





LIBRARY
OF THE
MASSACHUSETTS INSTITUTE
OF TECHNOLOGY

HD28
.M414
no. 407-
69

WORKING PAPER
ALFRED P. SLOAN SCHOOL OF MANAGEMENT

BLACK CAPITALISM AND BLACK SUPERMARKETS

407-69

Gordon F. Bloom

July 1969

MASSACHUSETTS
INSTITUTE OF TECHNOLOGY
50 MEMORIAL DRIVE
CAMBRIDGE, MASSACHUSETTS 02139



BLACK CAPITALISM AND BLACK SUPERMARKETS

407-69

Gordon F. Bloom

July 1969

HD28

.M1414

10,403-52

RECEIVED
AUG 4 1969
M. I. T. LIBRARIES

BLACK CAPITALISM AND BLACK SUPERMARKETS

Current interest in black ownership of business enterprises has manifested itself in a major thrust by Negroes to acquire ownership of supermarkets in the communities in which they live. This movement takes on critical significance in view of the fact that many white-owned markets in ghetto areas are closing their doors, leaving ghetto residents with no readily accessible food market in which to shop except for the higher priced neighborhood "mom-and-pop" stores. As with black capitalism itself, the interest shown by black entrepreneurs in supermarkets reflects a mixture of economic and emotional motivation rather than a cold analytical appraisal of the opportunities for profit which exist in this area of private enterprise. It is the purpose of this article to appraise some of the major difficulties which lie in the way of successful Negro ownership and operation of supermarkets in ghetto areas and to suggest some tentative solutions for the problems which black businessmen are experiencing.

WHY BLACK SUPERMARKETS?

Why do Negroes want to own their own supermarkets? The reasons are not hard to find:

a) Foremost perhaps is the fact that the supermarket has become a universal symbol of successful American business enterprise. Even Khrushchev inspected a supermarket when he visited the United States. Likewise in the ghetto the supermarket is a symbol of the white man's world of abundance. Ghetto communities have been compared to underdeveloped nations. While the analogy is imperfect, there is a basic similarity in that both groups suffer from feelings of inferiority which may require a success symbol in order to

develop unity and strengthen morale. A busy supermarket is an attractive business; it has the appearance of success even when it is losing money! Furthermore, when located in the ghetto it is likely to be one of the newer structures in the area. Even though ghetto manufacturing plants may afford a less tortuous road to profits - as will be elaborated at a later point in this article¹ - the supermarket has a visibility quotient which makes it a focus of entrepreneurial interest in the black community.

b) The supermarket is a symbol of big business to the average Negro businessman. It must be remembered that until recently the typical black business activity in the ghetto was the small corner grocery store. To the struggling black businessman, big successful business was epitomized by the white supermarket with its thousands of customers and millions of dollars going through the checkout stands. Perhaps that is a major part of the fascination of the supermarket - it is a million dollar business in terms of sales, even though profits are often miniscule.

c) While the two reasons set forth above are primarily emotional in context, there is also a sound economic basis for black interest in supermarkets in ghetto areas. This grows out of a recognition that there is a need for markets in such areas. In the first place, almost every ghetto has sufficient population to support a new supermarket, but white chains have been slow to build them. While white suburbs with 25,000 to 30,000 population will frequently have four or five new supermarkets, it is not unusual to drive through

¹That ghetto manufacturing plants are also experiencing difficulties is confirmed by the writer's field research. The comparison is one of degree. See also John T. Garrity, "Red Ink for Ghetto Industries?" Harvard Business Review, May-June 1968, pp. 4 et. seq.

densely populated blocks in ghettos containing even greater population concentrations and find not a single new supermarket. The lack of new supermarket construction is not attributable solely to the racial characteristics of these areas. Many other circumstances contribute to this condition, including the difficulty of finding adequate land at reasonable cost in a densely populated urban neighborhood. Nevertheless the fact remains that if we look at the problem solely on the basis of the ratio of markets to population, there is an obvious shortage of supermarkets in black neighborhoods. Moreover, because car ownership is low among black residents of ghetto areas, the availability of conveniently located supermarkets becomes even more important in such neighborhoods.

In the second place, the need for supermarkets in ghetto areas is made more urgent by the fact, substantiated by recent investigations conducted by the U.S. Department of Labor, the U.S. Department of Agriculture, the Federal Trade Commission and other groups, that the poor do pay more for their food in such areas.² Because large modern chain markets are frequently not available, the ghetto resident often is compelled to shop in the smaller less efficient convenience stores which charge higher prices for their products. Furthermore, where older chain supermarkets do exist in ghetto neighborhoods, there have been charges -- in most cases unfounded, but nevertheless given

