

Walmart shifts business model from suburbs to city, bringing slew of stores to Chicago's inner city

By **KERRY L. BEISER**

City of Chicago residents spend more than half a billion dollars each year at Walmart's 45-plus suburban Chicago stores; to that end, the retail giant plans to keep its suburban stores open when it adds dozens of stores to the city of Chicago over the next five years.

Walmart spokesman Steven Restivo says the retailer is now in the process of searching citywide for optimal locations to either build new stores or take over dormant buildings and convert them into Walmarts. The massive expansion is expected to generate 12,000 jobs, 10,000 of them permanent sales positions and 2,000 construction jobs.

"Right now we are out there evaluating opportunities across the entire city," said Restivo. "We're looking at a wide range of store sizes and floor plans, as small as 20,000 to 30,000 square feet and as large as about 150,000 square feet. The consistent element across all those sizes will be grocery, because that's what our customers have come to expect and that's where we're able to bring the best value."

In the city of Chicago alone, there are some 600,000 residents who are living in self-identified "food deserts," Restivo says. "They currently have to travel miles outside their own neighborhoods to find healthy foods. Our goal is to provide as full of a grocery as we can with each of the locations we establish in the city of Chicago, because there is a definite need."

American Planning Association director of research Bill Klein questions whether Walmart's grand-scale Chicago initiative signals a major shift in the corporation's longstanding business model from rural to urban retail development.

"The old model of Walmart being in suburbia and exurban communities was a story about cars and how far away the retail shed was," Klein said. "Generally it was a 20, 30 or even a 45-minute drive. In an urban situation, it's a different kind

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Steven Restivo
Walmart Spokesman

of formula that must rely on two feet or on public transportation. I definitely see Walmart tapping into a very underserved market: inner city grocery. It's a new frontier," he added.

Another big reason behind Walmart's push to expand into urban markets such as Chicago, according to St. Louis-based Development Strategies Inc. senior analyst Matt Bauer, is that the corporation likely has tapped out its future growth prospects in the suburban markets and needs to drill deeper to satisfy those who hold Walmart stock.

"Walmart has pretty much exhausted its rural model," Bauer said. "If the company wants to continue selling growth to its shareholders, urban areas are Walmart's next logical choice. Its business model is well suited to urban areas. And with the inner cities, there's not a lot of competition at this point but there is a lot of demand. The challenge for Walmart, I would think, would be to locate urban sites that are large enough to work with."

Bauer adds that while on the surface Walmart's strategy of developing stores in Chicago's urban core appears to be a markedly distinct departure from opening Supercenters in suburbia, in a way it's really going back to the company's core philosophy - just in a different environment.

"In a rural area, Walmart had to capture people from a much broader geographic

territory - say a 30 to 50-mile radius - and bring them to one store," said Bauer. "But in central Chicago, you could draw the same number of customers from just a few miles away and could feed into that new building model."

Restivo says Walmart is not closing the door on continued development in rural and suburban markets, but that clearly urban opportunities present a path to growth and meeting an underserved need in U.S. inner cities.

"We continue to open stores in rural and suburban communities, but obviously a large percentage of our domestic growth opportunities will come from urban markets," Restivo said.

In 2006, Walmart built its first inner city Chicago store on the West Side in the Austin neighborhood, according to Restivo. Out of the 400 jobs created for that store, approximately 90 percent of the hires came from the immediate community.

"The biggest eye-opener for that store," he said, "was that since we opened, 22 new businesses have also opened. It really has dispelled the myth (that Walmart is bad for other nearby businesses)."

Walmart is anticipating opening its second store within the city of Chicago in 2012 in the Pullman neighborhood on Chicago's South Side.

Although the retail giant and labor unions have not always gotten along well, Walmart and the Chicago-area labor unions agreed to modify their own business models to enable Walmart to expand into urban locations. Restivo says Walmart signed a project labor agreement with the Chicago building trades, covering all of northern Illinois, for a three-year period. The suburban Chicago stores, he adds, were also built with union labor; the project labor agreement recently signed in conjunction with this five-year, mega-stores plan was a formalization of that earlier process. It includes Walmart's commitment to pay prevailing wage, use union contractors to build the stores and provide \$20 million to local nonprofits over the next five years.

For the first time ever, Walmart has agreed to a higher wage standard. The

retailer's commitment was part of an agreement to ensure Chicago City Council support for zoning approvals and ended a six-year battle that paves the way for a second store - and the dozens to follow - in the city. Under the new agreement, Walmart commits to a starting wage of \$8.75 per hour, 50 cents per hour higher than the minimum wage for new employees. After one year of employment, Walmart will raise workers' wages by 60 cents to \$9.35 an hour.

