shopping experience to which they were accustomed. To get members of the congregation into his stores, he also made a \$100 donation to a church activities or projects, such as the youth group or the choir.

Education – High Achievement Program

Much of Johnson's involvement with the Richmond Public Schools is through the High Achievement Program, which gives discounts to parents of honor students, among other things.¹⁸ Johnson cites the program as being responsible for double-digit sales increases in Community Pride stores every year since inception, despite the fact that the population in his target areas has declined.

The High Achievement Program consists of a variety of support endeavors, but its primary component is an incentive program that rewards students who receive all As and Bs on their report cards or who miss no more than one day of school during each grading period. These students take their report cards to any Community Pride store and receive certificates documenting their achievement and gift bags of merchandise from participating vendors. The students have their photos taken, to be placed on a High Achievement Board at the front of the store, and their names are read over the store's public address system to a round of applause from everyone in the store at the time. Finally, the family of each High Achievement student receives a 10% discount on groceries that day.

Johnson and Community Pride continue to expand the High Achievement Program each year. For example, in 1998 the addition of several new sponsors allowed Community Pride to donate \$20,000 in scholarships to Richmond high school seniors and \$30,000 to the school system for computer software programs designed to help students prepare for state aptitude tests. Other program activities have included vacations to honor outstanding teachers, international trips to exceptional students, exchange programs, and infrastructure improvements.

The program operates as part of Community Pride's marketing activities and is supported by contributions from vendors and other corporate partners, who also include their contributions as a line item in their marketing budgets rather than as philanthropy. Partners, called Title Sponsors, include Coca-Cola, Pepsi-Cola, Virginia Power, RichFood, Hunt Wesson, and Kraft. They each give a minimum of \$50,000 per year to the program. Funds are disbursed by

¹⁸Kellner, 1999.

Community Pride, which itself expends more than \$40,000 each grading period to maintain school incentive programs, gift bags, excursions, and materials for the program. Including all High Achievement Program activities, Community Pride invested a total of \$560,000 of corporate sponsor money in the Richmond Public Schools system in 1998.

The impacts of the High Achievement Program on Community Pride's sales are significant. During the week when report cards are sent out at the end of each academic quarter, the company's sales volume increases 20% to 28% as a result of shopping by families of honor students. Moreover, vendors who participate in the High Achievement Program have seen nothing less than 40% increases in their sales through Community Pride outlets.

The Community Pride partnership with the Richmond Public Schools exemplifies Johnny Johnson's dual business approach of profiting by serving community needs. Feeling that Richmond city schools needed support and financing for computers and other learning equipment and opportunities, as well as incentives for students and teachers, Johnson devised a way to provide that support that was consistent with his business strategy of gaining customer loyalty of adding value to the community in the form of better educational opportunities and performance.

Charity vs. Marketing

Johnny Johnson is adamant that true corporate community involvement can only occur with a business/marketing approach, not through philanthropy. He is disdainful of, even offended by, corporate charitable donations to inner-city and minority communities. He says charity is fine for the arts but for the community and economic development efforts he is focused on—namely, education, transportation, and welfare reform—investments intended to make a profit, to be “win-win,” are more appropriate. Johnson feels charity in these areas sends a bad message to urban communities, that they are not worthwhile business investments or viable markets but merely charity cases. Instead, he says companies should view inner cities as a profitable new market niche and hold them accountable for a return on investment through sales, loyalty—and profits.

Community Economic Development – Human Resources and Purchasing Approaches

Hiring within the Community

Johnson's strategy of integrating community involvement into his business model is also reflected in his approach to human resources. Johnson is committed to workforce development and retention, focusing on the people who live in the neighborhoods surrounding his stores. In practice, 80% of Community Pride's employees live within three miles of the stores where they work. In addition, Johnson takes a personal interest in his employees' well-being and does everything he can to help when they have personal problems, such as counseling one employee and his wife when they were considering a breakup and helping an employee who was being abused by her boyfriend find an apartment.¹⁹ He has also co-signed more than 100 car loans and

¹⁹ Mack, 1996.

lends his credit card to employees with financial emergencies but little cash, deducting 5% from the employee's next weekly paycheck as a fee for the service. This kind of treatment is one of the reasons his employee turnover is so low; since Community Pride opened its first store in 1992 only two of 47 managers have left the company. Furthermore, he plans to give half of the stock of the company to his salaried employees and hopes to go public within a year or two.