²See, for example, U.S. Department of Labor, Bureau of Labor Statistics, National Commission on Food Marketing Special Studies in Food Marketing, "Retail Food Prices in Low and High Income Areas," Technical Study No. 10, June 1966; United States Department of Agriculture, Consumer and Marketing Service, Comparison of Prices for Selected Foods in Chain Stores in High and Low Income Areas in Six Cities (Washington, D.C. June 1968); Committee on Government Operations, United States House of Representatives, Consumer Problems of the Poor: Supermarket Operations in Low-Income Areas and the Federal Response, Union Calendar No. 755, 90th Con. 2d Session, August 7, 1968

wide credence by the black community -- that chains charge more in ghetto stores than in white neighborhoods for the same products, that perishable products are generally of poorer quality, and that prices are deliberately raised just before welfare checks become available to customers.

d) Part and parcel of the interest in black supermarkets is the philosophy that underlies black capitalism generally, namely that the money earned in business located in the ghetto ought to stay in the black community, that black ownership is necessary to give the Negro dignity and status in the mainstream of American economic life, and that examples of accomplishments by Negroes as successful American business entrepreneurs will afford new motivation to Negro youth to stake out careers in private enterprise. In St. Louis, James E. Hurt, Jr., one of the more successful black supermarket operators, built a supermarket and shopping center across the street from the largest high school in the city which has almost 3,000 black students. He puts the motivation argument this way:

"...can you imagine what's going to happen to those Black boys and girls consciously and subconsciously as they pass back and forth over the four years that they're in high school, passing this shopping center, passing this supermarket and knowing within themselves, 'This belongs to us?'"³

This line of reasoning assumes that the black supermarket will be successful - and this one may well be. But on the record to date it appears that the majority will fail. If this should happen, then a reverse action could be engendered and the black community could suffer losses, both economic and emotional which might leave scars for years to come. This

³Speech at National-American Wholesale Grocers' Association Executive Conference, Nassau, The Bahamas, September 20, 1968.

possibility does not seem to have been adequately weighed by many Negro entrepreneurs who seem to have been unduly swayed by the glamor and volume potential of supermarket operation without appreciating a simple basic fact, well understood by men with long experience in the trade: the supermarket business is a difficult and risky business.

THE RECORD TO DATE

Before we review the experience of black entrepreneurs in supermarket operation, it may be helpful in terms of perspective to consider the overall experience of Negro-operated businesses in the ghetto. While no adequate statistics are available, it is generally recognized that the experience has been unfortunate. The results are what would be expected, given the nature of the business, the nature of the environment, and the handicaps flowing from lack of managerial know-how.

Decline of Negro Business Operations

Most black business operations have been small retail establishments - typically the corner grocery store, variety store, lunch counter, beauty parlor, and so forth. The average life of this type of business - whether managed by a Negro or a white man - is very short. Statistics indicate that 51 per cent of all new retail businesses fail within 1 1/2 years and 70 per cent fail within 3 1/2 years.⁴

The problems of small business are magnified by the changing and hostile environment of the ghetto. Crime, violence, riots, all raise the risk of doing business in such areas. Furthermore, construction of new

⁴Business Management, May 1969, p. 6

highways, urban redevelopment projects, exodus of manufacturing plants, and constantly changing neighborhoods have literally strangled Negro enterprise and turned once prosperous neighborhood shopping areas into rows of vacant stores. To overcome such obstacles the small businessman would need great managerial talent and abundant working capital - neither of which is characteristic of small business enterprise regardless of the color of the owner.

It is not surprising then to find that in the decade from 1950 to 1960 there was actually a 20 per cent decline in the number of Negro owned and operated businesses in the United States.⁵ Now we have a resurgence of interest in Negro operation of business in ghetto areas. Has the picture changed? Will the pattern of failure be reversed, or will the same difficulties inherent in the nature of the business, the nature of the environment, and the lack of managerial ability produce a new round of failures and disenchantment with private enterprise?

Experience of Black Supermarkets

Despite current interest by black businessmen in supermarket operation, to date only a small number of such enterprises have actually been acquired or newly constructed. According to estimates provided from various industry sources⁶, there are probably only about 20-25 black-owned

⁵Dan Cordtz, "The Negro Middle Class is Right in the Middle," Fortune, Vol. 74 (November 1966), p. 228

⁶It is a sad commentary on the lack of attention to Negro enterprise in this field that there is no up-to-date compilation of the number and location of Negro-owned and operated supermarkets in the United States.

supermarkets in the entire United States, if we define as a supermarket a market with self-service meat, grocery, and produce having sales on an annual basis of not less than one million dollars.⁷ There are two avenues to black ownership of supermarkets in ghetto areas: acquisition of existing white-owned stores, or construction and operation of new markets in such areas. The black-owned markets which are presently in operation represent both of these approaches, but neither one seems to bring with it the assurance of success.

The fact is that the record of black-owned supermarkets to date has been one of losses, sales below expectation, and in a few cases scandalous mismanagement. Despite these difficulties, trade publications and black journals are inclined to describe the operations in glowing terms which bear little relation to reality. Cosmetic exaggeration has been substituted for analytical appraisal. There is a real need for candid discussion of the nature of the difficulties in order that some solution can be found for the problems that beset the black owner of a ghetto supermarket. At a recent meeting attended by a number of black owners of supermarkets, one ruefully remarked: "I thought that I was the only one losing money and that everyone else was coining money." The fact is that most of the black-owned supermarkets - including those which have received considerable publicity - have been losing money. The time has come to take a long hard look at the reasons.

