



Market-Based Community Economic Development

Presented to

Knowledgeplex

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Origins: From “Equity” to ... “Equity”

Civil Rights



Empowerment



Economic Development: *Assets*



Economic Development: *Markets*



Putting the **Economics** in Economic Development

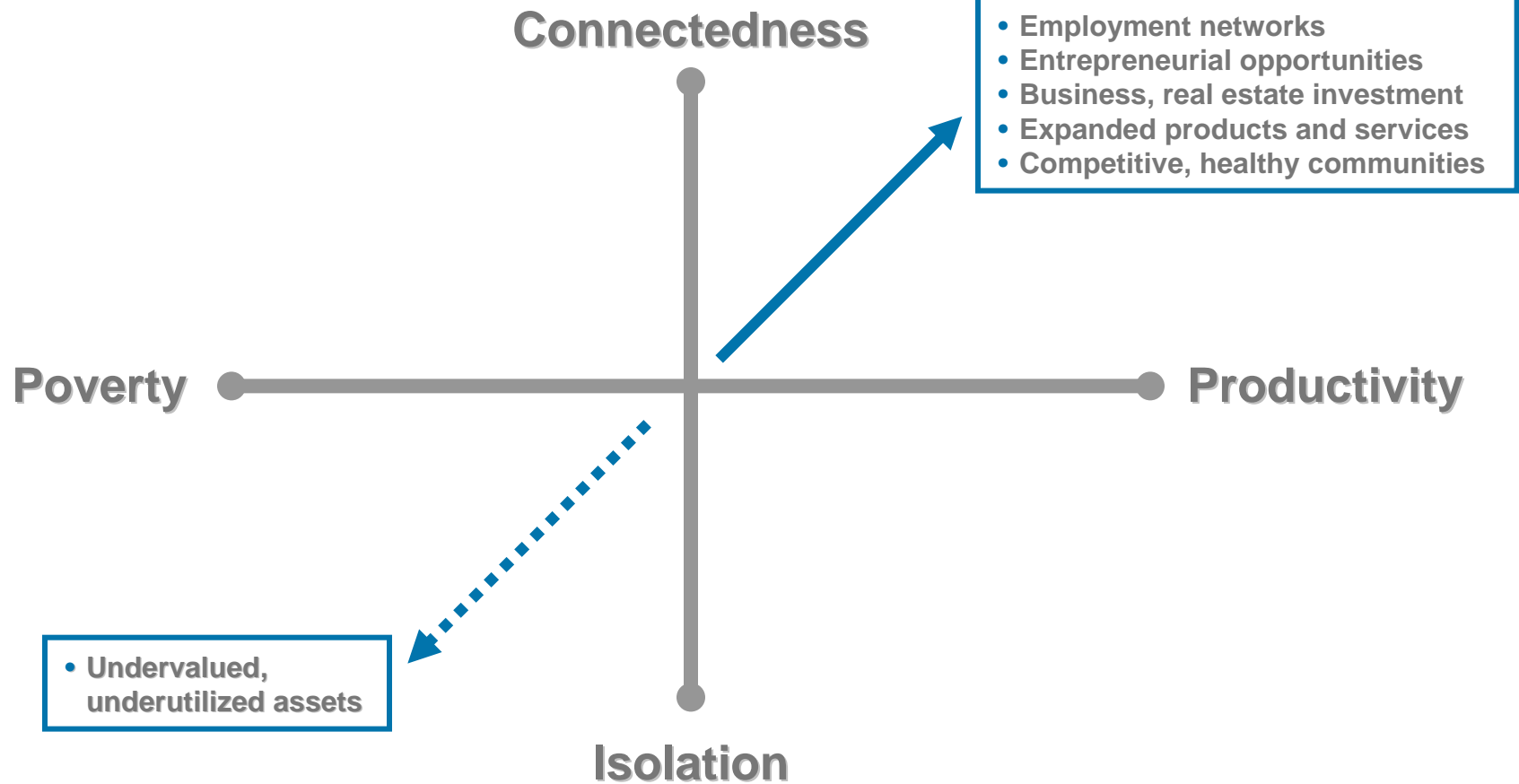


Why Markets?

- **To address poverty, create wealth**
- **Wealth is created by investing in assets**
- **The economic mechanism for investing in assets is the market**
- **To create wealth in low income communities, expand market activities to the assets of those communities**

