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# Whole Foods' Detroit Gamble

By JOHN BUSSEY



In the middle of scruffy Detroit, a few blocks from boarded-up houses and not far from the municipal garbage incinerator, a striking event is about to take place: Construction will start on a swank Whole Foods supermarket—shiitake mushrooms, organic cheddar and all.



Whole Foods is opening a store in scruffy downtown Detroit, a very unlikely location for the upscale grocery store. John Bussey on The News Hub looks at the calculations that went into this business decision. Photo: AP

## A business plan gone off the rails?

"We think it's a great site," says Michael Bashaw, president of Midwest operations for [Whole Foods Market Inc.](#) WFM -0.87%

"We certainly expect to be profitable."

An unusual mix of business factors—some data driven, some instinctive, some unique to urban development—prompted Whole Foods to take this leap. And a leap it is. Detroit remains one of America's hardest hit urban centers. Since the 1950s, more than half its population has taken flight. Those abandoned homes seem to be everywhere. The city is now in another budget crisis.

Detroit's road to arugula also runs through plenty of resentment from local grocers, who see Whole Foods as unfair competition and a fancy national chain extracting special benefits from indulgent officials. "They're getting tax breaks that we independents have never received," says Norman Yaldao, who runs University Foods nearby. "We should all be on a level playing field."

Still, it's hard not to see the arrival of Whole Foods—and what it says about the city—as a positive sign.

"This is huge for Detroit," says Olga Stella of the Detroit Economic Growth Corp., a development nonprofit that works with the city. "It has such an ability to attract national attention

not just from other retailers but other developers. It's in a category all its own."

## Data on Detroit

**Population in 2010:** 713,777

**Population change from 2000 to 2010:** -25%

**Blacks, 82.7%; Whites, 10.6%**

**Bachelor's degree or higher for persons 25 or older:** 11.8%

**Homeownership rate 2006-10:** 54.5%

**Median household income 2006-10:** \$28,357

**Retail sales per capita in 2007:** \$3,567

Source: U.S. Census Bureau

## Will Foodies Follow?

Whole Foods is locating in a section of Detroit rebranded Midtown. The neighborhood encompasses some important

Whole Foods plans to break ground on a store in a section of downtown Detroit that has been rebranded 'Midtown.' Explore the area and see why the grocery store is betting clients will come.



demographic anchors—Wayne State University, the Detroit Institute of Arts, and the Detroit Medical Center, among others. From that core, and fueled by business investment and economic-development incentives over the past couple of decades, a notable if nascent urban rebirth has taken root. It stretches piecemeal from Midtown to downtown and the river front.

Refurbished commercial space has attracted companies looking for large facilities. Quicken Loans, for example, just relocated its Michigan staff—more than 3,000 employees—to downtown Detroit. Services and small shops have opened. New housing, clubs and restaurants have slowly drawn in more urban pioneers.

**"The opportunity to live downtown is really the most attractive factor in taking a job here," says Colm Fay, a graduate student at the University of Michigan in Ann Arbor. "It's a diverse and dynamic place from a lifestyle standpoint."**

Population may have declined in the city overall, but in the last several years it is up in parts of Midtown. That caught Whole Foods' eye, and so did income in the area. Mr. Bashaw says the chief hard metric in the company's calculations was education levels. "It's an indication of a person's willingness to consider a healthier diet," he says. Midtown scored well on that front too.

Then there are those abandoned homes. I remember a Detroit fireman years ago telling me that arsonists had burned down so many empty houses in the city that Detroit had some of the best grouse hunting in Michigan. The birds loved hiding in the overgrown lots.



Fabrizio Costantini for The Wall Street Journal

Whole Foods will build its first store in Detroit on this site. High levels of education in the area attracted the chain, as did Detroit's local gardens.

Today, there are many more vacant lots. But there are also more than 800 community gardens using some of that space to grow vegetables and fruit for home use. That also caught Whole Foods' attention. As did the city's bustling Eastern Market, one of the oldest and biggest farmers markets in the country. It draws in produce from throughout the region and sells it to supermarkets and restaurants. Up to 40,000 people shop at its Saturday Market. The new Whole Foods plans to buy there as well.

The gardens and Eastern Market were "a huge factor in our decision," says Red Elk Banks, the operations chief for Whole Foods in Michigan. "What they represent is powerful, and that's people's connection to food"—especially healthy eating, the

company's chief pitch.

"The market studies and the demographics get you a certain distance to your conclusion," he says. "But then you have to have a gut check."

Ms. Stella's development agency gathered data from focus groups of Detroit shoppers and "psychographic" research that analyzed consumer behavior. The agency gave its findings to Whole Foods: A broad swath of Detroiters want a wider selection of organic food than they can get now, and Detroit consumers spend roughly \$200 million a year at supermarkets in the suburbs, where Whole Foods already has locations. That "leakage" could be captured by the city. The new store will be close to freeways.

Add to this list the sweeteners officials are doling out, often as tax credits or grants. Technically, they don't go to

Whole Foods but to the site's developer, which then gives Whole Foods a discount on rent. Detroit Economic Growth Corp. says the incentive package isn't complete, so it can't talk about it. But competitors say it's fat enough to give Whole Foods rent below the market rate.



Fabrizio Costantini for The Wall Street Journal

Detroit's Eastern Market has a bustling produce business on weekends.

"It's your and my tax dollars going into this," argues Martin Manna, head of a business group that includes local grocers. Subsidizing national grocery chains in Detroit has failed in the past, he says. "Why are we wasting these dollars?"

Ms. Stella says this is no different from other real-estate incentives the city has used to attract business to sometimes difficult locations. Susan Mosey, who runs a Midtown development group, says the calculation was simple: This "type store isn't currently available in the Midtown/Downtown area, and we need one."

Whole Foods says it expects its prices will generally be lower than those of local supermarkets when it opens its 20,000-square-foot Detroit location next year. The company is also scheduling classes for residents on how to shop at the store on a budget.

But the store's arrival in Detroit isn't really the big news. The big news is what's happened in this section of the city. After decades of incremental, three-yards-and-a-cloud-of-dust development work, Detroit has pieced together enough vitality to make a higher-end supermarket viable. Or at least worth trying.

That's the remarkable business story.

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