⁷This is the accepted definition in common usage in the industry.

THE CAUSES OF FAILURE

It is easy to explain away the dismal record of black supermarkets by saying that Negroes do not have the needed managerial skills. If what is "needed" is a skill to make money in the ghetto, then the record of loss proves that the Negro owners did not have it and the statement contains its own explanation. But the problem goes much deeper, because the real question is whether any owner - white or black - can make money in such operations. Obviously the level of management ability is a factor, but the nature of the supermarket business and the peculiarities of the ghetto environment combine to produce a multiplicity of problems which have compounded the task of black management. Let us take a look at each of these factors in turn:

The Nature of the Supermarket Industry

Supermarket operation even under normal conditions is a demanding business. Profits are low - averaging only a little above one per cent on sales. There is little margin for error. Many costs are figured to two decimal places. Not only are profit margins low, but volume is high. The result is that mistakes can be very costly. While it is difficult, and indeed unusual, for a store to earn more than 2-3 per cent net, after allocation for overhead, it is all too easy to lose 2-4 per cent on sales if critical ratios get out of line.

The supermarket customer is extremely critical. She will not tolerate inaccurate pricing, or out-of-stock shelves, or poor service. This is true whether she is white or black, and whether the store is black-owned or white-owned. As a matter of fact, most black supermarket operators allege that the Negro customer enters a black-owned market with a built-in skepticism that the

black operator can do as well as the white man, and therefore the black operator may actually have to maintain the store at a higher standard than a white operator in order to attract and retain customers. The black operator is particularly at a disadvantage in the opening weeks of operation when he has many untrained employees in the store and few knowledgeable people to train them. Yet the black customer may form an unfavorable image of the store in these early days of operation and consequently take her business elsewhere. Chains, of course, are able to open stores with much less difficulty by transferring a cadre of skilled employees to the new unit while training new employees in other stores of the chain.

Ideally, the black entrepreneur ought to have an umbrella over his business during the first year of operation to enable him to get on his feet. He may be able to get help from a wholesaler or other trade source, but there is no way in the supermarket business that he can contract for business from his customers for a year - or even for a day. One of the advantages of a manufacturing plant operation as a vehicle for black ownership is that it is possible to negotiate a contract either with government or a sponsoring company to take all or a substantial part of the plant's output for the first year of operation. In the retail field, however, the black entrepreneur is exposed to the full blast of the winds of competition from the moment he opens his doors for business. Experience has demonstrated that appeals to the customer on the basis that the store is black-owned and therefore deserves the support of the community fall upon deaf ears when the operation does not measure up to competitive standards.

In a large Eastern city, ministers appealed to their congregation to shop at a newly constructed supermarket which was owned by members of the Negro community. Despite such appeals, sales continued at a unsatisfactory level while a nearby white-owned supermarket continued to do almost twice as much business.

In a Western black-owned supermarket with unsatisfactory sales and heavy losses, most members of the cooperative which owned the store shopped elsewhere.

A successful Eastern black supermarket operator reported that while his sales were generally satisfactory in the lower economic strata of the Negro community, he was unsuccessful in attracting middle class blacks to his market.

For the reasons enumerated, the supermarket industry is a difficult industry in which to learn the fundamentals of business operation. Retribution for mistakes comes too fast and swift. Moreover even the most successful chains find that at any time a substantial number of their stores may lose money. One investigator has found what he terms is an "S-Curve of Profitability" of stores in the industry with 25 to 30 per cent of the stores of the typical chain actually operating at a loss.⁸ The point is that in the retail business - and particularly in the supermarket business - even the most experienced company cannot go into a new location, put its best manager in charge of the unit, and be certain that the new store will make money. There are too many sales and cost factors which are wholly or partly beyond the control of the operator. A fortiori, when a black owner with less developed managerial skills opens a new store, there is a substantial risk that he will lose money. The real problem lies in the fact that he may not have sufficient capital to enable him to weather the difficult first year or two of operation while he develops a seasoned crew to run the store and an image of value and service with his customers.

⁸William Applebaum, "Chain Store Location Strategy and the Store Profit S-Curve," Proceedings of American Marketing Association, June 1965, pp. 283-294

If the black supermarket operator fails, he has plenty of company. Pick up any daily newspaper and turn to the pages listing business auctions. You will be surprised at the number of auctions listing sales of supermarket equipment. According to Dun and Bradstreet, in 1967 there were 703 failures reported in the "Food and Liquor" category, the highest number in any category of retail trade with the exception of "Automotive Group" and "Eating and Drinking Places."⁹ In view of the fact that the black entrepreneur will frequently be undercapitalized and lack an experienced management team, one may seriously question whether the supermarket industry is an appropriate vehicle for experimentation in black capitalism.