Community Pride has also begun an internship program in local high schools that serves as a springboard for full-time employment post-graduation for those who do not choose to pursue higher education. The program enables Community Pride to avoid a labor shortage despite a local unemployment rate that fell below 2% in 2000.

In addition, Johnson tries to employ people who most need jobs, actively seeking to hire from Richmond's welfare rolls. Since 1997 he has hired 300 welfare recipients among 1,030 employees; in 1999 alone 97 were taken off the system completely. Johnson even hires people caught shoplifting in his own stores, particularly those who have stolen basic food staples, because he figures they have a real need that he can help meet. "If they steal steaks," Johnson has said, "I'll arrest them. If they steal bologna and bread I'll give them \$50 and a job application."²⁰ According to Johnson, he has hired more than 100 shoplifters since 1992, and at least 60 have remained with the company for three years or longer.²¹

Johnson's practice of hiring economically disadvantaged people from the local community dates to Community Pride's earliest days and originated as a way to respond to some of the perceived challenges inherent in running inner-city groceries. After he first opened, Johnson repeatedly found loiterers in the parking lot outside one of his stores. He was not able to get them to leave; he called the police to pick them up but they kept returning, because they lived in an abandoned house across the street. One night, he happened to be leaving the parking lot just as the police were, with some vagrants in tow. He followed, and saw the police drop the vagrants off a block away. He called the precinct to ask why and was invited to headquarters. He went and discovered how crowded the jail was, and he knew he had to take a more creative approach to combating loitering. So he offered 26 vagrants jobs keeping the parking lot clean. Later they learned to clean the stores' floors, enabling Johnson to eliminate the contract cleaning service he had hired.²² Eventually Johnson got the abandoned house torn down and raised \$40,000 from employees and vendors to buy a house for several of these homeless people to live in. Eleven still live in the house and work for Community Pride.

Johnson's human resources strategies are more examples of Community Pride's mission: to meet the needs of both the inner-city community and the business. These strategies provide jobs while creating a loyal, reliable employee base, even in a time of a healthy economy and low unemployment. Low employee turnover also helps keep recruitment and training costs down, at the same time helping to keep low supermarket margins at a viable level.

²⁰ Kellner, 1999.

²¹ Ibid.

²² Middleton, 1993.

Employee Discretion and Participatory Management

In spite of Johnson's hands-on management style and daily involvement with all aspects of the business, he fosters among store and department managers a sense of ownership in the company and pride in their work. He does this by giving managers broad discretion in deciding what to purchase and how to display it in their stores. Johnson involves them in the budget process by giving each a fake checkbook with a set starting balance at the beginning of each month. With this they have the authority to make spending decisions, which they are required to balance in their "checkbooks." Periodically, Johnson meets with the store managers to go over the company's financial standing for the recent past, exploring the impact their decisions have had on the balance sheet and involving them in decisions on where to cut back in order to make up any shortfalls.

Johnson aims to make things as simple and common-sense as possible so that his store managers learn the business. Most of Community Pride's store managers began with the company as stockers and have moved up the ladder because of their work ethic and desire to learn the grocery business. Lackovitch, the company's vice president, says any one of the current store managers could easily strike out and start his own business because of the effort Johnson has put into guiding them along, rather than handing down corporate edicts. They stay because they are loyal to Johnson and his mission of profiting and providing.

A simple but telling example of Johnson's disdain for the cookie-cutter approach to corporate management is the fact that every December each store is decorated for the holidays by its employees, according to their choice. There is no uniform corporate theme or design. This means one store sports silver and purple garlands instead of red and green, but it also develops a sense of ownership and community spirit among each store's employees.