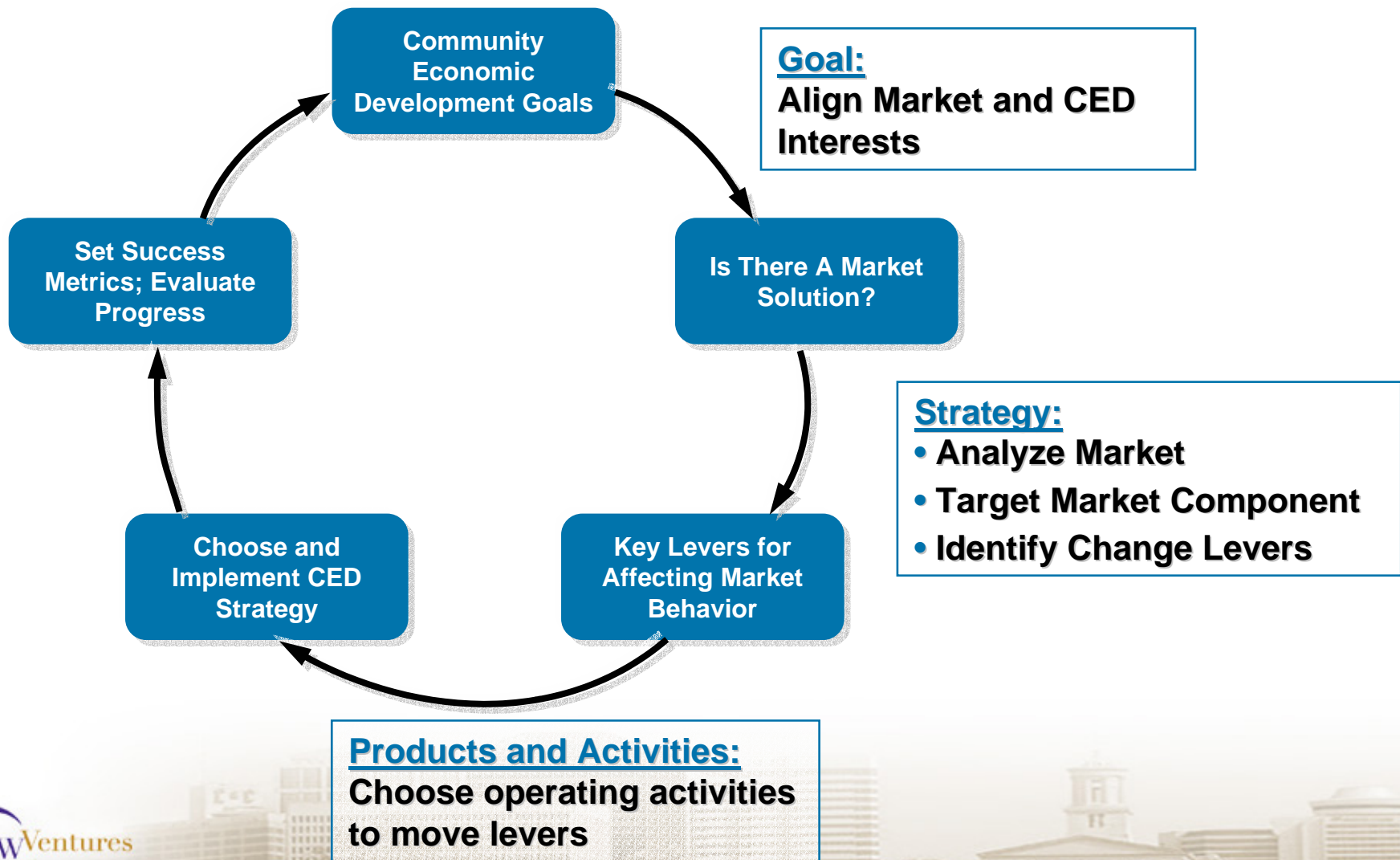


Market Failure in Lower Income Communities

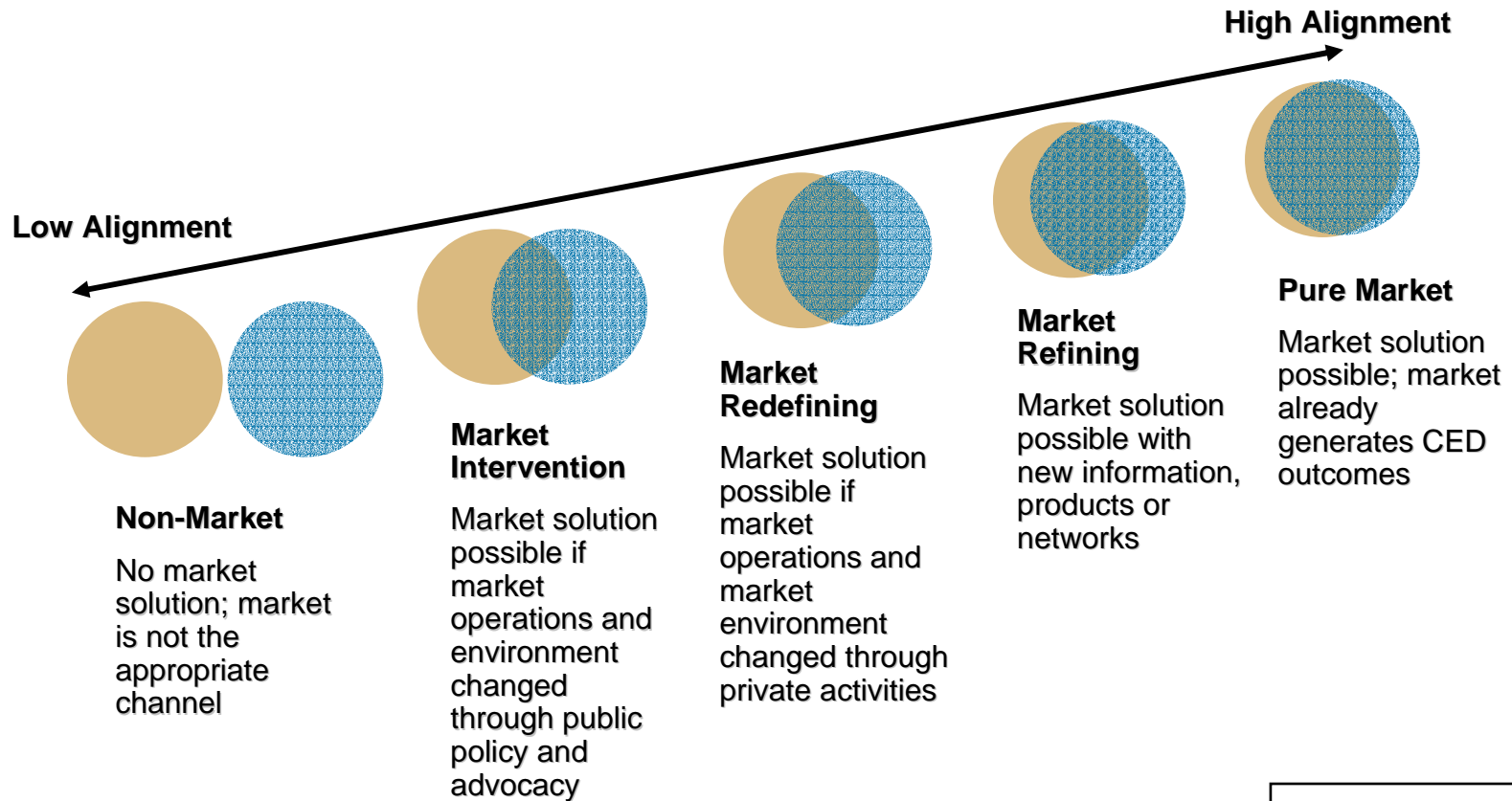


- *Distressed neighborhoods have undervalued assets, reflecting lack of specialized market intelligence and poor economic networks*
- *Investment is function of profitability, risk and transaction costs*
- *“Seeing,” measuring, access → Valuing → Market Activity and Opportunity*