Bob Lewis, principal and president at Development Strategies, says one thing to speculate on is the balance of capital and labor that Walmart will need to maintain during its five-year, mega-development initiative across the city of Chicago.

"Walmart has been very innovative and tough when it comes to lowering prices, as we all know," said Lewis. "They go offshore, they hire cheap labor, they do what they do to keep prices low. If they have to pay more wages and all else remains equal, they may have to cut back on workers or replace some of their people with technology. Walmart is the classic capitalist. If they can hire workers more cheaply instead of investing that money into a machine, they will do it. I am curious how that's going to play out with their urban modeling."

Elizabeth Drea is a spokeswoman for Local 881 in suburban Chicago with the United Food and Commercial Workers International Union. The international union hosts an informational campaign known as WakeUp Walmart. Drea says Local 881's goal is to educate Chicago residents on how to stand up for improving the quality of service industry jobs the city attracts and retains. Local 881, she says, is concerned about large-scale corporations like Walmart taking advantage of cities desperate for jobs, particularly during a period of extended high unemployment; Drea is also concerned, she says, about what this could mean in the long run in terms of driving down wages and quality of life for residents in Chicago and elsewhere.

"The crux of the issue is that we've lost our industrial base here in Chicago," said Drea. "And in the place of those high-paying industrial jobs have come low-paying service industry jobs. If the service sector continues to be the only sector that's growing, we've got to be able to have a living wage and benefits structure we can all count on. It's a huge uphill battle. We're trying to educate the public, the press and elected officials that when they make long-range deals like this one for low-paying service industry jobs, it can have a devastating effect on our local economy."

IBJ Business News

Delta Dental of Illinois names Glossy CEO, president

Delta Dental of Illinois today announces that Bernard Glossy, former chief executive officer of Delta Dental of Arizona and chairman of the board of DeltaUSA, has been named to serve as chief executive officer and president.

Holland Construction begins Anheuser-Busch wholesaler renovations

Holland Construction Services Inc. has begun work on the expansion

and renovation of the H.W. Herrell Distributing Co. warehouse in Imperial, Mo., slated for completion in January.

The \$1.8 million design/build project will include the removal and rebuild of approximately 11,000 square feet of the current 55,647-square-foot facility, along with the addition of 3,000 square feet through three different phases of work.

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Boushey

members of Congress have the backbones needed to stand up to the fiscal hawks who would like to repeat the mistakes of the Great Depression.

Letting unemployment benefits for the long-term unemployed expire courtesy of Congressional inaction is exactly the wrong policy. Putting money in the hands of the unemployed is one of the best economic recovery policies we have. The evidence is clear. We also need to stop states from cutting spending right now amid record-high unemployment numbers and offer more aid to the states.

Because the Great Recession was preceded by a huge financial crisis, we knew from day one that it was likely to be deeper and more protracted than more recent recessions.

We've also known for more than a year and a half that the Federal Reserve has no more room to lower interest rates to boost demand. In recent recessions, lowering interest rates was sufficient to push the economy toward sustainable growth, but this time it's not possible. Sustained government spending until the recovery hits its full stride is the best - and only - option to push the unemployment rate down.

Our economy continues to have what economists call "excess capacity," which means there is not enough demand for all the goods and services we have the capacity to produce, and thus not enough demand for more workers.

I encourage non-economists to think of excess capacity as the technical term for what Americans are currently seeing everyday around them: excruciatingly high unemployment, especially long-term unemployment and the devastation it causes families and communities all around our nation.

Yet there is a rising chorus of voices singing the praises of deficit reduction

over the benefits of saving our economy through expansionary fiscal policies. Once our economy recovers, of course, the deficit must be addressed, but until unemployment begins to fall and the economic recovery is firmly in train, these voices push us in the wrong direction.

Their rhetoric argues not to burden the next generation with unsustainable debts, but the reality is this: by not boosting demand for goods and services, the nearly 15 million unemployed workers will find no means of support today and will see their economic future grow dimmer by the week.

Consider these two incontrovertible facts. Average mature workers who lose a stable job will see their earnings fall by 20 percent over 15 years to 20 years. And the labor market consequences of graduating from college in a bad economy are large, negative and persistent.

I often wonder about those who want the federal government to do some belt tightening right now. Unemployment - the ultimate unused capacity - is a terrible thing. Allowing it to fester when we have tools at your disposal to alleviate it sends a message that our government not only doesn't care about the very real hardships families are facing, but that it doesn't recognize the enormous waste of human potential.

For every unemployed person, there's someone who is able and willing to work. Our economic future depends on getting people back to work.

Heather Boushey is senior economist at the Center for American Progress. Her research focuses on employment, social policy and family economic well-being.