Problems of the Ghetto Environment

A Negro marketing consultant remarked at a recent meeting that the problems faced by black owners of supermarkets in the ghetto were really no different than those that were faced by white owners of markets in white urban centers - except that they were worse! There is much truth in this statement, but it overlooks the fact that certain of the problems created by the ghetto environment are really different in kind. The black operator is burdened not only with difficult merchandising and operating problems but also with complex social problems which the community and government have been unable to solve.

Violence in the Ghetto

Most critical of the problems unique to the ghetto is the atmosphere of violence which has become an everyday part of ghetto living. The black businessman must not only be a good businessman but also an astute politician

⁹The Failure Record Through 1967: A Comprehensive Study of Business Failures, Dun and Bradstreet, Inc., New York, New York, pp. 8-9

as well. The ghetto is a forum for conflicting power blocs and any major business enterprise - white or black - which hopes to operate successfully and without interruption in this arena must learn to deal with these contestants. When one black supermarket operator who was having difficulty hiring skilled black employees was asked why he did not hire white employees he answered that the black militant group in the neighborhood had warned him not to hire white employees if he wanted to avoid trouble. "They will fire bomb me if I do," he stated unequivocally.

Violence evidences itself in many forms in the ghetto:

Crimes of a violent nature are frequent occurrences on ghetto streets, especially robbery, aggravated assault, forcible rape, burglary and similar crimes. The National Advisory Commission on Civil Disorders found that low-income Negro areas have significantly higher crime rates than low-income white areas.¹⁰

The ever-present threat of riots and bombing makes fire insurance extremely costly. When a wholesaler in a large Eastern city sold a supermarket covered by a blanket fire insurance policy to a black operator who was going to operate the one store, the fire insurance rate for the property jumped 300 per cent. Despite the passage by Congress in August 1968 of the FAIR Program (Fair Access to Insurance Requirements), one third of the states have not adopted FAIR plans and the program is not affording much relief even in the states where it is operating. A Congressional subcommittee was told recently that some Chicago ghetto dwellers are paying five times as much for coverage as they did before the April 1968 riots, when there was no FAIR Program.¹¹ Similar problems of cost and coverage face the operator of ghetto markets.

Many ghetto markets close early on winter evenings because residents are afraid to go out in the streets after dark. Furthermore, female help are reluctant to work evenings if they have to go home after dark.

In certain ghetto areas, markets will not make deliveries to housing projects where trucks have been looted or deliverymen attacked.

¹⁰ Report of the National Advisory Commission on Civil Disorders, New York: Bantam Books, Inc. 1968, p. 267

¹¹ Business Week, May 10, 1969, p. 104

Employee Theft and Customer Pilferage

While violence is in many respects almost a unique characteristic of the ghetto environment, employee theft and customer pilferage are problems faced by every retail enterprise. In the ghetto, however, as in many low income white or mixed neighborhoods, their incidence is magnified by the presence of all those factors which tend to foster a disrespect for traditional rights of private property: high unemployment, poverty, dope addiction, lack of parental supervision and discipline, and social disorganization. As a consequence, employee theft and customer pilferage are probably the two most costly burdens imposed by the ghetto environment upon the retailer seeking to operate a business in such areas.

Losses from these two sources can be staggering. The white operator of a relatively new market which recently closed in an urban ghetto reported to the writer that his shortages were running as high as 5 per cent of sales! This is quite a cross to bear in a business that normally earns only one per cent net on sales. Nor will the color of the black operator's skin shield him from this insidious drain on profits. All over the United States, the experience of black operators of supermarkets attest to an undeniable fact: Blacks will steal from blacks just as whites steal from whites. Appeals to race pride, community ownership, and such popular concepts as "It's your own bag" do not offset the fatal fascination of thousands of dollars passing through the cash registers.

The ghetto environment not only fosters crime but also makes it difficult for the retailer to take appropriate measures to control losses. When employee theft is suspected in a retail unit, chain operators normally

take certain precautions. If theft through the checkouts is suspected, they will transfer certain employees to other units in order to break up cliques which might be working together and also they attempt to hire for cashier positions persons who do not live in the immediate neighborhood and who are therefore less likely to permit orders for friends to go through the checkouts at less than the correct amount. The single store ghetto operator, however, does not have this flexibility. He cannot make transfers to and from other units and to make matters worse he usually finds it difficult to get employees from other areas to come into a particular neighborhood "where they do not belong." The result is that a condition is created and perpetuated which presents an invitation to a kind of employee theft which is extremely difficult to detect.

This kind of situation developed in a ghetto store in an Eastern city. The delinquent employees were finally uncovered through use of lie detector tests. It is interesting to note that in this particular case the market was owned by residents of the ghetto community and the Board of Directors was composed of Negro ministers, but this identity of the business enterprise with the black community did not deter employees from stealing thousands of dollars from the company.

What does the black owner of a ghetto supermarket do when he apprehends a black employee stealing? Negro operators say it is a heart-rending experience. Most of these operators are struggling to make a success of their businesses not just to make a profit but because of a conviction that the success of the business will benefit the whole community and will uplift the image and morale of the black man.