Overall Framework: Enhancing Markets to Include LICs

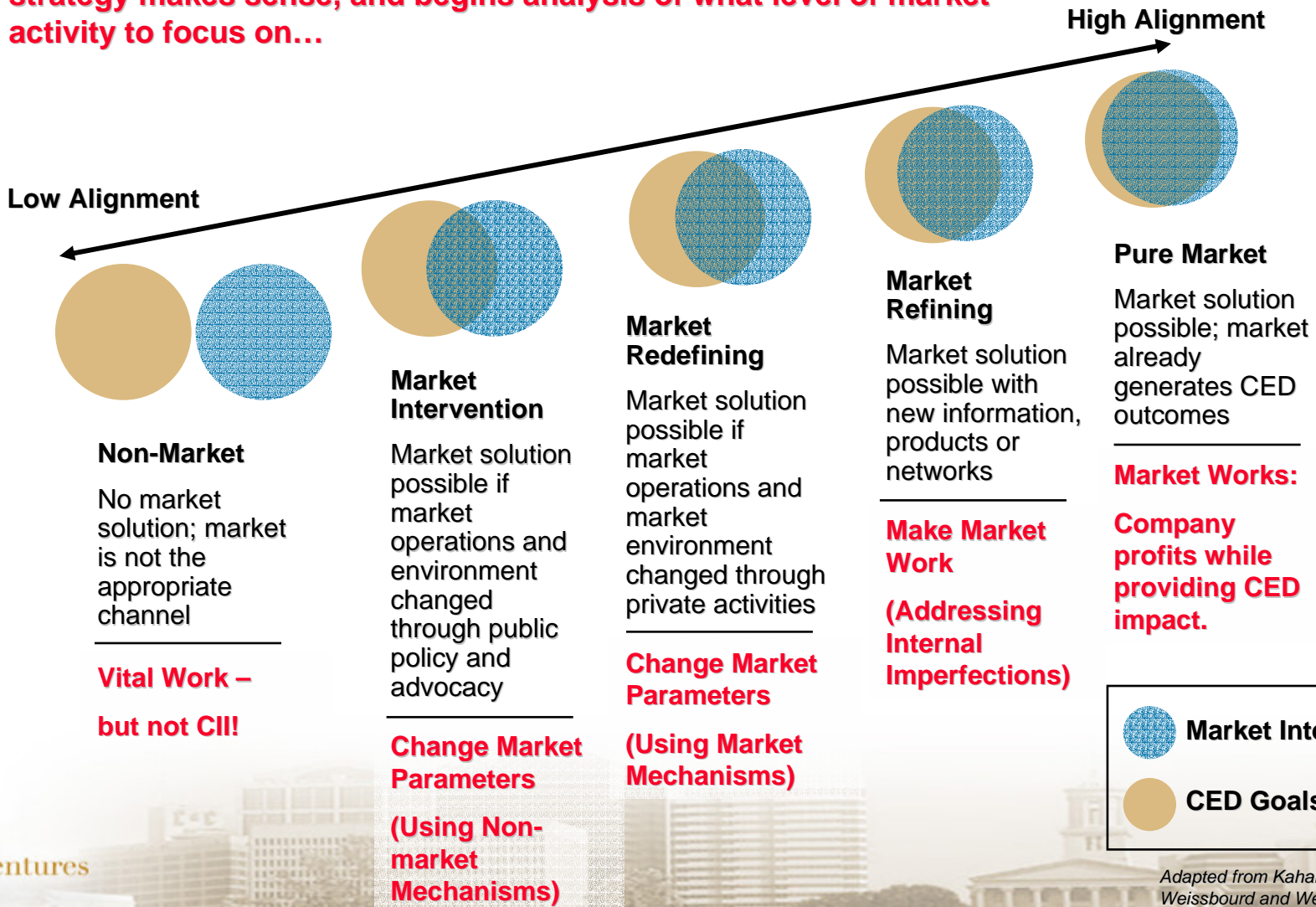


Goals: Aligning Markets and Development



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This step helps determine whether a market based development strategy makes sense, and begins analysis of what level of market activity to focus on...