Johnson's sole requirement for how managers run their stores is that they do not cut corners or do things shoddily. Managers must be committed, like Johnson, to providing superior customer service and stocking only top-quality products. Stores are also visually appealing and inviting. Unlike most other inner-city groceries, Community Pride stores are neat, clean, and brightly lit, with no trash on the floor. The produce is all hand-stacked, there is no clutter in the aisles, and displays are minimized.

Developing Minority Entrepreneurship

Johnson is committed to developing an urban economic base as well as retaining a stable workforce. He awards contracts principally to minority-owned firms; when he has been unable to find a local minority supplier for a specific service or commodity, he has taken steps to help minorities get started in that particular business, believing this to be a worthwhile investment.²³ Helping minority entrepreneurs start or expand their businesses by contracting with them as suppliers also contributes to the overall economic health of the community, which in turn helps ensure the sustainability of Johnson's supermarket chain. He also believes that executives of large companies who are not accustomed to working with minority-owned firms should make a

²³ Mack, 1996.

point of getting to know people like himself, ambitious minorities with good business sense. They should mentor minority entrepreneurs and watch their businesses grow, helping expand local, regional, and even national economies. One advantage of supporting minority-owned small enterprises, Johnson says, is that minorities are accustomed to working with fewer resources and thus are typically good money managers, something most corporate managers don't realize.

Partly to help expand minority entrepreneurship, Johnson has started a consulting firm, KA Management, to assist companies in identifying and taking advantage of opportunities to do business in and with minority communities. Building on Johnson's proven track record in race relations and community programs, the firm can help companies promote workplace diversity and identify existing problems and opportunities. It can also serve as a liaison between companies, the inner-city community, and other businesses. Johnson's goal is to help firms create positive community profiles and programs, particularly as they relate to various ethnic groups. This includes developing niche marketing to minority groups, promoting employment development for minorities, and linking businesses that have similar principles and needs.

Moving Forward, Replicating the Model

Expanding the Business

After owning his three suburban stores for only 18 months, Johnny Johnson was in the process of trying to sell them at the end of 2000. His model of providing value as opposed to price doesn't work in the suburbs, where people tend to shop based solely on price, and his three-store chain is too small to compete in an area already saturated with stores, he says. Although he won't share figures, he says his inner-city stores are more profitable than his suburban locations. Johnson is grateful he lost a bid in early 2000 to expand his suburban base by purchasing several Hannaford stores. Johnson points out that the grocery industry has undergone a major consolidation in the past five years, with the five largest corporations now owning 62% of the stores, up from 28%. This makes competing as an independent operator even more difficult.

Instead, Johnson is now exploring expanding Community Pride, or at least the Community Pride model, into the inner cities of other urban areas, something he has been hesitant to do until now. However, based on assurances of continued assistance from SuperValu, which recently purchased RichFood, his primary supplier and financial backer,²⁴ Johnson is now considering moving outside his backyard of Richmond. Over the next five to ten years, Johnson envisions expanding into other urban areas via a joint venture with SuperValu, creating stores bearing the Community Pride banner. Johnson feels it is important to continue to utilize this name, which gives customers an indication of what the stores are about. As the company slogan says, "The name says it all!"

Because so much of the Community Pride business model depends on a flat corporate structure and flexibility, Johnson does not see himself intimately involved in the management of these

stores on a long-term basis. Rather, he sees himself franchising the Community Pride name and concepts and, with the help of three or four members of his long-time management team, spending six to nine months in each new urban market, training the local owners in the Community Pride model, and getting the new stores up and running.

Consulting

The consulting business, KA Management, has a significant role in the future. Johnny Johnson started KA Management in response to requests from other grocers who approached him at industry events wanting help targeting urban markets. Johnson has worked with such clients as Schnuck's, a large supermarket chain based in St. Louis, with Hunt Wesson, and with Pepsi. With the latter two companies, Johnson saw a need, designed a way to fill it, developed a finished product sample, and then approached the companies. For Hunt Wesson, Johnson helped develop new packaging—with a 1-oz. measuring scoop in each can—for shortening, which is more commonly used among urban African Americans than cooking oil. For Pepsi, Johnson helped develop a new nationwide marketing campaign for Slice soft drink that was designed to appeal to urban minorities and which earned him a spot on the Pepsi Community Advisory Board. As a result of Johnson's influence, Pepsi is now creating a division dedicated to marketing for its product line to inner-city customers.