Consequently, when the black owner finds a black employee stealing, it is a little like catching a traitor. Yet most black operators confess that at first they bent over backwards and were exceptionally lenient with such employees - and with black customers caught stealing, as well. Eventually, however, they found that a lenient attitude only encouraged more theft and therefore adopted a policy of turning over such miscreants to the police for prosecution.

Most Negro supermarket operators are acutely aware of the risk of serious inventory shortages and many employ full-time security officers - another costly burden imposed by the ghetto environment. Yet while black operators are aware of the problem, they have practically no idea of exactly how much they are losing through theft. The reason is that their accounting controls are insufficient to reveal anything more than an unsatisfactory gross profit which could be caused by a variety of factors unrelated to theft. The only way that a fairly accurate indication can be obtained of the magnitude of inventory shortages in a retail business is through utilization of the so-called retail method of accounting. At a recent meeting of operators of black-owned markets from various parts of the United States, the writer found that not a single one maintained this kind of inventory control. The failure to use such accounting procedures serves to highlight the fundamental problem produced by the interaction of ghetto environmental conditions and black management. The difficulties of the ghetto environment referred to above require a high degree of sophistication in the application of management controls in order to avoid the risk of ruinous losses, yet on the whole black management has neither the knowledge nor the experience to apply such controls rigorously and effectively.

Employee Productivity and Turnover

Violence and theft are concrete. They are difficult to control yet they can be seen or measured or converted into dollars and cents. More elusive but equally serious is the effect of years and years of discrimination, disappointment and disillusionment on the motivation of black workers. "Employees don't want to work" is a common complaint of all business managers today, but it poses a much more complex problem in the ghetto. Black operators find that they have difficulty convincing black employees that they are really offering them an opportunity for secure employment and advancement in return for hard work. Too often the black employee does not believe the black employer - he has been misled and disappointed too often in the past. He is afraid to set his hopes too high for fear of being disappointed and so as one black entrepreneur put it, "The black employee protects himself with a low level of aspiration."

The result is a lower level of productivity in ghetto stores employing blacks. The problem seems to be more one of motivation and attitude than of skill or intelligence. Most of the jobs at the store level in a supermarket - particularly in the grocery department - do not require a high level of either skill or intelligence. The difficulty is that the image of the hard-working clerk striving to get ahead is a white image and is in many respects foreign to the Negro youth in today's ghetto. Low productivity means high labor costs - a costly handicap in a supermarket. While labor costs in a market are normally less than 10 per cent of sales, they typically represent more than 50 per cent of variable costs. Management control of productivity can therefore spell the difference between profit and loss in the operation.

A related problem is the high turnover among Negro employees, particularly youth. Turnover of 100 per cent of store personnel in the first year of operation was reported by one black operator who recently opened a market in the ghetto of an Eastern city. Employee turnover is an affliction that affects all businesses, but it is particularly painful for a one-store operator. When several members of his crew do not turn up, he cannot call up headquarters and ask to have some men transferred to his unit from another store. He has to do the best that he can, even if he is short-handed. The result is frequently poorly stocked shelves, sloppy price-marking, and poor service. The black customer - like her white counterpart - is really not interested in the black operator's problems. All she knows is that there were only two cashiers in the store and she had to wait twenty minutes in line with a small order!

Merchandising Problems

The dynamics of the ghetto community are such that shopping habits and consumer needs are in many ways better served (except with respect to price) by the small grocery store which gives credit than the large cash and carry supermarket. The typical ghetto customer has a low income and a continuing shortage of cash. Whereas, in a suburban white market, the typical customer will shop with a car and buy a week's supply of groceries on one trip, in the ghetto the Negro mother may send one of her children to the store several times during the week to pick up a few items on each trip.

This pattern of shopping imposes higher operating costs upon the ghetto supermarket. Costs of running the cashier-checkout operation are

inflated because of the high proportion of small transactions. The shortage of cash reflects itself in what may be called the "discarded can syndrome." One operator estimated that it cost him about \$25 per week just to put back on the shelves cans of products that are left by customers near the checkouts when they find that they do not have sufficient cash to pay for the order in their shopping carts. These additional costs may seem small, but in a business where profit is measured in pennies, their accumulated effect can add up to losses.

The low income of shoppers distorts the merchandising mix of the ghetto market. The black customer cannot afford expensive specialty items found in the grocery, dairy, frozen food, and produce departments of suburban markets. She buys a high proportion of staple items - sugar, coffee, flour, etc. - which typically provide only a narrow margin of gross profit, if any. While in the meat department the preference of Negroes for offal tends to result in a higher gross profit, the overall impact of low income is to produce a lower gross profit for the store operation than would prevail in comparable markets in more affluent neighborhoods.

This is an income problem, rather than an ethnic problem. However, the black operator of a market in the ghetto faces merchandising problems which are uniquely related to the color of his skin and would not exist if the store were operated by a typical national food chain. The source of these problems is the deep skepticism which the black customer holds with respect to the business capability of her black brother.