Strategies: Identifying Key Levels and Levers of Market Activity

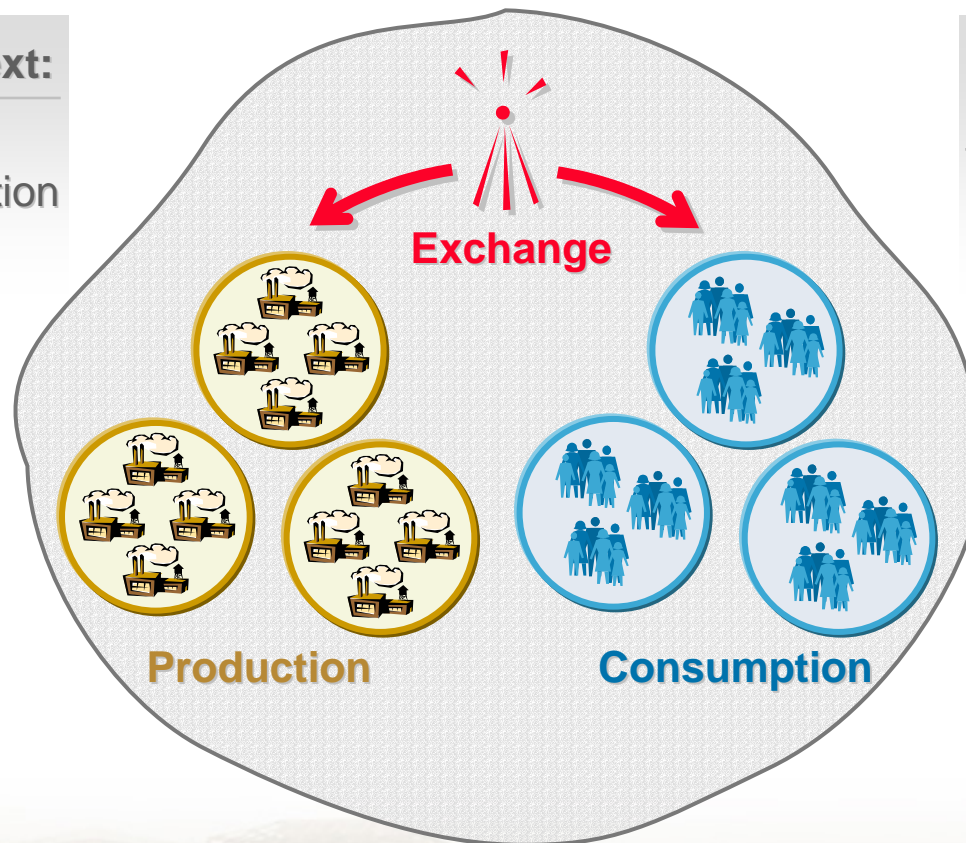
Level: Market Environment

Institutional Context:

Enabling Laws
Prescriptive Regulation
Entry Barriers

Other Exogenous Influences:

Infrastructure
Factors/Resources
Technology
Tastes



Strategies: Identifying Key Levels and Levers of Market Activity

Level: Market Operations



Production Functions

Levers:

Productivity
Costs



Exchange Functions

Levers:

Transaction Costs:
Finding costs
Measurement costs



Consumption Functions

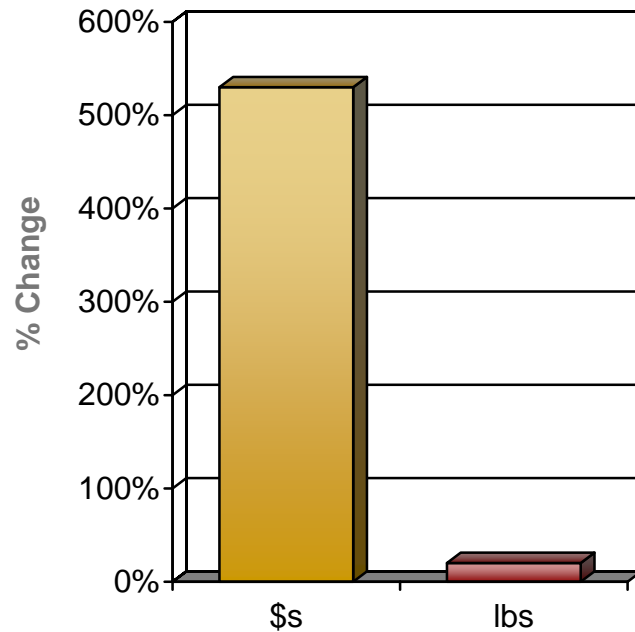
Levers:

Taste
Income

Information Resources are the Modern Currency of Wealth Creation

Gross Domestic Product

% Growth over last 50 years



Greenspan: Fundamental change in the economy towards intangible assets

Information Determines:

- **Who gets seen and served** -- specialized market knowledge & customer access
- **Who gets employed** -- employment networks
- **What goods and services are produced** -- product and process knowledge and controls, flexible customization, financial risk and transaction cost
- **Value Creation** -- Fed Ex (tracking system); Sabre (reservations system)

What do we mean by “Enhancing Markets”?

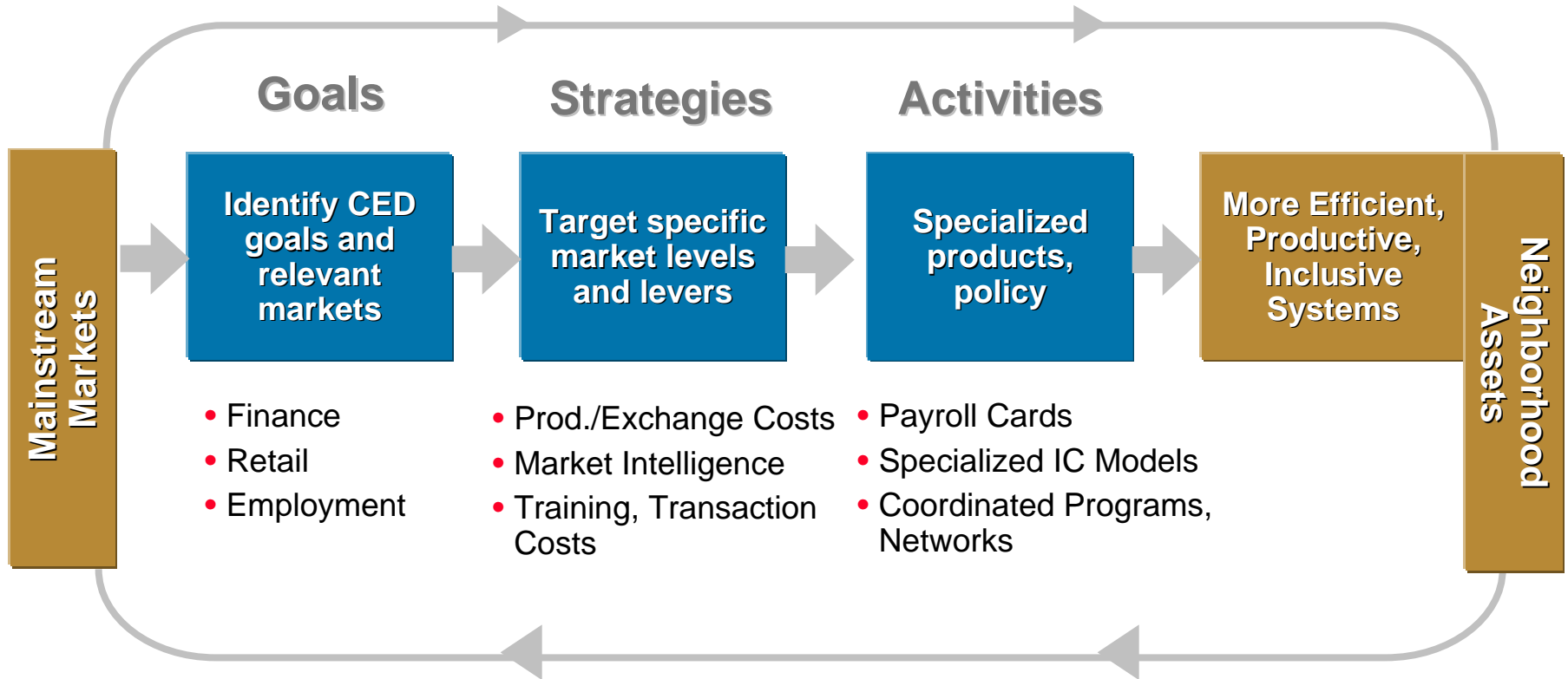
“Changing the conditions of production, exchange or consumption in ways that allow the expansion of market activity to new people or places, or to provide new products.”