Through KA Management, Johnson anticipates continuing to work with non-grocery retailers and other businesses that are seeking to tap into new urban and/or minority markets. Johnson says he is also willing to consult with inner-city grocery businesses that are looking to improve their performance but don't want to adopt the Community Pride name because they are part of larger, established chains.

Conclusion

Johnny Johnson's unique Community Pride model exemplifies three key factors for success in inner-city retail, as identified by the Initiative for a Competitive Inner City (ICIC) and the Boston Consulting Group (BCG). The first is commitment and leadership, including high standards, appropriate resources, belief in the viability of the inner-city opportunity, and development of a vision that is communicated throughout the organization. The second factor is tailoring the business to local customers by understanding them and their communities, developing operational flexibility so that individual stores can adjust products to meet local needs, and creating an environment where customers feel comfortable and are treated with respect. Finally, in order to succeed as an inner-city retail enterprise, a firm must exercise operational excellence by demanding tight operational processes and standards, installing managers with requisite capabilities, and advocating strong but sensitive management of employees through hiring and training practices.²⁵

Johnny Johnson displays remarkable personal commitment to, involvement in, and vision for his stores and the role they play in the surrounding community. Community Pride has a solid handle

²⁵ The Business Case for Pursuing Retail Opportunities in the Inner City. The Boston Consulting Group & The Initiative for a Competitive Inner City. June 1998.

first on targeting the goods, services, and marketing strategies of its stores to the unique needs of the minority communities they serve and second on insisting on superior customer service and attention. In addition, Johnson maintains strict operational standards and tailors his human resources management to the inner-city workforce. The Community Pride model thus embodies the critical factors for a successful inner-city retail business by integrating community service into its bottom line.

The Community Pride approach and its potential to serve as a model for inner city retail across the country is summarized by Helen Kellogg, Partnership Manager, Timberland Company:

“The success of Community Pride stores sends a powerful message to retailers and economic development organizations across the country. Johnny Johnson has shown that inner-city residents want what smart consumers everywhere want: products that meet their needs, and a good level of service. In exchange, they become the best kind of customers a retailer can have -- loyal repeat customers. His success will help lead others into underserved markets with the same value proposition.

Sidebar 1: Home Meal Replacement/Convenient Meal Solutions

With the enhanced services and options available in his Community Pride Plus stores, Johnny Johnson is providing amenities that are rare in inner-city supermarkets. Beyond that, he is also tapping into a growing trend in the supermarket industry—prepared meals to take home, alternatively called Home Meal Replacement (HMR) and Convenient Meal Solutions (CMS) in industry parlance.

The “meal solution” niche has great potential for supermarkets, as the gross margin on prepared foods is nearly 50%, compared to 21% for grocery products. Nevertheless, supermarkets had not paid much attention to the prepared foods market until recent years, instead selling the individual ingredients for meals rather than the meals themselves. The initial success of the Boston Market chain changed that, and by 1996 two-thirds of supermarket chains had moved to capture a share of the “meal solution” market, according to the Food Marketing Institute (FMI). Sales of prepared foods in supermarkets grew from \$4.7 billion in 1990 to \$8.8 billion in 1995, accounting for approximately 10% of in-store food service.¹

Annual CMS sales are expected to increase from \$142 billion in 1997 to \$182 billion in 2002, according to the International Dairy-Deli-Bakery Association.²

FMI data show that Americans spend 22% of all restaurant dollars on meals that are consumed at home. Consumer spending in

this market was about \$38 billion in 1996, compared to \$16 billion in 1985. Nearly three-quarters of this total was spent on dinner meals.³