The kind of problem this attitude can produce is well illustrated by the experience of one black market owner who started in business with the theory that if his service and store condition and prices were as good as his white competitor, the black customer would shop with him because he was black. "It doesn't work out that way" he reported some months later after watching a downward sales trend. He found it necessary to cut the prices of about 200 high volume items below competitive levels in order to offset the built-in image that a black operator can't compete with the big white chain. In another city, a competitive price check indicated that a new black-owned and -operated supermarket had prices as much as 20% lower than a white competitor yet the black-operated store had the image in the community of being high priced! Black operators are slowly learning how to combat this image problem - by featuring many low-priced items in ads and through other devices - but the problem is simply another of the difficulties which adds to the profit woes of black supermarkets.

The Problems of Management

As in practically all other fields of American business enterprise, there is an acute shortage of competent black managers in the supermarket business. Indeed in the next few years it appears that there will be more white-owned markets in ghettos for sale than there are black managers capable of operating them. Funds for purchase and operation can be raised without too much difficulty from the black community, Small Business Administration and other governmental agencies, business groups, banks, and insurance companies. The limiting factor is - and will continue to be - the scarcity of skilled black managers.

The Scarcity of Black Managers

The reason, of course, lies in the fact that Negroes have historically been relegated to menial positions in the industry. Consequently, there are few blacks with administrative experience available. Means must therefore be developed to train promising blacks as managers in the food industry or to find them in other industries.

Interestingly enough, there is little unanimity in the retail food industry as to the best sources for men who can run supermarkets successfully as independent operators, whether they be white or black. While experience as a store manager is useful in developing administrative skills, the typical store manager in a large chain organization works within a highly structured environment in which most merchandising decisions are determined at headquarters. Today, computer programs are increasingly being used to determine even such things as shelf layout allocations. Pricing, of course, has long been centrally determined and payroll schedules are also rigorously supervised by headquarters. There is, therefore, a considerable difference in the decision-making process in operating an independently-owned store and a unit in a large chain.

For this reason, some wholesalers have favored the idea of taking successful operators of small stores and moving them up to larger operations. This viewpoint has considerable merit, but the capability to grow is an attribute which can often not be measured in advance. While the operator of a successful small market will often develop considerable merchandising finesse, he may be completely incapable of managing 50 people, regulating payroll, maintaining accounting controls, and functioning as the manager of a sophisticated business venture.

Unfortunately, whether we look to the small successful market or the manager of a chain unit, there are very few Negroes to be found in either category. As a consequence, when a black owner opens a market in a large city he may find it necessary to hire a black manager from a chain in a different metropolitan area simply because there are no black managers available in the immediate locality. Even if a black manager or a Negro with experience as operator of a small market can be found, there is no assurance that the applicant will be successful in the new position in an independent supermarket.

The demands on individual initiative are quite different in the case of the independent supermarket manager as compared with the manager of a ghetto manufacturing plant. In the latter case, a sponsoring company can take a man who has successfully run a printing operation, a fabrication department, electronics assembly, or camera repair, to cite a few examples, install him in a plant in the ghetto, give him orders to fill from the sponsoring company as a starter, and the man is in business in a relatively familiar and stable business environment. The writer is well aware of the red ink that has been spilled in ghetto manufacturing enterprises, but in many cases the losses were incurred because the company ventured into an entirely new and foreign type of operation or did not adequately provide for sufficient orders to make the plant viable during the difficult first few years. While admittedly there are many problems of cost analysis, labor productivity, marketing, quality control and other factors in a manufacturing operation, it is also true that the operation can be limited to a relatively few products so that controls can be easily understood and applied.

A supermarket - whether in a white community or in the ghetto - must of necessity carry from 4000 to 6000 items. The problems of the merchandise mix, of maintaining shelf position, of proper ordering and controlling 50 or more employees require a high degree of managerial ability and initiative. Furthermore there is the additional crucial factor of sensing on a day-to-day basis the needs of the consumer and responding promptly to such needs.

The Problem of Communication

Cannot a wholesaler or a chain retailer help a black operator to solve all of these problems, yet give him the advantage of retaining the store profits? The answer is: yes, and there are a number of examples where retailers and/or wholesalers have proffered such help. As a matter of fact, most food wholesalers customarily provide various services for their accounts such as bookkeeping, store supervision, fixture purchase and financing, store layout and other services. But these programs were designed to help white independent operators in white neighborhoods. Wholesalers are finding to their dismay that even the best of such programs will not work with black operators in ghetto stores. Unfortunately racial differences impose serious barriers in communication between people. Even well-meaning dedicated whites, who want to help blacks become successful, are finding the process a test of their patience and understanding.

A long list of wholesalers (and retailers) have confided to the writer the same complaint:

"We tried to help Mr.... but he wouldn't listen to our advice. When our supervisor would go into the store and find certain things were wrong, he would tell the store manager and here's the answer he would get: 'We don't have to do what you say anymore. We own this store.' Finally we gave up trying to give advice."