Observations 1.0

- **Markets are inherently scaling mechanisms: that's the Power of Markets**
- **Markets move on their margins**
- **Markets can expand with respect to either people or products**
- **Use policies and subsidies to leverage the market, not supplant it**

A Framework for Moving Markets



Change Levers to Enhance Markets

Levers	Activities	Examples
Production Functions <ul style="list-style-type: none">• Productivity• Costs	<ul style="list-style-type: none">• New Products• New Processes• New Information	<ul style="list-style-type: none">• Debit Cards• CAD-CAM• Credit Scoring
Exchange Functions <ul style="list-style-type: none">• Risk assessment / measurement costs• Transaction costs• Acquisition	<ul style="list-style-type: none">• New Information• Improved Networks• Market Intermediaries	<ul style="list-style-type: none">• Micro-Segmentation• ATMs• Demand Aggregation
Consumption Functions <ul style="list-style-type: none">• Income• Taste	<ul style="list-style-type: none">• Education	<ul style="list-style-type: none">• Financial Literacy Training• Green Marketing



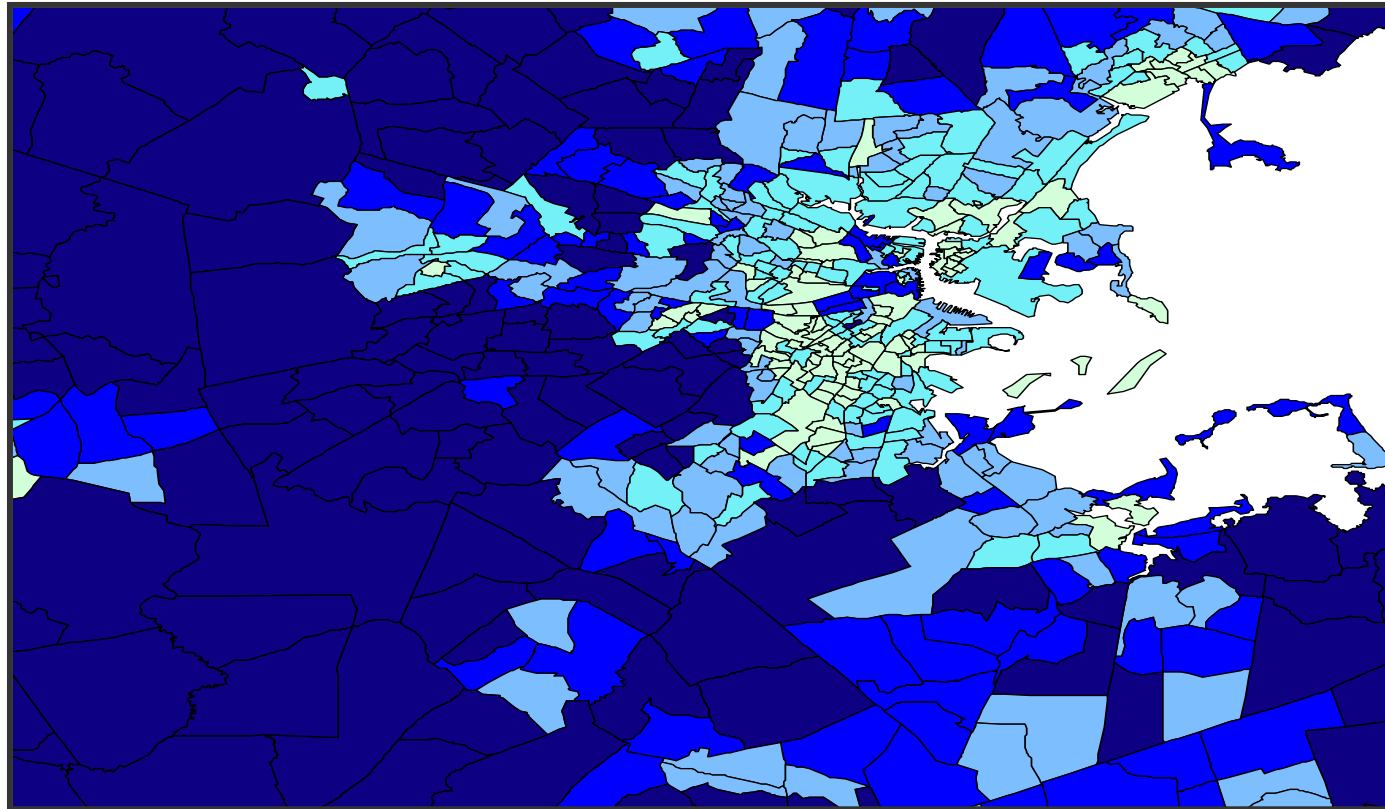
Example: Retail

- **Goal:** Commercial Development
- **Market Operation:** Exchange function
- **Strategy:** Reduce retailers' finding costs
- **Activity:** Develop better data and models to reveal demand and improve market access in IC neighborhoods
- **Example:** MetroEdge