Prepared foods include cooked, “grab-and-go” meals, either an entrée alone or a complete meal, as well as cooked food that is refrigerated and sold ready to heat. Fitch Investors Service identifies this niche as an opportunity for supermarkets to expand their share of the prepared food market. “Since 1995, spending on meals away from home has declined significantly, reversing a 20-year growth trend and leaving a void that prepared foods, a market estimated at between \$80 and \$100 billion annually, has readily filled.”⁴

Community Pride’s “Plus” format stores tap into not only a nationwide demand for fresh prepared food but also a demand among inner-city shoppers for enhanced supermarket services. In spite of the fact that such services are often not present in inner-city supermarkets, a recent survey indicates that inner-city households purchase such specialized products as seafood, delicatessen foods, and fresh prepared main courses more frequently than shoppers across the country.⁵

¹ Prepared Foods a Growth Area for Supermarkets, Fitch Says – Fitch Financial Wire. *PR Newswire* December 23, 1996.

² Blueprint for Success. *Refrigerated & Frozen Foods* 10 (3): 15.

³ HMR: Home Meal Replacement. *Refrigerated & Frozen Foods* 9 (1): 14.

⁴ Prepared Foods a Growth Area for Supermarkets.

⁵ Inner-City Shoppers Make Cents (and Dollars). (Second Annual Inner-City Shopper Survey.) Initiative for a Competitive Inner City (ICIC) & PricewaterhouseCoopers. 2000.

Sidebar 2: Supermarket Industry Trends & Margins

The supermarket industry is intensely competitive, a fact best reflected in industry margins that traditionally hover around 1%, or 1 cent for each dollar of sales. The average profit margin for the industry over the decade 1989-1999 is even lower, 0.89 percent. Fiscal year 1998-99 showed some improved efficiency with industry-wide profit margins of 1.03 percent.¹ Moreover, supermarkets must turn over a tremendous amount of inventory to maintain even such low margins.²

Supermarkets choose to survive with such narrow margins by relying on high volume of sales. To earn a dollar, grocers would rather sell 100 units of a \$1 item instead of marking up the same item 10 cents and selling ten units. Low markup in order to stimulate high volume buying is the fundamental principle of mass merchandising and was introduced to the marketplace by the supermarket industry in the 1930s.³

U.S. Business Reporter describes the current supermarket industry as becoming much more efficient as grocers cut costs in the face of intense competition. This is a result of several concurrent trends: streamlined back end operations, better product merchandising, and industry consolidation. These factors have helped generate industry sales of over \$400 billion and earnings of over \$5 billion. Supermarket chains are making better use of capital by relocating,

renovating, and expanding existing stores. Building new stores to replace older, established facilities is viewed as a more productive use of capital than opening new stores in areas where local market conditions are unknown.

In addition to these trends, the U.S. Business Reporter notes that the industry is now emphasizing customer retention more than ever. This is done largely through frequent shopper cards, which offer customers a discount from the regular price when they use it in the store. At the same time, the cards identify buyer behavior.

¹ Competition and Profits. Food Marketing Institute (FMI): Facts and Figures. Available at FMI website: http://www.fmi.org/facts_figs/CompetitionandProfits2.pdf.

² Supermarket & Drug Store Industry. US Business Reporter: http://www.activemedia-guide.com/drugstore_industry.htm

³ Ibid.

Table 1: Average Supermarket Operating Costs 1998

	<u>% of Sales</u>	<u>% of Gross Margin</u>
Gross Margin	26.2%	100%
<u>Expenses</u>		
Payroll	10.4	39.69
Employee Benefits	2.9	11.07
Utilities	1.2	4.58
Property Rentals	1.9	7.25
Taxes & Licenses	0.5	1.91
Insurance	0.3	1.15
Depreciation & Amortization	1.6	6.11
Maintenance & Repairs	0.8	3.05
Supplies	1.0	3.82
Other Operating Costs	3.8	14.50
Allowances not included above		
Total Expenses	24.2	92.37
Net Operating Profit (Loss)	2.0	7.63
Net Other Income (Expense)	-0.3	-1.15
Net Income Before Tax & Extraordinary Items	1.7	6.49

Sources:

FMI Operations Review - 1st Quarter 1999. Income Statement Analysis, p. 26.