How did this breakdown in communication come about? It appears to stem from three sources. First is the difficulty experienced by both blacks and whites in working together on a cooperative but independent arms-length basis. Whites who wish to help blacks are often overly patronizing in their manner; blacks on their part are frequently oversensitive to criticism. Blacks seem to have a fear that if they accept advice from whites and submit to "restrictions" they are somehow subverting their independence and becoming "Uncle Toms".

A second source of difficulty is the fact that blacks believe they know the ghetto community better than whites and that therefore they do not need advice. "If you know all the answers," the black operator asks, "how come you are closing stores in the ghetto and not opening new ones?" The black operator does not believe that the white wholesaler or retailer has the solutions and therefore he is unwilling to accept many of the operating formulas and restrictions which are a normal part of franchise or similar wholesale-retailer arrangements.

A final difficulty springs from what black operators refer to as "the credibility gap". Black store owners believe that it is very important for them to get across to the community unequivocally that the store is black-owned and that the black operator is not acting as a front for a white chain or wholesaler. However, they fear that if there are a number of white supervisors going in and out of the store and appearing to give orders that the community will get the impression the black ownership is merely a gimmick and that the old power structure has not been changed. The so-called credibility gap also explains their reluctance to accept

controls by a wholesaler. One black operator complained that he could not convince his employees that he really owned the store when checks had to be countersigned at the office of the wholesaler who supplied him.

Despite these difficulties, it seems apparent that white supervisory assistance will have to be given to most black supermarkets if they are to have any chance of success. One technique which has been used with some success is for a chain to grant a leave of absence to a manager or supervisor who is interested in helping a black market get started. He can then be put on the payroll of the new market and spend full time helping it become established, with the option to return at anytime to the chain where he may have accumulated substantial seniority and other benefits.

The Role of Black Capitalism

The problem of management of black-owned supermarkets is really part of a more basic problem. That is, what do we mean by black capitalism? Black capitalism in this context could mean: (a) Total black ownership; (b) Majority black ownership; (c) Black ownership and black management; (d) Black ownership, black management, and black employees. Obviously there are many other possible combinations of these basic factors. Most black owners of supermarkets tend to think in terms of both ownership and management as necessarily being black, although they will accept department managers who are white during a transition phase until black managers can be trained and qualified. As far as the mix of employees is concerned, to some extent this seems to be influenced by the mix of customers in the store. For example, if the ratio of black and white customers is 90% black and 10% white, they are inclined to feel that only 10% of the employees should be white. This concept of "reverse discrimination" does

not rest upon a balancing of costs and productivity, but rather upon vague notions of what is right in the community.

Despite superficial resemblance in physical and economic conditions, the ghetto areas of our large cities vary considerably from one another. They are different basically because the Negro residents vary in their aspirations, their abilities, and their attitudes - even on such critical issues as integration and Black Nationalism. It is therefore dangerous to attempt to lay down any general rules for successful operation of black-owned markets in ghetto areas. Nevertheless, it would seem to make sense for black entrepreneurs to concentrate on the ownership aspect of black capitalism and to do everything possible to make their ventures profitable. Black managers and black employees who are competent or who can be trained should, of course, be employed, but white managers and employees should be used as needed, unless there are strong community objections. We still live in an integrated society and there is considerable evidence to suggest that most Negroes prefer to shop in an integrated store and to work in an integrated environment.

POSSIBLE SOLUTIONS

A dispassionate cold appraisal of the prospects for profits by black owners of supermarkets in American's ghettoes can lead to only one conclusion: A few will make it. The rest will fail. The nature of the business, the hardships presented by the environment, and their own lack of managerial experience are against them. Yet the march of events will make black ownership of supermarkets in ghettoes essential to the maintenance of an economical distribution of foods in these areas. As each

year passes, as violence recurs in various ghettos, we shall find an increasing number of white-owned supermarkets closed down, stark symbols of the inability of the white business establishment to cope with the social problems which years of neglect have spawned in the dark streets of our ghettos.

If experienced white corporate chains cannot operate such stores profitably, if black owners cannot operate them profitably, what is the solution?

(1) Government subsidy. It seems likely that some form of government subsidization will eventually be required to offset the cost differential of doing business in the ghetto. The question of what type of subsidy should be used and how it should be applied is complex and requires detailed consideration. Care must be taken that assistance to ailing markets does not put at a competitive disadvantage those few stores which may be operating profitably in ghetto areas. Likewise, it would seem unwise to make a distinction between black-owned and white-owned markets. This may be more of a problem in theory than in practice. If the needs of ghetto residents could be taken care of by black-owned markets, it is doubtful if many chains would be eager to open in these areas even if some subsidy were available. Opening a market in the ghetto today poses very delicate problems of community relations for a white chain and takes a tremendous amount of top executive time. Furthermore, there is always the problem of demands that the market be turned over to the community after it is viable and this poses thorny problems of the proper role of the corporation relative to its stockholders.