Standard Indicator of Buying Power

Boston MSA, Median Income

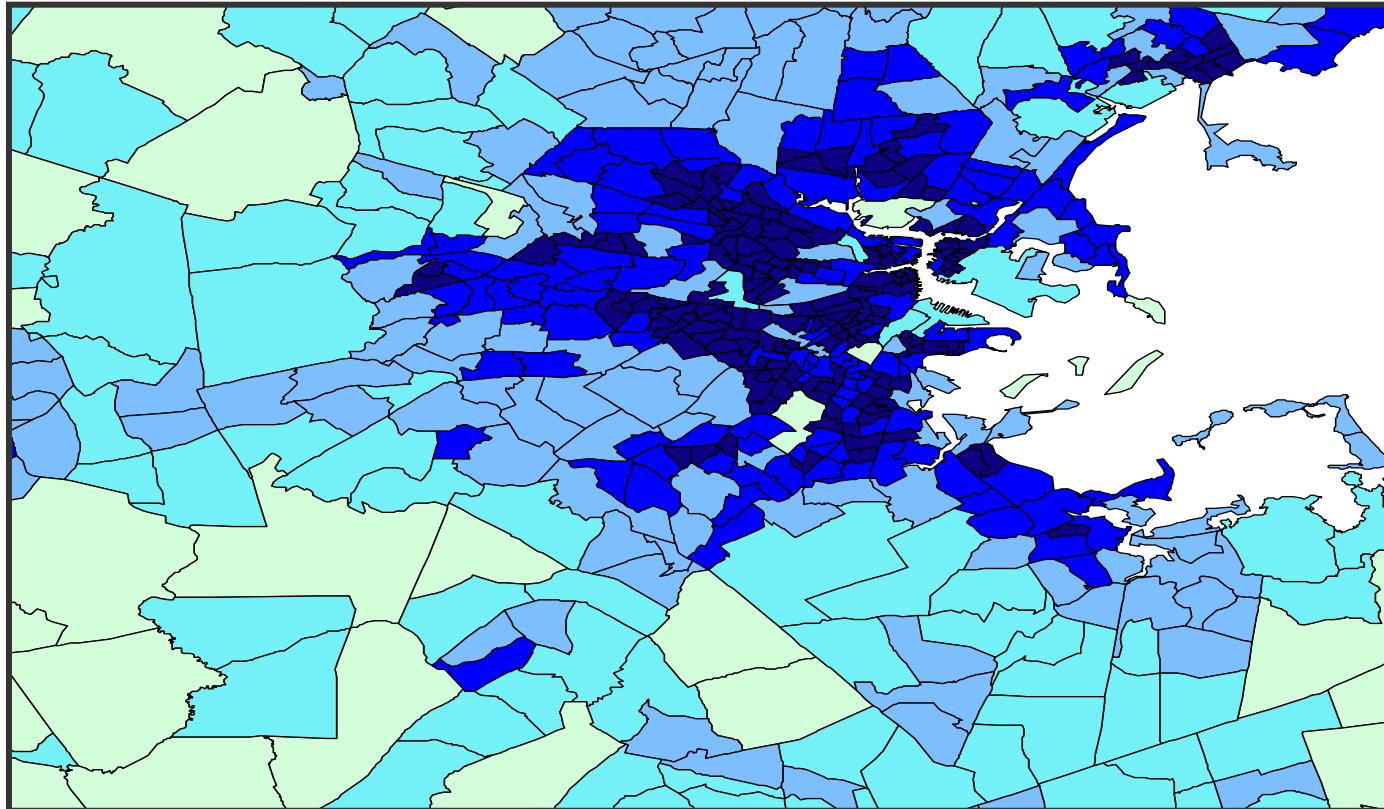


Darker blue shades represent areas with higher median income.

Conventional methods of market analysis tend to underestimate the potential of the inner-city. A good example is the common focus on median income as an indicator of buying power.

New Indicator Shows Potential

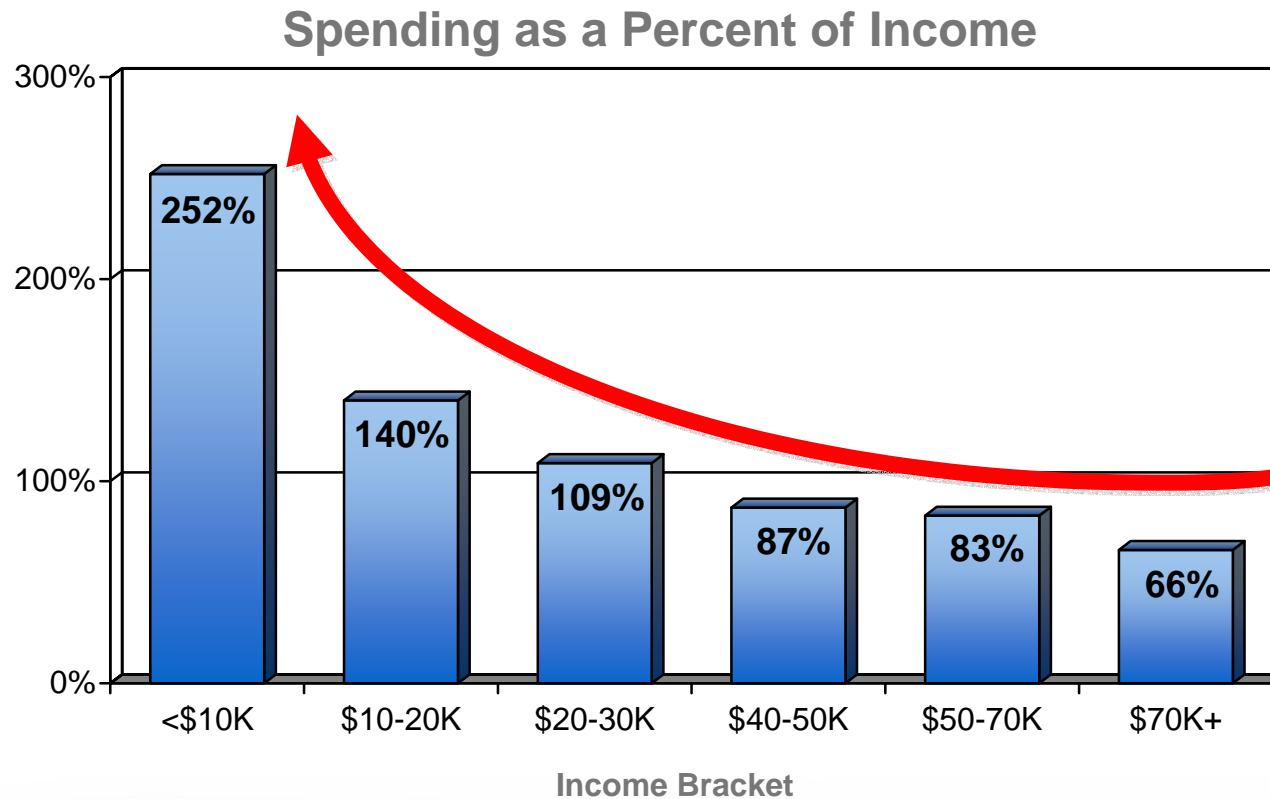
Boston MSA, Concentrated Buying Power



Darker shades represent areas with higher concentrated spending power (\$ per mile).