Key Industry Facts. Prepared by FMI Information Service, July 1998.

Table 2: Food Chains Net Profit as a Percent of Sales

Year	Income Before Taxes	Net Profit After Taxes	Year	Income Before Taxes	Net Profit After Taxes
1978	1.78	1.02	1988/1989	1.11	0.71
1979	1.36	0.98	1989/1990	1.43	0.86
1980	1.56	0.97	1990/1991	1.56	0.96
1981	1.42	0.89	1991/1992	1.39	0.77
1982	1.62	1.06	1992/1993	1.31	0.49 ³
1983/1984 ¹	1.70	1.01	1993/1994	1.70	0.93
1984/1985 ²	1.79	1.15	1994/1995	1.81	1.14
1985/1986	1.84	1.19	1995/1996	1.99	1.20
1986/1987	1.73	1.12	1996/1997	1.86	1.08
1987/1988	1.50	0.77	1997/1998	2.11	1.22

¹ Beginning in 1983, data is based on a fiscal year instead of a calendar year.² Prior to 1984-1985, Annual Financial Review statistics were based on sales, assets and liabilities of companies operating only supermarkets. Beginning with the 1984/1985 edition, the Annual Financial Review includes diversified companies with primary supermarket operations.³ Net profit was pulled down by extraordinary items not related to normal supermarket operations. These included accounting changes, debt retirement, and the sale of major subsidiaries. If these factors are removed, net profit is 0.74 percent.*Sources:*

FMI Annual Financial Review: The Annual Report of Supermarket Companies, 1976-1996/1997.

Key Industry Facts - Prepared by FMI Information Service, November 1998.

FMI Information Service, November 1998.

Sidebar 3: Inner-City Retail Spending and Potential for Supermarket Success

Leader of a Trend in Inner-City Business

The business model exhibited by Johnny Johnson's Community Pride supermarkets reflects growing conventional wisdom about the inner city as an emerging retail market: that inner-city neighborhoods, too long overlooked, represent strong, viable retail markets and strategic places to do business.

By establishing full-service supermarkets in inner-city neighborhoods, Johnny Johnson is tapping into a "retail gap." This recently documented gap occurs because of "outspending" by inner-city residents, particularly those who live in largely minority, low-income neighborhoods. Outspending refers to the tendency of people to do most of their retail shopping outside their neighborhoods. In the case of inner-city residents, this occurs because retail services are absent from their neighborhoods.

Yet the market for retail services exists in urban communities. There are roughly 7.7 million households in America's inner cities; these households spent an estimated \$85 billion on retail services in 1998. This figure represents 7% of the total retail spending in the United States. Moreover, it is estimated that more than 25% of retail demand is unmet in many inner cities, with the unmet demand as high as 50% in some places. This gap is most acute in high-demand basic retail, such as food and apparel.¹

The absence of inner-city retail services is largely attributed to the fact that the

consumer spending power present in such neighborhoods traditionally has been underestimated. It has long been assumed that businesses cannot be viable in neighborhoods whose residents are poor. But new methods and considerations in data gathering emphasize the density of inner-city populations and the fact that lower incomes do not necessarily result in lower retail spending. Recognition of these critical factors has in recent years yielded powerful data that demonstrate the retail spending potential of the inner city.

New Data on Inner-City Consumer Spending

Density is one key factor that has been missed by most considerations of inner-city business viability. It is estimated that inner cities may, in fact, possess up to six times as much buying power per square mile as surrounding areas. Inner-city demand for basics such as groceries and clothing can exceed *total* retail demand of surrounding areas.²