Whatever the subsidy, it will have to be substantial to be meaningful. The suggestion made in an earlier issue of the Review¹² that as an offset to higher operating costs in the ghetto the investment credit be raised to 10% can be compared to tying a bandaid to a running sore. The subsidy would almost certainly have to be related to operating costs to be effective. A tax subsidy would be of little help to the one-store operator who is losing money. Probably the best measure would be some subsidy related to wages. However, the subsidy ought not to increase without limit as payroll increases since this would put a premium on inefficiency. Perhaps the subsidy could be based upon payroll up to 10% of sales or some similar measure.

The question may be raised why MA-5 funds cannot be used for this purpose. The answer is that the basic problem ought to be met squarely and not by indirection: the funds are primarily needed to offset operating handicaps and not for training. The ghetto supermarket, particularly one operated by a black owner, is not a particularly favorable environment in which to train employees. Probably these men and women would get better training in a larger retail chain where there is greater staff support and depth of managerial know-how.

(2) Cooperative Industry Action. By and large the American food industry has a highly developed sense of social responsibility. Next to the automobile industry, it is currently training more hard-core employees than any other industry group. What is needed now is a joint program by wholesalers and retailers to train managers for black-owned ghetto markets.

¹²Frederick D. Sturdivant, "Better Deal for Ghetto Shoppers," Harvard Business Review, March-April 1968, p. 138

Several retail food chains have undertaken experimental programs of this kind in which Negro managers of various departments will be given a special course to teach them administrative skills. Perhaps some sort of central training agency should be established by the various elements of the industry. There ought to be some central food agency which maintains active contact with the various black-owned markets now in operation and offers trouble-shooting services to help them. Furthermore, interested persons who wish to open a market in a ghetto area should be able to contact one central source and then be referred to a sponsoring company which would "adopt" the new venturer and help him get established in business.

(3) Consultant Organizations. In the years ahead there will be a critical need for competent consultant organizations which can put together men, location and capital to operate supermarkets in ghetto areas and provide continuing supervisory assistance, as required. Such organizations could obtain funding from various government agencies or private foundations and would help avoid many of the mistakes that are now being made by black markets in various parts of the country. The Council of Equal Business Opportunity performs somewhat of this function, but its major objective is to serve as a catalyst to activate new black-owned businesses, rather than to provide supervision. The various black consulting or franchise organizations which exist do not appear to have either the experience or the depth of management needed to cope with the difficult problems which exist in ghetto supermarket operations. The ideal arrangement would be a firm composed of both black and white experts who could assist fledgling supermarkets in various stages of development.

CONCLUSION

Black Capitalism is a controversial subject. There are those who believe that it represents a misdirection of effort and that it has no place as a concept in an integrated society. On the other hand, there are those who support it with almost religious zeal and argue that it is essential to uplift the Negro to his proper status in society. Whatever we may think of Black Capitalism, it is important to recognize that as a movement it is gaining in strength and that the Administration in Washington is apparently committed to it as a workable principle. That being the case, it is vital that success and not recrimination result from the experiments now going on. Already some black critics are predicting failure and blaming President Nixon for bequeathing to the black community a concept that no longer works even in the white community.

One black newspaper put it this way:

And why does Mr. Nixon respond so generously? Because he knows what blacks don't know - free enterprise is a worn out institution: it is not what is making the American economy hum; it is not what has brought affluence to the large masses of white Americans. In short, it is not what's happening and thus, as a worn out idea, it can now be given, like an old shoe, to black folk."¹³

The writer does not believe that free enterprise is a worn out institution, nor that the black-owned independent supermarket in the ghetto is an old shoe, despite all the difficulties alluded to in this article. But it will take a major effort by the food industry, government, and local agencies to overcome the difficulties of conducting a retail food business in the ghetto. If a well-conceived comprehensive program

¹³Excerpt from Manhattan Tribune cited in Business and Society, Vol. 1, No. 2, April 8, 1969, p. 2

can be developed - backed up by men and money - the black-owned supermarket can become a visible symbol of the opportunities that await black enterprise. If the black owner is given no more help than he is receiving at the present time, there will be a wave of failures, the ghetto resident will suffer by paying more for food, and the darkened supermarket will be a grim reminder of the failure of our society to face the problems of ghetto living with foresight and adequate funds.

BASEBALL

Date Due

OCT 20 '75

~~NOV 14 '75~~

JAN 04 '78

OCT 01 '78

FEB 19 1990

MAR 12 1993

Lib-26-67

MIT LIBRARIES



397-69

3 9080 003 905 491

MIT LIBRARIES



3 9080 003 874 507

MIT LIBRARIES



399-69

3 9080 003 874 606

MIT LIBRARIES



401-69

3 9080 003 905 632

MIT LIBRARIES



402-69

3 9080 003 905 624

MIT LIBRARIES



403-69

3 9080 003 874 499

MIT LIBRARIES



404-69

3 9080 003 874 481

MIT LIBRARIES



405-69

3 9080 003 874 572

MIT LIBRARIES



406-69

3 9080 003 874 630

MIT LIBRARIES



407-69

3 9080 003 905 566

MIT LIBRARIES



408-69

3 9080 003 874 598