Despite a lower median income, the inner city has significant buying power.

Income is NOT a Good Indicator of Spending Power

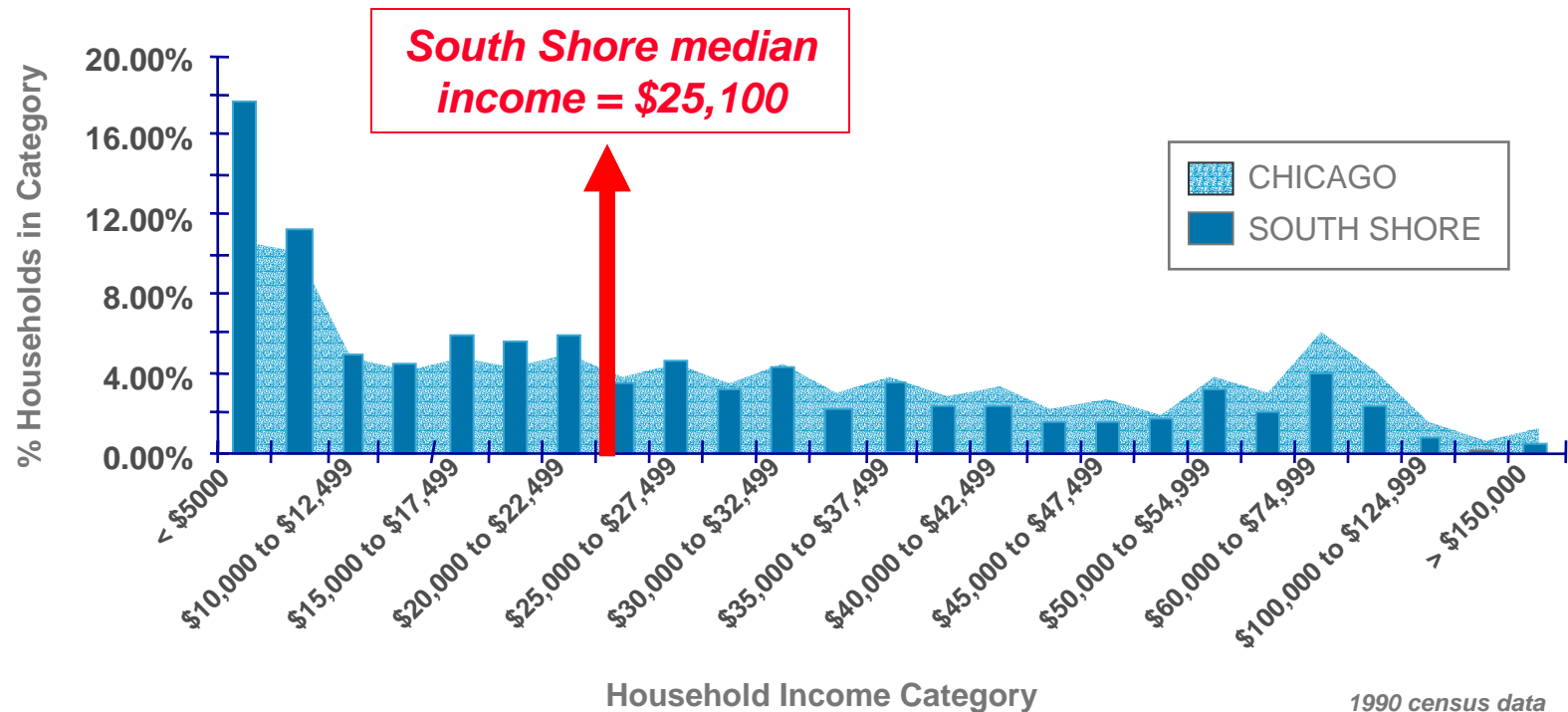


1995 Consumer Expenditure Survey



Source: MetroEdge

Central Cities are Diverse as well as Dense

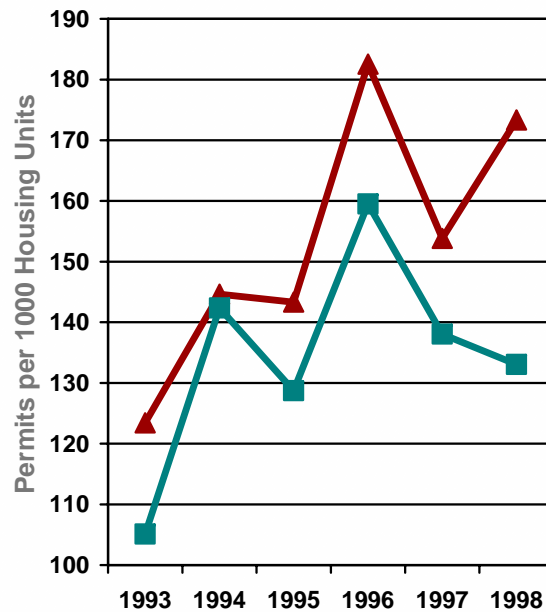


South Shore has a lower proportion of the very wealthy and a higher proportion of the very poor, but its solid middle class looks much like anywhere else in the city.