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IBJ Business News

Edwardsville named one of best towns for families

In its yearly round-up of perfect places to raise kids, *Family Circle* magazine has named Edwardsville, Illinois as one of the 10 Best Towns for Families. In the magazine's August 2010 edition, Edwardsville is touted with a 9 out of 10 great schools rating and is praised for being an ideal city for all generations.

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Counterpoint: Extending Unemployment Benefits

Two years of unemployment benefits are contributing to high unemployment

Unemployment has skyrocketed in this recession. Worse, it has remained abnormally high. Joblessness never rose above 8 percent in either the 2001 or 1991 recessions, but now almost one in 10 Americans do not have jobs, and in some parts of the U.S. the rate is over one out of five. Why?



Sherk

The weak economy and the job-killing policies coming from Washington are the biggest culprits. The collapse of the housing bubble and the credit crunch hammered businesses, and new taxes and regulations are hitting employers when they are down. However, policies designed to help the jobless are - ironically - also at fault.

Congress extended the maximum length of time the unemployed can collect unemployment insurance beyond the usual six months. Congress often does this in recessions, but never before by so much. Now workers in high unemployment states can collect unemployment insurance for 99 weeks - almost two years of benefits. Congress did this to help those out of work. But economic studies consistently show that when workers collect longer UI benefits they also stay unemployed longer.

This does not happen because unemployed workers are lazy, or want welfare handouts. It happens because unemployment insurance changes the jobs

the unemployed look for. Most job losers would like to find work near where they currently live, and in their same industry or occupation. Who wants to move away from friends or family, or take a pay cut in a field in which you have less skills?

Unfortunately a lot of workers will have to do just that. Many of the jobs the economy lost will never come back. The collapse of the housing bubble means construction employment will not recover anytime soon. The finance sector will likewise remain shrunken. General Motors cut almost three-fifths of its hourly workforce in recent years, and most of those positions will never return.

Two years of UI benefits allows these unemployed workers to delay the inevitable. They look for similar jobs in the same area as they used to work. They do not look as intently for work in other states or in other industries, jobs that would involve painful transitions. Not until UI benefits begin to run out does their job searching surge. Then they become more willing to accept the painful sacrifices necessary to get a job, such as moving away.

UI keeps many workers unemployed while they look for jobs that they will not find. That does little to benefit them: in any event, they ultimately wind up having to take the less desirable jobs.

Studies show that extending UI benefits has this effect on unemployment whether jobs are hard to find or not. And it measurably raises the unemployment rate. A recent Brookings Paper on Economic Activity, written by economists at the Federal Reserve and the affiliated with the National Bureau of Economic Research, concluded that:

This back-of-the-envelope calculation therefore suggests that EUC [the extended UI benefits] can account for as much as 15 to 40 percent of the rise in aggregate unemployment duration, a potentially substantial effect. In terms of the unemployment rate, this corresponds to between 0.7 and 1.8 percentage points of the 5.5 percentage point rise in the unemployment rate witnessed in the current recession. There are reasons to believe, however, that the effect of extended UI benefits in the current recession on the duration of unemployment is likely to be at the lower

end of these estimates.

In English, the unemployment rate would be roughly a percentage point lower, if Congress had left unemployment benefits at six months. We would have 8.7 or 9.0 percent unemployment instead of the current 9.7 percent. Policies intended to help the jobless have kept many of them from finding new work. That may be a policy tradeoff Congress chooses to make. But no one should mistake it for an economic stimulus.

James Sherk is a senior policy analyst in labor economics at the Heritage Foundation.

IBJ Business News

Volunteers unite to build two new East St. Louis playgrounds

More than 400 volunteers from Blue Cross and Blue Shield of Illinois, the YMCA of Southwest Illinois, the East St. Louis Park District, Alpha Phi Alpha, organizers from KaBOOM! and local residents joined forces July 31 to build two new playgrounds at Illinois Avenue Park in East St. Louis and at the East Belleville YMCA. The new playground designs are based on drawings created by children who participated in Design Day events in May.

The new playgrounds will provide hundreds of children with great places to play. Currently, there is no playground for children to play on at either Illinois Avenue Park or at the East Belleville YMCA. The playgrounds are among eight being built across the state by

KaBOOM! and Blue Cross and Blue Shield of Illinois this year, and two of more than 150 builds that KaBOOM! will lead across the country in 2010 in an effort to provide a great place to play within walking distance of every child in America.

CB Richard Ellis adds broker in St. Louis

CB Richard Ellis announces that Brett Chetek has joined its St. Louis office. Chetek specializes in retail investment brokerage.

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The Goddard School in Edwardsville has joined the RiverBend Growth Association.



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