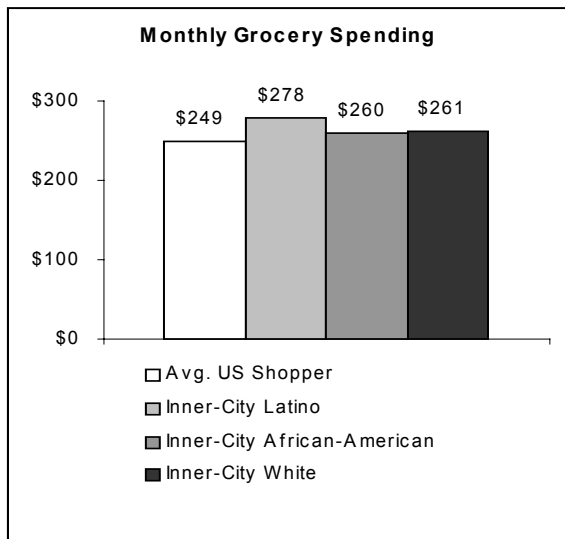
Furthermore, data show that spending by inner-city households does not differ from the spending of other households consistent with the gap in their incomes. Data from the Bureau of Labor Statistics Consumer Expenditure Survey indicate that residents of low-income urban neighborhoods earn 54% of other central-city residents but spend 62% as much. More significant in terms of the supermarket industry, these residents of distressed neighborhoods spend 89% as much as their central-city counterparts on food to consume at home.³

¹ The Business Case for Pursuing Retail Opportunities in the Inner City. The Boston Consulting Group & The Initiative for a Competitive Inner City. June 1998.

² Ibid.

³ New Markets: The Untapped Retail Buying Power In America's Inner Cities. U.S. Department of Housing & Urban Development July 28, 1999.

Even more compelling is the evidence presented in *The Inner City Shopper*, produced by the Initiative for a Competitive Inner City and Pricewaterhouse Coopers. The annual report, first published in 1999, seeks to fill the information gap on inner-city consumer buying power and preferences. It finds that inner-city households actually spend *more* than the average household for groceries on a monthly basis.⁴



Source: Inner-City Shoppers Make Cents (and Dollars). (Second Annual Inner-City Shopper Survey). Inner City & PricewaterhouseCoopers. 2000.

Inner-city shoppers are also found to be more likely to purchase specialty items that are typical of suburban supermarkets, such as seafood and fresh prepared main courses—the kinds of merchandise Johnny Johnson offers in some of his Community Pride stores.

Percent of Households Purchasing the Following at least Once in a 30-Day Period

	Inner-City Sample			
	All US	All	African American	Latino
Seafood	48	57	70	50
Prepared Main Courses	21	23	24	27

Source: Inner-City Shoppers Make Cents (and Dollars). (Second Annual Inner-City Shopper Survey). Inner City & PricewaterhouseCoopers. 2000.

The case for inner-city grocery stores is also bolstered by the experience of several companies that have begun to open supermarkets in inner-city areas. These stores have proven not only viable but often more successful than their counterparts in suburbs or elsewhere in the central city. Inner-city supermarkets have been found to generate average grocery sales per square foot up to 40% higher than regional averages. Pathmark stores in New York’s Bedford-Stuyvesant community and in Newark, as well as a Super Stop & Shop outlet in Boston’s South Bay Center, have been among the highest grossing outlets in their respective chains.⁵

The Inner City Shopper survey also includes an assessment of the factors that influence inner-city residents’ choice of grocery stores.

<http://www.huduser.org/publications/newmarkets/contents.html>

⁴ Inner-City Shoppers Make Cents (and Dollars). Initiative for a Competitive Inner City & PricewaterhouseCoopers. 2000.

⁵ The Business Case for Pursuing Retail Opportunities in the Inner City.

Percent of Households Considering the Following Factors Very Important in Choosing a Store for Groceries

	Inner-City Sample			
	All US	White	African American	Latino
High quality meat	70	69	89	78
Fresh food section	41	45	61	58
Cleanliness	67	66	86	75
Friendly, helpful staff	49	49	68	62
Convenient location	27	34	44	47

Sources: The Inner-City Shopper: A Strategic Perspective; Inner-City Shoppers Make Cents (and Dollars). Initiative for a Competitive Inner City & PricewaterhouseCoopers. 1999, 2000.

Johnson has addressed this by requiring that only high-quality meats and other products be sold in his stores, as well as by adding a “Plus” format, including seafood and deli-bakery sections, to several of his outlets, and through his commitment to superior service.