Enhancing Model for National Retailer

Building Activity

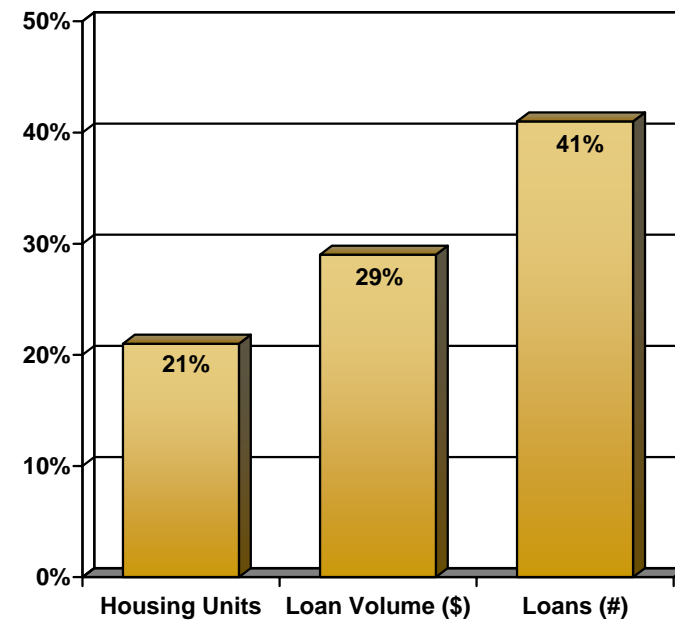
Permits



The rate of building permit activity in the trade area has been higher than in the city over the last 6 years, and has seen a general upward trend.

Renovation Lending

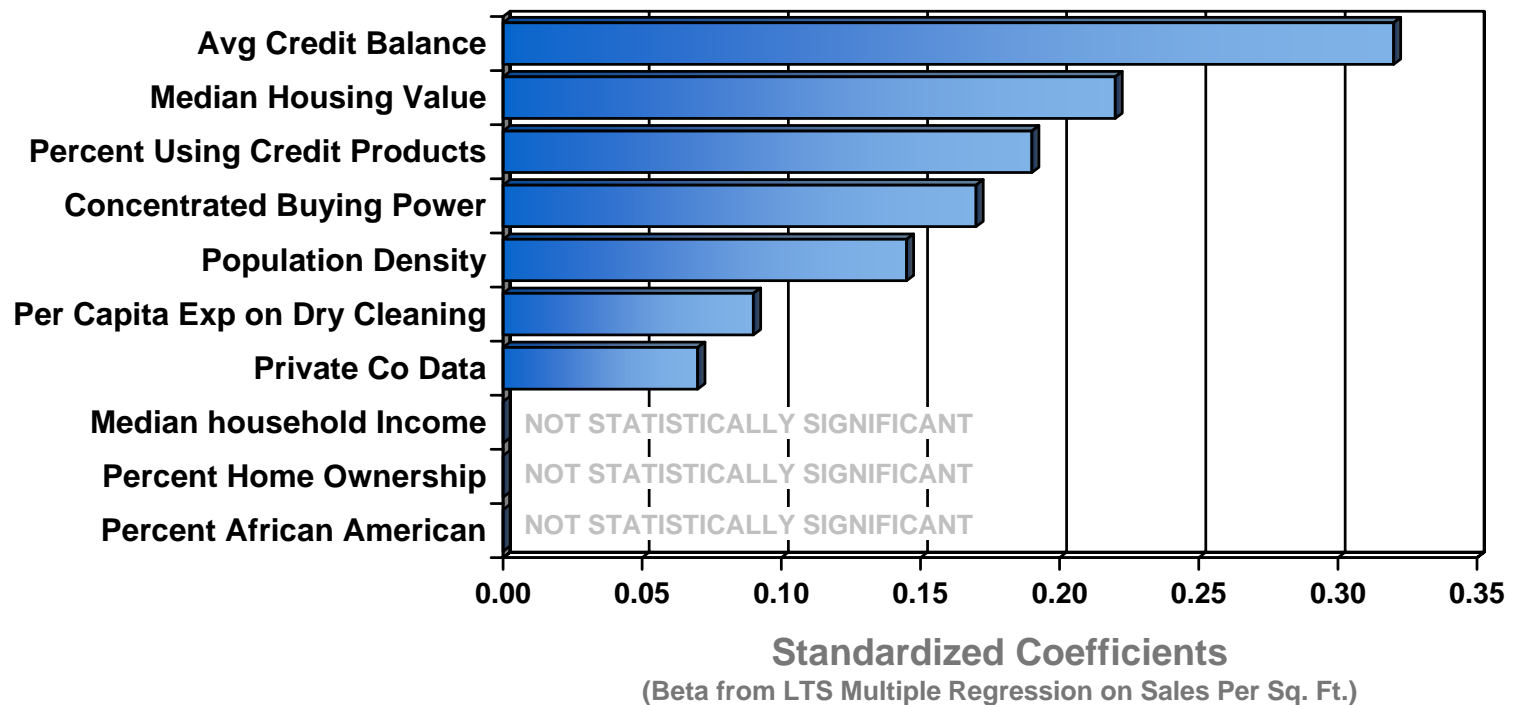
Inner City Trade Area, 1995-97



Looking at renovation activity can also be important for understanding the purchasing power related to home improvement, furnishings and other household items.

Validating a New Approach

New Data Predicts Sales Performance For Grocery Store Model



New indicators were more significant than traditional ones in this location model created to predict sales for a grocery chain.

Example: Financial Services

- **Goals:** Enable IC residents to build ownership assets (by expanding financial and insurance services)
- **Market Operation:** Exchange function
- **Strategy:** Reduce producer's measurement costs
- **Activity:** Reduce incompleteness and bias (esp. of credit scores) by including additional information & improving models
- **Example:** Pay Rent, Build Credit; Pattern Recognition



Discussion

This is Work in Progress: it needs testing, application, discussion -- your input!

- Is this framework useful to your work?
- What markets seem most important to your development goals? What market barriers, levers and activities affect your work?
- What neighborhood factors, or factors otherwise in your control, seem most significant to market functioning?
- What else would you need to know in order to apply this approach in your neighborhood?

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